

PART III

PART III

MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 2004

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Ref. : 02 / 04 / 002 / 0005 / 003

Bank Supervision Department
2 January 2004

To : All Licensed Commercial Banks

Dear Sir/Madam

DETERMINATION ON CAPITAL ADEQUACY RATIO

I refer to the Determination on Capital Adequacy Ratio dated 22 August 1997 as amended on 27 December 2001 and 24 December 2002 and write to clarify the following requirements relating to maintenance of the Capital Adequacy Ratio (CAR) in terms of the said Determination.

- I. All Licensed Commercial Banks (LCBs) are required at all times to maintain a CAR of 10 per cent at the minimum in relation to its risk weighted assets, with core capital constituting not less than 5 per cent, both on a bank only/solo basis considering the domestic and off-shore banking units, and on a consolidated basis i.e., including the bank and all subsidiaries. In respect of the foreign banks, the consolidation would be only in respect of the subsidiaries in Sri Lanka, if any.
- II. Accordingly, all LCBs are required to submit two returns on the statutory Capital Adequacy Ratio as at the end of each quarter of the year, commencing from the quarter ended 31 December 2003, as follows:
 - (a) Return indicating the CAR on a bank only/solo basis.
 - (b) Return indicating the CAR on a consolidated basis.
- III. All LCBs are also required to submit the above two returns based on the audited data after the completion of the annual audit, in addition to the quarterly returns.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 002 / 0005 / 003

Bank Supervision Department
6 January 2004

To : All Licensed Commercial Banks and
Licensed Specialised Banks

Dear Sir/Madam

INTERPRETATION OF CAPITAL FUNDS

All Domestic Licensed Commercial Banks and Licensed Specialised Banks are hereby informed that the proceeds of redeemable cumulative preference shares would constitute part of Capital Funds of banks for the purpose of Banking Act, and the direction issued thereunder, relating to the basis for the computation of the Single Borrower Limit and Investments in Equity in terms of section 46 and 17A respectively and, section 76J(1) of the Banking Act.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 003 / 0400 / 001

Bank Supervision Department
19 January 2004*To : All Chief Executive Officers of LCBs and LSBs*

Dear Sirs

GUIDELINES ON CREDIT RATING OF BANKING INSTITUTIONS

I refer to the discussions on the above subject at the meetings of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 20.11.2003 and 18.12.2003 and the agreement of the Chief Executive Officers to obtain ratings for banks.

All LCBs and LSBs are hereby required to observe the following guidelines in this regard.

1. All LCBs and LSBs (both local and foreign) are hereby required to obtain a Credit Rating on or before 30 June 2004.
2. All ratings should be from an independent rating agency acceptable to the Central Bank of Sri Lanka.
3. Local Branches of foreign banks may disclose their parent bank's rating.
4. With effect from July 2004, all banks are required to disclose their rating in all their advertisements soliciting deposits and other debt instruments. The fact that a bank has not obtained a rating should also be disclosed, if that is the case.
5. Credit Ratings should be updated annually and the rating report should be submitted to the Central Bank of Sri Lanka within one month from the date of the report.

Please acknowledge the receipt of this letter.

Yours faithfully,

Sgd./ **Director of Bank Supervision**Bank Supervision Department
27 April 2004*To : All Approved External Auditors*

Dear Sir

GUIDELINES FOR EXTERNAL AUDITORS RELATING TO THEIR STATUTORY DUTIES IN TERMS OF SECTION 39 OF THE BANKING ACT NO. 30 OF 1988 AS AMENDED BY THE BANKING ACT NO. 33 OF 1995

The Central Bank of Sri Lanka as the Supervisory and regulatory authority of banking institutions strives continually to mitigate and manage the attendant risks in the banking sector in Sri Lanka. The CBSL recognizes the important role played by the External Audit firms in this regard and is working towards improving the quality and the integrity of bank audits.

Significant developments and changes have taken place in the global financial architecture since the introduction of the first guidelines to External Auditors by the CBSL. As you are aware, the Sarbanes-Oxley Act of the US has attempted to address some of these issues. Accordingly, the Monetary Board of the Central Bank of Sri Lanka has approved the attached Addendum to the Guidelines issued on 20 May 1998. The CBSL believes that these additional guidelines will address some of these concerns and contribute towards the improvement of bank audits in Sri Lanka.

Since your firm is one the panel of approved auditors of the Central Bank, you are required to ensure that your firm is in compliance with these guidelines, which are operative with immediate effect.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd./ Director of Bank Supervision

Encl:

Annex I

**GUIDELINES FOR EXTERNAL AUDITORS RELATING TO THEIR STATUTORY DUTIES
IN TERMS OF SECTION 39 OF THE BANKING ACT NO. 30 OF 1988
AS AMENDED BY THE BANKING ACT NO. 33 OF 1995**

ADDENDUM

Non-Audit Services

1. Qualified External Auditors shall not undertake any consultancy or other non-audit services with a bank contemporaneously with the external audit. The restricted non-audit services are :

- Book keeping or other services related to the accounting records or financial statements of the audit client;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions, human resources and payroll services;
- Broker or dealer, investment adviser, or investment banking services; and
- Legal services and expert services related to the audit.

This restriction also applies to services provided by entities where a partner of an Audit Firm is a Director or has a significant share holding.

Management Letter

2. External Audit firms are requested to submit the Management Letter, which is non-statutory report by the Auditor to the management of the Bank, together with the published audited accounts to the Banks they audit, within five months of the end of the financial year. If the auditors are unable to finalize the Management Letter, they should submit an interim report with their major findings within the said period. This will enable the Banks and the Regulator to identify significant and systemically important risks in a timely manner.

Ref. : 02 / 04 / 002 / 0005 / 003

Bank Supervision Department
20 May 2004

To : All Licensed Commercial Banks

Dear Sir/Madam

**MONTHLY STATEMENT OF LIQUID ASSETS FOR
THE DOMESTIC BANKING UNIT (DBU) AND OFF-SHORE BANKING UNIT (OBU)**

Reference the Determination dated 24.12.2002 and Directions dated 21.01.2003 and 08.10.2003 on the above subject.

All licensed commercial banks are required to note that they should maintain Statutory Liquid Assets of an amount not less than 20% of total liabilities, less liabilities to the Central Bank and to the share holders, in respect of the DBU in Rupees and in respect of the OBU in US dollars, for each month commencing May 2004.

Any deficiency in Statutory Liquid Assets in the DBU or in the OBU will be subject to the provisions of Section 21(3) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995, and the penalty involved will be payable in Rupees in the case of the DBU and in US dollars in the case of the OBU.

Please acknowledge receipt of this letter.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 003 / 0400 / 001

Bank Supervision Department
13 July 2004

To : CEOs of all Licensed Commercial Banks

Dear Sirs

**CLASSIFICATION OF ADVANCES AND SPECIFIC PROVISIONS/CRITERIA FOR
SELECTION OF VALUERS UNDERTAKING THE REVALUATION OF
FIXED ASSETS FOR THE COMPUTATION OF THE CAPITAL ADEQUACY RATIO**

Licensed Commercial Banks (LCBs) are required to note the following :-

1. Current professional valuation reports referred to in the Directions dated 22 August 1997 on Classification of Advances and Specific Provisions issued under Section 46A of the Banking Act shall mean current professional valuation reports obtained from *external independent valuers*.
2. For the Purpose of the Directions referred to in 1 above, the banks are exempted from the requirement to obtain professional valuation reports in respect of loans and advances of Rs. 250,000 or below, subject to the condition that a current internal assessment of the value of properties mortgaged for such loans, signed by the Assistant General Manager or such other senior officer of the bank in charge of credit, is available.

Note : Current internal assessment is defined as an assessment that is not more than two years old.

3. Valuers referred to in the circular dated 19 April 1999 issued on "Criteria for Selection of Valuers Undertaking the Revaluation of Fixed Assets for the Computation of the Capital Adequacy Ratio" shall mean external Independent valuers.

Please acknowledge receipt of this circular.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 003 / 0400 / 001

Bank Supervision Department
13 July 2004

To : CEOs of all Licensed Specialised Banks

Dear Sirs

**CLASSIFICATION OF ADVANCES AND SPECIFIC PROVISIONS/CRITERIA FOR
SELECTION OF VALUERS UNDERTAKING THE REVALUATION OF
FIXED ASSETS FOR THE COMPUTATION OF THE CAPITAL ADEQUACY RATIO**

Licensed Specialised Banks (LSBs) are required to note the following :-

1. Current professional valuation reports referred to in the Directions dated 21 November 1997 on Classification of Advances and Specific Provisions issued under Section 76J(1) of the Banking Act shall mean current professional valuation reports obtained from *external independent valuers*.
2. For the Purpose of the Directions referred to in 1 above, the banks are exempted from the requirement to obtain professional valuation reports in respect of loans and advances of Rs. 250,000 or below, subject to the condition that a current internal assessment of the value of properties mortgaged for such loans, signed by the Assistant General Manager or such other senior officer of the bank in charge of credit, is available.

Note : Current internal assessment is defined as an assessment that is not more than two years old.

3. Valuers referred to in the circular dated 19 April 1999 issued on "Criteria for Selection of Valuers Undertaking the Revaluation of Fixed Assets for the Computation of the Capital Adequacy Ratio" shall mean external Independent valuers.

Please acknowledge receipt of this circular.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 002 / 0005 / 003

Bank Supervision Department
16 July 2004

To : CEOs of Licensed Commercial Banks Incorporated outside Sri Lanka
Auditors approved by the CBSL
Secretary General, SLBA
All Officers

Dear Sir

SINGLE BORROWER LIMIT

This has reference to the amendment made to the direction issued with regard to the Single Borrower Limit (SBL) on 24 December 2002, making the SBL applicable also to the Offshore Banking Units. The licensed commercial banks incorporated outside Sri Lanka that consider advances as the basis for the computation of their SBL are required to :-

- (i) Treat the Domestic Banking Unit (DBU) and the Off-shore Banking Unit (OBU) separately and to limit the single borrower exposure in these units to 15% of the accommodation of the respective units;
- (ii) Where a bank wishes to use an SBL of 15% of the consolidated accommodation of the DBU and the OBU, such limit determined in US Dollars could be applied for OBU provided, such excess over 15% of the OBU accommodation be supported by a Head Office guarantee or an undertaking.
- (iii) Where a single customer enjoys facilities from both the DBU and the OBU of the same bank, the combined exposure to such customer should be limited to 15% of the total accommodation of either the DBU or the OBU whichever is higher; and
- (iv) Consider the monthly average of total accommodation of the preceding year as certified by a firm of External Auditors as the basis for the computation of the SBL from year 2005.

If any of the current exposures *i.e.*, as at 30 June 2004 are in excess of the limits referred to above such excesses are required to be regularized to fall within the provisions of this circular by the end of the year 2004.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 002 / 0005 / 004

Bank Supervision Department
8 September 2004

To : CEOs of Licensed Commercial Banks

Dear Sir

CLASSIFICATION OF BAD & DOUBTFUL ADVANCES FOR PROVISIONING PURPOSES

We refer to the agreement reached at the Meeting of CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 19 August 2004, to introduce guidelines on the basis of which deviations could be sought by banks from classification norms stipulated in the Directions dated 22 August

1997 issued by the Central Bank under Section 46A of the Banking Act, in respect of Project Oriented Term Loans to small and medium enterprises.

The banks are advised to adhere to the following guidelines in this regard.

Guidelines on which a Deviation may be approved on the Classification of Medium and Long-term Project loans :

- I. **Eligible Advances :** Medium and Long-term project loans. (Loans with a maturity of more than 12 months)
- II. **Deviation Permitted :** A six month period of default may be observed before classification as Non-performing Advances (NPA) instead of the 3 month period of arrears considered under the existing directions.

