

PART III

PART III

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Bank Supervision Department

25th June 2002

To : All CEO's of LCBs and LSBs

Dear Sir/Madam

**CODE OF CORPORATE GOVERNANCE FOR
BANKS AND OTHER FINANCIAL INSTITUTIONS**

I have pleasure in enclosing a copy of the Code of Corporate Governance for banks and other financial institutions compiled by the National Task Force on Corporate Governance in the Financial Sector which was set up to promote best corporate governance practices at national level.

Although the Code of Corporate Governance for banks and other financial institutions is not intended to be treated as a regulation or a legal statute, it is strongly recommended that the principles and guidelines set out in the Code be treated as standards of conduct in order to maintain the integrity and stability of the financial system.

Yours faithfully,

Mrs. P P Sirisena

Director of Bank Supervision

Encl.

**CODE OF CORPORATE GOVERNANCE FOR BANKS AND
OTHER FINANCIAL INSTITUTIONS**

Issued by the
CENTRAL BANK OF SRI LANKA
2002

These guidelines have been drafted using the following documents and some of the views contained in the documents were used in relevance to the Banking and Financial sectors in particular.

- **Code of Best Practice**
(Report of the Committee to make recommendations on matters relating to financial aspects of corporate governance).
Institute of Chartered Accountants
- **Enhancing Corporate Governance for Banking Organisations**
Basle Committee on Banking Supervision
- **Exposure Draft on Board Room Governance**
Institute of Chartered Accountants in Sri Lanka (ICASL).
- **Corporate Governance in the Financial Sector**
Issued by the Commonwealth Working Group on Corporate Governance in the Financial Sector November 2000.
- **Framework for the Evaluation of Internal Control Systems**
Basle Committee on Banking Supervision
Basle, January 1998
- **Corporate Governance in the Financial Sector**
Checklist of Issues for Promoting Effective Corporate Governance
Commonwealth Secretariat, January 2001
- **The Corporate Governance of Banks, CAMEL in a cage, Arvind Mathur and Jimmy Burhan, Asian Development Bank.**
- **OECD Principles of Corporate Governance**

Members of the National Task Force on Corporate Governance

Mr. A.S. Jayawardena (Chairman)	Governor, CBSL
Mr. P.M. Nagahawatte (Alternate to the Chairman)	Deputy Governor, CBSL
Mr. Amitha Gooneratne	MD, Commercial Bank of Cey. Ltd.
Mr. Nicholas Cherri	Chief Executive Officer, HSBC
Mr. Ranjith Fernando	Director, Managing Director, NDB
Mr. Lakshmi Narasimhan	Country Head, Indian Overseas Bank
Mr. Deva Rodrigo	Senior Partner, Price Waterhouse Coopers
Mr. Nihal Fonseka	General Manager, DFCC

Mr. K. Sivagananathan (Late)	Consultant, CBSL
Mr. W. Sellamuttu	President, FHA
Ms. S. Kadurugamuwa	Director, Legal, CBSL
Deshamanya, Lalith Kotalawala	Chairman, Ceylinco Group
Mr. Ken Balendra	Chairman, Bank of Ceylon
Mr. Chandra Jayaratne	Managing Director, Eagle Insurance
Mr. Mano Tittawella	Chairman, Peoples Bank
Mr. P.T. Sirisena (Secretary)	Director, Bank Supervision, CBSL
Ms. N.U. Sudantha Medhavi (Asst. to the Secretary)	Asst. Examiner, Bank Supervision, CBSL

CODE OF CORPORATE GOVERNANCE FOR BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

Corporate Governance

Corporate governance is "a set of relationships between a company's management, its Board, its shareholders, and other stakeholders through enhanced performance (OECD).

Corporate Governance is an essential safeguard of a stable banking system. As Asia emerges from the economic crisis, most institutions in the region want to introduce good corporate governance." (The Corporate Governance of Banks, Arvind Mathur and Jimmy Burhan, ADB)

Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the Board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging companies to use resources more efficiently.

Inadequacy of Corporate Governance and Financial Instability

Good corporate governance of banks/financial institutions is a sine qua non for a sound financial system. For individual banks/financial institutions, it can reduce the cost of capital and enhance shareholder value. The Asian financial crisis has, in part, been attributed to serious inadequacies in the governance of banks. The post crisis period has created an environment where most of the major financial institutions in Asia are now willing to implement governance reforms, not only as a way to ensure survival, but also as a competitive weapon.

Inadequate Corporate Governance in the corporate and financial sectors is an important factor that has contributed to financial instability in many countries. Weak corporate governance (and associated risk management practices) in the corporate sector increases the risk profile of companies and exposes banks and other lending institutions to greater risk of loss than would otherwise be the case. In a more direct sense, weaknesses in corporate governance in banks and other financial institutions reduce their capacity to identify, monitor and manage their business risks, and can result in poor quality lending and excessive risk-taking by such institutions. For example, inadequate corporate governance can lead to poor management of credit risks, an insufficiently developed "credit culture", excessive exposure concentration, poor management of interest rate risk and exchange rate risk, and inadequacies in the management of connected exposures. In some cases, inadequacies in corporate governance and risk management have the potential to lead to bank insolvency and financial instability.

Underlying Principles of Corporate Governance in Banking and other Financial Institutions

More than most other corporate entities, banks and financial institutions are critically reliant on maintaining the confidence of depositors and other creditors for their viability. The financial viability, and indeed survival, of a financial institution are very much dependent on maintaining depositor and other counter-party confidence. Therefore, the directors and senior management of such institutions could be said to have a special duty of care to their depositors and other creditors – the creditors are extremely important stakeholders in a financial institution. A financial institution's corporate governance arrangements could be expected to reflect this duty of care to creditors in a number of ways, such as in the management of conflicts of interest between shareholders and creditors, in the nature of financial disclosures made to creditors (and others) and in the nature of risk management systems.

Risk Management and Corporate Governance

Financial institutions differ from most companies in terms of the nature and range of their business risks, and the adverse consequences that would follow if these risks are poorly managed. Banks/financial institutions face a wide range of risks, many of them complicated in nature, including credit risk, exposure concentration risk, connected exposure risk, interest rate risk, exchange rate risk, payment system interface risks and business continuity risks. If these risks are poorly identified and managed, they expose such institutions to the potential for financial collapse, particularly given the fact that most financial institutions operate on a thin layer of capitalization and have substantial maturity mismatches in their balance sheet. Therefore, they need corporate governance structures that promote effective identification, monitoring and management of all material business risks.

Regulatory Requirements and Corporate Governance

Most financial institutions are required to comply with a large number of regulatory requirements, including prudential requirements, taxation rules, various reporting obligations and the like. There is, therefore, a need for the corporate governance framework to include systems for ensuring that all statutory and regulatory requirements are being complied with and to highlight potential or actual breaches if and when they occur.

High Quality Financial Disclosure

An essential complement to sound corporate governance is the implementation of robust financial disclosure requirements for corporates and financial institutions. Financial disclosure is essential as a means of strengthening the accountability of directors and senior management and enhancing the incentives for risk management. It is also essential for market participants and observers – particularly the larger creditors of banks, financial news media, financial analysts and rating agencies – to effectively monitor the performance and soundness of financial institutions and to exercise appropriate disciplines on those institutions which do not perform well or fail to meet acceptable prudential standards. Financial disclosure is also essential for smaller creditors, including depositors, to protect their own interests.

Strengthening Market Discipline

It is increasingly being recognized that market discipline can play an important role in promoting financial system stability and in encouraging the maintenance of sound corporate governance and risk management practices. Banks and corporates are more likely to be attentive to risk management in an environment where poor risk management and financial performance are penalized by the market, and strong risk management, and financial performance are rewarded by the market. In the longer term, robust market discipline is likely to enhance financial stability and efficiency by strengthening the incentives for the efficient management of risks and by weeding out poor performers.

2. Content of Corporate Governance

Objectives

From a banking and financial sector industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their Boards of directors and senior management. These include the following :

- set corporate objectives (including generating economic returns to owners);
- set risk management policies and procedures;
- ensure that the day-to-day operations of the business are carried out efficiently and with integrity;
- protect the interests of depositors;
- consider the interests of recognized stakeholders;
- align corporate activities and behaviour with the expectation that the institutions will operate in a safe and sound manner; and
- operate in compliance with applicable laws and regulations.

Strategies and Techniques

Strategies and techniques that are basic to sound corporate governance include:

- corporate values, code of conduct and other standards of appropriate behaviour and the systems used to ensure compliance with them;
- a well-articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured;
- clear assignment of responsibilities and decision-making authorities, incorporating a hierarchy of required approvals from individuals to the Board of directors;
- establishment of a mechanism for the interaction and cooperation among the Board of directors, senior management and the auditors;
- strong internal control systems, including internal and external audit functions, risk management functions, independence in business operations, and other checks and balances;
- special monitoring of risk exposures where conflicts of interest are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management, or key decision-makers within the firm (e.g. traders);
- financial and managerial incentives to act in an appropriate manner offered to senior management, business line management and employees in the form of compensation, promotion and other recognition; and
- appropriate information flows internally and to the public.
- Communication throughout the organization and also to the stakeholders of the organization as to what the Institution is going to achieve in the years ahead and the corporate values.

CODE OF BEST PRACTICES FOR CORPORATE GOVERNANCE

Principle – 1

The Board

Every bank/financial institution (hereafter collectively referred in this code as a “financial institution”) should be headed by an effective Board of directors, which should determine its policies and ensure their implementation and lead and control the financial institution.

Guideline – 1.1

The board of directors is responsible for the operations and financial soundness of the financial institution.

The board of directors should have responsibility for

- ensuring the vision, mission, values and objectives of the company
- approving policies and strategies and budgets
- approving the organizational structure;
- understanding the risks run by the financial institutions and setting acceptable levels for these risks;
- ensuring that senior management takes the steps necessary to identify, monitor and control these risks;
- ensuring that senior management is monitoring the effectiveness of the internal control system.
- effective monitoring of management in achieving the objectives set
- compliance with the applicable laws and regulations
- monitoring its financial and non-financial performance
- initiating and encouraging the establishment of good corporate governance throughout the institution.

Guideline – 1.2

The Board of directors (hereafter referred to in this Code as the “Board”) and senior management of a financial institution are responsible for promoting high ethical and integrity standards, and for establishing a culture within the institution that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All levels of personnel at such institutions need to understand their role in the internal control process and be fully engaged in the process.

Guideline - 1.3

The Board should meet regularly, at least 10 meetings per annum and should also meet when a particular necessity arises.

Guideline - 1.4

Every director should bring his independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct.

Guideline - 1.5

The Board should have a schedule of matters specifically reserved to it for decision, including the following ;

- Formulation of Business Strategy and effect changes if and when necessary
- Formulation of Risk Management Strategy
- Ensure that the Chief Executive Officer and Management Team are of the highest caliber
- Approval of Senior Management succession strategy
- Securing effective information, control and audit systems
- Compliance with regulatory legal/ethical standards and
- Control and management of risk.

Guideline - 1.6

There should be an approved procedure, for the directors, to obtain independent professional advice in the performance of their duties and for the cost to be borne by the institution upto a reasonable extent.

Guideline - 1.7

The Board adds strength to the corporate governance of the financial institution when the members of the Board;

- understand their oversight role and their “duty of loyalty” to such institution and its shareholders;
- feel empowered to question the management and are comfortable insisting upon straightforward explanations from management;
- provide dispassionate advice;
- are not overextended;
- avoid conflicts of interest in their activities with, and commitments to, other organizations;
- meet regularly with senior management and internal audit to establish and approve policies, establish communication lines and monitor progress toward corporate objectives;
- refrain from making decisions on matters on which they are incapable of providing objective advice;
- do not participate in day-to-day management of the institution.

Guideline - 1.8

In discharging its duties, the Board is expected to exercise leadership, enterprise, integrity and judgement in directing the financial institution so as to achieve continuing prosperity and to act in the best interest of such institution in a manner based on transparency, accountability and responsibility.

Guideline - 1.9

In discharging its duties, the Board is expected to ensure that, Board appointments are made so as to provide a mix of directors proficient in different disciplines, each of whom is able to add value and to bring independent judgement to bear on the decision making process.

Guideline - 1.10

In discharging its duties the Board is expected to ensure that the financial institution complies with all relevant laws, regulations and codes of best business practices.

Guideline - 1.11

In discharging its duties, the Board is expected to ensure that the financial institution communicates with shareholders and other stakeholders effectively.

Guideline - 1.12

In discharging its duties, the Board is expected to ensure that no one person or group of persons has unfettered power, and that there is an appropriate balance of power and authority on the Board which is, inter alia, usually reflected by separating the roles of the Chief Executive Officer and Chairman, and by having, subject to the statutory and regulatory requirements, a balance between executive and non executive directors.

Guideline - 1.13

In discharging its duties, the Board is expected to regularly review processes and procedures to ensure the effectiveness of the internal systems of control of the financial institution, so that financial institution's decision making capability and the accuracy of reporting and financial results are maintained at high levels at all times.

Guideline 1.14

In discharging its duties, the Board is expected to ensure that the Senior Management adheres to this Code of Best Practice.

Guideline – 1.15

In discharging its duties, the Board is expected to ensure that all technology and systems used in the financial institution are adequate to properly run the business and for it to remain a meaningful competitor.

Guideline – 1.16

In discharging its duties, the Board is expected to ensure annually that the institution will continue as a going concern for the next 3 to 5 years as per the yearly revised Corporate Plan.

Guideline - 1.17

In discharging its duties, the Board is expected to ensure that senior management of the financial sector institution has discharged their role satisfactorily.

Guideline – 1.18

There should be a proper service contract signed between the financial institution and the non-executive directors setting out the terms and conditions, including period of service, rotations and retirement age.

The re-appointment of non-executive directors be based on an appraisal of their contributions to the functioning of the Board. Non-executive directors who have not participated in at least 50% of the Board/Committee meetings should not generally be re-appointed to the Board/Committee.

Principle – 2**Qualification of Directors**

The members of the Board should be persons whose abilities are widely acknowledged by the shareholders and the public. They should have the experience, knowledge, expertise and good judgment to make an effective contribution for the financial institution to achieve its objectives. The directors should have a clear understanding of their role in corporate governance and should not be subject to undue influence from management or outside concerns.

Guideline - 2.1

A person should not be appointed, elected or nominated as a director of a financial sector institution or continue as a director unless the person is a 'fit and proper person' to hold office as a director of such institution.

Fit and Proper Test

In determining whether a person is fit and proper, regard shall be had to any one or more of the following matters;

- The person's probity
- The person's competence and soundness of judgment for fulfilling the responsibilities of the office of director
- The diligence with which the person is likely to fulfil the responsibilities of the office of director
- Whether the interest of the depositors or creditors or potential depositors or creditors of the financial sector institution are or are likely to be, in any way threatened by the person holding office of director
- The previous conduct and activities in business and financial matters of the person
- Academic qualifications and/or, professional qualifications and/or effective experience in respect of one or more of the recommended fields.

Principle – 3**Appointment and Duties of a Director*****Guideline – 3.1***

For proposing a person for the post of director, there should be a formal nomination committee comprising at least the Chairman, Chief Executive Officer and two other directors. The committee in recommending a person should ensure that the Board consists of a mix of persons preferably having the following experience and skills.

- (a) Thorough knowledge of banking, finance, accounting, law or business accounting
- (b) Experience in the banking and the financial industry at a senior level.
- (c) Experience in human resources management, Information Technology skills or marketing skills.

Guideline - 3.2

It is the duty of a director to act in the best interest of the financial institution and its shareholders with due regard to claims of other stakeholders by:

- (a) Compliance with the statutory and regulatory requirements and loyalty to such institution
- (b) Independence of judgement.
- (c) In the event of a conflict of interest, ensuring the interest of the financial institution.
- (d) Ensuring fairness in dealing with different stakeholders.
- (e) Exercising of care, skill, diligence, and professionalism.

Principle – 4**Chairman and Chief Executive Officer (CEO)**

There are two key tasks in every financial institution; They are

- (a) Responsibility of the Chairman for carrying out the functions of the Board; and
- (b) Responsibility of the Chief Executive Officer for the running of the business of the financial institution.

Guideline - 4.1

There should be a clear division of responsibilities at the head of the financial institution between the Chairman and the Chief Executive Officer which will ensure a balance of power and authority, so that no one individual has unfettered powers of decision.

Guideline - 4.2

There should be a strong and independent non-executive element on the Board.

Principle – 5**Role of the Chairman**

The role of the Chairman of a financial institution in securing Good Corporate Governance is crucial. The Chairman is expected to preserve order, ensure that proceedings at meetings are conducted in a proper manner, and to ascertain the views or decisions of the meeting on the issues being discussed.

Guideline - 5.1

In the context of good corporate governance, the Chairman is expected to ensure that all directors, executive and non-executive alike, are encouraged to play a useful role within their respective capabilities in order to secure the maximum benefit to the financial institution.

Guideline - 5.2

It is desirable that the Chairman is not involved in the day-to-day operations of the financial institution, but operates in such a way so as to ensure that the Board is in complete control of the affairs of the institution and fully alert to the obligations towards the stakeholders.

Guideline - 5.3

The Chairman's position should be separated from that of the Chief Executive Officer. This is mainly to avoid the domination of power by a single individual.

Guideline - 5.4

The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that :

- all directors participate effectively,
- all directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the financial institution,
- a balance of power in the Board is maintained,
- the views or decisions of directors on issues under consideration, are ascertained,
- the Board is in complete control of the affairs of the financial institution and alert to its obligations to stakeholders.
- each Board member understands the significance and technical aspects of the matter under discussion.

Principle – 6**Role of the Chief Executive Officer (CEO) and Senior Management**

The Board should have complete confidence in the CEO. It is the role of the CEO and Senior Management to establish and maintain adequate systems and controls.

While the CEO should be accountable for the effective implementation of the Board policies and implementation of collective decisions taken by the Board, accountability for the performance of the financial institution is the responsibility of the Board.

Guideline - 6.1

Functions of the CEO include the following:

- Recommend strategic direction for the financial sector institutions
- Leadership in achieving goals and objectives
- Develop operational plans, budgets for approval by the Board
- Monitor activities of the company to ensure targets are met and safeguard assets
- Public relations (social responsibility)
- Inform Chairman and Board of operational matters
- Provide Board with timely and relevant information and access to management as required

Guideline - 6.2

Senior management should have responsibility for formulating and implementing strategies guided and approved by the Board; setting appropriate internal control policies; monitoring the effectiveness of the internal control system, and accountability for the performance of the financial institution.

Guideline - 6.3

Senior management should ensure that the internal and external factors that could adversely affect the achievement of the objectives of the financial institution are being identified and evaluated. This assessment should cover all risks facing such institution.

Guideline - 6.4

Senior management should ensure that the risks affecting the achievement of the strategies and objectives of the financial institution are continually being evaluated. Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

Principle - 7**Role of the Company Secretary**

The Secretary of a financial institution (hereafter in this code referred to as the Company Secretary) should be a person who possesses such qualifications, as are prescribed by the Companies Act No.17 of 1982 for a Secretary of a company.

