



**FINAL REPORT | RFP 1 |
FORENSIC AUDIT / INVESTIGATION ON
ISSUANCE OF TREASURY BONDS DURING THE
PERIOD 1 JANUARY 2002 TO 28 FEBRUARY
2015 BY THE PUBLIC DEBT DEPARTMENT
THE CENTRAL BANK OF SRI LANKA**

8 November 2019

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To,

Date: 8 November 2019

The Monetary Board,
Central Bank of Sri Lanka,
No. 30, Janadhipathi Mawatha,
Colombo 01, Sri Lanka

Kind Attention: The Monetary Board of Central Bank of Sri Lanka

Subject: Final Report - Forensic Audit / Investigation on Issuance of Treasury Bonds during the period 1
January 2002 to 28 February 2015 by the Public Debt Department

Dear Honorable Governor,

Our Services were performed and this Final Report ("Report") has been prepared in accordance with the
Contract signed on 1 April 2019 (reference number: RFP/CBSL/BS/FA/2018/01) between the Monetary Board
of the Central Bank of Sri Lanka (the "Client" or "You") and BDO India LLP ("BDO India" or "We" or "Us")
and is subject to the terms and conditions included therein.

Our work was limited to the specific scope of work and analysis described in the Contract. Based on
discussions with the CBSL, this Report consolidates the data provided as of 20 September 2019, information
gathered during interviews conducted till 21 October 2019 and clarifications obtained as of 8 November
2019. Accordingly, changes in circumstances or information available after this date could affect the findings
outlined in this Report.


This Report is prepared solely for the purpose of the CBSL. Neither this deliverable nor its contents may be
distributed to, discussed with or otherwise disclosed to any Third Party except as provided in the "Notice
to The Reader" Section of this Report. We accept no responsibility or liability to a Third Party to whom our
Report may be shown or in whose hands it may come.

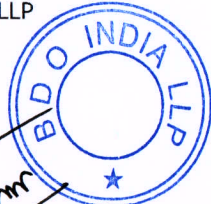
We appreciate the opportunity given to us to assist you with the Subject matter. If you may have any
questions or would like to discuss our Report, please do not hesitate to contact me via an email at
srinivasarao@bdo.in

Thanking you

Yours faithfully

For BDO India LLP


Srinivasa Rao
Partner



GLOSSARY

#	ACRONYM	DESCRIPTION
1	AG	Assistant Governor
2	ASPD	Additional Superintendent of Public Debt
3	Acuity	Acuity Securities Limited
4	BDO India or We or Us	BDO India LLP
5	Bn.	Billion
6	BPS	Basis Points
7	BO	Back Office
8	BOC	Bank of Ceylon
9	CBSL	The Central Bank of Sri Lanka
10	Client or You	The Monetary Board of the Central Bank of Sri Lanka
11	CDS	The Central Depository System
12	CEO	Chief Executive Officer
13	CID	The Criminal Investigation Department
14	CoC	Chain of Custody
15	Commercial Bank	Commercial Bank of Ceylon PLC
16	Daily FT	Daily Financial Times
17	DDMC	Domestic Debt Management Committee
18	DG	The Deputy Governor
19	DIT	Director of Information Technology
20	DOD	Domestic Operations Department
21	DSPD	Deputy SPD
22	DST	Deputy Secretary to the Treasury
23	DVP	Delivery versus Payment
24	EPF	Employees' Provident Fund
25	ESI	Electronically Stored Information
26	ETF	Employees' Trust Fund
27	Entrust	Entrust Securities PLC
28	FAMC	Forensic Audit Monitoring Committee
29	First Capital	First Capital Treasuries Limited
30	FO	Front Office
31	HSBC	Hongkong & Shanghai Banking Corporation
32	IBSL	Institute of Bankers of Sri Lanka
33	ITD	Information Technology Department
34	IT	Information Technology
35	ILF	Intra-day Liquidity Facility

#	ACRONYM	DESCRIPTION
36	ISIN	International Securities Identification Number
37	LSSS	LankaSecure Settlement System
38	MLA	Monetary Law Act
39	MO	Middle Office
40	Natwealth	Natwealth Securities Limited
41	NIC	National Identification Number
42	NSB	NSB Fund Management Company Limited
43	Pan Asia	Pan Asia Banking Corporation PLC
44	PCOI	Presidential Commission of Inquiry on the issuance of Treasury Bonds during the period 1 February 2015 to 31 March 2016
45	PD(s)	Primary Dealer/s
46	PDD	Public Debt Department
47	PDD Operational Manual	Public Debt Operational Manual updated as of 31 July 2013
48	PTL	Perpetual Treasuries Limited
49	Report	Final Report
50	Review Period	1 January 2002 to 28 February 2015 ¹
51	ROC	Registrar of Companies
52	Rs.	Sri Lankan Rupees (LKR)
53	RTGS	Real Time Gross Settlement System
54	SD	Supervision Division
55	SLDB	Sri Lanka Development Bonds
56	SPD	Superintendent of Public Debt ²
57	SPOC	Single Point of Contact
58	SSD	Support Services Division
59	SSSS	Scriptless Securities Settlement System
60	TEC	Technical Evaluation Committee of PDD
61	TOR / RFP	Terms of Reference / Request for Proposal
62	Treasury Operations Department	Treasury Operations Department, Ministry of Finance, the Government of Sri Lanka
63	Union Bank	Union Bank of Colombo PLC
64	WAYR	Weighted Average Yield Rate
65	Wealth Trust	WealthTrust Securities Limited

¹ Excluding the Auction held on 27 February 2015 due to overlapping of the Review Period with RFP/ TOR - 4.

² The designation of the employees of the CBSL was considered for the Review Period only

TERMS FOR REFERENCE

#	TERM	DESCRIPTION/ MEANING/ INTERPRETATION
1	Active Data	Data on a computer that is not deleted and is generally accessible and readily visible to the user under normal use. Source: https://burgessforensics.com/computer-forensics-glossary/
2	Active Directory	A directory is a hierarchical structure that stores information about objects on the network. A directory service, such as Active Directory Domain Services (AD DS), provides the methods for storing directory data and making this data available to network users and administrators. Source: https://docs.microsoft.com/en-us/windows-server/identity/ad-ds/get-started/virtual-dc/active-directory-domain-services-overview
3	Central Depository System	A computerized central system which records primary issuance of Scripless securities and their trades taking place in the secondary market. Source: https://www.cds.lk/introduction.php
4	Chain of Custody	The Chain of Custody in digital forensics can also be referred to as the forensic link, the paper trail, or the chronological documentation of electronic evidence. It indicates the collection, sequence of control, transfer, and analysis. It also documents each person who handled the evidence, the date/time it was collected or transferred, and the purpose for the transfer. Source: https://resources.infosecinstitute.com/category/computerforensics/introduction/areas-of-study/legal-and-ethical-principles/chain-of-custody-in-computer-forensics/#gref
5	Cut-off point	A point at which the issuer decided whether a particular security is worth issuing. Source: https://investopedia.com/terms/c/cutoffpoint
6	Deleted Data	Deleted Data is data that, in the past, existed on the computer as live data and which has been deleted by the computer system or end-user activity. Deleted data remains on storage media in whole or in part until it is overwritten by ongoing usage or “wiped” with a software program specifically designed to remove deleted data. Even after the data itself has been wiped, directory entries, pointers, or other metadata relating to the deleted data may remain on the computer. Source: https://www.edrm.net/wp-content/uploads/2017/03/20160422-EDRM-Glossary-2.pdf
7	Digital Footprint	The information about a particular person that exist on the Internet as a result of their online activity. Source: https://www.lexico.com/en/definition/digital_footprint
8	Digital Forensics	Digital Forensics is a branch of forensic science focused on recovery and investigation of artifacts found on digital devices. Source: https://www.lawtechnologytoday.org/2018/05/digital-forensics/
9	Electronically Stored Information	Electronically Stored Information is any information created, stored, or best utilized with computer technology of any type. It includes but is not limited to data; word-processing documents; spreadsheets; presentation documents; graphics; animations; images; e-mail and instant messages (including attachments); audio, video, and audio-visual recordings; voicemail stored on databases; networks; computers and computer systems; servers; archives; back-up or disaster recovery systems; discs, CD’s, diskettes, drives, tapes, cartridges and other storage media; printers; the Internet; personal digital assistants; handheld wireless devices; cellular telephones; pagers; fax machines; and voicemail systems. Source: https://www.foley.com/-/media/files/insights/events/2007/04/corporate-records-what-to-keep-and-what-to-toss/files/guidelines-for-state-trial-courts-regarding-discov/fileattachment/state_cs_eldiscccguidelines.pdf
10	Forensic Image	A forensically sound and complete copy of a hard drive or other digital media generally intended for use as evidence. Such copies include unallocated space, slack space, and boot record. A Forensic Image is often accompanied by a calculated Hash signature to validate that the image is an exact duplicate of the original. Source: https://burgessforensics.com/computer-forensics-glossary/