(Permitting a longer period than 6 months would be contrary to the CRIB Act, and also 6 months is considered a sufficient period of time to test a project's capacity to revive from project-related problems).
- III. **Conditions to be satisfied by banks when seeking approval for deviations:**
 - (a) The lending bank should provide reasonable grounds to show that the existing problem is a result of circumstances beyond the control of the borrower and not due to his exceeding his borrowing capacity.
 - (b) The circumstances should be of a temporary nature and should not affect the long-term viability of the project.

Such circumstances would be :

1. Sudden cancellation of certain/specific orders due to problems faced by the buyer and not due to poor quality of goods/services supplied.
2. Natural calamities such as floods, drought or, in the case of agriculture and fisheries projects, diseases affecting the products that would hamper normal operations. The bank should substantiate the capacity of the project to recommenced normal operations within an agreed period of time.
3. Developments in the international markets that would adversely affect the conditions of the supplier/buyer.
4. Government legislation that creates temporary impediments in the fields of the respective projects.
5. Civil commotion and other similar incidents that would temporarily suspend the operations of the project.
6. Temporary stoppage of project operations due to prolonged labour unrests.
7. Temporary economic downturn and cyclical trends affecting a particular sector likely to be corrected during the short term.

The banks should write to the Department of Bank Supervision explaining the circumstances with supporting documentary evidence such as financial statements and cash flows *etc.* together with a proposed plan of action of the borrower to arrest the temporary problems and commenced repayments.

Please acknowledge receipt of this circular.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 002 / 0005 / 004

Bank Supervision Department
8 September 2004*To : CEOs of Licensed Specialised Banks*

Dear Sir

CLASSIFICATION OF BAD & DOUBTFUL ADVANCES FOR PROVISIONING PURPOSES

We refer to the agreement reached at the Meeting of CEOs of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 19 August 2004, to introduce guidelines on the basis of which deviations could be sought by banks from classification norms stipulated in the Directions dated 21 November 1997 issued by the Central Bank under Section 76J(1) of the Banking Act, in respect of Project Oriented Term Loans to small and medium enterprises.

The banks are advised to adhere to the following guidelines in this regard.

Guidelines on which a Deviation may be approved on the Classification of Medium and Long-term Project loans :

- I. **Eligible Advances :** Medium and Long-term project loans. (Loans with a maturity of more than 12 months)
- II. **Deviation Permitted :** A six month period of default may be observed before classification as Non-performing Advances (NPA) instead of the 3 month period of arrears considered under the existing directions.

(Permitting a longer period than 6 months would be contrary to the CRIB Act, and also 6 months is considered a sufficient period of time to test a project's capacity to revive from project-related problems).

III. Conditions to be satisfied by banks when seeking approval for deviations:

- (a) The lending bank should provide reasonable grounds to show that the existing problem is a result of circumstances beyond the control of the borrower and not due to his exceeding his borrowing capacity.
- (b) The circumstances should be of a temporary nature and should not affect the long-term viability of the project.

Such circumstances would be :

1. Sudden cancellation of certain/specific orders due to problems faced by the buyer and not due to poor quality of goods/services supplied.
2. Natural calamities such as floods, drought or, in the case of agriculture and fisheries projects, diseases affecting the products that would hamper normal operations. The bank should substantiate the capacity of the project to recommenced normal operations within an agreed period of time.
3. Developments in the international markets that would adversely affect the conditions of the supplier/buyer.
4. Government legislation that creates temporary impediments in the fields of the respective projects.
5. Civil commotion and other similar incidents that would temporarily suspend the operations of the project.
6. Temporary stoppage of project operations due to prolonged labour unrests.
7. Temporary economic downturn and cyclical trends affecting a particular sector likely to be corrected during the short term.

The banks should write to the Department of Bank Supervision explaining the circumstances with supporting documentary evidence such as financial statements and cash flows *etc.* together with a proposed plan of action of the borrower to arrest the temporary problems and commenced repayments.

Please acknowledge receipt of this circular.

Yours faithfully,

Sgd./ Director of Bank Supervision

Ref. : 02 / 04 / 003 / 0400 / 002

Bank Supervision Department
16 December 2004

To : *CEOs of Licensed Commercial Banks*
CEOs of Licensed Specialised Banks
Panel of Approved Auditors
Secretary General, SLBA

Dear Sirs

SHIPPING GUARANTEES ISSUED BY BANKS

Further to the discussion of the above subject at the Meetings of the Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks, the amendment to the Directions on Single Borrower Limit and Risk Weighted Capital Adequacy Ratio to enable the banks to include shipping guarantees issued at the invoice value of goods, are included herewith.

Please acknowledge receipt.

Yours faithfully,

Sgd./ Director of Bank Supervision

Encls:

BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995

Amendment to the Determination made by the Monetary Board of the Central Bank of Sri Lanka as amended by the Determination made on 29 November 2000, under Section 19(2) and 19(7)(a) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995.

The following is added to the definition of Shipping Guarantees under Item 19.1 in Schedule I of the above Determination with immediate effect:

The invoice value of goods under each consignment for which the shipping guarantee is issued could be included.

Colombo
15 December, 2004

Sgd./ Sunil Mendis
Governor

BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995

Amendment to the Directions issued by the Monetary Board of the Central Bank of Sri Lanka as amended by the Direction dated 29 November 2000, under Section 76(J)(1) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995.

The following is added to the definition of Shipping Guarantees under Item 18.1 in Schedule I of the above Direction with immediate effect:

The invoice value of goods under each consignment for which the shipping guarantee is issued could be included.

Colombo
15 December, 2004

Sgd./ **Sunil Mendis**
Governor

BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995

Amendment to the Directions issued under Section 46(1)(c) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995.

Colombo
15 December, 2004

Sgd./ **Sunil Mendis**
Governor

BANKING ACT (SINGLE BORROWER LIMIT)
DIRECTION NO. 2 OF 1999

The above Direction dated 11 October 1999, as amended on 18 November 2003 is amended by the insertion of the following paragraphs as paragraph 4A and 5A:

- 4A. For the purpose of computing total advances under paragraph 4(i) above, shipping guarantees issued should be included at the invoice value of goods under each consignment.
- 5A. For the purpose of computing the outstanding amounts of accommodation under paragraph 3 or paragraph 4 above, shipping guarantees issued could be included at the invoice value of goods under each consignment.

The above amendment will be operative with immediate effect.

BANKING ACT NO. 30 OF 1988
AS AMENDED BY BANKING (AMENDMENT) ACT NO. 33 OF 1995

Amendment to the Directions issued under Section 76J(1) of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995.

Colombo
15 December, 2004

Sgd./ Sunil Mendis
Governor

DIRECTION UNDER SECTION 76J(1)
SINGLE BORROWER LIMIT

The following paragraph shall be inserted as paragraph 3

3. For the purpose of computing accommodation under paragraph 1 above, shipping guarantees issued could be included at the invoice value of goods under consignment.

The above amendment will be operative with immediate effect.

Ref. : 02 / 04 / 002 / 0103 / 002

Bank Supervision Department
16 December 2004

To : CEOs of Licensed Commercial Banks
Panel of Approved Auditors
Secretary General, SLBA

Dear Sirs

VALUATION OF SECURITIES FOR PROVISIONING PURPOSES

Further to the discussion of the above subject at the Meeting of the Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks, and the agreement reached at the meeting held on 25.10.2004, please note the following amendment to the Directions issued in terms of Section 46A of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995, amendment to the Direction dated 15 August 2003, and the Circular dated 13 July 2004.

Please acknowledge receipt.

Yours faithfully,

Sgd./ Director of Bank Supervision

**Amendment to Directions on
‘Suspension of Interest on Non-performing Advances and Classification of Bad and Doubtful advances
for Provisioning Purposes: Valuation of Security for Provisioning Purposes’
issued in terms of Section 46A of the Banking Act, No. 30 of 1988
as amended by Banking (Amendment) Act No. 33 of 1995**

The following paragraph shall be inserted after Section I of Schedule II of the above Direction.

The requirement to obtain a Current Professional Valuation report shall not apply in respect of loans and advances of/with a balance of Rupees One million (Rs.1,000,000) or below, subject to the availability of a current internal assessment of the value of properties mortgaged for such loans, signed by the Assistant General Manager or such other senior officer of the bank in charge of credit.

A ‘current internal assessment’ is defined as an assessment of the value of the property by an employee of the bank, that is not more than two years old.

The above amendment will be operative with immediate effect.

Colombo
15 December, 2004

Sgd./ **Sunil Mendis**
Governor

Bank Supervision Department
31 December 2004

*To : All Licensed Commercial Banks and
Licensed Specialised Banks
Approved Auditors*

Dear Sirs

**ACCOUNTING FOR PROPERTIES ACQUIRED BY
FORECLOSURE OF COLLATERAL/PART SETTLEMENT OF DEBT**

It has been observed that the accounting treatment adopted by some banks with respect to immovable property acquired by foreclosure of collateral from defaulting customers or which have devolved on the banks as part settlement of debt, leads to a misrepresentation of the bank’s assets and the level of non-performing advances of the bank.

2. In order to create a uniform practice among the banks in accounting for such assets, and to avoid misrepresentation of the level of non-performing advances, all banks are hereby informed to adhere to the following procedure in accounting for such property:
 - 2.1 Immoveable property acquired by foreclosure of collateral from defaulting customers, or which have devolved on the banks as part settlement of debt should not be accounted for as investment property or as part of the assets of the bank. Such property should be recorded on a memorandum basis.
 - 2.2 The related facility should remain classified in the books of the bank until such property is disposed of and the proceeds realized by the bank.

3. Your attention is drawn to Section 48A of the Banking Act, No.30 of 1988, as amended by Act, No. 33 of 1995, which requires banks to dispose of property acquired by foreclosure of collateral from defaulting customers or which have devolved on the banks as part settlement of debt, at the earliest opportunity.

Yours faithfully,

Sgd./ Director of Bank Supervision

Bank Supervision Department
31 December 2004

*To : CEOs of Licensed Commercial Banks
Secretary General, SLBA*

Dear Sirs

WITHDRAWALS ON SAVINGS ACCOUNTS

This is to inform you that the restriction on payment of interest for a particular month, on savings accounts in respect of which there had been more than 4 withdrawals per month, in terms of Circular No. BS/6/81 dated 29 June 1990, has been removed with immediate effect.

Please acknowledge receipt.

Yours faithfully,

Sgd./ Director of Bank Supervision

Circular No. : 35 / 01 / 005 / 0006 / 04Domestic Operations Department
27 January 2004*To : All Licensed Commercial Banks and
Primary Dealers*

OPERATING INSTRUCTIONS ON OPEN MARKET OPERATIONS
OF THE CENTRAL BANK OF SRI LANKA
IN SCRIPLESS GOVERNMENT SECURITIES

The Operating Instructions relating to Open Market Operations of the Central Bank of Sri Lanka in Scripless government securities are outlined in this circular. These Operating Instructions shall come into effect with the implementation of LankaSecure on 2nd February 2004.

The Central Bank of Sri Lanka (CBSL) will conduct Open Market Operations (OMO) with Licensed Commercial Banks and Primary Dealers in government securities, hereinafter referred to as the Participating Institutions (PIs), in order to maintain the stability of inter bank interest rates within an interest rate corridor. The interest rate corridor defined in terms of the Repurchase Rate (lower bound) and the Reverse Repurchase Rate (upper bound) declared by the CBSL will be announced, reviewed and changed, if necessary, on monthly intervals.