Guideline - 7.1

All directors should have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable laws, rules and regulations are complied with.

Guideline - 7.2

The Company Secretary is responsible for preparation of the agenda and keeping proper minutes of the meetings under the supervision of the Chairman.

Guideline - 7.3

Any question of the appointment and removal of the company secretary should be a matter for the Board as a whole.

Principle - 8**Director's Training / Familiarisation**

Every director should receive appropriate training and/or familiarization on the business of the financial institution when he is first appointed as a director and also subsequently as necessary. The areas of training/familiarization should encompass both general aspects of Directorship as well as matters specific to the institution.

Guideline - 8.1

It is always beneficial to a financial institution when its Directors have a basic knowledge of areas other than the area of his expertise, as it would contribute to arriving at good decisions.

Guideline - 8.2

All Directors should update their knowledge by attending appropriate Seminars and Conferences, particularly in fields such as Financial Management, Risk Management, Entrepreneurship, Management, Corporate Planning etc.

Principle - 9**Committee Structure for Boards**

The effectiveness of a Board depends on its structure and procedures. This would require the appointment of Committees such as

(a) Audit Committee

The internal audit shall report to the chairman of the Audit Committee. The Chairman of the Audit Committee shall be responsible and take appropriate action to address weaknesses and forward reports for the information of the Board.

The Chairman of the Audit Committee should preferably be a person with appropriate qualifications in accountancy or knowledge and experience in accounting or auditing. The members of the Audit Committee should not be persons with executive responsibilities in the institution.

(b) Risk Management Committee**(c) Remuneration Committee****(d) Nomination Committee****(e) Executive Committee****(f) Management Committee****(g) Compensation Committee****(h) Stakeholder Relations Committee****Guideline - 9.1**

Terms of reference and operating procedures should be laid down by the Board for the functioning of each Committee.

Guideline - 9.2

The Executive Committee consisting of three Non-Executive Directors and Chairman/CEO of the financial institution to meet twice a month to review key matters such as :

- Major loan approvals
- Debt restructuring
- Risk management
- Employee policy and other policy issues

The Executive Committee should work with the management very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee by the Board.

Guideline 9.3

The financial institution must appoint a management committee consisting of staff members higher than the manager level headed by the CEO to implement management decisions. The key responsibilities of the management committee will be to :

- deliver clear communication to the staff regarding the vision, mission and objectives of the institution so that all employees who play an important role in contributing to the long-term success and sustainable performance of such institution will work towards the same objective.
- Develop good corporate governance practices
- A proper succession plan which involves periodic infusion of new blood and appointment of competent and effective persons who can add value to the company.

Principle – 10

Transparency

An essential factor in promoting effective corporate governance in the financial sector is to develop and enforce robust financial disclosure requirements for financial institutions. Such disclosure results in better management of risks and strengthening of market discipline. It also provides shareholders and other stakeholders with adequate information necessary to identify the strengths and weaknesses among financial institution.

Guideline - 10.1

There should be an effective set of disclosure requirements underpinned by high quality accounting standards and practices. These standards should conform to accepted accounting standards.

Guideline - 10.2

External audit should be conducted by a fully independent auditor, whose business connections with its client should not be such as to compromise the auditor's objectivity and independence.

Guideline - 10.3

Financial disclosures should be subject to rigorous external auditing requirements, based on a set of auditing guidelines promulgated by an appropriately qualified standard-setting body.

Guideline - 10.4

Disclosures of financial information are more useful if they are made with a reasonable degree of frequency – e.g half yearly or quarterly.

Guideline - 10.5

Disclosure of financial and risk-related information by banks should be in respect of the bank and the consolidated group. In some case, holding company disclosures may also be necessary.

Guideline - 10.6

It is desirable for the disclosures to include the following :

- the type of capital, and the percentage of capital relative to credit exposures, possibly using the Basel Capital Accord as the measurement framework as directed by the Central Bank.
- the institutions credit rating by a recognized credit rating institution and any recent changes to the rating; it may also be appropriate in some cases to require disclosure of the parent entity's credit rating and any recent changes to its rating;
- comprehensive and detailed information on the balance sheet, income statement and off-balance sheet obligations;
- exposure concentration, in terms of exposures to individual counter parties or groups of associated counter parties relative to the institution's capital.
- excessive exposures to particular economic sectors or industries;

- detailed information on asset quality, including the amount of non-performing and restructured loans and the level of specific provisioning in relation to such loans; disclosure requirements should desirably provide guidance on the basis upon which asset quality is reported and provisioning is determined;
- information on market risk (i.e. interest rate risk, exchange rate risk and equity risk), desirably using the Basel Committee's market risk methodology or a credible alternative;
- information on related party exposures.
- information on the nature of an institution's fund management, securitisation and other fiduciary business, including details of funding provided by the institution to these business activities and the structures in place to limit contagion between the funds management activities and the core business of the institution;
- information on the institution's systems for managing its business risks, including information on the nature of its internal control systems, internal audit arrangements and any other arrangements it has for an external review of the adequacy of its risk management systems and internal controls;
- disclosure of the names, qualifications and experience of directors and senior management.
- publication of a Code of Best Practice for information of their customers;
This means the institution should have an internal code.
- publication of the institutions system for complaints handling.

Guideline - 10.7

Financial sector institutions could be required to regularly disclose:

- the nature of any conflicts of interest that individual directors or senior managers may have ;
- the Board's rules for handling directors' and managers' conflicts of interests; and
- attestations signed by each director as to whether they are satisfied that the risks of the financial institution are being adequately identified, monitored and controlled at all times.

Guideline – 10.8

There shall be an officer identified by name and designation charged with monitoring of compliance with disclosure requirements and equipped with the powers to enforce compliance where appropriate. The authority should be subject to effective transparency and accountability structures.

Appendix to Principle 10**Roles and Responsibilities of External Auditor**

Although external auditors are not, by definition, part of a banking organization and therefore, are not part of its internal control system, they have an important impact on the quality of internal controls through their audit activities, including discussions with management and recommendations for improvement to internal controls. The external auditors provide important feedback on the effectiveness of the internal control system.

While the primary purpose of the external audit function is to give an opinion on, or to certify, the annual accounts of a financial institution, the external auditor must choose whether to rely on the effectiveness of the institution's internal control system.

The external auditors have to conduct an evaluation of the internal control system in order to assess the extent to which they can rely on the system in determining the nature, timing and scope of their own audit procedures.

Auditing standards require that audits be planned and performed to obtain reasonable assurance that financial statements are free of material misstatement. Auditors should examine, on a test basis, underlying transactions and records supporting financial statement balances and disclosures. An auditor assesses the

accounting principles used and significant estimates made by management and evaluate the overall financial statement presentation.

The Central Bank may supplement the standard auditing requirements with additional requirements for unique application to banks. Modifications can sometimes include:

- a requirement for the auditor to report to, or meet with, the supervisory authority; and
- a requirement obliging the auditor to report any concerns they may have to the supervisory authority.
- a requirement to inform supervisory authority of any proposed changes of auditors or their resignations.

Principle – 11

Risk Management Systems

Financial institutions need corporate governance structures that promote effective identification, monitoring and management of all material business risks. These structures may include well developed and tested risk management systems and internal controls including the following:

Guideline - 11.1

Training programmes for staff responsible for risk management, so that they have a well developed understanding of risks and the means by which they can be managed.

Guideline - 11.2

Training programmes for directors and senior management to enable them to have a robust understanding of the nature of the institution's business, the nature of the risks, the consequences of risks being inadequately managed, and an appreciation of the techniques for managing the risks effectively.

Guideline - 11.3

Robust internal audit procedures, with appropriate reporting lines to the CEO or directors, and with oversight by the Audit Committee of the Board.

Guideline - 11.4

A structure which requires regular reporting to senior management and the Board on the nature and magnitude of the risks being carried by the bank and the structures in place to control these risks, including a regular assurance to the Board that all risk management systems and internal controls are being properly applied at all times.

Guideline - 11.5

Signed attestations by each director, in a public disclosure statement issued by the bank, that the director is fully satisfied to the best of his or her ability that all the bank's material business risks are being effectively identified, monitored and managed, and that the systems in place to achieve this are operating effectively at all times.

Guideline - 11.6

A policy requiring the institution's risk management systems and internal controls to be subject to periodic external review, and for the results of the review to be reported to the Board.

Guideline - 11.7

Institutions to view compliance functions as a part of the overall risk management framework and submission of compliance certificate to the Board on a monthly basis.

Guideline - 11.8

Institutions need to comply with a large number of regulatory requirements, including prudential requirements, taxation rules, various reporting obligations and the like. There is therefore a need for the corporate governance framework to include systems for ensuring that all statutory and regulatory requirements are being complied with, and to highlight potential or actual breaches if and when they occur.

Guideline - 11.9

Institutions need to consider the scope to use their influence and moral suasion to promote good governance among their own corporate customers, thereby improving their performance and reducing their risk, which would ultimately benefit the institutions themselves, and the wider economy.

Guideline - 11.10

Duties need to be segregated so as to avoid operational risks. Board may specify the methods of authorisation, limits and delegation and a dual control system to ensure accuracy of limit risks.

Principle – 12**Prudential Regulation and Supervision – For Regulators**

Prudential supervision plays an important role in encouraging the adoption of sound corporate governance and risk management arrangements in the financial sector. In assessing the adequacy of supervision arrangements in the context of promoting effective corporate governance in the financial system, the following considerations are relevant:

Guideline - 12.1

Directors and senior management should be encouraged to take responsibility for satisfying themselves that their institution has effective corporate governance arrangements and systems for managing all material business risks and that those systems are being applied at all times. One way of encouraging this is for the supervisory authority to require institution directors and senior management to sign regular statements attesting to the effectiveness of risk management systems, internal controls, internal audit arrangements and related matters, and to hold them responsible if it transpires that those attestations were misleading or false.

Guideline - 12.2

Encourage or require institutions to have their corporate governance arrangements and risk management systems subject to periodic external review by external auditors or consultants.

The periodic external review by external auditors or consultants should be done after a critical cost/benefit evaluation as far as possible in measurable forms (i.e. quantitative) to ensure positive results in the short/medium/long term.

Guideline - 12.3

Institutions are encouraged to make it a condition that effective corporate governance is enforced by the borrowing institutions when large sums are lent to such institutions.

Guideline - 12.4

Require institutions to maintain and publicly disclose a credit rating from a reputable international credit rating agency, so as to provide an additional degree of external scrutiny of each bank's corporate governance and risk management capacity.

Guideline - 12.5

Provide guidelines on corporate governance arrangements and risk management systems and use the guidelines as a framework for periodic assessments of the adequacy of corporate governance arrangements.

Guideline - 12.6

Hold periodic consultations with bank directors to discuss banking risk issues and other matters relating to the governance of their bank.

Guideline - 12.7

Require banks to have a corporate governance compliance officer, and require regular reports from the compliance officer, attesting to the adequacy of particular corporate governance arrangements.

Management information regularly provided to the Board.

- Methodologies used by the Board to assess the adequacy of the bank's corporate governance and risk management frameworks, and the methods used to assess whether these frameworks are being applied satisfactorily at all times.
- Nature of internal and external audit arrangements, including the composition and role of the Audit Committee.
- The Reports of the Audit Committee and other committees are submitted regularly and action taken.
- Bank's policies for managing potential conflicts of interest between the bank and its shareholders or other parties.
- Nature of shareholder scrutiny of the bank.
- Policies for dealing with potential conflicts of interest on the part of bank directors.
- Adoption of corporate governance as a criterion for credit evaluation of banks customers and extended corporate governance to all its corporate customers.
- Nature of the Board's involvement in attesting to the adequacy of risk management systems and the veracity of financial disclosures issued by the bank.
- Nature of the resources made available to the Board to assist it to discharge its responsibilities.
- Nature of the reporting from the Board to shareholders and the transparency of how the Board conducts its affairs.
- Supervisory authorities should be involved in tax reforms to ensure that bank customers provide honest information of their revenues and sources.
- Supervisory authorities, securities and exchange commissions and stock exchanges should be involved in company/commercial law reform.

02 / 04 / 002 / 0106 / 001

Bank Supervision Department
15th August 2002

To : All Licensed Commercial Banks

**DEFINITION OF LIQUID ASSETS – UNDER SECTION 86 OF THE
BANKING ACT NO: 30 OF 1988**

In exercise of the powers conferred by paragraph (g) of the definition of “liquid assets” in Section 86 of the Banking Act, No. 30 of 1988 as amended by Banking (Amendment) Act, No. 33 of 1995, the Monetary Board has determined that Sri Lanka Development Bonds (SLDBs) issued under the Foreign Loans Act, No. 29 of 1957 shall be liquid assets.

Licensed Commercial Banks may, therefore, take into account the daily market value of their investment in SLDBs for the purpose of complying with the provisions of Section 21 of the Banking Act, relating to maintaining liquid assets.

Yours faithfully,

Sgd. Director of Bank Supervision

02 / 04 / 002 / 0005 / 003

Bank Supervision Department
30th December 2002*To : All Licensed Commercial Banks*

Dear Sir/Madam,

**APPLICATION OF PRUDENTIAL REGULATIONS ON
OFF-SHORE BANKING UNITS**

Please find enclosed the Determinations made by the Monetary Board in terms of Section 24 (2) of the Banking Act, on prudential requirements applicable to the Off-shore Banking Business of Licensed Commercial Banks (LCBs).

2. As announced at the Meeting of the Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks, the implementation of the prudential regulations will be on a staggered basis.
3. Please note that all LCBs are required to submit two returns on the Statutory Capital Adequacy Ratio (CAR) as at 30 June 2003; one return indicating the CAR in respect of domestic banking business only, and the other indicating the CAR in respect of both the off-shore banking business and domestic banking business on a consolidated basis.
4. Please acknowledge receipt of this letter.

Yours faithfully,

Sgd. (Mrs.) P P Sirisena
Director of Bank Supervision

**APPLICATION OF PRUDENTIAL REGULATIONS ON
OFF-SHORE BANKING UNITS**

Determination made on 22 August 1997 as amended by the determination made on 27 December 2001 on Capital Adequacy Ratio issued under Section 19(7)(a) of the Banking Act:

The Capital Adequacy Ratio (CAR) specified in terms of the above Determination shall apply in respect of the off-shore banking business of a licensed commercial bank. The CAR required to be maintained by a licensed commercial bank as at 30 June 2003 in respect of the off-shore banking business shall be 50% of the specified CAR, *i.e.* a Tier I (Core) Capital Adequacy Ratio of not less than 2.5%, and a Total Capital Adequacy Ratio of not less than 5%, and by 31 December 2003, a licensed commercial bank shall be required to maintain the specified CAR in respect of the off-shore banking business and the domestic banking business on a consolidated basis *ie.* a Tier I (Core) Capital Adequacy Ratio of not less than 5% and a Total Capital Adequacy Ratio of not less than 10%.

Provided that a licensed commercial bank shall not repatriate profits or pay dividends until the CAR of such bank reaches the CAR specified in the Determination made on 27 December 2001, *i.e.* a Tier I (Core) Capital Adequacy Ratio of not less than 5% and a Total Capital Adequacy Ratio of not less than 10% on a consolidated basis.

The above determination shall not affect the CAR required to be maintained in respect of the domestic banking business of a licensed commercial bank.

Sgd. A. S. Jayawardena
GOVERNOR

Colombo
24 December 2002

**APPLICATION OF PRUDENTIAL REGULATIONS ON
OFF-SHORE BANKING UNITS**

Determination dated 10 April 1989 on Statutory Liquid Assets Ratio issued under Section 21(2) of the Banking Act:

The above Determination shall be applicable to all licensed commercial banks in respect of both the domestic banking business and the off-shore banking business on a consolidated basis, with effect from 01 January 2003.

Sgd. A. S. Jayawardena
GOVERNOR

Colombo
24 December 2002

**APPLICATION OF PRUDENTIAL REGULATIONS ON
OFF-SHORE BANKING UNITS**

Banking Act (Single Borrower Limit) Directions No. 2 of 1999

The above Directions are hereby amended with effect from 1 January 2004 by:

(a) the repeal of paragraph 2 thereof and the substitution therefor of the following paragraph:

"Directions to apply
also to Off-Shore
Banking Units.

2. These Directions shall also apply to accommodation granted by an Off-Shore Banking Unit of a licensed commercial bank and for such purpose any reference to a Domestic Banking Unit of a Licensed Commercial Bank in these Directions shall be construed as a reference to the Domestic Banking Unit and the Off-Shore Banking Unit of a Licensed Commercial Bank."

(b) the insertion after paragraph 8 thereof of the following new paragraph 8A:

"Restrictions on
repatriation of
profits or payment
of dividends.

8A. Where any licensed commercial bank contravenes the provisions of paragraphs 3 and 4, such bank shall not repatriate profits or pay dividends as long as it continues to contravene such provisions".

Sgd. A. S. Jayawardena
GOVERNOR

Colombo

24 December 2002 .

Circular No. : 35 / 01 / 001 / 0006 / 001

Domestic Operations Department
Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha
Colombo 1.

21st November, 2002.

To : All Licensed Commercial Banks and Primary Dealers

OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA (CBSL)
REVISED GUIDELINES ON REPURCHASE (RP), REVERSE REPURCHASE (RRP)
FACILITIES AND OUTRIGHT PURCHASES/SALES AT THE SECONDARY WINDOW

Licensed Commercial Banks and Primary Dealers are hereby informed that the functions handled by the Open Market Operations (OMO) Division of the Domestic Operations Department until 21.11.2002, have been reallocated as follows :

OMO Division of the Domestic Operations Department :

- Announcement of repurchase and reverse repurchase rates on the Reuters screen;
- Entering into deals with Participating Institutions (PIs) by telephone or fax.
Contact person: Mr. N.J. Gunaratne – Telephone: 381921,477044

OMO Settlements Division of the Payments and Settlements Department :

- Obtaining deal confirmation from PIs in writing by a fax or a letter within 30 minutes of the deal.;
- Entering into Repurchase and Reverse Repurchase agreements with the PIs on behalf of the Central Bank;
- Accepting and holding in custody the Treasury bills and bonds received from PIs in respect of reverse repurchase facilities;
- Re-endorsing and delivering Treasury bills and bonds to the PIs on maturity of reverse repurchase transactions;
- Issuing of payment/settlement instructions to Current Accounts Division of the Domestic Operations Department;
Contact person : Mr. T.M.T. Tennekoon – Telephone: 477087

Pursuant to the reallocation of functions as set out above, it has become necessary to amend the guidelines relating to the Open Market Operations of the CBSL. The revised guidelines are at Annexure I and the revised Repurchase (RP) and Reverse Repurchase (RRP) agreements are at Annexure II and III respectively.

The revised guidelines will come into operation with effect from November, 22 2002.