#	TERM	DESCRIPTION/ MEANING/ INTERPRETATION
11	Hash Values	A computed numerical value that represents a “digest” of the content of a file. If and only if two documents are identical to the letter will they return the same Hash Value. The Hash Value is used as part of a digital signature and to compare document content in the de-duping process. Source: https://www.edrm.net/wp-content/uploads/2017/03/20160422-EDRM-Glossary-2.pdf
12	Keyword Search	A common technique used in computer forensic and electronic discovery, a Keyword Search is usually performed to find and identify every instance on a computer or other media of a given word or phrase, even if said word or phrase occurs in unallocated space or in deleted files. Source: https://burgessforensics.com/computer-forensics-glossary/
13	Leakage	Deliberate disclosure of confidential information. Source: https://www.lexico.com/en/definition/leakage
14	Litigation hold	A Litigation hold, also known as a "preservation order" or "hold order" is a temporary suspension of the company's document retention destruction policies for the documents that may be relevant to a lawsuit or that are reasonably anticipated to be relevant. It is a stipulation requiring the company to preserve all data that may relate to a legal action involving the company. Source: https://definitions.uslegal.com/l/litigation-hold
15	Metadata	A set of data that describes and gives information about other data. Source: https://whatis.techtarget.com/search/query?q=metadata
16	Price Sensitive Information	Of information likely to affect security prices if it were made public. Source: https://www.lexico.com/en/definition/price-sensitive
17	Primary Dealers	Any commercial bank, company, or other person appointed by the Monetary Board as a Primary Dealer for the purpose of dealing with the Central Bank as counterparty in the primary and Secondary Markets for stock and securities. Source: Section 58 of Registered Stock and Securities Ordinance (incorporating amendments up to 31 December 2004)
18	Settlement Account	An account maintained by a participant with the CBSL in terms of Monetary Law Act for the maintenance of deposit reserves, clearance of payments and settlement of balances among participants and for the settlement of payments of scripless securities transactions among participants, or for any one or more of such purposes as applicable to such applicant. Source: Banksettle System Rules
19	Timeline Analysis	Analysis of schedule of events and procedures. Source: https://www.merriam-webster.com/dictionary/timeline

NOTICE TO THE READER

- ▶ This Final Report (“Report”) has been prepared by BDO India LLP (“BDO India”, or “We, or “us”) for The Monetary Board of Central Bank of Sri Lanka (the “Client” or “You”) in accordance with the scope of work defined in Contract of 1 April 2019 (“Contract”).
- ▶ The Report issued by BDO India is in accordance with the Contract and for use by the CBSL. Usage of this report by CBSL is with the understanding that (i) CBSL will keep BDO India LLP informed about the distribution; (ii) CBSL would take appropriate measures to avoid unauthorized distribution of the whole or part of the Report; and (iii) the disclosure is in line with applicable laws. We accept no responsibility or liability to any external agency or parties not forming part of the Contract.
- ▶ BDO India does not render any legal advice or related services and, therefore, none of the Services rendered under the Contract should be considered to be legal services. In respect of any and all legal matters, the CBSL may consult its legal advisors, as they deem fit in their own discretion. Our work does not make any representation regarding questions of legal interpretation and cannot render legal advice. The Client should consult with its attorneys with respect to legal matters or items that require legal interpretation.
- ▶ The Report issued is to be read in totality, and not in parts, and in conjunction with the relevant sections referred to, in this Report.
- ▶ We relied on the information and explanations provided to us by the CBSL and we have not independently verified the completeness of the same. Whilst, we have taken reasonable steps to corroborate the information (*Refer Section 3 - Work Performed*), we cannot guarantee its reliability or completeness. Hence, our ability to perform all the procedures depended on the nature and quality of the information and explanations provided to us by the CBSL. Our observations in this Report are limited accordingly.
- ▶ Based on discussions with the CBSL, this Report consolidates the data provided as of 20 September 2019, information gathered during interviews conducted till 21 October 2019 and clarifications obtained as of 8 November 2019. We / you may come across information that may have bearing on the findings and observations made in this Report subsequent to the submission of this Report. However, we take no responsibility for the possible impact of such events and circumstances including updating this Report for the same. Although, in circumstances where additional information may become available with respect to the engagement, we would be glad to carry out additional procedures as may be separately agreed with the Client.
- ▶ This engagement shall not create privity between BDO India and any third party. Neither this Report nor the services provided hereunder are intended for the express or implied benefit of any third party.

- ▶ Our services and our Report are not intended to be, and shall not be construed to be, investment advice or legal, tax or accounting advice in accordance with the accounting standards. BDO India shall ensure all confidential information acquired shall be and remain as part of the Report rendered by BDO India in accordance with the Contract.

Parliament Copy

LIMITATIONS

- ▶ The information and supporting documents pertaining to issuances of Treasury Bonds through Auction and Direct Placement is not available for the period from January 2002 till December 2004. Hence, the understanding of the operational process for issuance of Treasury Bonds through Auctions and Direct Placement method for the period from 1 January 2005 till 28 February 2015 was obtained from the current and former employees of the Public Debt Department (“PDD”) at the CBSL.
- ▶ The Public Debt Department Operational Manual (version 2005, version 2007 and version 2, updated as of 31 July 2013) (“PDD Operational Manual”) applicable for the Review Period is not explicitly approved by Monetary Board. We were given to understand that there is no requirement for the operational manual to be approved by Monetary Board. In the absence of approval, it is not possible to confirm that the directions of the Board were implemented in the directed perspective comprehensively. Accordingly, the details of activities performed in raising of public debt on behalf of the Treasury Operations Department, can at best be considered as “practices” adopted / followed by the PDD. Subsequently, we were given to understand that in May 2017, a process was defined whereby the PDD Operational Manual was required to be updated on annual basis.
- ▶ As confirmed by the officers of the PDD, during the Review Period, the CBSL did not had voice record system to retain recordings of the telephonic communications between the employees in Front Office of the PDD and the PDs for the issue of Treasury Bonds during the Review Period. Hence, the reliance is placed on the copies of voice recordings received from PDs to the extent available and maintained by them. *(Refer Exhibit 5)*³
- ▶ The nature of our work pertaining to conducting desktop searches was based on the information as available in the public domain. Information obtained from the public domain was not subjected to independent verification by us. Online public records are generally considered informative, neither can we guarantee its veracity, nor can we monitor the frequency of the updates thereto. In undertaking the public record research and information gathering for this engagement, efforts were made to identify information currently available. Neither we identified information previously filed on, but subsequently removed from the public records prior to this date nor have we identified the information subsequently filed on those data sources after this date of this Report.

³ Refer Exhibit 5 for the memo provided by the CBSL regarding the phone recordings requested from the PDs.

- ▶ During the searches of information available in the public domain and subscribed databases, the names of individual are used in abbreviated form and there are variations in the usage of their names on the profiles maintained on various social networking platforms. There is a likelihood of not identifying an individual during desktop searches if a name variation has been used, apart from the ones already identified.
- ▶ Few same / similar names were identified during the searches of information as available in the public domain. However, due to lack of additional identifying information, it could not be ascertained if the individuals were same as the ones under review.
- ▶ Information Technology (“IT”) Asset Register was not maintained by the Information Technology Department (“ITD”) at the CBSL, accordingly, the details of IT assets assigned to the CBSL employees cannot be identified with certainty. The electronic devices pertaining to select CBSL employees were identified by the ITD based on the last User Account Log-In Information. Hence, it cannot be established if acquired devices were the only device/s used by the selected the CBSL employees for the Review Period.
- ▶ The completeness of the email communication data cannot be established as multiple instances of email data file deletions were noted during the digital forensic procedures on the devices provided by the ITD and backup of the email data was not available comprehensively, on the email server. Vide an email of 29 July 2019, it was explained that Litigation Hold was introduced with effect from 1 January 2019 and all emails which are not permanently deleted as on 1 January 2019 are available on the server. Our review of emails was limited to the extent of email data backup provided by the ITD of the CBSL. (*Refer Exhibit 2*)⁴
- ▶ The CBSL migrated from Lotus Notes to Microsoft Outlook during 2012 and email backups prior to June 2012 were not maintained. The backup files and Lotus user id and password were not retained for the same and the review of emails is limited to the extent data backup provided by the ITD of the CBSL.
- ▶ Licensed tools were used in conducting digital forensic procedures on the devices of identified employees of the CBSL provided by the ITD. However, due to rapid change in computer’s operating, processing and storage techniques, there could be occasions when licensed forensic tools are unable to gather 100% evidence from the acquired devices.