On the basis of an assessment of daily market liquidity situation, Market Operations Committee (MOC) of the CBSL will decide whether to absorb liquidity from or to inject liquidity to the market and the amount and the type of transaction under which such absorption or injection of liquidity would be made. The CBSL will announce its decision to the market through the on-line electronic bidding system and Reuter screen or any other effective means of communication. The auction system will be used to conduct OMO. The OMO will consist of 'repurchase transactions (RP)', 'reverse repurchase transactions (RRP)', 'outright purchases' and 'outright sales'. Repurchase and reverse repurchase facilities will also be available at the prevailing repurchase rate and the reverse repurchase rate respectively on an overnight basis as standing facilities for PIs which failed to meet their liquidity requirements at the auctions. The collateral used in these transactions will be Treasury bills and Treasury bonds.

All Repurchase and Reverse Repurchase Transactions carried out between a PI and the CBSL in terms of Parts A, B and C of these Operating Instructions are subject to the provisions of the Master Repurchase and Reverse Repurchase Agreement entered into between such PI and the Monetary Board of the Central Bank of Sri Lanka. The terms used in these Operating Instructions shall have the same meanings assigned to them in the Master Repurchase and Reverse Repurchase Agreement.

The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of these Operating Instructions with prior notice to PIs.

A. Repurchase Transactions (RP) under the Auction System

1. The tenure of Repurchase Transactions, until further notice, will be one day (overnight)
2. The Market Operations Committee (MOC) after assessing the daily liquidity position in the money market will call for quotations (bids) from PIs by 1030 hours by way of an announcement on the on-line electronic bidding system and/or Reuter screen. It will also announce the quantum on offer.
3. A PI who wishes to invest under RP facility is required to submit its bids to the OMO Division of the Domestic Operation Department of the CBSL on or before 1100 hours the same day giving the amount and the interest rate.
4. Bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone will be entertained only in the event of a failure of the on-line bidding system. Bids

submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to the Domestic Operation Department before the close of business on the same day.

5. A PI can submit up to a maximum of three bids for each tender. The minimum amount of a bid shall be Rupees one million and bids should be in multiples of Rupees one million. Any bid at or above the CBSL reserve repurchase rate will be rejected.
6. Results of the auction will be announced at 1130 hours via the on-line electronic bidding system and/or Reuter screen giving the total mount accepted and the Weighted Average RP rate (WARP).
7. Each successful bidder will be informed of the acceptance of its bid/s and allotment through the electronic bidding system at 1130 hours. The allotment will be made at the rates quoted by the successful bidder. For each successful bid, scripless securities will be allocated at the Official Prices determined on the basis of current market prices, for the amount requested.
8. A confirmation of RP transaction to each successful PI will be issued electronically through the electronic bidding system within one hour after the release of results. The confirmation shall substantially be in the form at Annexure I. The PIs are advised to promptly view the confirmation and retain a hard copy of the confirmation for their records. In the event a PI is unable to view or print the confirmation due to a technical failure in accessing the electronic bidding system, PSD will fax a copy of such confirmation to the PI on request.
9. The settlement of the transactions will be on a delivery versus payment (DVP) basis through the Matched Trade Feed facility available in LankaSettle. A Matched Trade Feed file will be submitted to LankaSettle at or before 12.45 hours, on the basis of which the system will settle the transaction by transferring the allocated securities (Purchased Securities) to the Domestic Operations Repurchase (DOP) Account of the successful PI in LankaSecure against the receipt of funds (amount accepted) for the sale value of securities (Purchase Price) to the Settlement Account of the CBSL. The PI is not required to submit any settlement instructions in this regard to the system. Purchased Securities transferred to the Domestic Operations Repurchase (DOP) Account should not be traded in by the PI.
10. Successful PIs should ensure that sufficient funds are available in their Settlement Account in LankaSettle to settle the Purchase Price of Securities in full at or before 1245 hours. If a PI fails to settle a RP transaction in full, the PI shall be liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value (Purchase Price) and the repurchase value (Repurchase Price) calculated as provided in these Operating Instructions.
11. On the maturity date (Repurchase Date), a Matched Trade Feed file will be submitted to LankaSettle at or before 0830 hours to pay the Repurchase Price of securities to the Settlement Account of the PI against the delivery of the Purchased Securities to the Own Account of the CBSL in LankaSecure, in the same manner as outlined in clause 9 above.
12. Repurchase Price will consist of the Purchase Price (amount accepted) plus the interest component which will be calculated at the rate quoted by the PI.
13. PIs should ensure the availability of Purchased Securities in their Domestic Operations Repurchase (DOP) Account in LankaSecure on the Repurchase Date at the time specified in Clause 11 above to enable the reversal of a repurchase transaction in full. In the event of there being insufficient securities in the Domestic Operations Repurchase (DOP) Account of a PI to enable the reversal of a repurchase transaction in full on the Repurchase Date, the Central Bank shall withhold the payment of the Repurchase Price to the Counterparty and in addition, recover from the PI damages as set out in clause 10 above.
14. In the event of there being bids at the same rate in excess of the amount offered, the available quantum of Treasury Bills/Bonds will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.

15. If the Repurchase Date in respect of any repurchase transaction is a bank holiday, any obligation of a party to such repurchase transaction arising on such day shall be carried out by such party on the immediately succeeding business day.
16. The CBSL has the right to hold additional auctions later in the same day, as it deems necessary.
17. The CBSL reserves the right to accept or reject a bid of a PI.

B. Reverse Repurchase Transactions (RRP)

1. Tenure of Reverse Repurchase Transactions, until further notice, will be one day (overnight).
2. The MOC, after assessing the daily liquidity position in the money market, will call for quotations (bids) from PIs by 0930 hours by way of an announcement on the on-line electronic bidding system and/or Reuter screen or any other effective means of communication. It will also announce the quantum on offer.
3. A PI who wishes to borrow under this facility should submit its bid/s to the Open Market Operations (OMO) Division of the Domestic Operations Department of the CBSL on or before 1000 hours on the same day giving the amount and interest rate.
4. The bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone will be entertained only in the event of a failure of the on-line electronic bidding system. Bids submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to the Domestic Operations Department before the close of business on the same day.
5. A PI can submit up to a maximum of three bids for each tender. The minimum amount of a bid should be Rupees one million and bids should be in multiples of Rupees one million. Any bid at or below the repurchase rate of the CBSL will be rejected. PIs are required to submit International Securities Identification Numbers (ISINs) of securities together with their bids.
6. The results of the auction will be announced at 1030 hours on the same day via the on-line electronic bidding system and/or Reuter screen giving the total amount accepted and the Weighted Average RRP Rate (WARRP).
7. Each successful PI will be informed of the acceptance of its bid/s and allotment through the electronic bidding system at 1030 hours. The allotment will be made at the rates quoted by the successful bidder.
8. A confirmation of the RRP transaction to the PI will be issued electronically through the electronic bidding system within one hour after the release of results. The confirmation shall substantially be in the form at Annexure I. The PIs are advised to promptly view the confirmation and retain a hard copy of the confirmation for their records. In the event a PI is unable to view or print the confirmation due to a technical failure in assessing the electronic bidding system, PSD will fax a copy of the confirmation to the PI on request.
9. The settlement of the transactions will be through the Match Trade Feed Facility available in LankaSettle. A Match Trade Feed file will be submitted to LankaSettle at or before 1145 hours, on the basis of which the system will settle the transaction by crediting the Settlement Account of the PI with the Purchase Price against the receipt of the Purchased Securities in the Domestic Operations Reverse Repurchase (DRP) Account of CBSL in LankaSecure. The PI is not required to submit any settlement instructions in this regard to the system.
10. The Purchase Price of the Treasury Bills/Bonds accepted by the CBSL will be calculated based on the Official Prices determined by the Central Bank for such purposes. The Official Prices of Treasury Bills/Bonds shall be determined on a daily basis based on the current market prices, taking into consideration market developments. Such Official Prices are recorded in LankaSecure.
11. On the sell back date (Repurchase Date), a Matched Trade Feed file will be submitted to LankaSettle at 1100 hours, on the basis of which the system will transfer the Purchased Securities to the PIs Own

Account in LankaSecure, against the receipt of payment to the Settlement Account of CBSL for the sell back value (Repurchase Price) of the Purchased Securities in the same manner as outlined at clause 9 above.

12. The sell back value (Repurchase Price) will consist of Purchased Price plus the interest component which will be calculated at the rate quoted by the PI.
13. If the Repurchase Date in respect of any Reverse Repurchase transaction is a bank holiday, any obligation of a party to a Reverse Repurchase Agreement arising on such day shall be carried out by such party on the immediately succeeding business day.
14. If a PI fails to honour a Reverse Repurchase transaction after acceptance of its bid/s by the CBSL, the PI shall be liable to pay to the CBSL as damages an amount equivalent to the difference between the Purchase Price and the Repurchase Price of the underlying securities computed in accordance with these Operating Instructions.
15. In the event of a PI failing to maintain sufficient funds in its Settlement Account to pay the Repurchase Price in full on the Repurchase Date, the Central Bank shall be entitled to treat the RRP transaction as an outright purchase by the Central Bank and in addition, recover from the PI damages as set out in clause 14 above.
16. The Central Bank may suspend a PI from engaging in RRP transactions in the event of the failure of such PI to honour a RRP transaction.
17. In the event of there being bids at the same rate in excess of the amount offered, the available quantum will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
18. The CBSL reserves the right to hold additional auctions later in the day, as it deems necessary.
19. The CBSL reserves the right to accept or reject a bid of a PI.

C. Standing Facility

(a) Re-purchase Facility (RP)

1. The RP will be available on an overnight basis.
2. The PIs who wish to use the RP facility under the Standing Facility are required to inform the OMO Division of the Domestic Operations Department (DOD) by telephone or fax, the amount required and confirm the deal electronically by submitting the same through the facility available in the on line electronic bidding system within 30 minutes of the deal but not later than 1400 hours, the same day.
3. PSD will allocate securities at the Official Prices for the amount requested in the deal. A confirmation will be issued to the PI electronically through the electronic bidding system within one hour after the confirmation of the deal by the PI, but not later than 1500 hours the same day. The confirmation shall substantially be in the form of Annexure I. PIs are advised to promptly view the confirmation and to retain a hard copy of the confirmation for their records. In the event a PI is unable to view or print the confirmation due to a technical failure in accessing the electronic bidding system, PSD will fax a copy of the confirmation to the PI on request.
4. A Matched Trade Feed file will be submitted to LankaSettle at or before 1500 hours on the basis of which the system will settle the transaction by transferring the allocated securities to the PI's Domestic Operations Repurchase (DOP) Account in LankaSecure against the receipt of funds (amount accepted) for the Purchased Price of securities to the Settlement Account of the CBSL. The PI is not required to submit any settlement instruction in this regard to the system.
5. PIs should ensure that sufficient funds are available in its Settlement Account to settle the Purchase Price of securities in full. If a PI fails to settle a transaction in full, PI shall be liable to

pay damages to the CBSL in a sum equivalent to the difference between the sale value (Purchase Price) and the repurchase value (Repurchase Price) calculated in accordance with these Operating Instructions.

6. On the Repurchase Date (maturity date), a Matched Trade Feed file will be submitted to the system at or before 0830 hours to pay the Repurchase Price of securities to the PI on receipt of Purchased Securities to the Own Account of the CBSL in LankaSecure in the same manner as outlined in clause 4 above.
7. Repurchase Price (sell back value) will consist of the Purchase Price plus the interest component which will be calculated at the prevailing repurchase rate determined by the Central Bank.
8. PIs should ensure the availability of Purchased Securities in their Domestic Operations Repurchase (DOP) Account in LankaSecure on the Repurchase Date at the time specified in clause 6 above to enable the reversal of the repurchase transaction in full. In the event of there being insufficient securities in the Domestic Operations Repurchase (DOP) Account of a PI to enable the reversal of the repurchase transaction in full on the Repurchase Date, the Central Bank shall withhold the payment of the Repurchase Price to the Counterparty and in addition, recover from the PI damages as set out in clause 5 above.