Further details with regard to the revised procedures could be obtained from the Director, Payments and Settlements Department on Telephone : 477035 or from the Director, Domestic Operations Department on Telephone : 477644

Director
Payments and Settlements Department

Director
Domestic Operations Department

ANNEXURE I

Open Market Operations of the Central Bank of Sri Lanka (CBSL)

**REVISED GUIDELINES ON REPURCHASE (RP) AND REVERSE REPURCHASE (RRP) FACILITIES
AND OUTRIGHT PURCHASES/SALES AT THE SECONDARY WINDOW**

(a) Re-purchase Facility (RP)

- (i) Licensed commercial banks and Primary Dealers in government securities hereinafter referred to as the Participating Institutions (PIs) are eligible to participate at the RP facility of the CBSL;
- (ii) The RP will be available from overnight upto seven days;
- (iii) On assessment of the level of liquidity in the market, the Market Operations Committee (MOC) of the CBSL will decide on the RP rate. The OMO Division of the Domestic Operations Department will announce it on the Reuters Screen at 9.30 a.m. on daily basis;
- (iv) The PIs who want to use the RP facility are required to inform the OMO Division of the Domestic Operations Department by telephone or fax about the deal with amount and tenor of the RP and confirm the deal in writing within 30 minutes to OMO Settlements Division of the Payments and Settlements Department (PSD) but no later than 2.30 p.m., the same day;
- (v) OMO Settlements Division of the PSD will then prepare and fax the RP agreement to the respective PI before 2.45 p.m. The PI should fax/return duly signed completed agreement to the OMO Settlements Division of the Payments and Settlements Department no later than 3.00 p.m., the same day;
- (vi) On completion of the RP agreement (Annexure II), the relevant accounts of the PI with the Central Bank will be debited with the sales value of the underlying security *i.e.* Treasury bill/s and/or Treasury bond/s;
- (vii) The sales value of a Treasury bill/s and/or Treasury bond/s under RP will be calculated by discounting the relevant Treasury bill/s and/or Treasury bond/s for the tenor of the repo by the relevant repo rate;
- (viii) The relevant accounts will be credited with the buy-back value, which consists of sales value, plus the interest component for the tenor of the Agreement at the maturity of the RP;
- (ix) The underlying Treasury bill/s and/or Treasury bond/s will not be physically delivered to the investor but will be kept in safe custody with the Central Bank;
- (x) A specimen of the Agreement to be used by the Central bank for RP with PIs is given at Annexure II.

(b) Reverse Re-purchase Facility (RRP)

- (i) Licensed commercial banks and Primary Dealers in government securities hereinafter referred to as the Participating Institutions (PIs) are eligible to participate at the RRP facility of the CBSL;
- (ii) The RRP will be available from overnight upto seven days;

- (iii) On assessment of the level of liquidity in the market, the Market Operations Committee (MOC) of the CBSL will decide on the RRP rate. The OMO Division of the Domestic Operations Department will announce it on the Reuters screen at 9.30 a.m. on daily basis.
- (iv) Under the RRP, the CBSL will purchase Treasury bill/s and/or Treasury bond/s from PIs at a discounted price with an agreement to sell back on an agreed date at an agreed price;
- (v) The PIs who want to use the RRP facility are required to inform the OMO Division of the Domestic Operations Department by telephone or fax about the deal with amount and tenor of the RRP and confirm the deal in writing by fax or letter within 30 minutes of the deal to OMO Settlements Division of the PSD but no later than 2.00 p.m. the same day.
- (vi) Immediately after the confirmation of the deal, but no later than 2.30 p.m. the same day, the PI is required to deliver to the OMO Settlements Division of the Payments and Settlements Department of the CBSL the relevant Treasury bill/s and/or Treasury bond/s, against which RRP is requested, duly endorsed in favour of the CBSL. Those PIs who wish to keep the underlying Treasury bill/s and/or Treasury bond/s with sufficient face value to cover the transactions, in custody with the CBSL, can do so with necessary endorsements thereon. The PI can collect Treasury bill/s and/or Treasury bond/s from the OMO Settlements Division of the Payments and Settlements Department of CBSL on maturity of the RRP;
- (vii) The OMO Settlements Division of the Payments and Settlements Department of the CBSL will fax the RRP agreement prescribed for this purpose duly signed, to the PI after receiving the underlying Treasury bill/s and/or Treasury bond/s from them indicating the buy and sell back prices agreed upon and the amount that will be credited and debited to their accounts, on the dealing date and the maturity date of the Agreement, respectively;
- (viii) PIs are requested to fax or hand-deliver the Agreement properly signed by the authorized signatories to the OMO Settlements Division of the Payments and Settlements Department of the CBSL before 3.00 p.m. the same day. The names of the officers who have been authorized for this purpose and their signatures should be registered by all PIs with the OMO Settlements Division of the Payments and Settlements Department before participation under RRP;
- (ix) The transaction under RRP will be effective only after the receipt of relevant Treasury bill/s and/or Treasury bond/s and the Agreement by the OMO Settlements Division of the Payments and Settlements Department referred to above;
- (x) The accounts of successful PIs with the CBSL will be credited with the purchase value of the underlying Treasury bill/s and/or Treasury bond/s subject to (viii) above;
- (xi) The purchase value of the underlying Treasury bill/s and/or Treasury bond/s will be calculated by discounting the Treasury bill/s and/or Treasury bond/s for the number of days to its maturity at the relevant current Primary Market Weighted Average Yield Rate (PMWAYR) for Treasury bill/s and/or Treasury bond/s adjusted by a margin which will be decided by the MOC of the CBSL;
- (xii) On maturity of the Agreement, the relevant accounts will be debited with the sell back value which consists of the purchase value plus the interest component which is calculated at the rate as determined by the MOC;
- (xiii) A specimen of the Agreement to be used by the CBSL for RRP with PIs is given at Annexure III.

(c) Out-right Purchase of Treasury Bills and Treasury Bonds from the Secondary Window of CBSL

- (i) Licensed commercial banks and primary dealers in government securities hereinafter referred to as the Participating Institutions (PIs), are eligible to participate in outright purchase of Treasury bill/s and/or Treasury bond/s from the Secondary Window of the CBSL.
- (ii) The PIs who want to use the secondary window for outright purchases of Treasury bill/s and/or Treasury bond/s are required to inform the OMO Division of the Domestic Operations Department by telephone or fax about the deal with amount and tenor of the outright purchase and confirm the deal in writing within 30 minutes to OMO Settlements Division of the PSD but no later than 2.30 p.m., the same day;

- (iii) On completion of the transactions (outright purchase) procedure, the relevant accounts of the PI with the Central Bank will be debited with the purchase value of the underlying security;
- (iv) The purchase value of the underlying Treasury bill/s and/or Treasury bond/s (discount rate of CBSL) will be calculated by discounting the Treasury bill/s and/or Treasury bond/s for the number of days to its maturity at the relevant current Primary Market Weighted Average Yield Rate (PMWAYR) for Treasury bill/s and/or Treasury bond/s adjusted by a margin which will be decided by the MOC of the CBSL;
- (v) The underlying Treasury bill/s and/or Treasury bond/s will be physically delivered to the relevant PIs.

(d) Outright Sale of Treasury Bills and Treasury Bonds to the Secondary Window of CBSL

- (i) Licensed commercial banks and primary dealers in government securities hereinafter referred to as the Participating Institutions (PIs), are eligible to participate in outright sale of Treasury bill/s and/or Treasury bond/s to the Secondary Window of the CBSL.
- (ii) The PIs who want to use the Secondary window for sale of their Treasury bill/s and/or Treasury bond/s are required to inform the OMO Division of the Domestic Operations Department by telephone or fax about the deal with amount, relevant number/s and the maturity date/s of Treasury bill/s and/or Treasury bond/s and confirm the deal in writing by fax or letter within 30 minutes to OMO Settlements Divisions of the PSD but no later than 2.30p.m. the same day.
- (iii) Immediately after the confirmation of the deal, but no later than 2.30 p.m. the same day, the PI is required to deliver the relevant Treasury bill/s and/or Treasury bond/s duly endorsed in favour of the CBSL to the OMO Settlements Division of the Payments and Settlements Department of the CBSL;
- (iv) The sales value of the underlying Treasury bill/s and/or Treasury bond/s (re-discount rate of CBSL) will be calculated by discounting the Treasury bill/s and/or Treasury bond/s for the number of days to its maturity at the relevant current Primary Market Weighted Average Yield Rate (PMWAYR) for Treasury bill/s and/or Treasury bond/s adjusted by a margin which will be decided by the MOC of the CBSL;
- (v) The OMO Settlements Division of the PSD of the CBSL will be credited the sales value of the Treasury bill/s and/or Treasury bond/s to their respective accounts with the CBSL on the dealing date.

(e) The Director, Payments and Settlements Department and the Director, Domestic Operations Department may vary or modify these guidelines from time to time as necessary with sufficient notice to PIs.

ANNEXURE II

TEL No. : 477044, 422094
FAX No. : 421192, 421194

OMO Settlements Division
Payments and Settlements Department
September , 2002

REPURCHASE AGREEMENT**AGREEMENT NO. :**

We hereby confirm having sold to you, Government of Sri Lanka Treasury bills (TBs) under a Re-purchase Agreement as per details given below :

- | | |
|---------------------------------------|---|
| 1. Treasury Bill No | : |
| 2. Maturity Date | : |
| 3. Face Value of TBs (Mn.) | : |
| 4. Agreed Sum for Re-purchase | : |
| 5. Date of Sale (Value Date) | : |
| 6. Date of Repurchase (Maturity date) | : |
| 7. Tenor (No. of Days) | : |
| 8. Rate (yield), % per annum | : |
| 9. Price (Rs. Per Rs.100/-) | : |
| 10. Discounted Value | : |
| 11. Settlement | : |

We will debit (Discounted Value) your a/c. No.with us on sale date with Rs. and credit (discounted value + interest) with Rs. on repurchase date.

The above Treasury Bill will be held in our custody on your behalf during the tenor of agreement.

.....
AUTHORIZED SIGNATURE
(CENTRAL BANK)

Time

.....
AUTHORIZED SIGNATURE
(CENTRAL BANK)

Time

We agree

.....
AUTHORIZED SIGNATURE
(PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time

Attn :

.....
AUTHORIZED SIGNATURE
(PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time

Fax No. :

Please confirm by fax today before 3.00 p.m.

ANNEXURE III

TEL No. : 477044, 422094
FAX No. : 421192, 421194

OMO Settlements Division
Payments and Settlements Department
September , 2002

REVERSE RE-PURCHASE AGREEMENT

AGREEMENT NO. :

We hereby confirm having purchased from you, Government of Sri Lanka Treasury bill (s)/bond(s) under an agreement to sell back as per details given below :

1. T'Bill/Bond No.	Bond Series*	Maturity	Purchase Price	Quantum Offered for Sale (Face Value) (Rs.)	Purchase Value (Rs.)
-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----
-----	-----	-----	Total	-----	-----

Amount Requested

=====

2. Sell Back Date (Maturity date) :
3. Tenor (No. of days) :
4. Interest Rate (%) :
5. Sell Back Value :
6. Settlement :

We will credit (total Purchase Value) to your A/c. No.: with us Rs. on the date of purchase on delivery of Treasury bill(s)/bond(s) and debit (Sell back Value) the said A/c. with Rs. on the date of sell back of the bill(s)/bonds. The above Treasury bill(s)/bond(s) duly endorsed in our favour should be delivered to the CBSL on the date of purchase. The same will be endorsed and delivered to you on the sell back date.

.....
AUTHORIZED SIGNATURE
(CENTRAL BANK)

Time

We agree

.....
AUTHORIZED SIGNATURE
(CENTRAL BANK)

Time

.....
AUTHORIZED SIGNATURE
(PRIMARY DEALER/COMMERCIAL BANK)

Time

.....
AUTHORIZED SIGNATURE
(PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time
Fax No. :

Please confirm by fax today before 3.00 p.m.

* Where applicable

The Gazette of the Democratic Socialist Republic of Sri Lanka**EXTRAORDINARY****No. 1227/11 – SATURDAY, MARCH 16, 2002****PART I : SECTION (I) – GENERAL****Government Notifications****NOTICE UNDER EXCHANGE CONTROL ACT**
(CHAPTER 423 OF THE CLE)**1. Import and export of Sri Lanka currency:**

General permission is hereby granted in terms of the provisions of sub-section 1(a) of Section 22, and sub-section 1(a) of Section 21 of the Exchange Control Act, No. 24 of 1953, to all Sri Lankans to export and import on their persons Sri Lanka currency notes in a sum not exceeding Rs. 5,000 when they travel abroad or return to Sri Lanka, as the case may be.

2. Possession of unutilised foreign currency:

- (a) General permission is hereby granted under section 6A and section 48 of the Exchange Control Act, No. 24 of 1953, for a person resident in Sri Lanka to retain in the possession of such person foreign currency in the form of travellers cheques and foreign currency notes purchased by such person from an authorised dealer for travel abroad and unutilized on such travel abroad, provided the currency so retained shall not exceed US\$ 2,000 or its equivalent in other convertible foreign currencies, of which not more than US\$ 500 or its equivalent shall be in foreign currency notes.
- (b) General permission is also hereby granted in terms of Section 22 and section 48 of the Exchange Control Act for such a person referred to in (a) above to export on his/her person when travelling abroad such currency as is retained in his/her possession in terms of (a) above.

H. A. G. HETTIARACHCHI*Controller of Exchange*

16th March, 2002.

Ref. No. : 06 / 04 / 03 / 2002

Exchange Control Department
Central Bank of Sri Lanka
P.O. Box 883
Colombo 1.

31st January 2002

Operating Instructions to Authorised Dealers

Dear Sirs,

**PAYMENT OF INTEREST ON ACCOUNTS HELD BY
FOREIGN PASSPORT HOLDERS RESIDENT IN SRI LANKA**

All Authorised Dealers are hereby informed that they may now pay interest on rupee deposits other than demand deposits, held by foreign passport holders who are resident in Sri Lanka, on Residence Visas.

Operating Instructions No. EC/05/95(D) of 28/02/95 is hereby rescinded.

Yours faithfully,

Controller of Exchange

c.c. : Governor
DG (N)
DG (W)
AG (D)
DER
DBS
CA
Consultant / Banking & Financial Services
Consultant / Legal

Ref. No. : 06 / 07 / 06 / 2002

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 883
Colombo 1.

18th February 2002.

Operating Instructions to Authorised Dealers

Dear Sirs,

**CREDITING OF FREIGHT CHARGES TO RUPEE ACCOUNTS MAINTAINED ON
BEHALF OF SHIPPING LINES BY SHIPPING AGENTS**

We wish to draw your attention to the last two paragraphs of item C of our **Guidelines to Authorised Dealers on Removal of Exchange Control Restrictions on Current Account (Non-Capital) Transactions No.EC/D/GL/1994/2 of 18th March 1994**, issued along with operating Instructions No.EC/06/94 dated 18th March 1994, whereby you have been permitted to credit only freight and passage collections to the rupee accounts maintained on behalf of shipping lines by Shipping Agents.

2. It has been brought to my notice that in addition to freight collections, charges levied as Terminal Handling Charges (THCs) by Shipping Agents on behalf of shipping lines for meeting certain land based costs, which are not a component of freight, are also being credited to these rupee accounts.

3. THCs which are meant to meet local expenses do not qualify in terms of the above mentioned Operating Instructions for credit to the accounts maintained in the name of shipping lines for the purpose of making outward remittances. Therefore, you are informed that you should not credit THCs to such accounts. Having regard to the fact that immediate termination of the practice of crediting THC to accounts maintained by shipping lines could cause difficulty to shipping agents and shipping lines, these instructions would come into effect from 4th March 2002, so that shipping agents would have adequate time to make suitable alternate arrangements.

Yours faithfully,

Controller of Exchange

Copy to : Ceylon Association of Shipping Agents

Ref. No. : 06 / 07 / 07 / 2002

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 883
Colombo 1.

22nd March 2002

*Operating Instructions To Commercial Banks**Appointed as Authorised Dealers*

Dear Sirs,

**PAYMENT OF SEA AND AIR FREIGHT IN FOREIGN CURRENCY AND
PERMITTING FOREIGN CURRENCY ACCOUNT FACILITIES FOR
SHIPPING/AIR LINES**

The attention of all authorised dealers are drawn to our guidelines No. EC/D/GL/1994/2 of 18th March 1994 in terms of which authorised dealers were permitted to open and maintain rupee accounts in respect of foreign shipping/air lines on behalf of their principals for crediting their freight and passage collections and for making outward remittances from such accounts, after meeting all their liabilities in Sri Lanka including tax payable to the government.

2. Authorised dealers are hereby informed that BOI Companies approved under Section 17 of the BOI Act with full exemption from the Exchange Control Act (Section 17 approved BOI companies) and Exporters who have foreign currency account facilities are hereby permitted to pay freight to foreign Shipping/Airlines in foreign currency by debiting their foreign currency accounts with banks in Sri Lanka. Therefore, in addition to the above rupee account, a foreign currency account could also be maintained in the domestic unit of an authorised dealer (commercial bank) by a shipping/airline agent on behalf of its foreign principal only for the purpose of collecting freight paid by Section 17 approved BOI Companies and exporters, in foreign currency, subject to the following terms and conditions:

- i. The foreign currency account should be maintained only with same authorised dealer with whom the rupee account referred to in paragraph 1 is maintained.
- ii. All credits of freight payments to such foreign account should be by a bank draft or cheque drawn on a foreign currency account held by the Section 17 approved BOI Company or the Exporter with a bank in Sri Lanka.
- iii. In addition to freight, any inward remittances received in foreign currency from the foreign shipping/airline to meet its local expenses could also be credited to the foreign currency account.
- iv. Any outward remittances from the foreign currency account should be made only after ensuring that the foreign shipping/ airline has adequate funds either in its foreign currency account or its rupee account to meet all its liabilities in Sri Lanka including tax payable to the Government. A confirmation from the shipping/airline agent to this effect should be obtained by the Bank before making outward remittances to the foreign Shipping/Airline.

3. Authorised dealers should continue to credit freight paid in rupees to the rupee account maintained on behalf of the foreign shipping/airline.

4. Please contact me if any clarification on this are required.

Yours faithfully,

Controller of Exchange

c.c. : Governor	AG (RJ)
DG (N)	AG (C)
DG (W)	DER
	DBS

Ref. No. : 06 / 04 / 08 / 2002

Department of Exchange Control
Central Bank of Sri Lanka
PO Box 883
Colombo - 01

10th April, 2002.

Operating Instructions to Authorised Dealers

Dear Sirs,

**IMPORT AND EXPORT OF SRI LANKA CURRENCY AND
POSSESSION OF UNUTILIZED FOREIGN CURRENCY**

The attention of all authorised dealers are drawn to the notice under the Exchange Control Act published in the *Extraordinary Gazette* Notification No.1227/11 of 16th March 2002 (Annex I).

In terms of this *Gazette* Notification the following are now permitted:

1. Import and Export of Sri Lanka Currency

For Sri Lankans to export Sri Lanka currency notes upto a limit of Rs. 5,000 per person when they travel abroad and import the same on their return to Sri Lanka. The previously permitted limit for this purpose was Rs. 1,000 per person.