⁴ Refer Exhibit 2 for an email of 29 July 2019 for implementation of Litigation Hold.

- ▶ Web gateway logs (year-wise segregated files - text/ csv format), Web gateway log metadata files, network firewall configuration and change logs, network firewall activity logs for internet traffic (both inbound and outbound) for the Review Period (year-wise segregated files - text/ csv format) were not made available for review (*Refer Exhibit 3*)⁵. Server logs for Inbound and Outbound emails across the CBSL email domains, from the earliest mail from outlook till March 2018, were not available for review. (*Refer Exhibit 4*)⁶
- ▶ The system security logs data of AS-400 was provided. However, in order to analyse the changes or deletion / modification / user change, application logs were not made available for review. (*Refer Exhibit 6*)⁷
- ▶ The review of ROC records was performed based on the information provided by the CBSL up to 23 September 2019. The data including Director's details, shareholding pattern and change in shareholding pattern / directorship was not provided for Commercial Bank of Ceylon Limited and Union Bank of Colombo PLC.
- ▶ The communication logs were requested for the official mobile number(s) of 17 CBSL employees out of which 8 employees were issued an official mobile phone by the CBSL during the Review Period. Due to unavailability of data, the communication details of the CBSL employees could not be reviewed for the respective date of Auctions or Direct Placements in which irregularities were noted. The communication logs reviewed for 8 CBSL employees was limited to the data provided by the CBSL.
- ▶ The review performed for the bank account details of the CBSL employees and PDs was based on the data provided by the CBSL. The bank account details for the complete period 1 January 2002 till 28 February 2015 was not received. (*Refer Section 3.11*)
- ▶ The Front-Ending transactions were considered on the basis of documents provided by the PDs and limited to the extent of transactions disclosed by the PDs for bids placed by one PD on behalf of other PDs. (*Refer Annexure 1*)⁸

⁵ Refer Exhibit 3 for an email of 2 August 2019 for requesting the firewall logs.

⁶ Refer Exhibit 4 for an email of 4 August 2019 for requesting the outlook mail exchange server logs.

⁷ Refer Exhibit 6 for an email of 2 August 2019 for non-availability of audit logs.

⁸ Refer Annexure 1 for the details of front-ending transactions documents received from PDs.

1. INTRODUCTION

1.1. BACKGROUND

- 1.1.1. The Central Bank of Sri Lanka (“CBSL”) is the apex institution in the financial sector of Sri Lanka. It was established in 1950 under the Monetary Law Act No. 58 of 1949 (“MLA”) as a semi-autonomous body and with the two primary objectives⁹ of maintaining of economic and price stability and financial system stability of Sri Lanka by managing the rate of inflation in line with Government’s macroeconomic policies.
- 1.1.2. The CBSL acts as an advisor on economic affairs and banker to the Democratic Socialist Republic of Sri Lanka (the “Government of Sri Lanka”) and tasked with managing the Employees’ Provident Fund (“EPF”) and country’s public debt.
- 1.1.3. As per Section 21C of Registered Stock and Securities Ordinance (incorporating amendments up to 31 December 2004), the CBSL shall have the authority to take any action necessary for the issue and trading of scripless treasury bonds.
- 1.1.4. Mr. Arjuna Mahendran was appointed as the 13th Governor of the CBSL in January 2015¹⁰. He was born in Sri Lanka but held citizenship of Singapore.
- 1.1.5. Following concerns expressed in the public domain, about the propriety of Mr. Mahendran’s intervention in the Treasury Bond Auction held on 27 February 2015 and questions raised on the Conflict of Interest his relationship with Mr. Arjun Aloysius of Perpetual Treasuries Limited (“PTL”). The Presidential Commission of Inquiry (“PCOI”)¹¹ was formed to inquire into the irregularities in the issue of Treasury Bonds by the Public Debt Department (“PDD”) of the CBSL during the period 1 February 2015 to 31 March 2016.
- 1.1.6. PCOI recommended¹² the CBSL for appropriate investigation / forensic audit of ascertaining significant irregularities and closely examine the procedures followed in the PDD and decision-making process applied for raising public debt.

⁹ Source: <https://www.cbsl.gov.lk/en/about/about-the-bank/overview>

¹⁰ Source: <https://www.cbsl.gov.lk/en/about/about-the-bank/bank-history/arjuna-mahendran>

¹¹ As per Presidential Warrant of 27 January 2017 in pursuance of the provisions of Section 2 of the Commissions of Inquiry Act (Chapter 393) amended.

¹² As per Chapter 33, Para 11 of The PCOI Report.

1.1.7. In view of the above, the Monetary Board of the Central Bank has decided that although the forensic audit / investigation as per the Recommendation of the PCOI is required to cover the issue of Treasury Bond from 2008 to 2014, the period from 2002 to 2007 shall also be examined, thereby covering the policies and practices of debt issuances of the full period from January 2002 to February 2015 in the following manner:

Pre-RTGS period - From 1 January 2002 to 22 September 2003

Post-RTGS period - From 23 September 2003 to 31 December 2007

Post-RTGS period - From 1 January 2008 to 26 February 2015

1.1.8. The status of information as available from the PDD and the ITD of the CBSL in relation of issuance of Treasury Bonds during above-mentioned Review Period is as under:

Table 1: Classification of the time period

#	Period	Basis of Classification	Status of Information
1	1-Jan-2002 to 22-Sep-2003	Pre-RTGS ¹³ Period	No information and complete supporting documents available from PDD & IT Department of the CBSL
2	23-Sep-2003 to 31-Dec-2004	Post-RTGS Period	
3	1-Jan-2005 to 31-Dec-2007	Post-RTGS Period	Information available and reviewed
4	1-Jan-2008 to 26-Feb-2015	Post-RTGS Period	Information available and reviewed

The information and supporting documents pertaining to Auctions and Direct Placements for the period 1 January 2002 to 31 December 2004 were not made available for review. The detailed observations in this Report pertain to the transactions processed during the period 1 January 2005 to 28 February 2015¹⁴ by the PDD in raising the public debt as required by the Treasury Operations Department.

1.1.9. Subsequently, BDO India LLP was appointed to conduct forensic audit / investigation on the allegations of losses caused to the Government of Sri Lanka in the process of issue of Treasury Bonds during the period from 1 January 2002 to 28 February 2015 by the PDD and / or to ascertain if a non-government entity has gained unlawfully, pursuant to the Contract with the following objectives:

- A. Examine the laws, policies, guidelines etc. applicable and the market environment during the period under review, including the roles and the functioning of the Domestic Debt Management Committee;
- B. Ascertain if there were any deviations from these laws, policies, guidelines, etc.;

¹³ RTGS was introduced on 23 September 2003.

¹⁴ Excluding the Auction held on 27 February 2015 due to overlapping of the Review Period with RFP/TOR - 4.

- C. Ascertain if there were any irregularities or misconduct in the issue of Treasury Bonds;
- D. Ascertain if any losses have been caused to the Government arising out of point B and point C above and the basis of determination of such losses;
- E. If any losses have been caused to the Government, quantify such losses and identify the persons responsible for such losses; and
- F. Ascertain if any private party / parties has / have benefited at the expenses of the Government.