(b) Reverse Repurchase Facility (RRP)

1. The RRP will be available on an overnight basis.
2. Under the RRP, the CBSL will purchase Treasury Bill/s and/or Treasury Bond/s from PIs at an agreed price (Purchased Price) with an agreement to sell back on an agreed date at an agreed price (Repurchase Price).
3. The PIs who wish to use the RRP facility are required to inform the OMO Division of the Domestic Operations Department by telephone or fax the details of the deal including the amount requested. The deal should thereafter be confirmed electronically by submitting the amount required, details of the scripless securities, through the facility available in the on line electronic bidding system within 30 minutes of the deal but not later than 1400 hours the same day.
4. A Confirmation of RRP deal will be issued to the PI electronically through the electronic bidding system within one hour after the confirmation of the deal by the PI but not later than 1500 hours on the same day. The confirmation shall substantially be in the form at Annexure I. The PI is advised to promptly view such confirmation and retain a hard copy of the confirmation for its records. In the event a PI is unable to view or print the confirmation due to a technical failure in accessing the bidding system, PSD will fax a copy of the confirmation to the PI on request.
5. A Matched Trade Feed file will be submitted to LankaSettle at or before 1515 hours, on the basis of which the system will settle the transaction by crediting the Settlement Account of the PI for the Purchase Price of Securities (amount accepted) against the receipt of Purchased Securities to the Domestic Operations Reverse Repurchase (DRP) Account of CBSL in LankaSecure. The PI is not required to submit any settlement instructions in this regard to the system.
6. The Purchase Price of the Treasury Bill/Bonds accepted by the CBSL will be calculated based on the Official Prices determined by the Central Bank for such purpose. The Official Prices of Treasury bills/bonds shall be determined on a daily basis based on the current market prices, taking into consideration market developments. Such official Prices are recorded in LankaSecure.
7. On the sell back date, a Matched Trade Feed file will be submitted to LankaSettle at or before 1100 hours on the basis of which the system will transfer the Purchased Securities to the PIs Own Account in LankaSecure, against the receipt of Purchase Price to the Settlement Account of CBSL for the sell back value (Repurchase Price) of securities following the same procedures as outlined at clause 5 above.
8. The sell back value (Repurchase Price) will consist of Purchase Price plus the interest component which will be calculated at the prevailing reverse repurchase rate determined by the CBSL.

9. If the sell back date (Repurchase Rate) for any Reverse Repurchase transaction, after entering into a confirmed deal, it is liable to pay to the CBSL as damages the difference between the Purchase Price and the Repurchase Price of the underlying securities computed in terms of these Operating Instructions.
10. If a PI fails to complete a Reverse Repurchase transaction, after entering into a confirmed deal, it is liable to pay to the CBSL as damages the difference between the Purchase Price and the Repurchase Price of the underlying securities computed in terms of these Operations Instructions.
11. In the event of a PI failing to maintain sufficient funds in its Settlement Account to pay the Repurchase Price on the Repurchase Date, the Central Bank shall be entitled to treat the RRP transaction as an outright purchase and in addition, recover from the PI damages calculated as provided in clause 10 above.
12. The Central Bank may suspend a PI from engaging in RRP transactions in the event of the failure of such PI to honour a Reserve Repurchase transactions.

D. Outright Sale of Treasury Bills or Treasury Bonds

1. The CBSL will announce when necessary on the on-line electronic bidding system and/or Reuter screen that it intends to sell Treasury Bills/Bonds giving the amount and details of the securities to be sold and call for quotations (bids) from the PI. Quotations are accepted between 1300 hours and 1400 hours on the date of auction.
2. A PI who wishes to purchase any Treasury Bills/Bonds from CBSL shall submit up to a maximum of six bids containing the face value of the Treasury Bills/Bonds to be purchased, the required maturity period of Treasury Bills/Bonds to be purchased, interest rate (yield rate) and price expected on or before 1400 hours to the OMO Division of the Domestic Operations Department through the on-line electronic bidding system. Only in the event of a failure of the electronic bidding system, bids may be submitted in writing within 15 minutes, but not later than 1400 hours. No bids will be entertained thereafter under any circumstances.
3. Minimum amount of a bid should be Rupees one million and bids should be in multiples of Rupees one million.
4. PIs whose bids are accepted will be informed of such acceptance and the relevant sale price of securities through the electronic bidding system, by fax or telephone by 1430 hours on the same day. The settlement would be on the next business day.
5. On the settlement date a Matched Trade Feed file will be submitted to LankaSettle at or before 0830 hours on the basis of which the system will settle the transaction by transferring securities sold to the respective Own Accounts of the successful bidders against the receipt of funds to the Settlement Account of the CBSL for the discounted value of the securities sold.
6. The discounted value of securities sold will be calculated on the basis of the rate/price of Treasury Bills or Treasury Bonds as the case may be, quoted by respective successful bidder and the maturity date of the Treasury Bill/Bond.
7. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (purchase by PI) will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on the settlement date.
8. In the event of there being bids in excess of the amount offered at the same rate, the available quantum would be allocated among such bidders on a 'pro-rata' basis.
9. The CBSL reserves the right to accept or reject a bid of a PI.

Outright Purchase of Treasury Bills/Bonds

1. The CBSL will announce, when necessary, on the on-line electronic bidding system and/or Reuter screen that it intends to buy Treasury Bills/Bonds giving the amounts and maturities. Quotations are accepted between 1300 hours and 1400 hours on the date of auction.
2. The PIs who wish to sell any Treasury Bills/Bonds of the maturities indicated by CBSL should submit their bids to the Open Market Operations (OMO) Division of the Domestic Operations Department of the CBSL on or before 1400 hours on the same day with the following details:
 - i. Face value of Treasury Bills/Bonds to be sold
 - ii. Coupon Rate and Coupon Date, in the case of Treasury Bonds
 - iii. Interest Rate (Yield Rate) and Price expected
 - iv. Maturity dates of Treasury Bills/Bonds offered for sale.
3. The PIs should submit their bids through the on-line electronic bidding system. In the event of a failure of the on-line electronic bidding system, bids may be submitted by telephone and confirmed in writing within 15 minutes. No bids will be entertained thereafter under any circumstances.
4. The PIs may submit up to a minimum of six bids. Maximum amount of a bid should be Rupees one million and bids should be in multiples of Rupees one million.
5. The PIs whose officers are accepted will be informed of such acceptance through the electronic bidding system by 1430 hours on the same day. The settlement would be on the next business day.
6. A Matched Trade Feed file will be submitted to LankaSettle at or before 0830 hours on the basis of which the system will credit the respective Settlement Accounts of successful bidders in RTGS for the purchased value of securities against the receipt of Purchased Securities in the Own Account of the CBSL in LankaSecure.
7. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (sale by PI) will render the PI liable to pay damages to the CBSL equivalent to the interest component on the sale value for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on the settlement date.
8. In the event of there being bids in excess of the amount offered at the same rate, the available quantum would be allocated among such bidders on a 'pro-rata' basis.
9. The CBSL reserves the right to accept or reject any bid for a sale of Treasury Bills/Treasury Bonds by a PI.

Director

Domestic Operations Department

Circular No. : 35 / 01 / 005 / 0006 / 05Domestic Operations Department
27 January 2004*To : All Licensed Commercial Banks and Primary Dealers*

OPERATING INSTRUCTIONS ON PROVISION OF
INTRA-DAY LIQUIDITY FACILITY (ILF)
AGAINST SCRIPLESS GOVERNMENT SECURITIES ON LANKASETTLE

As provided for in the System Rules of 'LankaSettle', the Central Bank of Sri Lanka (Central Bank) may, at its discretion, provide funds under Intra-day Liquidity Facility (ILF) to eligible Participating Institutions (PIs) on LankaSettle to facilitate smooth operation of the Real Time Gross Settlement (RTGS) System. Ordinarily, all Direct Participants on LankaSettle other than Designated Non-Dealer Bidders are eligible for ILF.

The Operating Instructions pertaining to the provision of ILF by the Central Bank of Sri Lanka (Central Bank) against scripless Government securities are outlined below. These Operating Instructions come into effect on **2nd February, 2004** and may be amended or varied by the Central Bank from time to time with reasonable notice to the PIs.

1. Funds under ILF are provided free of charge upon the PI transferring eligible securities to the Central Bank in accordance with these Operating Instructions on the condition that the said securities shall be repurchased by the PI by repaying the outstanding ILF on or before the time specified for repayment of ILF in these Operating Instructions.
2. In order to become eligible for ILF, all eligible PIs should sign an ILF Agreement in a prescribed form with the Central Bank.
3. The Central Bank shall determine, at its discretion, the types of Eligible Securities that will be accepted as security for ILF. At present, all Scripless Treasury Bills and Scripless Treasury Bonds issued by the Government of Sri Lanka shall be eligible to be used as security for ILF.
4. A PI who wishes to obtain ILF should reposition a sufficient quantity of Eligible Securities in its Participant's ILF Account in LankaSecure at or before 4.00 p.m. on the previous Business Day. The Central Bank will provide ILF only to the extent of the value (determined as provided in clause 6 below) of Eligible Securities available in the participant's ILF Account at such time.
5. At the beginning of each Business Day, Eligible Securities available in the Participant's ILF Account will be automatically transferred to the Central Bank's ILF Account in LankaSecure and the value of Eligible Securities calculated based on the Official Prices determined by the Central Bank for such purpose will be credited to each PI's Settlement Account in the RTGS at or before 8.00 a.m.
6. The Official Prices of Eligible Securities referred to in clause 5 above shall be determined by the Central Bank on a daily basis, based on the current market prices and taking into account market developments. Such Official Prices are recorded in LankaSecure. A list of such Official Prices will be available with the Domestic Operations Department (DOD) of the Central Bank for the information of the PIs on request.
7. In exceptional circumstances, the Central Bank has the right to revise the Official Prices during the Business Day and revalue the securities provided as collateral based on the revised Official Prices. If such revaluation results in a PI having to replenish the securities provided as collateral, the Domestic Operations Department shall request the PI to make such replenishment by transferring additional Eligible Securities to the Central Bank's ILF Account to the value determined by the Central Bank. In such event, the PI shall transfer such additional securities to the Central Bank's ILF Account within 1 hour of such request.

In the event a PI being unable to provide replenishment as required by the Central Bank, the Central Bank reserves the right to debit the PI's Settlement Account in RTGS to the extent of the unsecured amount of the funds granted under ILF.

8. The Central Bank may, at its discretion, at the request of a PI, permit additional drawdowns of ILF during the Business Day at designated times in the event that the ILF obtained at the start of the Business Day is insufficient to meet its payment obligations, subject to a maximum of three (3) additional drawdowns per PI per day. Designated times for additional drawdowns are 10.00 a.m., 12.00 noon and 2.00 p.m.
9. Requests for additional drawdowns should be made to the Director/Domestic Operations Department of the Central Bank by telephone at or before 1.30 p.m. and if such additional drawdowns are permitted, the PI must reposition an adequate amount of Eligible Securities in its Participant's ILF Account in LankaSecure to be used as security for such additional drawdowns of ILF at or before the applicable designated time.
10. Upon receipt of such a request the Central Bank will arrange for such additional drawdown of ILF at the applicable designated time/s. The Central Bank reserves the right to recover the cost of providing such additional drawdowns from the PI.
11. PIs may return the funds borrowed under ILF fully or partially and regain whole or part of the securities provided as collateral before the time specified for repayment of ILF in these Operating Instructions by prior agreement with the Central Bank. PIs who wish to return the funds borrowed under ILF before the specified time should inform the OMO Division of the Domestic Operations Department the details of such return, *i.e.*, the amount and the details of securities, by telephone at or before 2.00 p.m. Such request should immediately be followed by a written confirmation by facsimile duly signed by two authorized officers.