2. Possession of Unutilized Foreign Currency

For a person resident in Sri Lanka to retain in his/her possession foreign currency in the form of travellers cheques and currency notes purchased by him/her from an authorised dealer for his/her travel abroad but unutilized for such travel, upto a limit of US\$ 2,000 or its equivalent in any other convertible foreign currency, for the purpose of utilising in his/her future travel, provided that currency notes so retained do not exceed US\$ 500 or its equivalent in any other foreign currency.

You may inform your customers of the above.

Yours faithfully,

Controller of Exchange

c.c. : Director-General Customs
Deputy Secretary-General, Ceylon Chamber of Commerce

Ref. No. : 06 / 07 / 09 / 2002

Dept. of Exchange Control
Central Bank of Sri Lanka
P O Box 883
Colombo 1

11th April 2002

Operating Instructions To Authorised Dealers

Dear Sirs,

**FREIGHT FORWARDING AND ISSUE OF HOUSE AIRWAY BILLS/HOUSE BILLS
OF LADING/FORWARDERS CARGO RECEIPTS**

Further to my Operating Instructions No. EC/48/91(G) dated 12th July 1991 and EC/04/97(G) dated 4th March 1997 on the above subject Authorised Dealers are hereby requested to include the following freight forwarders who are registered with the Central Bank of Sri Lanka to the list of freight forwarders given in the Operating Instructions and accept House Airway Bills/House Bills of Lading/Forwarders Cargo Receipts issued by them for negotiation in respect of export cargo.

*Name of the Freight Forwarder**Registration No.*

1. Bax Global (Private) Ltd.
2. Setmil United Cargo (Pvt) Ltd.

06/07/009/0110
06/07/009/0111

Yours faithfully

Controller of Exchange

The Gazette of the Democratic Socialist Republic of Sri Lanka**EXTRAORDINARY****No. 1232/14 – FRIDAY, APRIL 19, 2002****PART I : SECTION (I) – GENERAL****Government Notifications****NOTICE UNDER EXCHANGE CONTROL ACT****(CHAPTER 423 OF THE CLE)****Permission in terms of Sections 7, 10, 11, 15 and 30(5) of the Exchange Control Act****(Chapter 423 of the CLE)**

1. PERMISSION is hereby granted for the purposes of section 10, 11, 15 and subsection 5 of section 30 as applicable of the Exchange Control Act (Chapter 423 of the CLE), for the issue and transfer of shares in a company upto 100% of the issued capital of such company, to approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka), subject to the exclusions, limitations and conditions hereinafter set out.
2. *Exclusions* – The permission hereby granted shall not apply in respect of shares of a company proposing to carry on or carrying on any of the following businesses:
 - (i) Money lending,
 - (ii) Pawn broking,
 - (iii) Retail trade with a capital of less than one Million US Dollars,
 - (iv) Providing personal services other than for the export or tourism sectors,
 - (v) Coastal fishing.
3. *Limitations* –
 - (a) The permission hereby granted shall apply in respect of shares in a company carrying on or proposing to carry on any of the following businesses only upto 40% of the issued capital of such company, or if approval has been granted by the Board of Investment of Sri Lanka for a higher percentage of foreign investment in any company, only upto such higher percentage.
 - (i) Production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions;
 - (ii) Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar and spices;
 - (iii) Mining and primary processing of non renewable national resources;
 - (iv) Timber based industries using local timber;
 - (v) Fishing (deep sea fishing);
 - (vi) Mass communications;
 - (vii) Education;
 - (viii) Freight forwarding;
 - (ix) Travel agencies;
 - (x) Shipping agencies.

(b) The permission hereby granted shall apply in respect of the shares of a company carrying on or proposing to carry on any of the businesses set out below only upto the percentage of the issued capital of the company for which percentage either general or special approval has been granted by the Government of Sri Lanka or any legal or administrative authority set up for the approval of foreign investment in such businesses.

(i) Air transportation;

(ii) Coastal shipping;

(iii) Industrial undertaking in the second schedule of the Industrial Promotion Act, No.46 of 1990, namely –

any industry manufacturing arms, ammunitions, explosives, military vehicles and equipment aircraft and other military hardware,

any industry manufacturing poisons, narcotics, alcohols, dangerous drugs and toxic, hazardous or carcinogenic materials,

any industry producing currency, coins or security documents.

(iv) Large scale mechanised mining of gems;

(v) Lotteries.”

4. Conditions –

(a) A person resident outside Sri Lanka who is a party to a transaction permitted hereunder shall make a declaration to the effect that such person is resident outside Sri Lanka on the share transfer form or share application form as applicable.

(b) The payment for shares in any issue or transaction permitted hereunder shall be made only out of or into a Share Investment External Rupee Account opened in a commercial bank of Sri Lanka in accordance with directions given by the Controller of Exchange in that behalf to commercial banks.

(c) A commercial bank, a licensed share broker or any other person entrusted with the payment of capital monies such as sale proceeds of shares, dividends and commissions in respect of any transaction permitted hereunder shall make such payment only into or out of a Share Investment External Rupee Account referred to in subparagraph (b) above.

(d) The Secretary/Registrar to a company in which the issue or transfer of shares to persons resident outside Sri Lanka are limited under paragraph 3 shall not register the name of any person resident outside Sri Lanka or a citizen of a foreign state or their nominee as a share holder in such company if by such registration the limits specified in paragraph 3 shall be exceeded.

5. Permission is also hereby granted

(a) under Section 11 of the Exchange Control Act for the transfer by approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) of shares acquired in terms of paragraph I subject to the conditions stipulated in paragraphs 4(a), 4(b) and 4(c);

(b) under Section 7 of the Exchange Control Act for making any payment to or for the credit of a person resident outside Sri Lanka in respect of a transaction permitted hereunder in accordance with the provisions of paragraph 4(c).

6. General – Nothing contained in this order shall be construed as affecting or having a bearing on

(a) enterprises as defined in the Board of Investment of Sri Lanka Law No.4 of 1978 in respect of which exemptions have been granted from the Exchange Control Act, to the extent of such exemption;

(b) the provisions of any other written law.

7. Interpretation - For purposes of this order
- (i) "issued capital" shall have the same meaning as in the Companies Act, No.17 of 1982;
 - (ii) "persons resident outside Sri Lanka" shall have the same meaning as in Order published under the Exchange Control Act in *Gazette* No.15,007 dated 21.4.1972.
8. The notices published in *Gazette Extraordinary* No.721/4 of 29.6.1992 and *Gazette* No.1122/12 of 7.3.2000 granting permission for purposes of Sections 7, 10, 11, 15 and subsection 5 of Section 30 of the Exchange Control Act are hereby rescinded.

H. A. G. HETTIARACHCHI

Controller of Exchange

Colombo

19th April, 2002.

Ref. No. : 06 / 02 / 10 / 2002

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
Colombo 1.

08th May, 2002.

Operating Instructions To Authorised Dealers

Dear Sirs,

SHARE INVESTMENT EXTERNAL RUPEE ACCOUNTS**(A) Investment in Shares**

The Government has decided to relax existing restrictions on foreign investments as announced in the Budget 2002 by permitting non residents to invest upto 100% in the equity capital of companies incorporated in Sri Lanka without Exchange Control restrictions, in the areas of banking, finance, insurance, stock broking, construction of residential buildings and roads, water supply, mass transportation, telecommunication, power and energy, professional services and setting up of branch/liaison offices of companies which have been incorporated overseas, subject only to the rules of the relevant regulatory authorities.

2. In order to give effect to this decision, a general permission has been granted by me in a notice published in *Gazette Extraordinary* No. 1232/14 of 19.04.2002 by rescinding earlier notices published in the *Gazettes Extraordinary* Nos. 721/4 of 29.06.1992 and 1122/12 of 07.03.2000 in respect of the issue and transfer of shares to and from non residents.

3. Accordingly, Authorised Dealers are hereby permitted to open and operate "Share Investment External Rupee Accounts" (SIERA), including existing accounts, in the names of –

- (a) Country Funds and Regional Funds approved by the Ministry of Finance
- (b) Companies incorporated outside Sri Lanka; and
- (c) Citizens of foreign states (whether resident in Sri Lanka or outside Sri Lanka) and Sri Lankans resident outside Sri Lanka as defined by the direction given by the Hon. Minister of Finance in *Gazette* No. 15007 of 21.04.1972.

subject to the following guidelines for the purpose of facilitating their investments.

I. Credits and Debits in respect of transactions in shares should be confined to the following :

(a) Credits :

- (i) Inward remittances or NRFC/FCBU transfers of the investor;
- (ii) Sale proceeds of shares net of tax, supported by documentary evidence (Broker's Contract Notes and evidence of payment of tax, etc.);
- (iii) Dividends paid on shares net of tax (supported by dividend warrants with counterfoils, documentary evidence of payment of tax, etc.);
- (iv) Commissions related to such transactions with supporting evidence;
- (v) All credits permitted in terms of our Operating Instructions No. 06/02/12/2001 dated 06.11.2001 in respect of Stock Borrowings and Lending (SBL) transactions.

(b) Debits :

- (i) Payments for investments.
- (ii) Payments to brokers and bank charges.
- (iii) Local expenses of the account holder.
- (iv) Remittances of dividends and sale proceeds of shares.
- (v) All debits permitted in our Operating Instructions No. 06/02/12/2001 dated 06.11.2001 in respect of SBL transactions.

II. Forward purchase of foreign exchange for share transactions

Authorised Dealers may purchase foreign exchange forward from the categories of foreign investors referred to at paragraph 3(a) to (c) above to settle payments in respect of shares purchased on their behalf at the Colombo Stock Exchange. The duration of the contracts covering such forward purchases should be from the date of the transaction to the date of settlement, viz. trade day + 5 market days in accordance with the rules laid down by the Colombo Stock Exchange for buyers' settlements.

All buyers' settlements in respect of which foreign exchange is purchased forward should be routed through the SIERAs.

III. Primary Issues of Shares

The procedure laid down below may be followed by the Authorised dealers in handling inward remittances of foreign currency received from the above categories of investors, as subscriptions to primary issues of shares in companies:

- (a) Inward remittances of foreign currency may be held in a Foreign Currency Banking Unit (FCBU) Account pending allotment of shares to these investors;
- (b) Share applications from investors should be supported by a Bank Guarantee favouring the Offeror of Shares to the extent of value of shares, if payment is not made by a draft or cheque;
- (c) Upon allotment of shares to them the rupee value of foreign currency to the extent of the value of the shares allotted should be credited to SIERAs opened in their names for payment to the Offeror;
- (d) Unconverted foreign currency remaining in the FCBU Account thereafter due to rejection of applications or partial acceptance of applications may be refunded to them.

(B) Investments in Units of Unit Trusts

The above scheme of SIERAs is also made applicable for investments by non residents in Units of Unit Trusts as permitted by me in the notice published in the *Gazette Extraordinary* No. 1122/12 of 07.03.2000 which continues to be in force.

2. Credits and debits in respect of investments in Units of Unit Trusts should be confined to the following:

(a) Credits :

- (i) Inward remittances or NRFC/FCBU transfers from the investor;
- (ii) Dividend income on Units net of tax, supported by documentary evidence such as the certificate issued by the management company of the Unit Trust;
- (iii) Proceeds on redemption of Units net of tax, supported by documentary evidence such as the certificate issued by the management company of the Unit Trust.

(b) Debits :

- (i) Payments to be made to a management company of a Unit Trust for the purchase of Units based on managers selling price.

- (ii) Management fees (Entry fees and exit fees) payable to the management company of the Unit Trust and bank charges.
- (iii) Local expenses of the Unit holder.
- (iv) Outward remittances in respect of dividend income and proceeds on redemption of units net of tax.

3. Unit Trusts are governed by Unit Trust Code gazetted in *Gazette Extraordinary* No. 884/13 dated 18 August 1995, Unit Trust regulation gazetted in *Gazette Extraordinary* No. 681/2 dated 24 September 1991 and the Trust Deed entered between a Management Company and the Trustees of the Unit Trust.

4. Management company in this context refers to a management company issued with a license to operate a Unit Trust by the Securities and Exchange Commission of Sri Lanka.

(C) Reporting Requirements

Authorised Dealers are required to furnish the following reports to the Monitoring Unit of this Department quoting reference to these operating instructions -

- (a) A statement in respect of payments made for shares/units allotted for each non resident investor through his/her SIERA in each primary issue/purchase of units before the 15th day after making the payment.
- (b) A statement of deposits and withdrawals made to each SIERA as at the end of the month before the 15th day of the following month.

2. Operating Instructions Nos. EC/74/92 (C&F) of 1992.07.28 and EC/06/2000 (C&F) of 10.05.2000 issued on the above subject are hereby rescinded and reference given in the Operating Instructions No. 06/02/12/2001 of 06.11.2001 in respect of SBL should be replaced by these Operating Instructions No. 06/02/10/2002 of 2002.05.08.

yours faithfully,

Controller of Exchange.

Ref. No. : 06 / 07 / 11 / 2002

Dept. of Exchange Control
Central Bank of Sri Lanka
P O Box 883
Colombo 1

17th June 2002

Operating Instructions To Authorised Dealers

Dear Sirs,

**FREIGHT FORWARDING AND ISSUE OF HOUSE AIRWAY BILLS/HOUSE BILLS
OF LADING/FORWARDERS CARGO RECEIPTS**

Further to my Operating Instructions No. EC/48/91(G) dated 12th July 1991 and EC/04/97(G) dated 4th March 1997 on the above subject, Authorised Dealers are hereby requested to include the following freight forwarder who is now registered with the Central Bank of Sri Lanka to the list of freight forwarders given in the Operating Instructions and accept House Airway Bills/House Bills of Lading/Forwarders Cargo Receipts issued by them for negotiation in respect of export cargo.

Name of the Freight Forwarder

Registration No.

1. CWT Globelink Colombo (Pvt) Ltd.

06/07/009/0112

Yours faithfully

Controller of Exchange

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

No. 1248/19 – THURSDAY, AUGUST 08, 2002

PART I : SECTION (I) – GENERAL

Government Notifications

NOTICE UNDER EXCHANGE CONTROL ACT

(CHAPTER 423 OF THE CLE)

Permission in terms of Sections 7, 10, 11, 15 and 30(5) of the Exchange Control Act

THE notice under the Exchange Control Act published in the *Government Gazette (Extraordinary)* No. 1232/14 of 19th April, 2002, is hereby amended in paragraph 2 as follows:

- (a) by the repeal of item (iv) *i.e.* Providing personal services other than for the export or tourism sectors;
- (b) by renumbering item (v) *i.e.* Coastal fishing as item (iv) thereof.

H. A. G. HETTIARACHCHI

Controller of Exchange

Colombo

08th August, 2002.

Ref.No : 06 / 02 / 12 / 2002

Dept. of Exchange Control
P.O. Box 883,
Colombo 1.

2002.09.04

Operating Instructions To All Authorised Dealers

Dear Sir,

HOUSING LOANS IN FOREIGN CURRENCY TO
SRI LANKANS EMPLOYED ABROAD

As a further measure to liberalise Exchange Controls, it has been decided to permit Authorised Dealers to grant loans in foreign currency to Sri Lankans employed abroad, who are in a position to service such loans in foreign currency, for construction or purchase of residential houses in Sri Lanka, subject to the following terms and conditions:

1. An assessment of credit risk of the loan in foreign currency should be made before it is granted, particularly on the borrower's ability to repay the loan in foreign currency having regard to his/her employment abroad and/or existing balances in his/her foreign currency account.
2. The foreign currency proceeds of the loan will be released in Sri Lanka Rupees to the borrower by the bank, which grants the loan, purchasing the foreign exchange.
3. The loans should be disbursed in accordance with procedures usually followed by banks when releasing loans for the purpose of purchasing or constructing houses. In the case of a loan for construction, it should be released on instalment basis, depending upon the progress of construction, as is usually done by banks.
4. Any foreign exchange risk likely to arise in the event of a default of repayment of the loan in foreign currency should be hedged by building up of a prudential reserve in foreign currency in the bank.
5. Adequate security should be obtained either in the form of a mortgage of a property or in the form of a lien on foreign currency deposits etc. to cover the credit risk.
6. Authorised dealers are requested to report the details of such loans granted on a quarterly basis including the amount of prudential reserves built up for the hedging the currency risk, within 15 days of the end of each quarter.

Yours faithfully,

Controller of Exchange

Ref. No. : 06 / 07 / 15 / 2002

Dept. of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 1

24th October 2002

Operating Instructions to Authorised Dealers

Dear Sirs

**FREIGHT FORWARDING AND ISSUE OF HOUSE AIRWAY BILLS/
HOUSE BILLS OF LADING/ FORWARDERS CARGO RECEIPTS**

Further to my Operating Instructions No. EC/48/91(G) dated 12.07.1991 and EC/04/97(G) dated 4th March 1997 on the above subject Authorised Dealers are hereby requested to include the following freight forwarders who are registered with the Central Bank of Sri Lanka to the list of freight forwarders given in the Operating Instructions and accept House Airway Bills/House Bills of Lading/Forwarders Cargo Receipts issued by them for negotiation in respect of export Cargo.

<i>Name of the Freight Forwarder</i>	<i>Registration No.</i>
1. Belcon Freight Services Ltd.	- 06/07/009/0113
2. Speedmark Consolidation Service Lanka (Pvt) Ltd.	- 06/07/009/0114
3. Pacific Lanka (Pvt) Ltd.	- 06/07/009/0115

Yours faithfully

Controller of Exchange

The Gazette of the Democratic Socialist Republic of Sri Lanka**EXTRAORDINARY****No. 1263/10 – FRIDAY, NOVEMBER 22, 2002****PART I : SECTION (I) – GENERAL****Central Bank of Sri Lanka Notices****EXCHANGE CONTROL NOTICE****Exchange Control Act****PERMISSION required in terms of Sections 5, 21 and 22 of the Exchange Control Act:-**

1. Subject to paragraph (4) below, general permission is hereby granted in terms of Sections 5, 21 and 22 of the Exchange Control Act read with Sections 3 and 48 of the said Act for the purpose of –
 - (i) Buying gold in Sri Lanka;
 - (ii) Selling gold in Sri Lanka by any person who is resident in Sri Lanka;
 - (iii) Importing into Sri Lanka or exporting from Sri Lanka of gold by any person subject to the conditions specified in paragraphs (2) and (3) below.
2. Every importer of gold under paragraph (1)(iii) shall before clearance of gold from Sri Lanka customs and every exporter of gold under paragraph (1)(iii) shall at or before the time of export of gold from Sri Lanka, declare to the Director-General of Customs on such forms as may be provided by the Director General; the quantity and value of gold and the purpose for which the gold is imported or exported.
3. Every importer/exporter of gold under paragraph (1)(iii) shall comply with the provisions of the Import and Export Control Act and regulations made thereunder regulating the import and export of goods.
4. (1) Gold shall not be imported into Sri Lanka on consignment account basis by any person other than –
 - (a) a licensed commercial bank; or
 - (b) a limited liability company approved by the Controller of Exchange.
 - (i) which is primarily engaged in trading of gold or manufacturing gold jewellery or other gold products for exports;
 - (ii) which has a paid up capital of not less than Rs. 10 million;
 - (iii) which has a good financial track record for not less than three years; and
 - (iv) which has experience in gold trading for not less than three years.

provided that for purposes of (iii) and (iv) above in the case of a company that has not been in existence for three years, the financial track record and experience of the group of companies to which such company belongs will be taken into account.
- (2) Importation of gold on consignment account basis in terms of the preceding provisions shall be subject to such terms and conditions as may be imposed by the Controller of Exchange from time to time.
5. The Notice published in the *Government Gazette Extraordinary* No. 1186/18 of 30th May, 2001 is hereby revoked.