1.2. SCOPE OF FORENSIC AUDIT

1.2.1. The scope of forensic audit as defined in the Contract for the Review Period 1 January 2002 to 28 February 2015 is set out below:

- A. *Funding Budget Deficit through the issuance of Government Securities;*
- B. *Funding the other cash flow requirements of the Government through the issuances of Government Securities;*
- C. *Primary Auction announcements and amounts raised through Primary Dealers (PDs);*
- D. *Primary Auction announcements and amounts raised through Direct Placements;*
- E. *Amount raised through Direct Placements without formal announcements;*
- F. *Amount raised through Direct Placements in comparison with cash flow requirements;*
- G. *Specific authority in raising funds through Direct Placements;*
- H. *Specific authority in raising funds for the above point G through Primary Dealers;*
- I. *Selection of parties for the Direct Placements;*
- J. *Yield rates used for the transactions relating to Direct Placements compared against prevailing market rates;*
- K. *Comparison of the volumes of Treasury bond issuance through Direct Placements and Auction and the comparison of their rates with market rates;*
- L. *Nature and frequency of information submitted to the management and the Monetary Board of outcomes of Treasury bond issuances by way of Auctions and Direct Placements during the period under review, and*
- M. *Investigate into any other matters which may come to light in the course of the investigation / audit or findings which have a bearing or relevance to the matters under investigation.*

1.2.2. A brief table elaborating the coverage of above-mentioned objectives and scope of work mentioned in the Contract with reference to the subsequent Sections of the Report is provided below:

Table 2: Coverage of objective and scope of work

#	Objective and Scope of Work	Report Section Reference	Section Number
1	Examine the laws, policies, guidelines etc. applicable during the period under review, including the role and functioning of the DDMC	Process understanding of issuance of Treasury Bonds through Auction and Direct Placement	4
2	Ascertain deviations from the laws, policies and guidelines	Compliance with Registered Stock and Securities Ordinance	5
		Approval Process of the PDD Operational Manual	5
		PDD Operational Manual not updated	5
		Deviation in information submitted to the management and the Monetary Board	5
		Deviations from the approved yield rates <ul style="list-style-type: none"> • Issue of Treasury Bonds made at rates higher than proposed yield rates • Issues without any approved rates - Unauthorized issues 	5
	Suspension of Direct Placements on 27 February 2015	5	
3	Ascertain irregularities or misconduct in the issues of Treasury Bonds	Irregularities in issuance of Treasury Bonds under Direct Placements method	6
		Irregularities in issuance of Treasury Bonds under Auction method	7
4	Ascertain and quantify the losses caused to the Government of Sri Lanka arising out of above irregularities	Computation of loss on account of deviations and irregularities in issuance of Treasury Bonds under Auction and Direct Placement	8
5	Ascertain if any private party / parties has / have benefited at the expenses of the Government		
6	Any other matter	• Control lapses in Issuance of Treasury Bonds under Auction and Direct Placement	9, 10 and 11
		• Digital Forensic	
		• Public Domain Searches	

2. EXECUTIVE SUMMARY OF OBSERVATIONS

This Executive Summary set out a summary of the key observations arising from the review. This Executive Summary should be read in conjunction with the rest of this detailed Report, which provide more detail and context.

2.1. DEVIATIONS FROM THE LAWS, POLICIES AND GUIDELINES

2.1.1. COMPLIANCE WITH REGISTERED STOCK AND SECURITIES ORDINANCE

- A. There were no deviations noted with respect to the provisions applicable under the Registered Stock and Securities Ordinance¹⁵, based on the combined reading of the provisions of Registered Stock and Securities Ordinance, PDD Operational Manual and the process understanding gathered from the former and current officials of the PDD.

2.1.2. APPROVAL PROCESS OF THE PDD OPERATIONAL MANUAL

- A. The copies (different versions) of the PDD Operational Manual applicable for the Review Period were provided and review indicate that these manuals were not approved by the higher management of the CBSL. The details of activities performed in raising of public debt on behalf of the Treasury Operations Department, can at best be considered as practices adopted / followed by the PDD.
- B. During discussions with the current members of the Monetary Board, it was explained that there was no such stated procedure defined for the PDD Operational Manuals to be submitted to the Monetary Board on an annual basis.

¹⁵ Incorporating amendments up to 31 December 2004.

- C. The Monetary Board at its Meeting No. 16/2017 held on 28 April 2017 decided that all Head of Departments (“HDD”) shall follow the prescribed procedure for maintaining annually updated Operational Manuals for their respective Departments. An Internal Memorandum dated 16 May 2017 was circulated to all Heads and Additional Heads of the respective departments for updating of Operational Manuals on annual basis which specify that the HDD shall follow the prescribed procedures in maintaining annually updated Operational Manuals of their respective departments.
- D. It was informed that with effect from 2017, the above-mentioned process has been adopted on annual basis.

Please refer Section 5.2. of this Report for detailed observations.

2.1.3. DEVIATIONS IN INFORMATION SUBMITTED TO THE MONETARY BOARD

- A. The Monetary Board has not specifically discussed and approved issuance of Government securities through Direct Placements to PDs other than the EPF and “other Captive Sources”. However, from February 2008 onwards, the PDD was issuing Government securities through Direct Placements to PDs (other than EPF and “other Captive Sources”). This practice of PDD accepting Direct Placements from non-captive PDs was never questioned by the Monetary Board.
- B. It was explained by the CBSL employees that the summary of funds raised (PD-wise) by issue of Treasury Bonds through Direct Placement method was submitted to the Governor on a monthly basis through the DDMC implementation plan submitted in the meeting. Hence, it is construed that the Governor, being the Chairman of the Monetary Board, accepted Direct Placements by the PDD from Non-Captive PDs and it appears that the issuance was in the knowledge of the Monetary Board and the practice of accepting the Direct Placements from other than “captive sources” was continued by the PDD from 2008 onwards.

Please refer Section 5.4. of this Report for detailed observations and the list of the CBSL employees involved in issuance of Treasury Bonds under Direct Placement to non-captive PDs.

2.1.4. DEVIATION FROM THE APPROVED YIELD RATES

- A. For the period October 2012 - February 2015, yield rate structures were prepared and approved by the DG overseeing PDD. These yield rate structures provide ISINs to be offered and yield rates forming basis of negotiating with the market participants before issuance of Treasury Bonds through Direct Placements.

- B. During the review of issue of Treasury Bonds through Direct Placements, it was noted that 142 placements amounting to Rs. 337.30 Billion were made above the proposed yield rates including the volume-based inducements.
- C. It was identified that across the above 142 irregular issues of Treasury Bonds through Direct Placements, 33 Direct Placements amounting to Rs. 77.63 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting in a loss of Rs. 871.10 Million to the Government of Sri Lanka.
- D. It was noted that in 29 Direct Placements amounting to Rs. 43.87 Billion, the proposed yield rates were not available corresponding to the placements made. Out of the above 29 Direct Placements, in 10 Direct Placements amounting to Rs. 10.33 Billion, the yield rate structures were not available. In the remaining 19 out of 29 Direct Placements amounting to Rs. 33.54 Billion, the yield rates corresponding to the ISINs included in the yield rate structures were not mentioned.
- E. It was identified that across these 29 Direct Placements, nine placements amounting to Rs. 16.75 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to a loss of Rs. 18.71 Million to the Government of Sri Lanka.
- F. In summary, in 42 Direct Placements a loss of Rs. 889.81 Million was caused to the Government of Sri Lanka due to the deviations in the issue rates over and above the prevailing secondary market yield rates of similar maturities.

Please refer Section 5.5. of this Report for detailed observations.

2.1.5. SUSPENSION OF DIRECT PLACEMENTS ON 27 FEBRUARY 2015

- A. On 27 February 2015, the PDD discontinued the Direct Placements as a method for raising public debt based on the instructions given by Mr. Arjuna Mahendran, the then Governor of the CBSL.
- B. The Direct Placements were suspended by Mr. Arjuna Mahendran without prior approval of the Monetary Board and the powers of Monetary Board cannot be delegated to the Governor, to exercise in his individual capacity. Also, this decision can be treated as unapproved decision as the Monetary Board did not ratify subsequently, the instruction by Mr. Arjuna Mahendran.
- C. It was an inappropriate action by the PDD by relying on verbal instruction of the Governor instead of the written approval from the Monetary Board for discontinuing Direct Placements as method of raising public debt by the PDD.

- D. Based on analysis of prevailing Secondary Market yield rates across yield curve, it can be concluded that suspension of Direct Placements was one of the major factors for the subsequent upward shift in yield rates across all maturities.
- E. The PDD or the Monetary Policy Committee had not conducted any impact assessment study before suspension of Direct Placements. There had not been study conducted to assess any implications on the market and the ability of the PDD to successfully raise Public Debt at acceptable costs. During the interviews, current and former employees of PDD confirmed that they were not instructed to conduct any such study or evaluation.