A Participant shall be permitted to repay funds borrowed under ILF in whole or in part during the Business Day (*i.e.*, before the time specified for repayment of ILF in these Operating Instructions) only once in each Business Day.

12. Upon receipt of such confirmation, the Domestic Operations Department will transmit the request to Director/Payments and Settlements Department to arrange for the recovery of whole or part of the outstanding funds under ILF and to return the relevant portion of the underlying securities. The standard DVP procedure for the reversal of a reverse repurchase transaction will be followed in respect of such repayments, *i.e.*, Payment and Settlements Department will input a DVP message and the PI shall input a RVP message at or before 2.30 p.m. which will be matched by the system and settled.
13. Substitution of securities provided as collateral for ILF shall not be permitted.
14. All outstanding ILF balances should be settled by the PIs at or before 3.15 p.m. on each Business Day. For this purpose, PIs must ensure that sufficient funds are available in their Settlement Accounts in the RTGS at the specified time to enable the Central Bank to recover any outstanding ILF.
15. The process of recovery of outstanding ILF is automatically initiated by the system at 3.15 p.m. It will generate returns of securities from Central Bank's ILF Account to the Participant's ILF Account. A settlement request will be submitted to RTGS on DVP terms which will be matched with an instruction to transfer securities from the Central Bank's ILF Account to the Participant's ILF Account. The reversal of ILF will be done at the original price and original transaction value.
16. If a PI fails, for any reason whatsoever, to settle in full to the Central Bank the amount outstanding under the ILF at the time specified in clause 14 above, the PI shall be deemed to be in default for the full sum so outstanding and shall become liable to pay default interest as set out in clause 18 below.

17. Where a PI is deemed to be in default as set out in (16) above, such PI should repay in full the amount in default before the close of business on the next Business Day. For this purpose, such PI must submit a RVP message to the System at or before 12 noon on the next Business Day which will be matched by a DVP message submitted to the System by the OMO Settlements Division of the Payments and Settlements Department. The PI should ensure the availability of sufficient funds in its Settlement Account for the repayment in full of the amount in default on or before the close of business on the next Business Day.

In the event the PI fails to settle in full the amount in default before the end of business on the next Business Day, the Central Bank shall retain the securities against which such funds were provided and deal with them in its own right.

18. On the first occasion of such default the PI shall be charged default interest at a rate equivalent to the Bank Rate announced by the Central Bank from time to time and on each succeeding occasion of default during a calendar year, such default interest rate shall be increased by 100 basis points, provided that where such default occurs more than once in a one month period the Central Bank shall have the right to retain the securities against which ILF was granted and to deal with them as the Central Bank deems fit, in addition to the right to charge default interest as stipulated in this clause. In the event of repeated default, the Central Bank may withdraw the availability of ILF to the PI for a period of time determined by the Central Bank.
19. Notwithstanding the other provisions of these Operating Instructions and notwithstanding the fact that default has not occurred more than once in a one month period, the Central Bank may, at its sole discretion, taking into consideration the circumstances of a default, decide to retain the securities and to deal with them as the Central Bank deems fit.
20. Notwithstanding the other provisions of these Operating Instructions, the Central Bank may at its sole discretion, taking into consideration the circumstances of a default, withdraw the availability of ILF to a PI permanently or for a period of time determined by the Central Bank.

Director

Domestic Operations Department

Circular No. : 35 / 01 / 005 / 0006 / 06

Domestic Operations Department
27 January 2004

To : All Commercial Banks and Primary Dealers

OPEN MARKET OPERATIONS (OMO) OF THE CENTRAL BANK OF SRI LANKA

With the implementation of LankaSecure, the Scripless Securities Settlement System (SSSS) and Central Depository System (CDS) on 2nd February, 2004, the Central Bank of Sri Lanka will commence the conduct of its Open Market Operations in Scripless government securities held in LankaSecure. The Central Bank holdings of government securities will be dematerialized and available in scripless form with effect from 2nd February, 2004. Therefore, all repurchase transactions and outright sales will be conducted entirely in scripless securities with effect from the said date.

However, as it may take some time for the participating institutions to have their entire stock of government securities dematerialized, the Central Bank will entertain deals for reverse repurchase transactions and outright purchases in scrip securities during an interim period of three months until 30th April, 2004. Thereafter, transactions under OMO will be entirely in scripless government securities.

During the interim period the following additional instructions would be applicable:

- a. The Operating Instructions on Open Market Operations issued by the Central Bank of Sri Lanka dated 03.09.2003 shall apply in respect of the Reverse Repurchase transactions in scrip securities.
- b. The Operating Instructions on Open Market Operations of the Central Bank of Sri Lanka in Scripless Government Securities issued by the Central Bank of Sri Lanka dated 27.01.2004 shall apply in respect of Reverse Repurchase transactions in scripless securities.
- c. For reverse repurchase transactions under the auction system, a PI is permitted to submit a maximum of six bids. Bids could be for securities in scrip form and/or scripless form. However, PIs are not allowed to include both scrip and scripless securities in a single bid.
- d. For reverse repurchase transactions under the standing facility, securities in both scrip and scripless form are not allowed to be included in a single deal. PIs should enter into separate deals in respect of transactions in securities in scrip and scripless form.

Director

Domestic Operations Department

Circular No. : 35 / 01 / 005 / 0006 / 07

Domestic Operations Department
3 May 2004

To : All Licensed Commercial Banks and Primary Dealers

**OPERATING INSTRUCTIONS ON PROVISION OF INTRA-DAY
LIQUIDITY FACILITY (ILF) AGAINST SCRIPLESS GOVERNMENT SECURITIES
ON LANKASETTLE**

This has reference to my circular No. 35/01/005/0006/05 dated 27 January 2004 on the above Operating Instructions.

Clause 16 of the said Operating Instructions is hereby amended with immediate effect to read as follows:

16. If a PI fails, for any reason whatsoever, to settle in full to the Central Bank the amount outstanding under the ILF before the close of business of LankaSecure on the same day, the PI shall be deemed to be in default for the full sum so outstanding and shall become liable to pay default interest as set out in clause 18 below. Such default interest shall be debited to the PI's Settlement Account with the CBSL on the next business day.

Director

Domestic Operations Department

Circular No. : 35 / 01 / 005 / 0006 / 08Domestic Operations Department
3 May 2004*To : All Licensed Commercial Banks and Primary Dealers***OPERATING INSTRUCTIONS ON OPEN MARKET OPERATIONS OF THE
CENTRAL BANK OF SRI LANKA IN SCRIPTLESS GOVERNMENT SECURITIES**

This has reference to my Circular No. 35/01/005/0006/04 dated 27 January 2004 on the above Operating Instructions.

Clauses 10 and 13 of item A [Repurchase Transactions (RP) under the Auction System], clause 15 of item B [Reverse Repurchase Transactions (RRP)], clauses 5 and 8 of item C(a) [Repurchase Facility (RP)] and clause 11 of item C(b) [Reverse Repurchase Facility (RRP)] and clause 7 of item D [Outright Sale of Treasury Bills and Treasury Bonds] and clause 7 of item titled Outright Purchase of Treasury Bills/ Treasury Bonds of the said Operating Instructions are hereby amended with immediate effect to read as follows:

A. Repurchase Transactions (RP) under the Auction System

10. Successful PIs should ensure that sufficient funds are available in their Settlement Account in LankaSettle to settle the Purchase Price of securities in full at or before 1245 hours. If a PI fails to settle a RP transaction in full, before the close of business of LankaSecure on the same day, the PI shall be liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value (Purchase Price) and the repurchase value (Repurchase Price) calculated as provided in these Operating Instructions. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day. If the transaction involves securities carrying more than one International Securities Identification Number (ISIN), each such ISIN will be treated as a separate RP transaction, for the purposes of this clause.
13. PIs should ensure the availability of Purchased Securities in their Domestic Operations Repurchase (DOP) Account in LankaSecure on the Repurchase Date at the time specified in clause 11 above to enable the reversal of a repurchase transaction in full. In the event of there being insufficient securities in the Domestic Operations Repurchase (DOP) Account of a PI to enable the reversal of a repurchase transaction in full on the Repurchase Date at the specified time, the PI shall be liable to pay damages to the CBSL as set out in clause 10 above. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day.

B. Reverse Repurchase Transactions (RRP)

15. In the event of a PI failing to maintain sufficient funds in its Settlement Account to pay the Repurchase Price in full, before the close of business of LankaSecure on the Repurchase Date, the Central Bank shall be entitled to treat the RRP transaction as an outright purchase by the Central Bank and in addition, recover from the PI damages calculated as set out in clause 14 above. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day. If the transaction involves securities carrying more than one ISIN, each such ISIN will be treated as a separate RRP transaction, for the purposes of this clause.

C. Standing Facility**(a) Repurchase Facility (RP)**

5. PIs should ensure that sufficient funds are available in its Settlement Account to settle the Purchase Price of securities in full. If a PI fails to settle a transaction in full, before the close of business of LankaSecure on the same day, PI shall be liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value (Purchase Price) and the repurchase

value (Repurchase Price) calculated in accordance with these Operating Instructions. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day. If the transaction involves securities carrying more than one ISIN, each such ISIN will be treated as a separate RP transaction, for the purposes of this clause.

8. PIs should ensure the availability of Purchased Securities in their Domestic Operations Repurchase (DOP) Account in LankaSecure on the Repurchase Date at the time specified in clause 6 above to enable the reversal of a repurchase transaction in full. In the event of there being insufficient securities in the Domestic Operations Repurchase (DOP) Account of a PI to enable the reversal of a repurchase transaction in full on the Repurchase Date at the specified time, the PI shall be liable to pay damages to the CBSL as set out in clause 5 above. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day.

(b) Reverse Repurchase Facility (RRP)

11. In the event of a PI failing to maintain sufficient funds in its Settlement Account to pay the Repurchase Price before the close of business of LankaSecure on the Repurchase Date, the Central Bank shall be entitled to treat the RRP transaction as an outright purchase and in addition, recover from the PI damages calculated as provided in clause 10 above. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day. If the transaction involves securities carrying more than one ISIN, each such ISIN will be treated as a separate RRP transaction, for the purposes of this clause.

D. Outright Sale of Treasury Bills or Treasury Bonds

7. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (purchase by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.

Outright Purchase of Treasury Bills/ Treasury Bonds

7. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (sale by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the sale value for the remaining period to maturity at the rate quoted by PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.

Director

Domestic Operations Department

Circular No. : 35 / 01 / 005 / 0010 / 01

Domestic Operations Department
22 October 2004

To : All Licensed Commercial Banks

MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT

In view of the increased import expenditure arising out of high oil prices, the Monetary Board of the Central Bank has decided to adopt a temporary monetary measure in containing the increase in imports.

Accordingly, in terms of the provisions of Section 103 of the Monetary Law Act (Cap 422 of the CLE), the Monetary Board has made order directing commercial banks that with effect from the close of business on 22 October 2004 letters of credit (LCs) should not be opened by commercial banks for the importation of the vehicles specified in Schedule A (attached) unless such LCs are covered by a minimum cash margin of 100 per cent deposited with the LC opening banks at the time such LCs are opened.

In the case of existing letters of credit covering the importation of the goods mentioned in Schedule A, no increase in the value of such letters of credit should be permitted by banks except on the terms prescribed in the above paragraph.

Commercial banks are required to comply with the direction of the Monetary Board.