H. A. G. HETTIARACHCHI*Controller of Exchange*

Operating Instructions No. : 01 / 2002

Ref. No. : 06 / 04 / 15 / 2001

Exchange Control Department

Ref. No. : 33 / 03 / 011 / 0013 / 001

International Operations Department
Central Bank of Sri Lanka
Colombo 1

20th February 2002

*Operating Instructions To Commercial Banks***INTRODUCTION OF THE EUROPEAN SINGLE CURRENCY – THE “EURO”**

Further to the Operating Instructions issued on 28.11.2001 signed by the Controller of Exchange and the Chief Accountant, we wish to provide you with the following information pertaining to the Euro Currency Cash Conversions.

Euro Legacy Currency Cash Conversion Timeline

- | | |
|-----------------|---|
| 01 January 2002 | – Euro notes and coins acceptable as legal tender throughout the Euro-zone |
| | – Legacy currency notes and coins can be converted to Euro at Euro-zone banks |
| 01 March 2002 | – Legacy currency notes and coins will NO LONGER be acceptable as legal tender anywhere in the Euro-zone. |

You may also refer to the attachment received from one of our counterparties with regard to the last dates for acceptance of legacy currencies and last dates for exchanging legacy currencies by individual member countries of Euro-zone. Further details can be obtained from the website of the European Central Bank at www.europa.eu.int.

*Controller of Exchange**Director, International Operations*

ATTACHMENT

INTRODUCTION OF THE EUROPEAN SINGLE CURRENCY – THE “EURO”
LAST DATES OF ACCEPTANCE AND EXCHANGING OF LEGACY CURRENCIES

Country	Currency	Last date for acceptance as legal tender	Last date for exchanging at commercial banks	Last date for exchanging cash at Central Banks	
				Notes	Coins
Austria	Schilling (ATS)	28.02.2002	decided by individuals banks	no limit	no limit
Belgium	Bel. Franc (BEF)	28.02.2002	31.12.2002	no limit	31.12.2004
Finland	Markka (FIM)	28.02.2002	decided by individuals banks	31.12.2011	31.12.2011
France	Franc (FFR)	17.02.2002	30.06.2002	31.12.2011	31.12.2004
Germany	Mark (DEM)	31.12.2002/ 28.02.2002*	28.02.2002*	no limit	no limit
Greece	Drachina (GRD)	28.02.2002	decided by individuals banks	31.12.2011	31.12.2003
Ireland	Punt (IEP)	09.02.2002	decided by individuals banks	no limit	no limit
Italy	Lira (ITL)	28.02.2002	under consideration	31.12.2011	31.12.2011
Luxembourg	Lux. Franc (LUF)	28.02.2002	30.06.2002	no limit	31.12.2004
Netherlands	Guilder (NLG)	28.01.2002	31.12.2002	31.12.2031	31.12.2006
Portugal	Escudo (PTE)	28.02.2002	30.06.2002	31.12.2021	31.12.2002
Spain	Peseta (ESP)	28.02.2002	30.06.2002	no limit	no limit

* Germany will officially end acceptance of Marks on 31 December 2001. However, according to a joint statement of professional associations made on 22 October, 1998, businesses will accept Deutsche Mark notes and coins at least until 28 February, 2002.

CENTRAL BANK OF SRI LANKA

ANNOUNCEMENTS

To : All Commercial Banks

LIMIT ON DAILY WORKING BALANCES IN FOREIGN CURRENCIES

Please be informed that the maximum amount of the working balances in all foreign currencies the commercial banks should have at the end of each working day has been revised with effect from 1 March, 2002. This has been communicated to all commercial banks by our letter No. 33/04/014/0009/001 dated 28 February, 2002.

Y.M.W.B. Weerasekera

Director, International Operations

Central Bank Rates for the Purchase of Foreign Currency Notes from Commercial Banks

Sri Lanka Rupees

Effective Date	Circular No.	Australian Dollar (per \$)	Austrian Schilling (per 10 Sch.)	Bahraini Dinar (per Dinar)	Belgian Franc (per 10 Fr.)	Canadian Dollar (per \$)	Danish Kroner (per 10 Kr.)	Deutsche Mark (per DM)	Euro (per 1 Euro)	Finland Markka (per 10 Markka)	French Franc (per 10 FFr.)	Hong Kong Dollar (per 10 HK \$)	Italian Lira (per 1,000 Lira)	Japanese Yen (per 100 Yen)	Kuwait Dinar (per Dinar)	Netherlands Guilder (per Guilder)	Norwegian Kroner (per 10 Kr.)	Omani Riyal (per Riyal)	Saudi Arabian Riyal (per Riyal)	Singapore Dollar (per \$)	Swedish Kroner (per 10 Kr.)	Swiss Franc (per Sw. Fr.)	U. A. E. Dirham (per Dirham)	U.K. Pound (per £)	U.S. Dollar (per US \$)
08.01.02	2	46.35	58.00	236.50	19.80	55.90	107.15	40.80	79.85	134.25	121.70	114.30	41.25	68.15	290.40	36.20	100.20	231.55	23.75	48.40	86.60	54.00	24.25	128.90	90.10
15.01.02	4	46.70	58.00	237.25	19.80	55.95	107.35	40.80	79.80	134.20	121.65	114.70	41.20	67.65	291.10	36.20	100.10	232.25	23.85	48.55	87.05	53.85	24.35	128.95	90.35
22.01.02	6	46.05	57.60	237.25	19.65	55.35	106.60	40.50	79.25	133.30	120.80	114.70	40.95	67.65	291.00	35.95	99.90	232.35	23.85	48.80	85.85	53.85	24.35	128.75	90.40
29.01.02	8	46.50	57.10	237.25	19.45	55.80	105.70	40.15	78.55	132.10	119.75	114.70	40.55	66.35	290.40	35.65	99.60	232.35	23.85	48.65	84.95	53.45	24.35	127.55	90.40
05.02.02	10	45.40	55.90	237.35	19.05	56.30	103.55	39.35	76.90	129.35	117.25	114.75	39.75	66.50	290.35	34.90	98.10	232.45	23.85	48.70	84.00	52.05	24.35	126.35	90.40
12.02.02	12	45.80	56.75	237.10	19.35	56.00	105.00	39.90	78.05	131.30	119.00	114.70	40.30	66.35	290.50	35.45	99.60	232.35	23.85	48.80	84.35	52.95	24.35	126.80	90.40
19.02.02	14	46.25	56.80	237.35	19.35	56.25	105.20	39.95	78.15	131.40	119.10	114.70	40.35	67.45	291.00	35.45	100.75	232.40	23.85	49.00	85.15	52.70	24.35	128.20	90.40
26.02.02	16	45.90	56.90	237.40	19.40	56.05	105.40	40.05	78.30	131.70	119.35	114.75	40.45	66.80	291.00	35.55	100.75	232.50	23.85	48.85	85.65	52.95	24.35	128.15	90.45
05.03.02	18	46.70	56.50	238.30	19.30	56.40	104.65	39.75	77.75	130.80	118.55	115.20	40.15	67.45	291.75	35.30	101.05	233.35	23.95	49.05	85.65	52.60	24.45	127.60	90.80
13.03.02	20	47.05	57.40	239.75	19.60	56.95	106.30	40.40	79.00	132.90	120.45	115.85	40.80	70.10	294.15	35.85	102.55	234.75	24.10	49.55	87.00	53.60	24.60	128.50	91.30
19.03.02	22	47.70	58.00	240.50	19.80	57.25	107.40	40.80	79.80	134.20	121.65	116.25	41.20	70.00	295.55	36.20	102.75	235.50	24.20	49.80	87.45	54.60	24.70	128.90	91.60
26.03.02	24	48.45	58.15	242.15	19.85	57.85	107.60	40.90	80.00	134.55	121.95	117.05	41.30	68.70	296.95	36.30	103.85	237.10	24.35	49.80	88.75	54.75	24.85	129.90	92.25
02.04.02	26	48.90	58.10	243.10	19.85	57.45	107.55	40.90	80.00	134.50	121.95	117.50	41.30	68.85	298.05	36.30	103.60	238.05	24.45	49.65	88.60	54.50	24.95	130.60	92.60
09.04.02	28	48.60	58.65	243.25	20.00	57.75	108.50	41.25	80.70	135.70	123.00	117.70	41.65	69.75	298.95	36.60	105.45	238.40	24.50	50.10	89.35	55.15	25.00	131.55	92.75
16.04.02	30	49.20	58.75	243.20	20.05	57.75	108.90	41.35	80.85	135.95	123.25	117.65	41.75	69.55	298.65	36.70	106.00	238.15	24.45	49.90	88.85	55.20	24.95	131.75	92.65
23.04.02	32	49.70	59.40	243.75	20.25	58.40	109.95	41.80	81.70	137.45	124.60	117.80	42.20	70.50	299.60	37.10	107.55	238.70	24.50	50.50	89.20	55.75	25.00	133.05	92.85
30.04.02	34	50.10	60.30	244.00	20.55	58.90	111.55	42.40	82.95	139.50	126.45	117.95	42.85	71.95	300.80	37.65	109.35	238.95	24.55	51.00	89.90	56.60	25.05	134.10	92.95
07.05.02	36	49.60	61.20	243.95	20.90	58.80	113.40	43.05	84.25	141.65	128.40	117.95	43.50	72.30	301.50	38.20	110.95	239.90	24.55	50.95	90.80	57.85	25.05	135.00	92.95
14.05.02	38	50.05	61.15	244.15	20.85	59.10	112.95	43.00	84.15	141.50	128.25	118.00	43.45	72.35	301.45	38.20	111.10	239.05	24.55	51.05	90.05	57.85	25.05	134.70	93.00
21.05.02	40	50.75	61.50	244.10	21.00	59.55	113.95	43.25	84.65	142.35	129.05	118.00	43.70	73.05	301.75	38.40	112.25	239.00	24.55	51.25	91.90	58.25	25.05	134.20	93.00
28.05.02	42	51.35	61.60	244.20	21.00	59.95	114.00	43.35	84.75	142.50	129.20	118.05	43.75	73.75	301.90	38.45	114.10	239.15	24.56	51.30	92.70	58.15	25.05	134.05	93.00
04.06.02	44	52.15	62.30	244.15	21.25	59.90	115.35	43.85	85.75	144.20	130.70	118.00	44.30	74.00	302.30	38.90	114.95	239.05	24.55	51.45	94.40	58.55	25.05	133.95	93.00
11.06.02	46	52.55	63.15	244.30	21.55	60.05	116.95	44.45	86.90	146.15	132.50	118.10	44.80	73.85	302.75	39.45	116.75	239.20	24.55	51.35	94.20	59.10	25.10	134.25	93.05
18.06.02	48	51.65	63.25	244.35	21.55	59.55	117.00	44.50	87.00	146.35	132.65	118.10	44.95	74.10	303.05	39.50	117.00	239.25	24.55	51.50	95.35	58.95	25.10	135.95	93.10
25.06.02	50	52.75	64.55	244.25	22.00	60.25	119.50	45.40	88.80	149.35	135.40	118.05	45.85	74.55	303.70	40.30	120.45	239.20	24.55	51.85	98.10	60.40	25.05	137.90	93.05
02.07.02	52	51.65	65.45	244.00	22.65	60.65	122.95	46.75	91.40	153.75	139.35	117.95	47.20	76.90	304.90	41.50	122.70	238.95	24.55	52.10	100.60	62.15	25.05	141.05	92.95
09.07.02	54	51.45	65.65	244.15	22.40	60.35	121.10	46.20	90.30	151.90	137.70	118.00	46.65	77.20	304.50	41.00	122.85	239.05	24.55	52.10	98.40	61.45	25.05	140.85	93.00
16.07.02	56	51.50	66.45	244.05	22.65	60.10	122.75	46.75	91.45	153.80	139.40	117.95	47.20	78.95	305.60	41.50	124.55	239.00	24.55	52.75	99.05	62.20	25.05	142.90	92.95
23.07.02	58	51.00	67.60	243.80	23.05	59.50	125.05	47.55	93.00	156.40	141.80	117.85	48.05	79.25	306.20	42.20	124.85	238.70	24.50	53.10	99.05	63.75	25.00	144.80	92.85
30.07.02	60	49.40	65.95	244.10	22.50	58.05	122.15	46.40	90.75	152.65	138.40	118.00	46.90	77.40	305.55	41.20	119.60	239.00	24.55	52.15	97.65	62.70	25.05	144.20	93.00
06.08.02	62	49.60	65.90	244.40	22.50	58.25	122.05	46.35	90.70	152.55	138.25	118.10	46.85	77.50	305.65	41.15	120.35	239.30	24.55	52.60	96.00	62.45	25.10	144.65	93.10
13.08.02	64	49.30	64.95	244.20	22.15	58.55	120.30	45.70	89.35	150.30	136.20	118.05	46.15	76.85	304.60	40.55	119.80	239.15	24.55	52.20	96.25	61.30	25.05	140.35	93.00
20.08.02	66	50.35	66.00	244.25	22.50	59.05	122.25	46.45	90.80	152.75	138.45	118.05	46.90	78.30	305.35	41.20	122.70	239.15	24.55	52.80	98.40	61.95	25.05	142.10	93.05
27.08.02	68	50.15	65.15	244.60	22.25	59.20	120.75	45.85	89.65	150.80	136.70	118.25	46.30	77.10	305.10	40.70	121.20	239.55	24.60	52.55	97.55	60.95	25.10	140.40	93.20
03.09.02	70	50.60	65.65	244.30	22.40	59.05	121.65	46.20	90.35	151.95	137.70	118.10	46.85	77.80	305.15	41.00	122.10	239.25	24.55	52.80	98.20	61.35	25.10	142.65	93.05
10.09.02	72	50.30	65.55	243.90	22.35	58.95	121.40	46.10	90.20	151.65	137.50	117.90	46.55	77.50	304.85	40.90	122.65	238.85	24.50	52.50	98.10	61.80	25.05	143.25	92.90
17.09.02	74	50.45	68.40	244.10	22.10	58.25	120.40	45.80	89.20	150.00	135.95	118.00	46.05	75.50	304.35	40.45	121.80	239.05	24.55	51.80	97.80	60.75	25.05	142.60	93.00
24.09.02	76	50.30	65.65	244.05	22.40	58.45	121.55	46.20	90.30	151.90	137.70	117.95	46.65	74.65	304.35	41.00	122.50	238.95	24.55	51.70	100.00	61.70	25.05	143.00	92.95
01.10.02	78	50.05	65.80	244.45	22.45	58.35	121.40	46.30	90.55	152.30	138.05	118.15	46.75	75.40	304.90	41.10	123.05	239.40	24.55	51.80	99.35	61.85	25.10	144.00	93.15
08.10.02	80	50.45	65.55	244.45	22.35	57.90	121.40	46.10	90.20	151.70	137.50	118.15	46.60	74.85	304.85	40.95	123.75	239.40	24.55	51.70	99.45	61.75	25.10	144.10	93.10
15.10.02	82	50.40	66.10	244.40	22.55	58.10	122.40	46.50	90.95	152.95	138.65	118.15	46.95	74.30	305.15	41.25	124.90	239.35	24.55	51.15	99.80	62.20	25.10	143.65	93.10
22.10.02	84	50.90	64.95	244.50	22.15	58.80	120.25	45.70	89.35	150.30	136.20	118.20	46.15	73.55	304.30	40.55	120.65	239.40	24.60	51.55	98.55	60.80	25.10	142.40	93.15
29.10.02	86	51.20	65.45	244.70	22.35	58.90	121.20	46.05	90.10	151.50	137.35	118.30	46.55	74.20	304.65	40.90	122.20	239.65	24.60	51.95	98.95	61.40	25.10	143.05	93.20
05.11.02	88	51.20	66.35	244.55	22.65	59.15	12																		

Reference No. : 08 / 24 / 002 / 005 / 01

DIRECTIONS ON CUSTODIAL HOLDINGS OF SCRIP SECURITIES

This direction is issued under section 10 of the Regulations made by the President dated 1 March 2000 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect from 1 January, 2002.

K.G.D.D. Dheerasinghe

Superintendent of Public Debt

Colombo

1 January, 2002

- (1) A dealer direct participant shall deposit any securities purchased, received or retained by the dealer direct participant for the account of a customer in a custodial securities account in the name of the customer, provided that where a security purchased, received or retained by a dealer direct participant on behalf of more than one customer the dealer direct participant shall maintain accounts to show the rights of each such customer in the security and such security shall be maintained in a custodial securities account on behalf of all such customers.
- (2) A dealer direct participant shall deal with securities held on behalf of a customer by the dealer direct participant only in accordance with instructions given by the customer to the dealer direct participant in writing.
- (3) Where securities are physically held by a dealer direct participant on behalf of a customer such securities shall be physically segregated from the securities of the dealer direct participant or of other customers of the dealer direct participant, and shall be held in safe and secure custody.
- (4) Securities held by the dealer direct participant on behalf of a customer shall be clearly identified in the records of the dealer direct participant as being held for the customer, and shall not form part of the assets of the dealer direct participant.
- (5) The dealer direct participant's records relating to securities held on behalf of customers shall be available for inspection by the Central Bank and to the customer or the customer's authorised representative at reasonable times, subject to applicable laws.
- (6) A dealer direct participant shall furnish to the Central Bank returns in respect of custodial holdings of securities on a monthly basis in the format at Schedule – I.
- (7) A dealer direct participant shall issue to its customers confirmations in respect of purchases and sales of securities on behalf of the customer in the format at Schedule – II and shall, in addition, issue to the customers a monthly statement with respect to the securities held by the dealer direct participant on behalf of the customers. Where a dealer direct participant holds a security on behalf of more than one customer, the dealer direct participant shall issue a confirmation to each such customer at the time that the customer acquires a right in the security, specifying the serial number of the security due to the customer and the coupon rate, if any, payable to the customer on such security in the format at Schedule – II.