Please refer Section 5.6. of this Report for detailed observations.

2.2. IRREGULARITIES IN DIRECT PLACEMENT ISSUES

2.2.1. SETTLEMENT OF DIRECT PLACEMENTS MADE BEYOND FIVE DAYS FROM TRANSACTION DATE

- A. During discussions with the current and former employees of the PDD, it was explained that the settlement date for an issue of Treasury Bonds made through Direct Placements could be between cash basis i.e. T+0 and to the maximum of T+5, depending upon the requirements of the Treasury Operations Department and availability of the funds with the market investors.
- B. However, in 195 placements (4.74 % of 4,117 placements) amounting to Rs. 249.92 Billion, the difference between the settlement date and the placement arranged date was more than five days.
- C. Upon analysing these 195 instances in relation to the excessive funding requirements by the Treasury Operations Department, 50 Direct Placement transactions were found to be made to meet excessive funding requirements.
- D. It was noted that, out of the remaining 145 Direct Placements, in 14 placements amounting to Rs. 13.11 Billion, the issue rate was below the prevailing Secondary Market rate for similar maturity on the date on which the placement was arranged, whereas on the date of settlement, the issue rates were higher than the prevailing Secondary Market rates.

Please refer Section 6.1. of this Report for detailed observations.

2.2.2. ISIN OFFERED IN DIRECT PLACEMENTS WITHOUT CONDUCTING AUCTIONS

- A. During the review of issue of Treasury bonds through Auctions and Direct Placements for the Review Period, it was noticed that total 139 ISIN were offered both through Auctions and Direct Placements. However, 34 ISIN for aggregate amount of Rs. 674.73 Billion were offered only through Direct Placements and the same ISIN were never offered in the Auctions. Further, there were no formal announcements made for the issue of these ISIN for raising funds through Direct Placements.
- B. Out of the above 34 ISIN, 5 ISIN amounting to Rs. 59.26 Billion were offered for administrative purpose against the administrative requirements provided by the Treasury Operations Department and not offered for the regular cashflow requirement.
- C. Further, 4 out of 34 ISIN, amounting to Rs. 166.30 Billion were first offered for administrative purpose against the administrative requirements provided by the Treasury Operations Department and then offered for regular cashflow requirement.
- D. In the remaining 25 ISIN, 22 ISIN amounting to Rs. 379.23 Billion were offered only for regular cashflow requirements and 3 ISIN amounting to Rs. 69.94 Billion were first offered for regular cashflow requirements then offered for administrative purpose against the administrative requirements provided by the Treasury Operations Department.
- E. The above 25 ISIN offered through Direct Placements are not offered in Auction depicts lack of transparency on account of the PDD as the market investors were not aware about the offering of these different types of ISIN having different coupon rates and different maturity period which are issued in the Primary Market.

Please refer Section 6.2. of this Report for detailed observations.

2.2.3. SAME ISIN OFFERED TO SAME PD AT DIFFERENT PRICES ON SAME DATE

- A. During the review of issue of Treasury Bonds through Direct Placements for the Review Period, it was noticed that in 54 instances the Direct Placements accepted from same PDs on same transaction date having same settlement date and same ISIN but were made at different prices.
- B. Upon analysing these 54 instances in relation to the excessive funding requirements by the Treasury Operations Department, 4 Direct Placement transactions were found to be made to meet excessive funding requirements.

- C. It was further identified that, out of the above 54 issuances of Treasury Bonds through Direct Placements, 16 placements amounting to Rs. 8.47 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to a loss of Rs. 53.37 Million to the Government of Sri Lanka.

Please refer Section 6.3. of this Report for detailed observations.

2.2.4. SAME ISIN OFFERED TO DIFFERENT PD AT DIFFERENT PRICES ON SAME DATE

- A. During the review of issue of Treasury Bonds through Direct Placements for the Review Period, it was noticed that in 207 instances the Direct Placements accepted from different PDs on same transaction date having same settlement date and same ISIN but were made at different prices.
- B. Upon analysing these 207 instances in relation to the excessive funding requirements by the Treasury Operations Department, 30 Direct Placement transactions were found to be made to meet excessive funding requirements.
- C. It was further identified that, out of the above 207 issues of Treasury Bonds through Direct Placements, 80 placements amounting to Rs. 63.49 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to loss of Rs. 835.49 Million to the Government of Sri Lanka.

Please refer Section 6.4. of this Report for detailed observations.

2.3. COMPUTATION OF LOSS

Issuance of Treasury Bonds under Auction

- 2.3.1. During the Review Period, total 306 Auctions were conducted by the PDD wherein, 581 offers of Treasury Bonds were made. The Auctions held during the period 2002 to 2004 could not be reviewed due to non-availability of supporting documents. Hence, detailed review of only 493 Auctions could be performed for the period January 2005 to February 2015.
- 2.3.2. In 112 offers out of 493 offers, all the bids received from the PDs during the Auction were cancelled and no amount was accepted. For the remaining 381 offers, Tender Board accepted bids aggregating to Rs. 558.08 Billion against offered value aggregating to Rs. 611.50 Billion.

2.3.3. It was noted that in case of 35 accepted offers, Treasury Bonds were issued at WAYR higher than the prevailing Secondary Market yield rates for similar maturity, which has led to raising of funds at a higher cost and caused a maximum loss to the Government of Sri Lanka aggregating to Rs. 151.07 Million.

2.3.4. In case the Tender Board had to accept funds till the amount required by the Treasury Operations Department, then in 3 offers out of aforesaid 35 offers, the Tender Board accepted value of funds which was more than the value offered by the PDD and even at WAYR higher than the prevailing Secondary Market rates for similar maturity. Therefore, it resulted in the minimum value of loss aggregating to Rs. 6.03 Million caused to the Government of Sri Lanka which can be avoided if the WAYR of accepted funds was less than the Secondary Market yield rates and till the value of requirement of the Treasury Operations Department.

Issuance of Treasury Bonds under Direct Placement

2.3.5. During the Review Period, 4,670 Direct Placements transactions were made by PDD. Out of the same, 4,504 Direct Placements transactions were pertaining to the Period 1 January 2005 to 28 February 2015.

2.3.6. Based on comparison of the issue rates of Direct Placements and Base rates on transaction dates, the after-tax issue price was lower than the Base Price calculated in 1,105 Direct Placement transactions and the same has resulted in loss of Rs. 10.47 Billion to the Government of Sri Lanka during the period 1 January 2005 to 28 February 2015.

2.3.7. The computation of loss on issue of Treasury Bonds through Auctions and Direct placements is as under:

Table 3: Computation of Loss

(Amount in Rs. Million)

#	Particulars	Reference to the Report Section	Maximum Loss	Minimum Loss
1.	Computation of loss in 381 accepted offers of Treasury Bonds through Auctions			
A.	24 offers, where either the minutes of Tender Board minutes or Press Release were not available	8.1.13 (A)	-	-
B.	66 offers, where prevailing Secondary Market rates for similar maturity cannot be ascertained as rates in the Daily Summary Reports were not available	8.1.13 (B)	-	-
C.	256 offers, where WAYR was lower than prevailing Secondary Market rates for similar maturity	8.1.13 (C)	-	-
D.	35 offers, where WAYR was higher than the prevailing Secondary Market yield rates for similar maturity	8.1.13 (D)	151.07	-
(i)	Out of 35 offers, 32 offers where accepted value was less than the offered value	8.1.16 (A)	-	-

#	Particulars	Reference to the Report Section	Maximum Loss	Minimum Loss
(ii)	Out of 35 offers, 3 offers where accepted value was more than offered value	8.1.16 (B)	-	6.03
2	Computation of loss in 4,504 Direct Placements			
A	209 Direct Placements for administrative requirements	8.2.11	-	-
B	178 Direct Placements for which transaction dates are not available	8.2.12	-	-
C	In 1,035 Direct Placements, after-tax issue rates were lower than the cut-off rates in the Auction for similar ISIN preceding these Direct Placements	8.2.13 (A)	-	-
D	In 67 Direct Placements, after-tax issue rates were higher than the cut-off rates in the Auction for similar ISIN preceding these Direct Placements	8.2.13 (B)	290.32	290.32
E	229 Direct Placements for which Secondary Market rate as per daily summary reports were not available	8.2.15	-	-
F	1,748 Direct Placements for which after-tax issue prices mentioned in the Issuance tickets were higher than Base price	8.2.16	-	-
G	1,038 Direct Placements for which after-tax issue prices mentioned in the Issuance tickets were lower than Base price	8.2.17	10,180.96	10,180.96
	Total Loss		10,622.35	10,477.31

Please refer Section 8.1. and 8.2. of this Report for detailed observations.