Director/Domestic Operations
Authorised Signatory of
the Monetary Board of the Central Bank of Sri Lanka

Schedule A**List of Items Requiring 100 per cent Margin on Letters of Credit**

I H.S. Heading	II H.S. Code	III Description
87.02		Motor vehicles for the transport of ten or more persons, including the driver.
	8702.10	With compression-ignition internal combustion piston engine (diesel or semi-diesel).
	8702.10.01	Ten seated passenger vans of the Nissan Patrol, Mitsubishi Pajero, Toyota Land Cruiser, Range Rover and similar type of vehicles not more than three years old.
	8702.10.02	Ten seated passenger vans of the Nissan Patrol, Mitsubishi Pajero, Toyota Land Cruiser, Range Rover and similar type of vehicles more than three years old.
	8702.10.03	Other with a normal seating capacity of not more than fifteen including the driver not more than five years old.
	8702.10.04	Other with a normal seating capacity of not more than fifteen including the driver more than five years old.
	8702.90	Other
	8702.90.01	Ten seated passenger vans of the Nissan Patrol, Mitsubishi Pajero, Toyota Land Cruiser, Range Rover and similar type of vehicles not more than three years old.

	8702.90.02	Ten seated passenger vans of the Nissan Patrol, Mitsubishi Pajero, Toyota Land Cruiser, Range Rover and similar type of vehicles more than three years old.
87.03		Motor cars and other motor vehicles principally designed for the transport of persons (other than the items described under HS Heading 8702 of Customs Guide), including station wagons and racing cars.
	8703.10	Vehicles specially designed for travelling on snow; golf cars and similar vehicles.
	8703.10.01	Not more than three and half (3½) years old.
	8703.10.02	More than three and half (3½) years old.
		Other vehicles, with spark-ignition internal combustion reciprocating piston engine.
	8703.21	Of cylinder capacity not exceeding 1,000 cc.
	8703.21.05	Other specialized transport vehicles not more than three and half (3½) years old.
	8703.21.06	Other specialized transport vehicles more than three and half (3½) years old.
	8703.21.12	Other not more than three and half (3½) years old.
	8703.21.13	Other more than three and half (3½) years old.
	8703.22	Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc.
	8703.22.07	Other not more than three and half (3½) years old.
	8703.22.08	Other more than three and half (3½) years old.
	8703.23	Of a cylinder capacity exceeding 1,500 cc but not exceeding 3000 cc.
	8703.23.07	Other of a cylinder capacity not exceeding 2,000 cc, not more than three and half (3½) years old.
	8703.23.08	Other of a cylinder capacity not exceeding 2,000 cc, more than three and half (3½) years old.
	8703.23.10	Other not more than three and half (3½) years old.
	8703.23.11	Other more than three and half (3½) years old.
	8703.24	Of a cylinder capacity exceeding 3,000 cc.
	8703.24.07	Other not more than three and half (3½) years old.
	8703.24.08	Other more than three and half (3½) years old.
		Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel)
	8703.31	Of a cylinder capacity not exceeding 1,500 cc.
	8703.31.07	Motor cars including station wagons and racing cars not more than three and half (3½) years old.
	8703.31.08	Motor cars including station wagons and racing cars more than three and half (3½) years old.
	8703.31.10	Van-type vehicles not more than five years old.
	8703.31.11	Van-type vehicles more than five years old.
	8703.31.12	Other not more than three and half (3½) years old.
	8703.31.13	Other more than three and half (3½) years old.
	8703.32	Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc.
	8703.32.05	Van-type vehicles not more than five years old.
	8703.32.06	Van-type vehicles more than five years old.
	8703.32.07	Motor cars including station wagons and racing cars of a cylinder capacity not exceeding 2,000 cc not more than three and half (3½) years old.
	8703.32.08	Motor cars including station wagons and racing cars of a cylinder capacity not exceeding 2,000 cc more than three and half (3½) years old.
	8703.32.10	Other of a cylinder capacity not exceeding 2,000 cc not more than three and half (3½) years old.
	8703.32.11	Other of a cylinder capacity not exceeding 2,000 cc more than three and half (3½) years old.
	8703.32.12	Motor cars including station wagons and racing cars of a cylinder capacity exceeding 2,000 cc not more than three and half (3½) years old.
	8703.32.13	Motor cars including station wagons and racing cars of a cylinder capacity exceeding 2,000 cc more than three and half (3½) years old.

	8703.32.14	Other not more than three and half (3½) years old.
	8703.32.15	Other more than three and half (3½) years old.
	8703.33	Of a cylinder capacity exceeding 2,500 cc.
	8703.33.05	Motor cars including station wagons and racing cars not more than three and half (3½) years old.
	8703.33.06	Motor cars including station wagons and racing cars more than three and half (3½) years old.
	8703.33.07	Van-type vehicles not more than five years old.
	8703.33.08	Van-type vehicles more than five years old.
	8703.33.10	Other not more than three and half (3½) years old
	8703.33.11	Other more than three and half (3½) years old
	8703.90	Other
	8703.90 .01	Electric, not more than three and half (3½) years old
	8703.90 .02	Electric, more than three and half (3½) years old
	8703.90.03	Other not more than three and half (3½) years old
	8703.90.04	Other more than three and half (3½) years old
87.04		Motor vehicles for the transport of goods
		Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel)
	8704.21	g.v.w. not exceeding five (5) tonnes:
	8704.21.01	Jeep type vans of a g.v.w. not exceeding 3,000 kg. not more than five years old.
	8704.21.02	Jeep type vans of a g.v.w. not exceeding 3,000 kg. more than five years old.
	8704.21.12	Other not more than five years old
	8704.21.13	Other more than five years old
		Other, with spark-ignition internal combustion piston engines.
	8704.31	g.v.w. not exceeding five (5) tonnes
	8704.31.01	Jeep type vans of a g.v.w. not exceeding 3,000 kg. not more than three years old.
	8704.31.02	Jeep type vans of a g.v.w. not exceeding 3,000 kg. more than three years old.
	8704.31.10	Other, not more than five years old.
	8704.31.11	Other, more than five years old.

Ref. : 06 / 05 / 01 / 2004

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

6 January 2004

*Operating Instructions to
Authorised Dealers in Foreign Exchange*

Dear Sirs,

**RELEASE OF FOREIGN EXCHANGE TO GEM DEALERS
AS AN ADVANCE PAYMENT FOR THE IMPORT OF GEMS FROM MADAGASCAR**

As a measure to develop the Gem and Jewellery Industry in Sri Lanka, which has been identified as a “thrust” industry, it has been decided to offer a special foreign exchange facility to Gem Dealers to purchase and import rough gem stones from Madagascar, out of foreign exchange carried on their person when travelling to Madagascar for payment in advance of import.

Therefore, Authorised Dealers are hereby permitted to sell foreign exchange upto US \$ 15,000 (of which currency notes may be issued only upto a maximum of US \$ 5,000 and the balance in the form of Travellers’ Cheques or a bank draft) to a registered gem dealer who is proceeding to Madagascar, for meeting his cost of purchasing gems and personal expenses in Madagascar, on production of a letter of recommendation from the National Gem and Jewellery Authority (NGJA) to the Authorised Dealer issuing the foreign exchange recommending his request for exchange.

When releasing foreign exchange as above, the Authorised Dealer to whom the recommendation of the NGJA is addressed should obtain an undertaking from the gem dealer to the effect that –

- (a) he would bring into Sri Lanka, gems purchased out of exchange released within 45 days of the release of exchange, and submit a self prepared invoice in triplicate giving the details of the quantity and value of rough gem stones so brought into Sri Lanka to the Sri Lanka Customs for endorsement at the time of his arrival (one such invoice duly endorsed by the Sri Lanka Customs should be submitted to the Authorised Dealer from whom foreign exchange was purchased, while another should be submitted to the NGJA, within 60 days of release of foreign exchange);
- (b) he would bring into the country all unutilized foreign exchange purchased by him and surrender such foreign exchange to an Authorised Dealer within seven days of his arrival. (Evidence to this effect should be presented to the Authorised Dealer from whom foreign exchange was purchased);
- (c) he would also submit a completed statement of accounts in the format at Annex 1 to the Authorised Dealer who issued foreign exchange, within 60 days of release of foreign exchange, giving details of foreign exchange purchased from the Authorised Dealer and utilization of such foreign exchange for the purposes of acquiring rough gem stones and for personal expenditure separately, together with the evidence of surrendering unutilized foreign exchange to an Authorised Dealer.

All instances of gem dealers failing to comply with any of the above undertakings and requirements should be reported by the Authorised Dealer from whom foreign exchange was purchased, to the Exchange Control Department of the Central Bank and to the NGJA within a period of three months from the date of release of exchange.

Yours faithfully

Sgd./ H. A. G. Hettiarachchi

Controller of Exchange

Annex I**Statement of Accounts in respect of Foreign Currencies purchased for the purpose of travel to Madagascar for Purchase of Gems**

Purpose	Amount of Foreign Currency Purchased	Amount of Foreign Currency Expended	Unutilized Balance
Purchase of Gems			
Personal Expenses			
Total			

- Date of Purchase of Foreign Currency :
- Authorized Dealer from whom Foreign Currency was purchased :
- Date of Departure to Madagascar :
- Date of Arrival to Sri Lanka :
- Date of Surrendering of Unutilized Foreign Currency :
- Authorized Dealer to whom Foreign Currency was sold :
(Evidence of Surrendering foreign currency is attached).

I certify that all the above information is true and correct.

Signature of Gem Dealer

Ref. : 06 / 05 / 02 / 2004

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

9 March 2004

Operating Instructions to all Authorised Dealers

Dear Sirs,

MONITORING SCHEME FOR IMPORTS MADE ON ADVANCE PAYMENT TERMS

The attention of all Authorized Dealers are drawn to the regulations under the Imports and Exports (Control) Act published in the *Gazette* Notification No. 1319/28 dated 18 December 2003 whereby the time period given for importing goods on advance payment terms has been extended from 30 to 90 days.

With this relaxation it has become even more necessary that a proper monitoring scheme be put in place to ensure that imports are made in accordance with the regulation.

Accordingly, Authorized Dealers are hereby requested to follow the under mentioned procedure when selling foreign exchange for advance payment for import of goods.

- (1) Authorised Dealers should obtain Form I duly perfected by the importer in duplicate along with a proforma invoice and an undertaking in the attached format to the effect that he would submit evidence of the import of goods (*i.e.*, a copy of the commercial invoice and a copy of the Customs Declaration both duly stamped by Customs) within 90 days from the date of the sale of foreign exchange for the advance payment;

- (2) A copy of the proforma invoice and a copy of the undertaking should be attached to the original of Form I which has to be forwarded to the Exchange Control Department in terms of our Operating Instructions No. EC/07/98 (MU) dated 24 December 1998;
- (3) A duplicate of Form I together with a copy of the invoice and a copy of the undertaking should be retained with the Authorised Dealer until the importer produces the documentary evidence in confirmation of import of goods within the agreed period of 90 days. Even after the submission of evidence, the Authorised Dealer should retain copies of such relevant clearance documents for a further period of at least 3 months for a post check by this Department, if necessary;
- (4) If an importer fails to produce documentary evidence in confirmation of import of goods within the agreed 90 day period, details of such importer should be reported to us for monitoring purposes within 2 weeks from the expiry of the agreed 90 day period.

Yours faithfully

Sgd./ H. A. G. Hettiarachchi

Controller of Exchange

Annex I

Manager

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.....
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I / We hereby undertake to submit to you within 90 days of the date given below, a copy of the commercial invoice and a copy of the Customs Declaration both duly stamped by Customs in respect of the import of goods for which payment has been made in advance by Draft / Mail Transfer / Telegraphic Transfer bearing Ref. No.