Schedule 1

Register of Securities held in Custody on behalf of Customers for the month of

Purchase Date	Name of Customer	Reference No. of Confirmation Letter	Purchase Amount (Face Value)	Maturity Date	T.Bill/ T. Bond	Part/ Full Ownership	Face Value of T.Bill/ Bond	Securities			
								In		Out	
								Sig.	Date	Sig.	Date

Schedule – II

CONFIRMATION ADVICE**Purchase of Treasury Bills under Custodial Arrangements**

Reference No. :

Date :

Name of Customer :

Address :

Dear Sir/Madam,

Purchase of Treasury Bills

With reference to your application, we confirm that the following Treasury Bill/s is/are held in our custody on your behalf unless and otherwise instructed. On maturity you will receive the face value.

1. Face Value :

2. Treasury Bill No. :

3. Ownership of Treasury Bill – Full or Part Ownership :

4. Purchase Date :

5. Yield :

6. Price :

7. Maturity Date :

Yours faithfully,

.....
Manager.....
Authorised Officer

Schedule – II

CONFIRMATION ADVICE**Purchase of Treasury Bonds under Custodial Arrangements**

Reference No. :

Date :

Name of Customer :

Address :

Dear Sir/Madam,

Purchase of Treasury Bonds

With reference to your application, we confirm that the following Treasury Bond/s is/are held in our custody on your behalf unless and otherwise instructed. On maturity you will receive the face value and on coupon payment dates you will receive interest payments unless otherwise instructed in writing.

1. Face Value :

2. Treasury Bond No. :

3. Ownership of Treasury Bond – Full or Part Ownership :

4. Coupon Rate :

5. Yield :

6. Purchase Date :

7. Coupon Payment Date :

8. Maturity Date :

9. Accrued Interest :

10. Clean Price :

11. Dirty Price :

Yours faithfully,

.....
Manager.....
Authorised Officer

DIRECTION ON FINANCIAL STATEMENTS

This direction is issued under Section 10(2) of the Regulations made by the President dated 1 March, 2000 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect from 1 January, 2002.

K.G.D.D. Dheerasinghe

Superintendent of Public Debt

Colombo

1 January, 2002

1. With effect from 1st January 2002, Primary Dealers are required to prepare their annual financial statements, the Balance Sheet and the Profit and Loss Account in accordance with the accounting methodology specified in the Sri Lanka Accounting Standards.
2. In addition, Primary Dealers are required to maintain their proprietary government securities portfolio in one of two separate accounts, the Investment Account and the Trading Account in accordance with the Direction on Segregation of Proprietary Government Securities Accounts.
3. The annual financial statements of the Primary Dealers must be audited by an external auditor registered with the Central Bank of Sri Lanka, in accordance with the Sri Lanka Auditing Standards.
4. Audited annual financial statements of Primary Dealers are required to be submitted to the Public Debt Department of the Central Bank of Sri Lanka, within five (5) months of the end of the financial year to which it relates.
5. Primary Dealers are also required to submit unaudited annual financial statements to the Public Debt Department of the Central Bank of Sri Lanka, within three (3) months of the end of the financial year to which it relates.
6. Primary Dealers are required to publish their Balance Sheet and Profit and Loss Statement for the financial year, in Sri Lankan newspapers preferably in all three languages (Sinhala, Tamil and English) or at least in the English language newspapers within six (6) months of the end of the financial year to which they relate.
7. Primary Dealers are also required to publish their unaudited Balance Sheet and Profit and Loss Statement for each half year, in Sri Lankan newspapers preferably in all three languages (Sinhala, Tamil and English) or at least in the English language newspapers within two (2) months of the end of the half year to which they relate.

DIRECTION ON SEGREGATION OF PROPRIETARY GOVERNMENT SECURITIES ACCOUNTS

This direction is issued under Section 10(2) of the Regulations made by the President, dated 1 March, 2000 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect from 1 January, 2002.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Colombo
10 January, 2002

1. With effect from 1st January 2002, Primary Dealers are required to classify their proprietary government securities portfolio under two categories: Investment Account and Trading Account.
2. The criteria for classifying government securities into such categories are given below:

Trading Account

- (a) Government securities acquired for the specific purpose of trading on a regular basis to profit from short-term changes in market prices and yields shall be held in the Trading Account.
- (b) Government securities held in the Trading Account must be revalued or "Marked to Market" on a weekly basis using the weekly report on Weighted Average Market Prices compiled by the Central Bank.
- (c) Any gains or losses on securities held in the Trading Account must be taken to earnings.

Investment Account

- (a) Government securities acquired with the positive intent and ability to hold to maturity shall be held in the Investment Account. The Primary Dealer should intend to earn a regular interest yield from these securities. Securities classified into the Investment Account shall be documented and authorized by the Chief Executive Officer of the Primary Dealer and this statement must be submitted to the Public Debt Department of the Central Bank of Sri Lanka with the monthly financial statements.
- (b) Securities in the Investment Account may be used for repurchase transactions.
- (c) Securities in the Investment Account shall be carried and reported at cost over the period of redemption, with the following exceptions;
 - (i) Carrying values of securities in the Investment Account may be adjusted to account for the accretion of discount (or depletion of premium). The adjustments should be amortised on a straight-line basis over the period to maturity.
 - (ii) Carrying values of securities in the Investment Account may be written down to their fair value to account for any diminution in value which is expected to be other than temporary (*i.e.* if the decline results in a permanent impairment of the value of the security).
 - (iii) The carrying value of securities in the Investment Account used under temporary switching transactions in repurchase and reverse repurchase transactions, may be adjusted after the reversal or "second leg" of the transaction has been concluded to reflect margin calls.

- (iv) The carrying value of securities transferred from the Trading Account into the Investment Account shall be marked to market prior to the transfer. Therefore, any gains or losses due to revaluation would have been recognised in earnings prior to the transfer. The market value of the securities at the point of transfer into the Investment Account then becomes the 'historical cost' for accounting purposes.

Reclassification of Securities

- (a) Transfer of securities between the Trading Account and the Investment Account must be justifiable, documented and authorized. A statement on portfolio transfers, if any, shall be signed by the Chief Executive Officer of the Primary Dealer and submitted to the Public Debt Department together with the monthly financial statements.
- (b) Portfolio transfers shall only be undertaken rarely. The circumstances justifying portfolio transfers into and out of the Investment Account are given below:
- (i) A change in the statutory and regulatory requirements regarding the type or level of permissible investment securities
 - (ii) A significant increase in the capital requirements that obliges the Primary Dealer to reduce its investment holdings
 - (iii) A major business occurrence that necessitates the sale of securities to maintain the Primary Dealer's risk profile
 - (iv) A significant change in risk weights assigned to government securities for the purpose of computing the capital adequacy ratio.

Market Revaluation of Proprietary Securities Accounts

The guidelines on market revaluation and the accounting treatment of the securities accounts are given below.

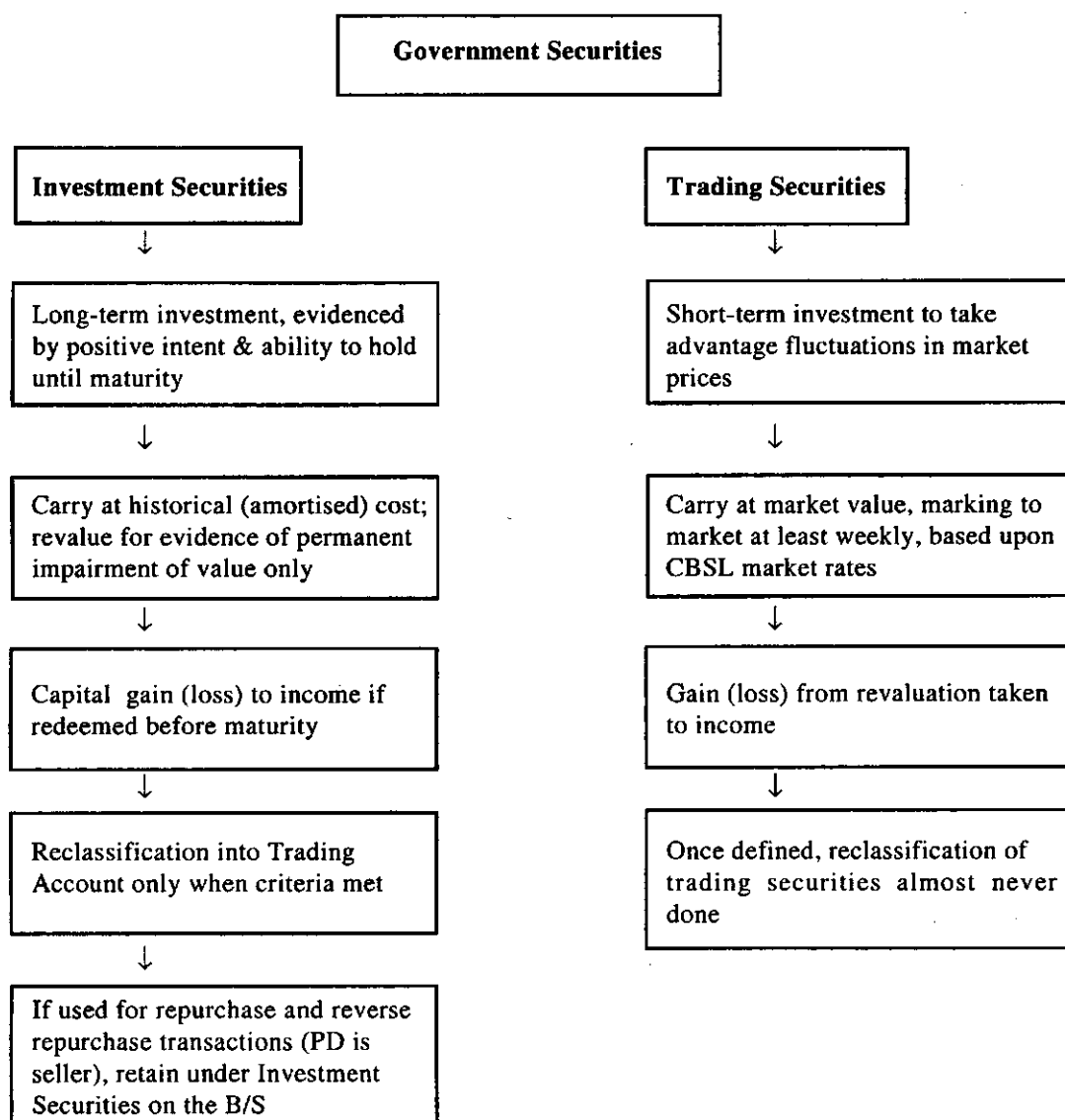
Table 1

Market Revaluation of Proprietary Securities Accounts

<i>Description</i>	<i>Accounting Treatment</i>
i. Investment Account	Book and maintain at cost Amortise premium or discount over period to redemption Adjust for impairment of value expected to be other than temporary Profit (loss) from sale prior to maturity is charged to capital Gains (losses) on Investment Securities are taken to income
ii. Trading Account	Mark to Market at least weekly using CBSL market rates Profit (loss) from sale prior to maturity is charged to capital Gains (losses) on Investment Securities are taken to income
iii. Securities used in financing transactions (repurchase and reverse repurchase)	Retain securities on the balance sheet The value of securities outstanding (<i>i.e.</i> where the reversal of the repurchase and/or reverse repurchase transaction has not been effected) should be adjusted for margin calls

- | | |
|---|---|
| | Book interest income/expense, whether explicit or implicit, to the B/S; Interest Income or Interest Expense account |
| iv. Reclassification of securities from Trading to Investment Account | Book the reclassified security at current market rate
That current market rate becomes the 'historical cost' of the security |
| v. Reclassification of securities from Investment to Trading Account | Take profit (loss) from reclassification to income as the transfer 'in substance' (<i>i.e.</i> the intention) amounts to a sale. |

ACCOUNTING FOR GOVERNMENT SECURITIES



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.

Minister of Finance

February 2002

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 1st 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 minimum 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 sub-paragraph (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 banks 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.

7. Variation in the Capital of a Primary Dealer Company

- (1) The Monetary Board may having regard to the viability and stability of the primary dealer system and the interest of the national economy determine the capital required to be maintained by a Primary Dealer Company and may vary such determination from time to time. A determination or a variation made by the Monetary Board under this sub-paragraph shall be communicated to all Primary Dealer Companies in writing.

- (2) Where a Primary Dealer Company is required by a variation under sub-paragraph (1) above to increase its capital, it shall upon an application made to the Monetary Board, be given a period of six months, or such longer period as may be granted by the Monetary Board in which to comply with such requirement.
- (3) A Primary Dealer Company of which the capital falls below the minimum required to be maintained in terms of this regulation shall forthwith notify the Central Bank in writing of such fact.
- (4) Without prejudice to the right of the Monetary Board to suspend or cancel the appointment of a Primary Dealer Company which fails to maintain the minimum capital required to be maintained in terms of this Regulation, the Monetary Board may, if it considers it to be in the interest of the Primary Dealer system or the national economy to do so, grant time as determined by the Monetary Board to meet the shortfall in capital. The Monetary Board may grant such permission subject to such terms and conditions as it may impose.

8. Material Interest

A Primary Dealer shall not acquire or hold either directly or indirectly a material interest in another Primary Dealer Company. For this purpose, 'material interest' means the holding of over 10 per centum of the issued capital of such Primary Dealer Company.

9. Duties and Privileges of Primary Dealers

- (1) A Primary Dealer shall have the right to deal with the Central Bank as a counterparty in the primary and secondary markets for securities.
- (2) A Primary Dealer shall participate in the primary market in the manner and at levels determined by the Central Bank from time to time and communicated to the Primary Dealer.
- (3) A Primary Dealer shall be responsible for creating and maintaining a secondary market in securities.
- (4) A Primary Dealer shall comply with levels for maintenance of stocks of securities and for participation in the secondary market as determined by the Central Bank from time to time and communicated to the Primary Dealer.
- (5) A Primary Dealer shall have the right to engage in transactions relating to securities for its own account and for the account of customers.
- (6) A Primary Dealer shall maintain standards of competence and infrastructural facilities as may be determined by the Central Bank from time to time and communicated to the Primary Dealer.
- (7) A Primary Dealer shall act in a fiduciary capacity in respect of its customers in the holding of and in the collection and payment of maturity proceeds and interest on securities and shall for this purpose segregate the assets of its customers from its own assets. The assets of customers shall not form a part of the assets of the Primary Dealer in a winding up.
- (8) A Primary Dealer shall maintain strict confidentiality in respect of its dealings with its customers.
- (9) A Primary Dealer shall conduct its business and activities in accordance with the operations manual, code of conduct and any other guidelines for Primary Dealers formulated by the Central Bank from time to time.

10. Supervision, Examination and Investigation of Primary Dealers

- (1) The Central Bank may supervise and examine a Primary Dealer and may conduct investigations into any specific matter or activity of a Primary Dealer for the purpose of ensuring that the conduct of business by the Primary Dealer is not prejudicial to the interest of the customers of the Primary Dealer and to the Primary Dealer system and/or that the Primary Dealer is acting in compliance with the provisions of the Ordinance, and the Regulations made under the Ordinance, operations manual, code of conduct, guidelines and any other applicable written law.
- (2) A Primary Dealer shall make available to the Central Bank its books, accounts, registers, files and other records kept in relation to its activities as a Primary Dealer, inclusive of records maintained in electronic and magnetic media and shall furnish any information as may be required for the purposes set out in sub-paragraph (1).

- (3) A Primary Dealer, its directors and officers shall comply with any request made for the submission of any books, accounts, registers, files or information under sub-paragraph (2).

11. Evaluation of Performance

- (1) The performance of a Primary Dealer shall be evaluated by the Central Bank periodically on:
- (a) its participation at primary auctions in securities;
 - (b) in creating and maintaining a Secondary Market in securities; and
 - (c) its record of compliance with applicable laws, rules, regulations, directions, guidelines and the code of conduct.
- (2) A Primary Dealer shall be informed by the Central Bank of any shortcomings which come to light in the course of such evaluation and such Primary Dealer shall take any measures that may be recommended by the Central Bank to remedy such shortcomings.

12. Directions

- (1) The Central Bank may issue directions to a Primary Dealer to ensure compliance by the Primary Dealer with these Regulations. Without prejudice to the generality of the foregoing and to the power of the Central Bank to issue directions under the Ordinance or any other written law, such directions may provide for all or any of the following matters.
- (a) The procedures to be complied with by Primary Dealers in respect of auctions of securities carried out by the Central Bank and secondary market operations of the Primary Dealer;
 - (b) The minimum level of participation by Primary Dealers in primary auctions of securities carried out by the Central Bank;
 - (c) The conditions to be complied with by Primary Dealers in the collection and payment of maturity proceeds and interest on securities to customers;
 - (d) The maintenance of books, records and accounts by Primary Dealers;
 - (e) The adequacy of internal controls and risk management systems;
 - (f) The submission of periodic reports or information to the Central Bank by Primary Dealers;
 - (g) The minimum level for secondary market operations of Primary Dealers;
 - (h) The maintenance of stocks of securities to meet the demand for such securities in the secondary market;
 - (i) Charges that may be imposed by Primary Dealers on customers;
 - (j) The qualifications required of the Chief Executive Officer of the Primary Dealer company or the person who heads the primary dealer operations of a Licensed Commercial Bank and of the other senior executive officers;
 - (k) The infrastructure and other facilities to be maintained by the Primary Dealer for the proper discharge of its duties;
 - (l) The activities and businesses which may be carried on by a Primary Dealer Company as activities or businesses connected or incidental to the activities set out in paragraph (1) to (3) of Schedule III;
 - (m) The rectification of any situation arising from any failure or shortcoming which has come to light in the course of supervision, examination, investigation or evaluation conducted by the Central Bank;
 - (n) The discharge of obligations and duties to the Central Bank, other Primary Dealers, direct participants and customers of a Primary Dealer whose business and activities as a Primary Dealer has been suspended under paragraph 13;
 - (o) Capital, reserves, capital adequacy and other prudential and operating requirements;

- (2) In the event of a Primary Dealer failing to comply with any provisions of the Ordinance, these Regulations or any other regulations, or directions issued under the Ordinance, or carrying on business in a manner which is detrimental to the interest of its customers, the Monetary Board may conduct such investigations as it may consider necessary and may issue to such Primary Dealer a direction to comply with such provisions or to cease to carry on business in such manner within such time as may be specified in the direction and where the Primary Dealer fails to comply with such direction, shall without prejudice to any other action under paragraph 13, publish for the information of the public, in a local newspaper in all three languages the direction so issued to the Primary Dealer.

13. 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.

14. Central Bank

Where by these Regulations any power has to be exercised or any act has to be done by the Central Bank such power shall be exercised or such act shall be done by an officer of the Central Bank authorised for the purpose by the Monetary Board.

15. Interpretation

In these Regulations, unless the context otherwise requires:-

"Banking Act" means the Banking Act, No. 30 of 1988.

"Capital" means the aggregate of Tier I Capital and Tier II Capital.

"Central Bank" means the Central Bank of Sri Lanka established by the Monetary Law Act, No.58 of 1949.

“Company” means a company within the meaning of the Companies’ Act, No. 17 of 1982 but shall exclude a Licensed Commercial Bank.

