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Government Securities Market

Treasury Bills and Treasury Bonds Market

Domestic currency debt is mainly raised by the Government of Sri Lanka for budgetary purposes through,

- > Treasury bills (T bills) which are short-term debt instruments issued under the Local Treasury Bills Ordinance No. 8 of 1923 (as amended) and;
- > Treasury bonds (T bonds) which are medium to long term debt instruments issued under the Registered Stock and Securities Ordinance No. 7 of amended).

Central Bank of Sri Lanka (CBSL), as the agent of the Government of Sri Lanka is responsible for the issuance of Treasury bills and bonds, and associat service payments comprising interest/coupon payments and maturity payments.

Treasury bill market is a segment of the domestic money market. Highly liquid nature of Treasury bills offers investors an alternate source of liquidity wh generating a return on investment. Therefore, interest rate movements in the Treasury bill market provide a benchmark for the short-term credit market. Ir addition, changes in the volumes and rates in the Treasury bill market affect the cost, profitability and liquidity of financial institutions.

Treasury bills and bonds are accepted as collateral by the Central Bank under its open market operations. In addition, financial institutions are required to maintain a significant exposure to default risk-free investments to enhance financial stability by the regulator, thus entrenching the importance of Treasur and bonds which are considered as default-risk free due to inherent repayment guarantee by the fiscal authority. Treasury bills and bonds are jointly deno the term Government securities in day-to-day market terminology.

Main Features of Treasury Bills and Bonds in Sri Lanka

- > Treasury bills are issued with 91-day, 182-day and 364-day maturities (standard maturities issued at primary auctions) whereas, Treasury bonds are for maturities of from 2- 30-years as per the provisions of Local Treasury Bills Ordinance No. 8 of 1923
- > Treasury bills, normally issued at a discount are repaid at face value at the maturity
- > Treasury bonds carry bi-annual coupon payments and are repaid at face value at the maturity.
- > Treasury bonds can be issued at discount, par or premium
- Market determined yield rates prevail
- > Tradable in the secondary market
- > Issued in scripless form
- A collateral for short-term fund raising

Benefits of Investing in Treasury Bills and Bonds

- It is considered as default-risk free, since issued by the sovereign government.
- > Since T bills and T bonds are tradable in the secondary market, they are highly liquid money market instruments. All receipts of interest and matur proceeds by foreign investors are fully repatriable.
- > It is possible to have joint investments.
- Under the current law, Government Securities are not subject to withholding tax.
- > CBSL securely registers these investments in the Central Depository System (CDS), which is connected to an automated Scripless Securities Settle System (SSSS).

How to invest in Treasury Bills Treasury Bonds

Treasury bills/ bonds can be purchased at any time from the secondary market through primary dealers (PDs) or licensed banks. Primary dealers are app by the CBSL to subscribe to issuances of Government securities through the primary market (initial issuance). Other persons who wish to invest in Treasure through the primary market (initial issuance).

and bonds at the primary market may do so by placing their bids through PDs.

Non-resident investors are permitted to maintain a rupee denominated "Inward Investment Account (IIA)" with a licensed commercial bank in Sri Lanka investments in Government securities. Total Treasury bill and bond holdings by non-resident investors in aggregate has been capped at 5 % of the out Treasury bills and bonds separately at any given time.

(more information on IIA can be found via https://www.dfe.lk/web/images/rdevelopment/d8cca82aaa30bb8155cf56a4a8afbffb-2213-35-E.pdf)

A Securities Account in the CDS (the registry) has to be created in the name of the investor/s by the dealer direct participant (licensed bank or SPD) of Recording of ownership changes following any transaction in Government securities will take effect on a real time basis depending on the settle associated fund transfer.

Interest and maturity proceeds of Treasury bills and bonds are credited to the investor's account through respective dealer direct participant maintaining securities account of the investor on the due date. In the event due date falls on a non-business day, settlement will be postponed to the next business d

Obtaining information on Treasury Bills and Bonds

- > Details on available Treasury bills and bonds and prevailing market rates can be obtained from licensed banks, PDs and CBSL (CBSL web site).
- > Details on Treasury bond and bill Issuance/Settlement Calendar can be obtained from licensed banks, PDs and CBSL (CBSL web site)
- > Requests for Treasury bill and bond holding confirmations shall be submitted to the Superintendent of Public Debt Department of CBSL.

FAQ on Government Debt Securities

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Contact Us	Employees' Provident Fund	Ministry of Finance (http://www.treasury.gov.lk/)	f <u>Facebook</u>
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Glossary	Center for Banking Studies	Institute of Bankers of Sri Lanka	in <u>LinkedIn</u>
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		Sri Lanka Accounting and Auditing Standards Monitoring Board	
		(http://slaasmb.gov.lk/)	

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