.....
Signature of Importer

.....
Date

Ref. : 06 / 04 / 03 / 2004

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

16 July 2004

*To : Primary Dealers Appointed as Designated Agents for
Sri Lanka Development Bonds and
All Authorised Dealers in Foreign Exchange*

Dear Sirs,

SRI LANKA DEVELOPMENT BONDS (SLDBS)

Permission is hereby granted in terms of Section 17 of the Exchange Control Act, to both Authorised Dealers in foreign exchange and Primary Dealers who have been appointed by the Superintendent of Public Debt of the Central Bank of Sri Lanka (Superintendent of Public Debt) as designated agents for the purpose of purchasing and marketing Sri Lanka Development Bonds (SLDBs) issued by the Government of Sri Lanka (Government) to acquire, hold or transfer SLDBs on which capital and interest are payable in U.S. Dollars.

2. Permission is also hereby granted to such designated agents to maintain the following two special accounts in U.S. Dollars for the said purpose, with a commercial bank appointed as an Authorised Dealer in foreign exchange (Authorised Dealers).

- (i) A U.S. Dollar interest bearing account titled 'Sri Lanka Development Bond Investment Account' (SLDBIA) maintained on behalf of the Government to credit funds payable to the Government and received from the categories of investors specified in paragraph 3, who directly purchase SLDBs from the Government. The funds in this account belong to the Government;
- (ii) A U.S. Dollar account titled 'Dollar Account for Bond Investment' (DABI) which may be maintained on an interest bearing basis (in the case of such designated agent who is an Authorised Dealer in foreign exchange, the maintenance of this account is not mandatory), for the purpose of purchasing SLDBs from the Government and dealing in SLDBs with the categories of investors specified in paragraph 3.

3. Categories of Investors

- (i) Citizens of foreign states whether resident in Sri Lanka or outside Sri Lanka;
- (ii) Citizens of Sri Lanka who have made their permanent abode outside Sri Lanka;
- (iii) Citizens of Sri Lanka who have proceeded outside Sri Lanka to take up employment or to set up in business or in a profession and are residing abroad;
- (iv) Bodies corporate or unincorporate established under the laws of a country other than Sri Lanka;
- (v) Companies who have entered into agreements in terms of Section 17 of the Board of Investment of Sri Lanka Law No.4 of 1978 with full exemption from the provisions of the Exchange Control Act provided that all purchases of SLDBs are made against debits to foreign currency accounts maintained only for the purpose of crediting earnings from exports of such companies.

4. Sri Lanka Development Bond Investment Account (SLDBIA)

The credits and debits to this account shall be confined to the following :-

(i) Credits

Remittances received in US Dollars from investors specified in paragraph 3 above for the purchase of SLDBs from the Government.

(ii) Debits

- (a) To make payment to the Government for purchasing SLDBs by investors specified in paragraph 3 above. (This payment should be made in accordance with instructions given by the Superintendent of Public Debt and is payable to the 'Public Debt Subscription US Dollar Account' (PDSDA) maintained by the Superintendent of Public Debt with the Central Bank of Sri Lanka);
- (b) To effect remittances by way of refund on the instructions of the Superintendent of Public Debt to investors specified in paragraph 3 above;
- (c) For any other purpose on the instructions of the Superintendent of Public Debt.

Note : The monies received into this account should be transferred to the Government strictly in accordance with instructions given by Superintendent of Public Debt.

5. Dollar Account for Bond Investment (DABI)

The credits and debits to the account should be confined to the following :-

(i) Credits

- (a) US Dollars procured or assigned for the purpose of purchasing SLDBs;
- (b) Sale proceeds received from investors specified in paragraph 3 above on the sale of SLDBs to them;
- (c) Amounts received as repayment of principal and payment of interest on SLDBs held by the account holders.

(ii) Debits

- (a) For payments to the Government for the acquisition of SLDBs. Such payments should be made payable to the aforesaid PDSDA;
- (b) For making payment to sellers of SLDBs from whom SLDBs are purchased by the account holder in the secondary market;
- (c) Any other sums payable to the Superintendent of Public Debt, such as fees payable for sub-division and consolidation of bonds etc. These too should be made payable to the aforesaid PDSDA;
- (d) For selling foreign exchange in the account in excess of the account holder's requirements to purchase SLDBs, to an Authorised Dealer.

6. Authorised Dealers with whom the above accounts are maintained should furnish statements of such accounts for each month, indicating details of debits and credits, to the Exchange Control Department (D Branch), on or before the 15th day of the following month.

7. Permission is also hereby granted in terms of Section 5 of the Exchange Control Act to Designated Agents who are primary dealers to purchase US Dollars from an Authorised Dealer subject to the condition that such purchases are limited to the extent necessary to purchase SLDBs from the Government or from a holder of SLDBs. Where any sums procured are not necessary for the purchase of SLDBs, the primary dealer shall forthwith sell the foreign exchange to an Authorised Dealer.

Yours faithfully

Sgd./ H. A. G. Hettiarachchi

Controller of Exchange

Ref. : 06 / 05 / 04 / 2004

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

24 August 2004

*Operating Instructions to
Authorised Dealers in Foreign Exchange*

Dear Sirs,

**RELEASE OF FOREIGN EXCHANGE TO GEM DEALERS
AS AN ADVANCE PAYMENT FOR THE IMPORT OF GEMS FROM MYANMAR**

Authorised Dealers are hereby informed that the special facility given to gem dealers who travel to Madagascar for purchasing rough gems would also be extended to gem dealers travelling to Myanmar for this purpose.

Therefore, Authorised Dealers are hereby permitted to sell foreign exchange upto US\$ 15,000 (of which currency notes may be issued only upto a maximum of US\$ 5,000 and the balance in the form of Travellers' Cheques or a bank draft) to a registered gem dealer who is proceeding to Myanmar, for meeting his cost of purchasing gems and personal expenses in Myanmar, on production of a letter of recommendation from the National Gem and Jewellery Authority (NGJA) to the Authorised Dealer issuing the foreign exchange recommending his request for exchange.

When releasing foreign exchange as above, the Authorised Dealer to whom the recommendation of the NGJA is addressed should obtain an undertaking from the gem dealer to the effect that –

- (a) he would bring into Sri Lanka, gems purchased out of exchange released within 45 days of the release of exchange, and submit a self prepared invoice in triplicate giving the details of the quantity and value of rough gem stones so brought into Sri Lanka to the Sri Lanka Customs for endorsement at the time of his arrival (one such invoice duly endorsed by the Sri Lanka Customs should be submitted to the Authorised Dealer from whom foreign exchange was purchased, while another should be submitted to the NGJA, within 60 days of release of foreign exchange);
- (b) he would bring into the country all unutilized foreign exchange purchased by him and surrender such foreign exchange to an Authorised Dealer within seven days of his arrival. (Evidence to this effect should be presented to the Authorised Dealer from whom foreign exchange was purchased);
- (c) he would also submit a completed statement of accounts in the format at Annex 1 to the Authorised Dealer who issued foreign exchange, within 60 days of release of foreign exchange, giving details of foreign exchange purchased from the Authorised Dealer and utilization of such foreign exchange for the purposes of acquiring rough gem stones and for personal expenditure separately, together with the evidence of surrendering unutilized foreign exchange to an Authorised Dealer.

All instances of gem dealers failing to comply with any of the above undertakings and requirements should be reported by the Authorised Dealer from whom foreign exchange was purchased, to the Exchange Control Department of the Central Bank and to the NGJA within a period of three months from the date of release of exchange.

Yours faithfully

Sgd./ H. A. G. Hettiarachchi*Controller of Exchange*

Annex I

**Statement of Accounts in respect of Foreign Currencies purchased for
the purpose of travel to Myanmar for Purchase of Gems**

Purpose	Amount of Foreign Currency Purchased	Amount of Foreign Currency Expended	Unutilized Balance
Purchase of Gems			
Personal Expenses			
Total			

- Date of Purchase of Foreign Currency :
- Authorized Dealer from whom Foreign Currency was purchased :
- Date of Departure to Myanmar :
- Date of Arrival to Sri Lanka :
- Date of Surrendering of Unutilized Foreign Currency :
- Authorized Dealer to whom Foreign Currency was sold :
(Evidence of Surrendering foreign currency is attached).

I certify that all the above information is true and correct.

Signature of Gem Dealer

Ref. No. : 06 / 07 / 05 / 2004

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

25 August 2004

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 have been registered with the Central Bank of Sri Lanka since 13.12.2003 to the list of freight forwarders included in the Operating Instructions issued prior to 13.12.2003 for the purpose of accepting their House Airway Bills/House Bills of Lading/Forwarders Cargo Receipts for negotiation in respect of export cargo.

<i>Name of the Freight Forwarder</i>	<i>Registration No.</i>
1. Paramount Logistics (Pvt) Ltd.	06/07/009/0121
2. Shipping & Cargo Services (Pvt) Ltd.	06/07/009/0122
3. BAZ International Shipping and Consolidators (Pvt) Ltd.	06/07/009/0123

4. Silvermills Limited	06/07/009/0124
5. M A Lanka (Pte) Ltd.	06/07/009/0125
6. Stewart Forwarding (Private) Limited	06/07/009/0126
7. ITS Express Lanka (Pvt) Ltd.	06/07/009/0127
8. Cargoplan International (Pvt) Ltd.	06/07/009/0128
9. MSA Shipping (Pvt) Ltd.	06/07/009/0129
10. NYK Logistics & Kusuha Lanka (Pvt) Ltd.	06/07/009/0130
11. BAL Trans Logistics Lanka (Pvt) Ltd.	06/07/009/0131

Yours faithfully,

Sgd./ H. A. G. Hettiarachchi

Controller of Exchange

Operating Instructions No. : 01 / 2004

Ref. No. : 33 / 05 / 031 / 0004 / 001

International Operations Department

11 October 2004

To : All Licensed Commercial Banks

GUIDELINES TO COMMERCIAL BANKS ON FOREIGN EXCHANGE SWAPS (USD/LKR)

Commercial banks are hereby informed that offering of foreign exchange (USD/LKR) swaps to domestic corporate clients holding Exporters' Foreign Currency (EFC) Accounts is allowed subject to the following conditions:

- (a) Foreign exchange (USD/LKR) swaps being permitted only with exporters of merchandise who maintain their export proceeds in EFC Accounts with a commercial bank operating locally and such swaps being done only against funds lying in the EFC accounts;
- (b) Foreign exchange (USD/LKR) swaps being done by those who qualify to enter into forward contracts under the exchange control regulations. At least one leg of a swap arrangement must be based on a permitted underlying transaction with the amounts involved in that leg of the swap corresponding to the amounts involved in the underlying transaction;
- (c) The period of a foreign exchange swap not exceeding 120 days;
- (d) Both legs of swap transactions being reported to the International Operations Dept. daily in the "Daily Foreign Exchange Position Report" and they being within the exposure limits given to the banks;
- (e) Adequate internal control measures applicable to treasury operations being put in place to prevent operational risk; and
- (f) Banks maintaining adequate capital to meet the Capital Adequacy Ratio by risk weighting these exposures at 100% risk weight.

P Liyanage

Actg. Director, International Operations

Circular No. : RTGS / 01 / 2004

Ref. No. : 34 / 07 / 029 / 0001 / 001

Payments and Settlements Department

16 January 2004

To : All Participants of the RTGS System

**OPENING OF THE RTGS SYSTEM FOR TESTING THE CSS PRE-LIVE RELEASE
WITH THE LIVE CAS SYSTEM**

This is to inform you that the RTGS System will be open on 17th, 24th and 31st January 2004 for the limited purpose of testing the CSS pre-live release with the live CAS System in accordance with the instructions issued in the letter with reference No. 08/14/025/001/009, by the Superintendent, Public Debt Department of Central Bank of Sri Lanka in this regard on 16th January 2004.

Participants should note that the RTGS System will be open on these three days only for the purpose of enabling participants to credit the amounts specified by the Superintendent, Public Debt Department for testing CSS System and for the Central Bank of Sri Lanka to reverse the amounts so credited at the end of the testing.