“Customer” means in relation to a Primary Dealer any person who purchases from such Primary Dealer or sells to such Primary Dealer or otherwise acquires or disposes of securities or any interest therein through such Primary Dealer or who negotiates with such Primary Dealer for the possible acquisition or disposition of such securities.

“Licensed Commercial Bank” means a Licensed Commercial Bank within the meaning of the Banking Act, No.30 of 1988.

“Monetary Board” means the Monetary Board of the Central Bank of Sri Lanka.

“Ordinance” means the Local Treasury Bills Ordinance.

“Primary Dealer Special Reserve” means the special reserve created and maintained by a Licensed Commercial Bank in respect of its Primary Dealer operations. The Primary Dealer Special Reserve shall be made up of retained profits or a combination of retained profits and debt capital. Tier II capital (subordinated debt) shall not exceed 50 per centum of Tier I capital (retained profits).

“Security” shall have the same meaning assigned to it in the Ordinance.

“Tier I Capital” means the total of:

- (a) Issued and paid up ordinary share capital;
- (b) Issued and paid up perpetual non-cumulative preference share (non redeemable or redeemable at issuer’s option, with the prior approval of the Central Bank);
- (c) Share premium account;
- (d) Reserves created or increased by appropriations of retained earnings or other surpluses e.g. retained profits and other reserves (excluding fixed asset revaluation reserves and retained profits on unaudited financial statements. Retained profits on unaudited financial statements can be included if the certification of a statutory auditor is provided);

Less : Goodwill and other intangible assets, accumulated losses including losses on unaudited financial statements.

“Tier II Capital” means the total of:

- (a) Short term Subordinated debt (maturity period of more than three years);
- (b) Long term subordinated debt (maturity period of more than five years);
- (c) Cumulative preference shares;
- (d) Perpetual subordinated debt;

16. (a) Local Treasury Bills Ordinance (Primary Dealers) Regulations No. 1 of 2000 is revoked with effect from 1st February, 2002.

(b) Notwithstanding the revocation effected by paragraph (a):

- (i) Companies appointed as Primary Dealers under the regulations repealed under paragraph (a) shall be deemed to be Primary Dealer Companies appointed under these Regulations.
- (ii) Any directions or guidelines issued under the regulations repealed under paragraph (a) shall be valid and effective as if they were issued under these Regulations.

SCHEDULE I

**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.

SCHEDULE II

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

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

We..... (*Name of the Company*) hereby apply to be appointed as a Primary Dealer in terms of the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance. Particulars relating to the company are given below.

Section A – General Information:

1. Name of the applicant company :

2. Registered Address :

Telephone No. : Fax No. : E.Mail :

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 & Branch

C/A No.

S/A No.

Section 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/professional qualifications and experience).

(3) Management :

(List out all key officials including CEO with their academic/professional qualifications and experience.)

(4) Details of Employment :

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

P = Permanent C = Casual

- (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.

REGISTERED STOCK AND SECURITIES ORDINANCE

Regulations made by the Minister of Finance under Section 55 of the Registered Stock and Securities Ordinance (Chapter 420) as last amended by Act, No.32 of 1995.

Minister of Finance

February 2002

REGULATIONS

1. These Regulations may be cited as the Registered Stock and Securities Ordinance (Primary Dealers) Regulations No.1 of 2002, and shall come into force on 1st 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 Bonds directly as a counterparty with the Central Bank in the primary and the secondary market and may transact in Treasury Bonds 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 minimum 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 sub-paragraph (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 banks 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.

7. Variation in the Capital of a Primary Dealer Company

- (1) The Monetary Board may having regard to the viability and stability of the primary dealer system and the interest of the national economy determine the capital required to be maintained by a Primary Dealer Company and may vary such determination from time to time. A determination or a variation made by the Monetary Board under this sub-paragraph shall be communicated to all Primary Dealer Companies in writing.

- (2) Where a Primary Dealer Company is required by a variation under sub-paragraph (1) above to increase its capital, it shall upon an application made to the Monetary Board, be given a period of six months, or such longer period as may be granted by the Monetary Board in which to comply with such requirement.
- (3) A Primary Dealer Company of which the capital falls below the minimum required to be maintained in terms of this regulation shall forthwith notify the Central Bank in writing of such fact.
- (4) Without prejudice to the right of the Monetary Board to suspend or cancel the appointment of a Primary Dealer Company which fails to maintain the minimum capital required to be maintained in terms of this Regulation, the Monetary Board may, if it considers it to be in the interest of the Primary Dealer system or the national economy to do so, grant time as determined by the Monetary Board to meet the shortfall in capital. The Monetary Board may grant such permission subject to such terms and conditions as it may impose.

8. Material Interest

A Primary Dealer shall not acquire or hold either directly or indirectly a material interest in another Primary Dealer Company. For this purpose, 'material interest' means the holding of over 10 per centum of the issued capital of such Primary Dealer Company.

9. Duties and Privileges of Primary Dealers

- (1) A Primary Dealer shall have the right to deal with the Central Bank as a counterparty in the primary and secondary markets for securities.
- (2) A Primary Dealer shall participate in the primary market in the manner and at levels determined by the Central Bank from time to time and communicated to the Primary Dealer.
- (3) A Primary Dealer shall be responsible for creating and maintaining a secondary market in securities.
- (4) A Primary Dealer shall comply with levels for maintenance of stocks of securities and for participation in the secondary market as determined by the Central Bank from time to time and communicated to the Primary Dealer.
- (5) A Primary Dealer shall have the right to engage in transactions relating to securities for its own account and for the account of customers.
- (6) A Primary Dealer shall maintain standards of competence and infrastructural facilities as may be determined by the Central Bank from time to time and communicated to the Primary Dealer.
- (7) A Primary Dealer shall act in a fiduciary capacity in respect of its customers in the holding of and in the collection and payment of maturity proceeds and interest on securities and shall for this purpose segregate the assets of its customers from its own assets. The assets of customers shall not form a part of the assets of the Primary Dealer in a winding up.
- (8) A Primary Dealer shall maintain strict confidentiality in respect of its dealings with its customers.
- (9) A Primary Dealer shall conduct its business and activities in accordance with the operations manual, code of conduct and any other guidelines for Primary Dealers formulated by the Central Bank from time to time.

10. Supervision, Examination and Investigation of Primary Dealers

- (1) The Central Bank may supervise and examine a Primary Dealer and may conduct investigations into any specific matter or activity of a Primary Dealer for the purpose of ensuring that the conduct of business by the Primary Dealer is not prejudicial to the interest of the customers of the Primary Dealer and to the Primary Dealer system and/or that the Primary Dealer is acting in compliance with the provisions of the Ordinance, and the Regulations made under the Ordinance, operations manual, code of conduct, guidelines and any other applicable written law.
- (2) A Primary Dealer shall make available to the Central Bank its books, accounts, registers, files and other records kept in relation to its activities as a Primary Dealer, inclusive of records maintained in

electronic and magnetic media and shall furnish any information as may be required for the purposes set out in sub-paragraph (1).

- (3) A Primary Dealer, its directors and officers shall comply with any request made for the submission of any books, accounts, registers, files or information under sub-paragraph (2).

11. Evaluation of Performance

- (1) The performance of a Primary Dealer shall be evaluated by the Central Bank periodically on:
- (a) its participation at primary auctions in securities;
 - (b) in creating and maintaining a Secondary Market in securities; and
 - (c) its record of compliance with applicable laws, rules, regulations, directions, guidelines and the code of conduct.
- (2) A Primary Dealer shall be informed by the Central Bank of any shortcomings which come to light in the course of such evaluation and such Primary Dealer shall take any measures that may be recommended by the Central Bank to remedy such shortcomings.

12. Directions

- (1) The Central Bank may issue directions to a Primary Dealer to ensure compliance by the Primary Dealer with these Regulations. Without prejudice to the generality of the foregoing and to the power of the Central Bank to issue directions under the Ordinance or any other written law, such directions may provide for all or any of the following matters.
- (a) The procedures to be complied with by Primary Dealers in respect of auctions of securities carried out by the Central Bank and secondary market operations of the Primary Dealer;
 - (b) The minimum level of participation by Primary Dealers in primary auctions of securities carried out by the Central Bank;
 - (c) The conditions to be complied with by Primary Dealers in the collection and payment of maturity proceeds and interest on securities to customers;
 - (d) The maintenance of books, records and accounts by Primary Dealers;
 - (e) The adequacy of internal controls and risk management systems;
 - (f) The submission of periodic reports or information to the Central Bank by Primary Dealers;
 - (g) The minimum level for secondary market operations of Primary Dealers;
 - (h) The maintenance of stocks of securities to meet the demand for such securities in the secondary market;
 - (i) Charges that may be imposed by Primary Dealers on customers;
 - (j) The qualifications required of the Chief Executive Officer of the Primary Dealer company or the person who heads the primary dealer operations of a Licensed Commercial Bank and of the other senior executive officers;
 - (k) The infrastructure and other facilities to be maintained by the Primary Dealer for the proper discharge of its duties;
 - (l) The activities and businesses which may be carried on by a Primary Dealer Company as activities or businesses connected or incidental to the activities set out in paragraph (1) to (3) of Schedule III;
 - (m) The rectification of any situation arising from any failure or shortcoming which has come to light in the course of supervision, examination, investigation or evaluation conducted by the Central Bank;
 - (n) The discharge of obligations and duties to the Central Bank, other Primary Dealers, direct participants and customers of a Primary Dealer whose business and activities as a Primary Dealer has been suspended under paragraph 13;
 - (o) Capital, reserves, capital adequacy and other prudential and operating requirements;

- (2) In the event of a Primary Dealer failing to comply with any provisions of the Ordinance, these Regulations or any other regulations, or directions issued under the Ordinance, or carrying on business in a manner which is detrimental to the interest of its customers, the Monetary Board may conduct such investigations as it may consider necessary and may issue to such Primary Dealer a direction to comply with such provisions or to cease to carry on business in such manner within such time as may be specified in the direction and where the Primary Dealer fails to comply with such direction, shall without prejudice to any other action under paragraph 13, publish for the information of the public, in a local newspaper in all three languages the direction so issued to the Primary Dealer.

13. 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.

14. Central Bank

Where by these Regulations any power has to be exercised or any act has to be done by the Central Bank such power shall be exercised or such act shall be done by an officer of the Central Bank authorised for the purpose by the Monetary Board.

15. Interpretation

In these Regulations, unless the context otherwise requires:-

"Banking Act" means the Banking Act, No. 30 of 1988.

"Capital" means the aggregate of Tier I Capital and Tier II Capital.

"Central Bank" means the Central Bank of Sri Lanka established by the Monetary Law Act, No.58 of 1949.

"Company" means a company within the meaning of the Companies' Act, No. 17 of 1982 but shall exclude a Licensed Commercial Bank.

"Customer" means in relation to a Primary Dealer any person who purchases from such Primary Dealer or sells to such Primary Dealer or otherwise acquires or disposes of securities or any interest therein through such Primary Dealer or who negotiates with such Primary Dealer for the possible acquisition or disposition of such securities.

"Licensed Commercial Bank" means a Licensed Commercial Bank within the meaning of the Banking Act, No.30 of 1988.

"Monetary Board" means the Monetary Board of the Central Bank of Sri Lanka.

"Ordinance" means the Registered Stock and Securities Ordinance.

"Primary Dealer Special Reserve" means the special reserve created and maintained by a Licensed Commercial Bank in respect of its Primary Dealer operations. The Primary Dealer Special Reserve shall be made up of retained profits or a combination of retained profits and debt capital. Tier II capital (subordinated debt) shall not exceed 50 per centum of Tier I capital (retained profits).

"Security" shall have the same meaning assigned to it in the Ordinance.

"Tier I Capital" means the total of:

- (a) Issued and paid up ordinary share capital;
- (b) Issued and paid up perpetual non-cumulative preference share (non redeemable or redeemable at issuer's option, with the prior approval of the Central Bank);
- (c) Share premium account;
- (d) Reserves created or increased by appropriations of retained earnings or other surpluses *e.g.* retained profits and other reserves (excluding fixed asset revaluation reserves and retained profits on unaudited financial statements. Retained profits on unaudited financial statements can be included if the certification of a statutory auditor is provided);

Less : Goodwill and other intangible assets, accumulated losses including losses on unaudited financial statements.

"Tier II Capital" means the total of:

- (a) Short term Subordinated debt (maturity period of more than three years);
- (b) Long term subordinated debt (maturity period of more than five years);
- (c) Cumulative preference shares;
- (d) Perpetual subordinated debt;

16. (a) Registered Stock and Securities Ordinance (Primary Dealers) Regulations No. 1 of 2000 is revoked with effect from 1st February, 2002.

(b) Notwithstanding the revocation effected by paragraph (a):

- (i) Companies appointed as Primary Dealers under the regulations repealed under paragraph (a) shall be deemed to be Primary Dealer Companies appointed under these Regulations.
- (ii) Any directions or guidelines issued under the regulations repealed under paragraph (a) shall be valid and effective as if they were issued under these Regulations.

SCHEDULE I

**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.

SCHEDULE II

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

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

We..... (*Name of the Company*) hereby apply to be appointed as a Primary Dealer in terms of the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance. Particulars relating to the company are given below.

Section A – General Information:

1. Name of the applicant company :

2. Registered Address :

Telephone No. : Fax No. : E.Mail :

3. Date of Incorporation :

4. Type of Organisation (Public Ltd. or other) :

5. Details of bank account/s :

Name of the Bank & Branch

C/A No.

S/A No.

Section 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/professional qualifications and experience).

(3) Management :

(List out all key officials including CEO with their academic/professional qualifications and experience.)

(4) Details of Employment :

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

P = Permanent C = Casual

- (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.

Reference No. : 08 / 24 / 002 / 0005 / 001

Public Debt Department
Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha
Colombo 1.

11th March, 2002.

Attention : Chief Executive Officer

To : All Primary Dealers

DIRECTION ON SECONDARY MARKET QUOTES (BID AND OFFER PRICES)

The Primary Dealers are required to be "market makers" in the secondary market for government securities, thereby improving market liquidity. Liquidity is facilitated if there are active market makers who will undertake to make, on demand and in any trading conditions, continuous and firm (effective) two-way prices. The public should also have easy access to information on the latest bids offer prices of each Primary Dealer.

All Primary Dealers are hereby directed to submit their daily buying and selling quotes for securities with maturity upto 3 years on the screen provided by the Public Debt Department of the Central Bank of Sri Lanka (CBSL). The first quotes for the day should be submitted by at least 10.00 a.m. These quotes will be disseminated to the public via CBSL Web Page, Public Debt Department Web Page, other electronic media and published in the newspapers. Primary Dealers are also required to disseminate information of their daily two way prices to the public through their own information dissemination systems.

This direction is issued under Section 12 of the Regulations made by the Minister of Finance dated February 1, 2002 under the Local Treasury Bills Ordinance and the Registered Stocks and Securities Ordinance and will come into effect from 11th March, 2002.

H.N. Thenuwara

Actg. Superintendent of Public Debt

Reference No. : 08 / 24 / 002 / 005 / 01

Public Debt Department
Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha
Colombo 1.

9th April, 2002.

DIRECTION ON THE ESTABLISHMENT OF A BRANCH OFFICE
BY PRIMARY DEALERS

The direction is issued under Section 12 of the Regulations made by the President dated 01 February, 2002 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect from 12 April, 2002.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Colombo
12 April, 2002

With effect from 12 April, 2002, Primary Dealers are required to inform and obtain the prior concurrence of the Public Debt Department for the establishment of a branch or any other type of office which proposes to engage in trading in government securities and primary dealer business.

The following details relating to the proposed branch should be submitted to the Public Debt Department for consideration.

- (1) Type of Establishment.
- (2) Location and Address.
- (3) Type of Activities.
- (4) Manager and Qualifications.
- (5) Staff Numbers and Duties.
- (6) Organization Structure and Internal Control System.
- (7) Operating Systems.
- (8) Risk Management Systems.
- (9) Proposed date for commencement of business.

Primary Dealers are required to strictly comply with this direction.

Reference No. : 08 / 24 / 002 / 005 / 01

Public Debt Department
Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha
Colombo 1.

9th April, 2002.

DIRECTION ON NEW PRODUCTS

The direction is issued under Section 12 of the Regulations made by the President dated 01 February, 2002 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect from 12 April, 2002.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Colombo
12 April, 2002

With effect from 12 April, 2002, Primary Dealers are required to inform the Public Debt Department of any new product it is intending to launch, prior to its introduction to the market. The details of the structure of the proposed product, price, interest yield, maturity and other relevant information should be submitted for consideration. Any documentation or agreements with customers relating to the proposed product should also be submitted. Primary Dealers are required to obtain the concurrence of the Public Debt Department prior to launching the new product.

This direction is being issued in the interest of consumer protection and to maintain the integrity and safety of the government securities market.

Primary Dealers are required to strictly comply with this direction.

DIRECTION ON CAPITAL ADEQUACY

This direction is issued under Section 12 of the Regulations made by the Minister of Finance dated 1 February, 2002 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect on 1 June, 2002.

K.G.D.D. Dheerasinghe
Superintendent, Public Debt

Colombo
02 May, 2002

1. In order to promote the safety, soundness and stability of the primary dealer system, it has been decided to introduce a capital adequacy requirement for primary dealers.
2. With effect from 1st June, 2002 primary dealer companies are required to maintain a minimum capital to assets ratio (capital adequacy) of 3% with Tier 1 capital constituting not less than 70% of total capital funds.
3. For the purpose of the Capital Adequacy Ratio, capital is defined as follows :

Tier-1 Capital

- (a) Issued and paid up ordinary share capital.
- (b) Issued and paid up non-cumulative preference shares (non-redeemable or redeemable at issuer's option).
- (c) Share premium account.
- (d) Reserves created or increased by appropriations of retained earnings or other surpluses eg. retained profits and other reserves (excluding fixed assets revaluation reserve).

Less

Goodwill and other intangible assets accumulated losses, investments in shares of subsidiaries and affiliate companies.

Tier-2 Capital

- (a) Short term subordinated debt.
- (b) Long term subordinated debt.
- (c) Cumulative preference shares.
- (d) Perpetual subordinated debt.

Less

Investment in subordinated debt of other companies, debentures and any debt instrument issued by subsidiaries, associate and affiliate companies and loans and advances granted to subsidiaries, associate and affiliate companies.

4. For the purpose of this Direction, Assets shall mean:

- (a) Trading Securities Account – Balance Sheet Value (Market Value)
 - (i) Treasury Bills.
 - (ii) Treasury Bonds.
 - (b) Investment Securities Account – Balance Sheet Value (Amortised Value at Historical Yield Rates).
 - (i) Treasury Bills.
 - (ii) Treasury Bonds.
 - (c) Money lent under Reverse Repurchase Agreements (Securities Purchased under Agreements to resell) – Balance Sheet Value (Leg – 1/Leg – 1 plus Accrued Interest).
 - (d) Cash & Bank Balances.
 - (e) Fixed Assets – Balance Sheet Value (Net of Depreciation).
 - (f) Other Assets – Those not included in the above and excluding items deducted from the capital calculation – Balance Sheet Value.
5. Returns on the Capital Adequacy position should be submitted to the Public Debt Department, at the end of each month in the format given in the Schedule at Annex I & 2.