2.4. DIGITAL FORENSIC

- 2.4.1. Based on the review of documents related to Auction and Direct Placement for issue of Treasury Bonds and public domain searches, 13 devices of 12 CBSL employees were identified for detailed Electronically Stored Information (“ESI”) review of their officially assigned devices. The forensic imaging and data extraction procedures were conducted on the 13 devices of the identified employees of the CBSL (“Target Devices”).
- 2.4.2. The summary of available digital evidences for all the 12 identified employees of the CBSL was prepared and evaluated for potential linkage with the deviations and irregularities explained in the previous sections of the report. The specific electronic evidences considered relevant to the findings of the report are detailed in the respective sections of the detailed observations.

- 2.4.3. As per the logs generated by “Encase” using Enscript, it was noted that composite outlook files (ost & pst) were deleted from the Target Device of Dr. MZM Azim. Based on the information gathered and confirmations received, it cannot be interpreted that the deletion activity could be the result of an automated action triggered by any other IT process or activity. It cannot also be construed that the deletion activity was performed by officials other than those, who these devices were assigned-to. Despite the active denial / rejection by the selected officials, of having performed the deletion activity, the possibility of deletion of the data files by the users themselves cannot be ruled-out.
- 2.4.4. It is pertinent to note that in case of Dr. Aazim, the deletion activity was logged on the dates, subsequent to the intimation of requirement for handover of the electronic devices for forensic investigation purposes and prior to the handover the device. Dr. Aazim also stated during an inquiry that usually, he deletes the older date email communications regularly to free-out the assigned disk-space on his computer machine. He also confirmed that he performed such activity post intimation of the need for surrender of the device or forensic investigation purposes with a specific requirement to handover the device without affecting the integrity of the data on the machine.

Please refer Section 10 of this Report for detailed observations.

2.5. PUBLIC DOMAIN SEARCHES

- 2.5.1. During the review of the data in relation to Direct Placements, the following irregularities were noted for the PDs.
- A. Acuity Securities Limited**
1. Out of the total placements made to Acuity Securities Limited during the Review Period, 80% of the said placements were made in the year 2013 - 2014 itself. It was observed that the placements during the period 2013 - 2014 were made at a higher rate due to which the CBSL incurred a loss of around Rs. 60 Million.
 2. During the said period, Mr. Sanjeewa Fernando and Mr. Gajan Devarajan were found to be associated with Acuity Securities Limited. It must be noted that Acuity, is promoted as an equally owned Joint Venture between DFCC and HNB. During the year 2014, Mr. Ravindra Balakantha Thambiah was associated with DFCC as a Director and Mr. Amal Cabraal (Brother of Mr. Ajith Nivard Cabraal) joined HNB as a Director in April 2014.

B. Commercial Bank of Ceylon

1. A significant increase in the value of placements made to Commercial Bank of Ceylon was noted from Rs. 3.55 Billion in 2008 to Rs. 25.11 Billion in the year 2009.
2. During the said period, Mr. Nihal Fonseka and Ms. Siromi Noel Wickramasinghe (First Cousin and Sister of Mr. Ajith Nivard Cabraal) were associated with Commercial Bank of Ceylon.

C. First Capital Treasuries Limited

1. In the years 2008 and 2009, a significant amount of investment was made by First Capital Treasuries Limited amounting Rs. 20.51 Billion in 2008 to Rs. 19.98 Billion in 2009. It was observed from Table 21 in Section 5.4 of the Report that the First Capital Treasuries Limited made the highest investments in Treasury Bonds through Direct Placement among non-captive PDs in 2008 and 2009¹⁶.
2. It was noted that Mr. Ruwan Prasanna Sugathadasa was associated with the PD at a key position during the said time. It was noted that Mr. Ruwan Prasanna Sugathadasa¹⁷ was subsequently associated with related parties of PTL and these association are detailed below:
 - a. As per the Annual Report of Brown Investments PLC for the year 2011-12, Mr. Ruwan Sugathadasa possessed over 16 years of experience in government and corporate debt market with over 10 years in a senior management capacity at First Capital Treasuries Limited.
 - b. Mr. Ruwan serves as a Director at several related parties of the Brown Group including Free Lanka Capital Holdings PLC. FLC Holdings PLC (formerly Free Lanka Capital Holdings PLC) was previously an equally owned Joint Venture between Perpetual Holdings Limited (part of Perpetual Capital) and Browns Investment PLC (a subsidiary of Brown & Company PLC formed in 2008-09).
 - c. On 3 March 2015, i.e. after four days of alleged Treasury bond scam on 27 February 2015, the members of Aloysius family exited from the Joint Venture. Perpetual Holdings Limited (part of Perpetual Capital) sold its 50 per cent stake to Brown Investments PLC.

¹⁶ Without prejudice to the deviation of issuance of Treasury Bonds to non-captive PDs without approval of Monetary Board.

¹⁷ <https://www.marketscreener.com/business-leaders/Ruwan-Sugathadasa-0C0T7Y-E/biography/>,
<http://www.brownsinvestments.com/pdf/Browns-Investments-PLC-AR-2011-2012.pdf>

- D. Based on the above facts, it may be noted that the increase in issuance of Treasury Bonds through Direct Placements to above identified PDs and resulting loss was at a circumstance when the identified individuals were associated with identified PDs. However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest that the relationships and / or associations identified above have led to the Direct Placements being made at the higher yield rates. It is pertinent to note that the CBSL did not installed voice record system at the PDD and significant limitations existed on the availability of ESI in terms of email files and email deletions, as detailed in the respective Sections of this Report.

Please refer Section 11 of this Report for detailed observations.

This Executive Summary is intended to provide a high-level overview of key findings on this investigation. For a complete understanding of the issues, work done and detailed findings, this Report should be read in its entirety with Annexure and Exhibits. This Executive Summary must be read in conjunction with detailed Report and it cannot be treated as a substitute thereof.

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3. WORK PERFORMED

The detailed work performed during the Investigation / Forensic Audit on issuance of Treasury Bonds during the Review Period by the PDD is as following:

3.1. MANAGEMENT DISCUSSIONS AND PROCESS WALK THROUGH

3.1.1. Introductory meeting was conducted on 16 April 2019 with the senior personnel of various departments of the CBSL to understand the purview and objective of the Forensic Audit / Investigation.

3.1.2. Meetings / discussions were conducted with the following process owners of the PDD, Domestic Operations Department, and Information Technology Department in order to gain the detailed understanding of:

- A. Applicable laws, policies, guidelines, regulations process and practices followed at present and that existed during the Review Period;
- B. Functionalities, roles and responsibilities of the PDD;
- C. The operational guidelines / manual applicable to the processes at the PDD
- D. Cashflow requirements of the Government;
- E. Process of Issuance of Treasury Bonds through Auction method; and
- F. Process of Issuance of Treasury Bonds through Direct Placement method

Please refer the below mentioned table for the details of meeting conducted:

Table 4: Details of meetings conducted

Date of Meeting	Name	Current Designation	Department
7 May 2019	Mr. M D D Dananjaya	Banking Assistant	Front Office of the PDD
	Mr. D P C P Dikwella	Management Trainee	Front Office of the PDD
8 May 2019	Mr. M D D Dananjaya	Banking Assistant	Front Office of the PDD
	Mr. D P C P Dikwella	Management Trainee	Front Office of the PDD
9 May 2019	Mr. N Janagan	Senior Manager	Middle Office of the PDD
	Mr. G C R Tharanga	Senior Manager	Back Office of the PDD
10 May 2019 (Refer Exhibit 7) ¹⁸	Mr. S A Y K Samaraturunge	Senior Manager	Back Office of the PDD
	Ms. G G N H Jayasinghe	Management Assistant	Front Office of the PDD
	Mr. D P C P Dikwella	Management Trainee	Front Office of the PDD
10 May 2019	Mr. C A Abeysinghe	Director	Domestic Operations Department

¹⁸ Refer Exhibit 7 for Summary of discussion for process understanding of issuance of Treasury Bonds through Auctions signed on 25 June 2019.