Please note that the RTGS System will not be open on the aforementioned three days for settlement of any valid transaction other than the test transactions specified by the Superintendent, Public Debt Department of Central Bank of Sri Lanka.

K R M Siriwardhane

Director, Payments and Settlements

Circular No. : RTGS / 02 / 2004

Ref. No. : 34 / 07 / 029 / 0001 / 001

Payments and Settlements Department

29 March 2004

To : All Participants of the LankaSettle System

**APPOINTMENT OF NEW PARTICIPANTS TO THE LANKASETTLE SYSTEM –
NAT-WEALTH SECURITIES LIMITED**

You are hereby informed that Nat-Wealth Securities Limited of Level 06, Millennium House, 46/58, Navam Mawatha, Colombo 2, which has been appointed as a Direct Participant and a Dealer Direct Participant in terms of the provisions of the Local Treasury Bills Ordinance, No. 8 of 1923 and the Registered Stock and Securities Ordinance, No. 7 of 1937, has been authorized by the Central Bank of Sri Lanka to participate in the LankaSettle System with effect from April 06, 2004. Its S.W.I.F.T. Bank Identifier Code (BIC), RTGS Settlement Account number and contact details are given below:

S.W.I.F.T BIC : **NWSLLKLX**
RTGS Settlement Account No. : **NWSLLKLXXXX010004561**

Contact Details:

Chief Executive Officer : **Mr. Dammika Ranawana**
Telephone : **011 4 703000**
Fax : **011 4 716275**
e-mail : **info@natwealth.com**

The Settlement Account of Nat-Wealth Securities Limited *i.e.*, NWSLLKLXXXX010004561 will appear in the RTGS System with 'suspended' status on April 02, 2004 and with 'not-suspended' status with effect from April 06, 2004. All participants of the LankaSettle System will receive S.W.I.F.T. messages to that effect.

K R M Siriwardhane

Director, Payments and Settlements

Circular No. : RTGS / 03 / 2004

Ref. No. : 34 / 07 / 029 / 0001 / 001

Payments and Settlements Department

23 April 2004

To : All Participants of the LankaSettle System

RESTRICTION OF BUSINESS HOURS OF LANKASETTLE ON APRIL 30, 2004

The Central Bank of Sri Lanka, having considered the restricted business hours of participating institutions of LankaSettle on April 30, 2004 (a declared half-holiday in lieu of May Day falling on Saturday), has decided to restrict business hours of LankaSettle on April 30, 2004 from 8.00 a.m. to 3.00 p.m. Accordingly, the events after 12.00 noon of the operating schedule of LankaSettle for April 30, 2004 will be changed as follows:

Event	Revised Time
MLNS-Regional Clearing	12.00 noon
OMO-Repo (Auction) settlement	12.45 p.m.
Closure of net settlement on account of primary auction	1.00 p.m.
MLNS-Settlement Clearing and Rupee Draft Clearing	1.15 p.m.
Closure of third party payments	2.00 p.m.
OMO-Repo (Standing Facility) settlement	2.15 p.m.
ILF Reversal	2.30 p.m.
Closure of business	3.00 p.m.
Closure of System	4.00 p.m.

K R M Siriwardhane

Director, Payments and Settlements

Circular No. : RTGS / 04 / 2004

Ref. No. : 34 / 07 / 029 / 0001 / 001

8 July 2004

To : All Participants of the LankaSettle System

**AMENDMENTS TO THE DAILY OPERATING SCHEDULE OF
THE LANKASETTLE SYSTEM**

You are hereby informed that the Central Bank, having considered the representations made by a number of participants for advancing the daily shut-down of the LankaSettle system and the views expressed thereon by the participants at the meeting of the RTGS-SSS Sub-Committee held on June 30, 2004, has decided to shorten the End-of-Day Processing Session of the Daily Operating Schedule of LankaSettle given under Clause 1.2 of the Volume 4 of the System Rules of LankaSettle by 30 minutes with effect from July 19, 2004.

Accordingly, from July 19, 2004, the End-of-Day Processing Session of the Daily Operating Schedule of LankaSettle will be from 4.00 p.m. to 5.00 p.m. and the system will be closed at 5.00 p.m.

The Daily Operating Schedule in Clause 1.2 of the Volume 4 of the System Rules should be read as amended accordingly.

H N Thenuwara

Superintendent, Public Debt Dept.

K R M Siriwardhane

Director, Payments and Settlements Dept.

Circular No. : RTGS / 05 / 2004

Ref. No. : 34 / 07 / 029 / 0001 / 001

Payments and Settlements Department

28 July 2004

To : All Participants of the LankaSettle System

OPENING THE RTGS SYSTEM FOR RTGS-GL INTERFACE TESTING ON AUGUST 01, 2004

This is to inform you that the RTGS System will be open on August 01, 2004 at the backup site only for the limited purpose of testing the RTGS-GL interface by the Central Bank.

Please note that the RTGS System will not be open on the aforementioned day for settlement of any transaction.

You are hereby requested:

- (i) Not to send any forward dated RTGS related SWIFT message after 4.00 p.m. (after the closure of business) on Friday July 30, 2004; and
- (ii) To disregard all SWIFT messages which will have the value date of 2004/08/01 and generated on August 01, 2004 by CBCELKLAXXX or CBCELKLXXXX.

K R M Siriwardhane

Director, Payments and Settlements

Circular No. : RTGS / 06 / 2004

Ref. No. : 34 / 07 / 029 / 0001 / 001

Payments and Settlements Department

13 December 2004

To : All Participants of the LankaSettle System

**RESTRICTION OF BUSINESS HOURS OF LANKASETTLE ON
DECEMEBR 24 AND DECEMBER 31, 2004**

The Central Bank of Sri Lanka, having considered the restricted business hours of participating institutions of LankaSettle on December 24, 2004 (a declared half-holiday in lieu of Christmas day falling on Saturday) and December 31, 2004 (restricted business hours to public by licensed commercial banks) has decided to restrict business hours of LankaSettle on December 24 and December 31, 2004 from 8.00 a.m. to 3.00 p.m. Accordingly, the events after 12.00 noon of the operating schedule of LankaSettle for December 24 and December 31, 2004 will be revised as follows:

Event	Revised Time
MLNS-Regional Clearing	12.00 noon
OMO-Repo (Auction) settlement	12.45 p.m.
Closure of net settlement on account of primary auction	1.00 p.m.
MLNS-Settlement Clearing and Rupee Draft Clearing and Adjustment Clearing	1.15 p.m.
Closure of third party payments	2.00 p.m.
OMO-Repo (Standing Facility) settlement	2.15 p.m.
ILF Reversal	2.30 p.m.
Closure of business	3.00 p.m.
Closure of System	4.00 p.m.

C Premaratne*Superintendent, Public Debt Dept.***K R M Siriwardhane***Director, Payments and Settlements Dept.*

Ref. : 08 / 24 / 002 / 0005 / 004

Public Debt Department
No. 30 Janadhipathi Mawatha
Colombo 1.

6 January 2004

To : Chief Executive Officers of Primary Dealers

Dear Sirs

DIRECTION ON SHORT SELLING OF SECURITIES

This direction is issued in terms of Section 12 of the Regulations dated February 1, 2002 issued by the Minister of Finance under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance. In terms of this direction Primary Dealers (PDs) are required to refrain from short selling of securities. No PD should sell any securities without actually holding the relevant securities in its portfolio. Securities obtained as collateral on reverse repo transactions are not considered as PD's own securities and hence they cannot be sold.

Please acknowledge receipt.

K G D D Dheerasinghe
Superintendent of Public Debt

Public Debt Department
No. 30 Janadhipathi Mawatha
Colombo 1.

29 January 2004

To : All Commercial Banks, Primary Dealers and
the Employee's Provident Fund

Dear Sirs

AMENDMENT TO LANKASETTLE SYSTEM RULES AUGUST 2003

Clause 4.2 of Volume 3 of LankaSettle System Rules August 2003 is hereby deleted and substituted with the following revised clause 4.2.

This amendment to the System Rules shall be effective from 2nd February, 2004.

Yours faithfully,

K G D D Dheerasinghe
Superintendent of Public Debt

4.2 Account Types Available in LankaSecure

The following Account Types are used in LankaSecure. The Central Bank may, at its discretion, restrict the Account Types that may be available to any Participant or category of Participant as well as the transaction types that may be applied to each Account Type.

Account Type	Code	Purpose
Participant's / Central Bank's Own Account	OWN	Holds securities owned by the Participant / Central Bank.
ILF Account	ILF	Holds securities, in the case of participants, to be transferred to the Central Bank as collateral for ILF, and, in the case of the Central Bank, transferred by the participants to the Central Bank as collateral for ILF.
Pledge Account	PLG	Holds securities that have been pledged to the Participant (in the case of an Approved Credit Agency) or an entity for whom the Participant is acting. The name of the Pledgor is recorded in the Owner field. Securities in these accounts cannot be traded except in accordance with applicable Regulations.
Customer Account (Resident)	CSL	Holds securities owned by a "person resident in Sri Lanka" Customer of a Participant. The account is created by specifying a resident Owner in securities transactions. This Account Type is available only to Dealer Direct Participants.
Customer Account (Non-Resident)	CSF	Holds securities owned by a "person resident outside Sri Lanka". The account is created by specifying a non-resident Owner in securities transactions. This Account Type is available only to Dealer Direct Participants.
Tradable Repo Account	CRP	Holds securities that are transferred under a Reverse Repo Agreement by a Participant or a Customer to a counterparty that are to be returned at a future date under the terms of such agreement. Securities in this Account are tradable.
Non-Tradable Repo Account	REP	Holds securities that are transferred under a Reverse Repo Agreement by a Participant or a Customer to a counterparty that are to be returned at a future date under the terms of such agreement. Securities in this account cannot be traded.
Tradable Customer Reverse Repurchase Account	CRE	Holds Securities that are transferred under a Reverse Repurchase Agreement by a Participant or a customer to a customer that are to be reversed at a future date under the terms of such agreement. Securities in this account are tradable.
Non-Tradable Customer Reverse Repurchase Account	CRR	Holds Securities that are transferred under a Reverse Repurchase Agreement by a Participant or a customer to a customer that are to be reversed at a future date under the terms of such Agreement. Securities in this account cannot be traded.
Statutory Investment Account	STI	Securities that are held by Participant to meet statutory requirements imposed on the Participant.
Primary Auction Purchase Account	PAP	Holds securities purchased at Primary Auction (Primary Dealer and Designated Non Dealer Bidder use only).
Domestic Operations Repo Account	DOP	Holds securities transferred to a Participant by the Central Bank under a Repo Agreement that are to be returned to the Central Bank at a future date. Securities in this Account are not tradable.
Domestic Operations Reverse Repo Account	DRP	Holds securities transferred to the Central Bank by a Participant under a Reverse Repo Agreement that are to be returned to the Participant at a future date.

Ref. : 08 / 24 / 002 / 0005 / 004

Public Debt Department
No. 30 Janadhipathi Mawatha
Colombo 1.

7 June 2004

To : Chief Executive Officers of Primary Dealers

Dear Sirs

DIRECTION ON ADJUSTED TRADING (AWAY PRICES)

Primary Dealers are hereby required to refrain from having adjusted trading or using away prices for recording their transactions. They should use current market prices, for recording their transactions.

Adjusted trading is a practice involving the sale of a security at a price above the prevailing market value and the simultaneous purchase and booking of a same or different security at a price greater than its market value. Such transactions inappropriately defer the recognition of losses on securities sold while establishing an excessive reported value for acquired securities.

This direction is issued in terms of Section 12 of the Regulations dated February 1, 2002 issued by the Minister of Finance under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance.

Please acknowledge the receipt of this direction.

Dr. H N Thenuwara
Superintendent of Public Debt