Annex - 1

RETURN ON CAPITAL ADEQUACY RATIO
CAPITAL BASE OF PRIMARY DEALERS

Name of Institution :-

As at :-

TIER 1 – CORE CAPITAL

<i>Description</i>		<i>Amount</i>
1.	Issued and paid up ordinary share capital	
2.	Issued and paid up non-cumulative preference shares (non-redeemable or redeemable at issuer's option with prior approval of the CBSL)	
3.	Share premium account	
4.	Reserves created or increased by appropriations of retained earnings or other surpluses eg. retained profits and other reserves (excluding fixed assets revaluation reserve and retained profits of unaudited financial statements)	
Sub Total		
Deductions		
1.	Goodwill and other intangible assets	
2.	Accumulated Losses including losses on unaudited financial statements	
Sub Total		
Total Tier – 1 Capital		

TIER 2 – SUPPLEMENTARY CAPITAL

<i>Description</i>		<i>Amount</i>
1.	Short term subordinated debt (maturity more than 3 years)	
2.	Long term subordinated debt (maturity more than 5 years)	
3.	Cumulative preference shares	
4.	Perpetual subordinated debt	
Total Tier – 2 Capital		

Annex - 2**RETURN ON CAPITAL ADEQUACY RATIO****CALCULATION OF CAPITAL ADEQUACY RATIO**

Name of Institution :-

As at :-

<i>Description</i>	<i>Amount</i>
1. Total Capital	
1.1 Tier – 1 Core Capital (Annex –1)	
1.2 Tier – 2 Supplementary Capital (Annex 1)	
2. Assets (as defined in the Direction on Capital Adequacy)	
3. Capital Adequacy Ratio (Total Capital / Assets)	
4. Core Capital Adequacy Ratio (Tier – 1 Core Capital/Assets)	

DIRECTION ON REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

This direction is issued under Section 12 of the Regulations made by the Minister of Finance dated 01 February, 2002 in terms of the Local Treasury Bills Ordinance and the Registered Stocks and Securities Ordinance and will come into effect from 01 June, 2002.

K.G.D.D. Dheerasinghe

Superintendent of Public Debt

Colombo

2 May, 2002

Definition and Structure

A repurchase (repo) is a sale and repurchase agreement. For example, Party A sells securities to Party B with a legally binding agreement to purchase *equivalent* securities from Party B for an agreed price at a specified future date, or at call. Legal ownership to the securities changes giving Party B full ("unfettered") title to the securities. Party B may use or dispose of them as it pleases, but it has an obligation to deliver equivalent securities to Party A at the end of the repo. Party A's spot sale and forward purchase (repo) is matched by Party B's spot purchase and forward sale ("reverse repo").

The interest rate implied by the difference between the sale price and "repurchase" price is the repo rate. If Party A is selling securities to Party B in order to raise finance for itself, then the repo rate is, in effect, the cost to Party A of raising secured funds. Party B can "lend" money to Party A for a "repo rate" of interest, and receive government securities. This is a "*general collateral, or GC repo*" (see Annex 1) and is normally initiated by the party which wants to borrow money *i.e.* the cash taker.

Alternatively, Party B may have a short position in a particular government security, which it covers by obtaining (reversing in, thus "reverse repo") that security from Party A. As Party B is initiating the transaction, A has more negotiating power over the repo rate he will pay on the cash received. The repo rate may therefore be lower (and may even be zero). This allows party A to invest the cash which it receives – perhaps via GC repo – at a higher rate than he is paying B, and earn a net return. This is a "*special*" repo", *i.e.* a repo in a specific government security (see Annex 2) and is normally initiated by the cash provider.

Since the secondary market value of securities provided as "collateral" can vary, the cash taker in GC repo may give a margin to protect the cash provider against adverse movements in the market price of the collateral. For instance, if the expected price volatility of the securities used was V% over the period from initial payment of the margin to its next normal revaluation, then a repo loan of 100 would require "collateral" of 100 plus V%¹. The securities should be revalued every day or at least every week.

Accrued Interest and Pricing of the Securities

The market value of a security will be affected by accrued interest. In the case of coupon bonds – other things being equal – the market value including accrued interest (the "dirty" price³) will increase steadily in between coupon payment dates, and drop by the amount of the coupon on coupon date. In the case of a zero coupon bond, the market value will tend to rise steadily, other things being equal, up to redemption. Similarly, the exposure of a cash lender in a repo transaction will increase over time as interest accrues on the loan.

In the case of most short-term repo transactions, this means that the secondary market value of the collateral increases broadly in line with the value of the loan plus accrued interest. With longer-term

transactions, particularly if the yield curve is significantly sloped (whether positively or negatively) the collateral: loan ratio can change over time. This may require a periodic adjustment in the amount of collateral provided⁴.

If a coupon is payable during the life of a repo, there may be a need for a simultaneous adjustment to the level of collateral, as there will be a step adjustment to the market value of the collateral without a corresponding change to the value of the loan plus accrued interest. In practice, most short-term repo transactions will try to use securities where the coupon payment dates fall outside the period of the repo transaction.

Hold-in-custody (HIC) Repo

In some cases, the cash taker may retain the security – in a segregated account – rather than transferring it. For instance, a large bank might borrow cash by repo, but in order to reduce transactions costs and facilitate substitution (see annex 1), the repo is not registered with the (central bank's) government securities registry/depository. While the cash provider is the beneficial owner of the securities, it is still registered in the name of the cash taker. The cash provider takes on some credit risk in order to obtain a higher overall return.

Tri-partite Repo

One of the parties to the repo may not have an account in the (dematerialised) settlement system, or may lack the necessary back-office infrastructure to manage the administration of repo. If the cash provider does not wish to assume credit risk on the cash taker by using HIC repo, he could ask a third party – perhaps a custodian bank with good credit rating, or an international clearing organisation – to stand in the middle, effectively acting as an agency broker.

Blocked Repo

Where repo is essentially being used as a form of secured lending, the securities taken as “collateral” may be put into a blocked account. Although the form of repo means that legal ownership passes to the “cash provider”, they cannot be on-sold or otherwise pledged unless there is an event of default. In this case it is necessary to clarify who has the power to un-block the securities, and in what circumstances. In the event of default, it is important that the cash provider can access the securities quickly (to minimize price risk).

Blocked repo reduces the liquidity of the transaction for the cash provider, as it is not possible in this case to on-sell or repo out the securities received. This will tend to discourage the use of longer-term contracts and may prove a major deterrent to the use of repo. In some countries blocked repo is preferred by the authorities, at least in the initial stages of the market, because it prevents a chain of transactions involving a single security, and where a default could precipitate a chain reaction. (If Bank A does not return securities to Bank B, then Bank B cannot in turn pass them back to Bank C, and so on.)

Blocked repo also prevents the cash provider from taking a short position by selling outright a security which has been repoed in. However, it is not clear that this reduces risk in the market, since any position, whether long or short, entails a measure of risk.

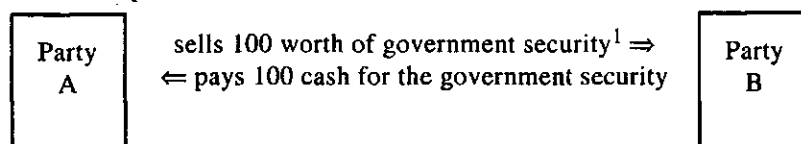
FOOT NOTES

1. Strictly speaking, the collateral would be $100/(1 - V\%)$; but for low values of V the difference is insignificant.
2. The repo interest is calculated as size of the “loan” * interest rate (here 0.065 as the rate is 6.5%) * period of the repo (e.g. 7/365 for a 7 day repo). $100 * 0.065 * (7/365) = 0.125$
3. It is normal market practice to quote securities prices excluding accrued interest (“clean” prices), as this facilitates comparison between different securities and across time; but accrued interest is of course taken into account when calculating the actual payment for any transaction.
4. Account must also be taken of ex-dividend dates (if these apply) when valuing the collateral.

Annex 1

Figure A : General Collateral Repo (in non-specific stock)

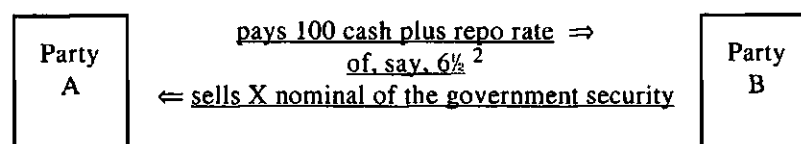
First leg of the GC repo



¹ with a nominal value of X; or $X/(1-V\%)$ if initial margin is included.

Party A now has 100 of cash, against which it has delivered 100 worth of security to which Party B has full title.

Second leg of the GC repo :

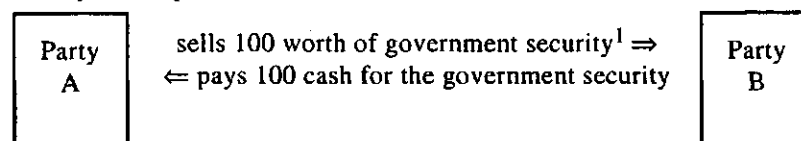


Party B has earned 6% "interest" on its cash and Party A has paid a lower rate of "interest" for the cash than might have been the case if it had raised unsecured finance.

Annex 2

Figure B : Special Repo (in a specific government security)

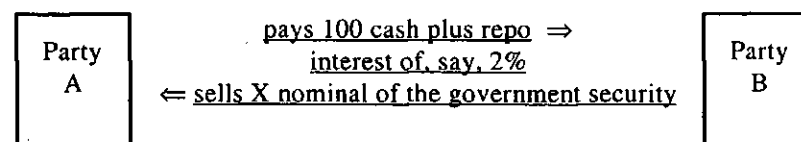
First leg of the special repo



¹ with a nominal value of X

Party B now has 100 of government security (to cover its short position) and Party A has the use of 100 of cash.

Second leg of the special repo :



Party A has paid only 2% on the cash received in the repo, but will have earned a higher money market rate on re-investing the cash for the duration of the repo. Party B has foregone part of the interest on its cash in order to cover its short position in the government security.

Annex 3

Classic repo vs Sell and Buy-Back

A sell and buy-back is in many respects similar to repo, though more “primitive”. The key similarities and differences, are summarised below :

- **Purchase and Sale** : Both involve purchase and sale, i.e transfer of ownership, rather than the use of the security as collateral (where ownership is only transferred in the event of default).
- **Margin maintenance** : Sale and buy-back typically does not involve margin maintenance. While this simplifies the transaction, because there is no need to provide additional margin if the secondary market price of the security changes, it can give rise to increased credit risk – see annex 6.
- **Coupon** : With repo, the cash taker retains the right to any coupon payments. If coupon is paid during the life of the repo (to the cash provider as legal owner), it must be immediately passed to the cash taker. Failure to do so would constitute an event of default. In a sell and buy-back, the value of the coupon is factored in to the repurchase price. This gives rise to credit exposure against the cash provider for the period between payment of the coupon and maturity of the repo.
- **Substitution** : In a repo transaction, the security repoed can in principle be substituted for another security of the same value. Assume for instance that a market-maker repos out a security, and then has demand from a client to buy that particular security. The market-maker could conclude the deal with the client, and substitute a different security for the one repoed. The client obtains the specific security he wants, and the repo cash provider still has satisfactory “collateral”. (in practice, the cash provider may charge a few basis points for the inclusion of the substitution clause, since this gives the cash taker rather than the cash provider the chance to benefit if the security goes “special”.) There is no right of substitution in sell and buy-back transactions.
- **Industry-approved contract** : This exists for repo, normally the PSA/ISMA contract, providing greater legal certainty to both participants. There is no standard documentation with sell and buy-back transactions.

CLASSIC REPO vs SELL/BUY-BACK

	<i>Repo</i>	<i>Sell/Buy-Back</i>
Purchase and Sale	X	X
Margin Maintenance	X	–
Coupon passed	X	–
Coupon added to end price	–	X
Substitution	X	–
Industry-approved contract	X	–

Reference No. : 08 / 24 / 002 / 0005 / 001

Public Debt Department
Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha
Colombo 1.

2nd July, 2002.

Chief Executive Officer,

- Ceybank Securities Ltd.
- Commercial Bank Primary Dealer Ltd.
- NSB Fund Management Co. Ltd.
- HNB Securities Ltd.
- First Capital Treasuries Ltd.
- Sampath Surakum Ltd.
- Seylan Bank Asset Management Ltd.
- Ceylinco Shriram Securities Ltd.

DIRECTION ON SECONDARY MARKET ACTUAL RATES

The Public Debt Department is setting up a system to monitor actual secondary market rates on a real time basis. In this regard, Primary Dealers are required to submit actual buying and selling rates for all maturities of securities transacted during the day, in the format provided below. As an initial step, it is **compulsory** to provide actual rates of **short term securities** traded.

All Primary Dealers are therefore required to send **actual buying and selling rates** for 91 day and 364 day Treasury Bills by fax to the Public Debt Department by 4.00 p.m. daily. The fax numbers are 477718/9.

Name of Primary Dealer

<i>Instrument /Period</i>	<i>Buying Yield Rate (Range)</i>	<i>Selling Yield Rate (Range)</i>
3 month Treasury Bill		
12 month Treasury Bill		
2 Year Treasury Bond		
3 Year Treasury Bond		
4 Year Treasury Bond		
5 year Treasury Bond		
6 Year Treasury Bond		

All Primary Dealers should strictly comply with this direction which is issued under Section 12 of the Regulations of 2002 under the Registered Stock & Securities Ordinance and the Local Treasury Bills Ordinance.

K.G.D.D. Dheerasinghe

Superintendent of Public Debt

Reference No. : 08 / 24 / 002 / 0005 / 001

Public Debt Department
Central Bank of Sri Lanka
No.30, Janadhipathi Mawatha
Colombo 1.

2nd July, 2002.

Chief Executive Officer,

- Ceybank Securities Ltd.
- Commercial Bank Primary Dealer Ltd.
- NSB Fund Management Co. Ltd.
- HNB Securities Ltd.
- First Capital Treasuries Ltd.
- Sampath Surakum Ltd.
- Seylan Bank Asset Management Ltd.
- Ceylinco Shriram Securities Ltd.

**DIRECTION ON MINIMUM SUBSCRIPTIONS LEVELS FOR TREASURY BOND
AUCTIONS**

This direction is issued in terms of Section 12 of the Regulations dated 1 February, 2002 issued by the Minister of Finance under the Registered Stocks and Securities Ordinance. In terms of this direction each Primary Dealer is hereby required to subscribe a minimum 15% of the amount offered for each maturity at each Treasury Bond auction, in order to ensure that the auctions are fully subscribed.

All Primary Dealers are required to comply with this direction with immediate effect.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

The Gazette of the Democratic Socialist Republic of Sri Lanka**EXTRAORDINARY****No. 1253/24 – FRIDAY, SEPTEMBER 13, 2002****FINANCE COMPANIES ACT, NO.78 OF 1988 AS AMENDED BY ACT, NO.23 OF 1991**

Direction given by the Monetary Board of the Central Bank of Sri Lanka under Section 9 of the Finance Companies Act, No.78 of 1988 as amended by Act, No.23 of 1991 and published for general information.

A S Jayawardena

Chairman

Monetary Board of the
Central Bank of Sri Lanka

Colombo,
13th September, 2002.

FINANCE COMPANIES (DEPOSITS) DIRECTION NO.1 OF 2002

1. This Direction may be cited as the Finance Companies (Deposits) Direction No.1 of 2002 and shall apply to every finance company registered in terms of Section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act, No.23 of 1991 and shall come into operation with immediate effect.
2. A finance company shall not accept any deposit repayable on demand or repayable after a period of less than one month from the date of receipt of such deposit and more than sixty months from the date of receipt of such deposit or shall not renew any deposit received by it, unless such deposit so renewed is repayable not earlier than one month and not later than sixty months from the date of such renewal.
3. (i) Every finance company shall furnish to every depositor a certificate in respect of each and every fixed deposit which for all purposes shall be deemed to be a receipt of acceptance of a certain sum of money by the finance company.
(ii) Every such certificate shall be signed by two officers who are authorised by the Board of Directors of the finance company for the purpose of accepting deposits and issuing of such receipt indicating clearly the following information:–
 - (a) registered name and address of the finance company;
 - (b) date of deposit;
 - (c) name of depositor, national identity number or passport number and the address;
 - (d) amount of money received by the finance company by way of deposit in words and figures;
 - (e) the annual rate of interest payable thereon;
 - (f) date on which the deposit is repayable;
 - (g) names of officers who sign the receipt;
 - (h) serial number of the certificate;
 - (i) account number of the deposit.

4. (i) Every finance company shall keep a deposit register in which shall be entered separately in the case of each depositor the following particulars:-
 - (a) name and address and national identity number or passport number of each depositor;
 - (b) date and amount of such deposit;
 - (c) duration and the due date of each deposit;
 - (d) date and amount of accrued interest of each deposit;
 - (e) date and amount of each repayment, whether of principal or interest;
 - (f) any other particulars relating to the deposit;
 - (g) serial number of the certificate issued.
- (ii) Primary books pertaining to the deposit register shall be kept either at the registered office of the finance company or at the branch office where the deposit was accepted.
- (iii) At the registered office, the register pertaining to the deposits accepted by branches and registered office shall be maintained as required by 4(i) above. Such register should be posted within one week of the transaction.
5. (i) Every finance company shall not later than three months after the end of each financial year deliver to the Director a report setting out the following particulars or information:-
 - (a) the total number of depositors of the finance company whose deposits have not been repaid or renewed by the Company after the date on which the deposits became due for repayment or renewal as the case may be;
 - (b) the amounts due to the depositors and remaining unpaid or unrenewed beyond the dates referred to in (a) above.
- (ii) The particulars or information referred to in Sub-paragraph (i) shall be furnished with reference to the position as on the last day of the financial year to which the report relates. Where the amounts remaining unpaid or unrenewed as referred to in Sub-paragraph (i)(b) exceed in the aggregate sum of Rs.100,000 there shall also be included in the report, a statement on the steps taken or proposed to be taken by the finance company for the repayment of the amounts due to the depositors and remaining unpaid or unrenewed.
6. Any change in the matters referred to below shall be intimated to the Director within one month from the occurrence of such change.
 - (a) the names and residential addresses of the directors;
 - (b) the names with their national identity card number and official designation of its principal officers;
 - (c) the specimen signatures of the officers authorised to sign on behalf of the company.
7. In this Direction:-
 - (i) "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
 - (ii) "Board of Directors" means the Board of Directors of the Company, other than any directors appointed by the Monetary Board of the Central Bank of Sri Lanka.
8. The Finance Companies (Deposits) Direction No.6 of 1991 as last amended by Direction No.1 of 2001 is hereby revoked.