Date of Meeting	Name	Current Designation	Department
<i>(Refer Exhibit 8)</i> ¹⁹	Dr. R A A Perera	Acting Additional Director	Domestic Operations Department
	Mr. K S A K Senanayake	Deputy Director	Domestic Operations Department
	Ms. T M U K Tennakoon	Deputy Director	Domestic Operations Department
14 May 2019 <i>(Refer Exhibit 9)</i> ²⁰	Mr. W G Prabath	Deputy Superintendent	Middle Office of the PDD
	Ms. L S Fernando	Senior Manager	Front Office of the PDD
	Mr. S A Y K Samaraturunge	Senior Manager	Back Office of the PDD
	Mr. H M C K Herath	Manager	Front Office of the PDD
	Mr. M D D Dananjaya	Banking Assistant	Front Office of the PDD
	Ms. W A H C Leelarathne	Management Assistant	Front Office of the PDD
	Ms. G G N H Jayasinghe	Management Assistant	Front Office of the PDD
	Mr. D P C P Dikwella	Management Trainee	Front Office of the PDD
16 May 2019 <i>(Refer Exhibit 10)</i> ²¹	Dr. M Z M Aazim	Superintendent	Of the PDD
	Ms. L S Fernando	Senior Manager	Front Office of the PDD
	Mr. S A Y K Samaraturunge	Senior Manager	Back Office of the PDD
10 June 2019 <i>(Refer Exhibit 11)</i> ²²	Dr. M Z M Aazim	Superintendent	Of the PDD
	Ms. L S Fernando	Senior Manager	Front Office of the PDD
	Mr. S A Y K Samaraturunge	Senior Manager	Back Office of the PDD
29 July 2019 <i>(Refer Exhibit 12)</i> ²³	Mr. S S Ratnayake	Former Assistant Governor	AG overseeing the PDD
1 August 2019 <i>(Refer Exhibit 31)</i> ²⁴	Mr. N W G R D Nanayakkara	Former SPD	Of the PDD
7 August 2019 <i>(Refer Exhibit 12 A)</i> ²⁵	Mr. C J P Siriwardena	Former Deputy Governor	DG overseeing the PDD
9 August 2019 <i>(Refer Exhibit 12 B)</i> ²⁶	Mrs. C Premarathna	Former Deputy Governor	DG overseeing the PDD

¹⁹ Refer Exhibit 8 for Summary of discussion for process understanding of remittance of funds received from the PDD and transmitting of the same to accounts of the Treasury Operations Department maintained at the DOD signed on 20 June 2019.

²⁰ Refer Exhibit 9 for Summary of discussion for system walkthrough signed on 9 July 2019.

²¹ Refer Exhibit 10 for Summary of discussion for process understanding of issuance of Treasury Bonds through Direct Placements signed on 26 June 2019.

²² Refer Exhibit 11 for Summary of discussion with PDD on clarification on general queries on the process of issuance of Treasury Bonds through Direct Placement signed on 3 July 2019.

²³ Refer Exhibit 12 for the Summary of discussion with Mr. S S Ratnayake, Former SPD for the period 21 June 2010 to 31 December 2011.

²⁴ Refer Exhibit 31 for the Summary of discussion with Mr. N W G R D Nanayakkara, Former SPD for the period 1 January 2012 to 6 February 2015.

²⁵ Refer Exhibit 12 A for the Summary of discussion with Mr. C J P Siriwardena, Former Deputy Governor of the PDD.

²⁶ Refer Exhibit 12 B for the Summary of discussion with Mrs. C Premarathna, Former Deputy Governor of the PDD.

- 3.1.3. Provided fortnightly / regular updates to the Forensic Audit Monitoring Committee (“FAMC”) regarding the scope of work, procedures performed and challenges faced during performing Investigation / Forensic Audit (*Refer Annexure 50*)²⁷.
- 3.1.4. Conducted meeting with the Hon’ble Governor to discuss the progress on information received, data flow and procedures performed as part of the TOR.
- 3.1.5. Conducted meeting with the Treasury Operation Department in order to gain the understanding of general requirement and administrative requirement of Government, cashflow statement.
- 3.1.6. Conducted meeting with the Registrar of Companies for understanding the statutory filings by the PDs to the Department of Register of Companies, Sri Lanka and requested for obtaining copies of the documents filed by respective companies.
- 3.1.7. Prepared summary of meetings / discussions held with the respective departments to get confirmations of our understanding.
- 3.1.8. Interviews conducted with the following current and former CBSL employees seeking additional facts related to the actions and irregularities noted in the issuance of Treasury Bonds and other matters relevant to the scope of work defined under the Contract:

Table 5: Details of interviews conducted

Date of Interview	Name of the interviewee	Designation ²⁸	Statement of Fact
4 September 2019	Ms. L S Fernando	Former Senior Manager PDD	-
6 September 2019	Mrs. U L Muthugala	Former Additional SPD	<i>Refer Exhibit 13</i> ²⁹
20 September 2019	Dr. M Z M Aazim	Former Additional SPD	<i>Refer Exhibit 14</i> ³⁰
25-26 September 2019	Mr. N W G R D Nanayakkara	Former SPD	<i>Refer Exhibit 15</i> ³¹
1 October 2019	Mr. S S Rathnayake	Former Assistant Governor	-
2 October 2019	Dr. W A Wijewardena	Former Deputy Governor	-
4 October 2019	Mr. K G D D Dheerasinghe	Former Deputy Governor	-
17 October 2019	Mr. B D W A Silva	Former Deputy Governor	-
21 October 2019	Mr. C J P Siriwardena	Former Deputy Governor	-

²⁷ Refer Annexure 50 for list of FAMC meetings conducted

²⁸ The designation of the employees of the CBSL was considered for the Review Period only.

²⁹ Refer Exhibit 13 for Statement of Fact signed by Mrs. U L Muthugala on 6 September 2019.

³⁰ Refer Exhibit 14 for Statement of Fact signed by Dr. M Z M Aazim on 20 September 2019.

³¹ Refer Exhibit 15 for Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019.

- 3.1.9. Interview for seeking additional facts, related to the irregularities noted in the issuance of Treasury Bonds during the Review Period, could not be conducted with the following former CBSL officials till 21 October 2019:

Table 5A: Details of interviews not conducted

Name of the interviewee	Designation ³²
Mr. Ajith Nivard Cabraal	Former Governor
Mr. Arjuna Mahendran	Former Governor
Mrs. C Premarathna	Former Deputy Governor overseeing PDD
Mr. P. Samarasiri	Former Deputy Governor overseeing PDD

3.2. REVIEW OF RELEVANT LAWS / POLICIES / CIRCULARS / GUIDELINES / MANUALS

- 3.2.1. Obtained the copies of relevant laws, regulations, policies, circulars, guidelines, manuals, etc. applicable during the Review Period (*Refer Annexure 2*)³³;
- 3.2.2. Attempted to understand the applicable laws regulations, policies, circulars, guidelines, manuals, etc. provided by the CBSL in order to outline the compliance requirements for issue of Treasury Bonds via Auction and Direct Placements and remittance of funds;
- 3.2.3. Prepared the checklist to identify instances of deviations, irregularities, lapses, etc., if any, in the actual processes from the procedures defined under the laws / regulations / policies / circulars / guidelines / manuals, etc.;
- 3.2.4. Reviewed the annual reports of the CBSL for the Review Period;
- 3.2.5. Reviewed the Monetary Board minutes and Papers for the Review Period;
- 3.2.6. Reviewed the copies of half yearly Internal audit reports and Management Audit Reports for the Review Period (*Refer Annexure 3*)³⁴;
- 3.2.7. Obtained and reviewed the division wise list of employees worked in the PDD department during the Review Period; and
- 3.2.8. Reviewed copies of the following investigation and experts' reports pertaining to the issuance of Treasury Bonds:

³² The designation of the employees of the CBSL was considered for the Review Period only.

³³ Refer Annexure 2 for the list of applicable laws & guidelines and Memo of 26 July 2019 for providing copies of laws, regulations and guidelines.

³⁴ Refer Annexure 3 for the list of provided half yearly internal audit reports and management audit reports.

- A. Presidential Commission of Inquiry Report of 30 December 2017 to Investigate and Inquire into and report on the issue of Treasury Bonds during the period 1 February 2015 to 31 March 2016;
- B. The Special Audit Report of 30 September 2016 updated in accordance with the information discovered up to 23 September 2016 by the Committee on Public Enterprises and the Auditor General since the release on 29 June 2016 of the Special Audit Report on the Treasury Bonds issued by the PDD of the CBSL during the period from February 2015 till May 2016;
- C. Report of August 2017 issued by Mr. S S Ratnayake on examination of policy action and monetary board decisions on the Treasury Bond issuance of the public debt department since 1997;
- D. A Report of 31 December 2018, on Market Manipulation on the Placement of Bids Submitted by and on behalf of Perpetual Treasuries Limited at the Treasury Bond Auction held on 27 February 2015;
- E. A Report of 28 February 2019 issued by a Panel of Expert Employees of the Central Bank of Sri Lanka in relation to the Treasury Bond Auction held on 27 February 2015;
- F. Opinion of a Panel of Expert Employees of the Central Bank of Sri Lanka on the Causes, nature and magnitude of the macroeconomics implications and consequences of the alleged wrongdoings associated with the Treasury Bond Auction held on 27 February 2015. The document was dated 8 January 2019; and
- G. Report Forwarded to the Ministry of Finance in terms of Section 43(2) of the Monetary Law Act, No. 58 of 1949 (2008-2016).

3.3. REVIEW OF DOCUMENTS FOR AUCTION AND DIRECT PLACEMENT

- 3.3.1. Conducted discussions with the current and former officers of PDD to obtain an understanding of the documents involved in the issue of Treasury Bonds through Auction and Direct Placement method.
- 3.3.2. Obtained the list³⁵ of Auctions and Direct Placements for Treasury Bonds issued during the Review Period. Based on the details shared, the summary of number of Direct Placements and Auctions of Treasury Bonds conducted during the Review Period is as under:

³⁵ The listing of issue of Treasury Bonds through Auction and Direct Placement is provided for January 2005 to February 2015 by the ITD and the same was not available for the period January 2002 to December 2004. The listing of transactions for the period January 2002 to December 2004 was provided by MO of PDD. However, no information and complete supporting documents available from PDD & ITD of CBSL for review.

Table 6: Issuances through Direct Placements and Auctions during the Review Period

(Amount in Rs. Billion)

Period	Issuances through Direct Placements			Issuances through Auction			Amount Accepted
	Count of Placements	Count of transactions	Accepted Face Value	Count of Auctions Conducted ³⁶	Count of ISIN offered	Accepted Face Value	
Jan 2015-Feb 2015	13	37	93.45	-	-	-	93.45
2014	90	557	832.95	7	17	31.75	864.70
2013	103	414	815.94	13	30	201.20	1,017.13
2012	141	697	908.90	9	24	59.33	968.22
2011	114	446	576.84	9	24	26.11	602.95
2010	106	393	462.48	16	37	44.60	507.08
2009	88	604	649.21	30	80	53.73	702.94
2008	89	525	455.83	39	77	32.81	488.63
2007	100	355	382.67	38	70	18.51	401.19
2006	80	284	267.30	42	69	40.90	308.20
2005	66	192	177.35	44	65	49.15	226.50
Total (A)	990	4,504	5,622.90	247	493	558.08	6,180.98
2004	40	97	162.86	30	34	56.34	219.20
2003	33	69	135.10	28	51	77.70	212.80
2002	0	0	-	1	3	5.00	5.00
Total (B)	73	166	297.96	59	88	139.04	437.00
Total (C) = (A)+(B)	1,063	4,670	5,920.86	306	581	697.12	6,617.98

3.3.3. Received supporting documents (*Refer Annexure 4*)³⁷ such as pre-auction meeting documents (cashflow requirements from Treasury Operations Department and minutes of the Domestic Debt Management Committee (“DDMC”), bid offers received documents, decision documents of various committees, yield rate structure and Issuance Tickets for each Direct Placements held during the Review Period;

³⁶ Excluding the Auction held on 27 February 2015 due to overlapping of the Review Period with RFP/TOR - 4.

³⁷ Refer Annexure 4 for the list of documents prepared for issuance of Treasury Bonds through Auctions and Direct Placements.

- 3.3.4. Validated the documents provided by the PDD pertaining to Treasury Bond Auctions and Direct Placements with the transaction details provided by the Information Technology Department (“ITD”) for the Review Period;
- 3.3.5. Reviewed the supporting documents for each Auction and Direct Placements of the Review Period in order to verify any instance of irregularities in issuance of Treasury Bonds;
- 3.3.6. Reviewed the documents for the cancelled Auctions in order to validate the basis of cancellation by the Tender Board, involved in the decision-making process;
- 3.3.7. Reviewed documents such as cash flow statement to validate the requirements raised by General Treasury and funding of the requirement by PDD through issue of Treasury Bonds, annexures of PCOI and Transcripts;
- 3.3.8. Reviewed minutes of meetings of DDMC and Tender Board Meeting;
- 3.3.9. Reviewed original documents of the Auctions and Direct Placements of Treasury Bonds in order to validate that the same set of documents were provided for review;
- 3.3.10. Reviewed the cashflow statements received from the Treasury Operations Department and compared the same with the cashflow statement received by the PDD from the Treasury Operations Department submitted for review; and
- 3.3.11. Obtained clarifications from the current and former Superintendent of Public Debt Department (“SPD”) and authorized Single Point of Contact (“SPOC”) of PDD for the irregularities / anomalies / deviations identified in the document review.

3.4. DATA ANALYTICS PROCEDURES

- 3.4.1. Obtained the Auction and Direct Placement data from the ITD maintained in the AS-400 system which includes the details such as ISIN, date of Auction, date of settlement, tender amount, offer price, name of PD etc.;
- 3.4.2. Obtained the listing of Auction and Direct Placement from the PDD (maintained by Middle Office) which includes the details such as ISIN, date of Auction, date of settlement, tender amount and name of PD etc.;
- 3.4.3. Obtained the Auction and Direct Placement data from the ITD, maintained in CDS, in order to review the flow of sale of Treasury Bonds in Secondary Market and the CDS data includes the details such as ISIN, date of Auction, date of settlement, name of buyer, name of seller, quantity of Treasury Bonds and sale value of Treasury Bonds;
- 3.4.4. Reconciled the data provided by the ITD and PDD with the value of issuance of Treasury Bonds mentioned in the Annual report of the respective period and documents provided for review;
- 3.4.5. Obtained clarifications on anomalies noted during preliminary review such duplication of data;

- 3.4.6. Performed various analysis on the Auction data such as Auction-wise analysis, PD-wise analysis, analysis of bids allocation ratio and success ratio for PD;
- 3.4.7. Performed graphical analysis on the bids offered by PD, bids accepted by the PDD for each ISIN offered in the Auctions; and
- 3.4.8. Performed the analytical procedure to identify irregular transactions in Secondary Market (if any).

3.5. PUBLIC DOMAIN SEARCHES

- 3.5.1. Prepared a list of the CBSL employees, who were responsible for approving the documents in which anomalies were identified and / or were involved in taking critical decisions with regards to issue of Treasury Bonds (hereinafter referred to as “identified employees”);
- 3.5.2. Performed background check and family mapping to gather details with respect to the business / professional associations of the identified employees as well as family members, if any;
- 3.5.3. Reviewed publicly available information for the PDs and its associated;
- 3.5.4. Reviewed records provided by the Registrar of Companies (“ROC”) for PDs to determine the individuals and companies associated with the PDs;
- 3.5.5. Public domain searches were performed including but not limited to social and professional media profiling on the identified employees;
- 3.5.6. Ascertained association of the identified employees and their family members with PD; and
- 3.5.7. Identify the relationships and associations leading to deviations and irregularities explained in the Report and causing loss to the Government of Sri Lanka.

3.6. DIGITAL FORENSIC

- 3.6.1. During the review of documents related to auction and direct placement method for issue of Treasury Bonds, deviation and / or anomalies were noted in the process followed and the supporting documents maintained. A total of 12 CBSL employees (hereinafter referred to as “custodians”) (*Refer Annexure 5*)³⁸ were identified who were responsible for taking decisions related to auction and direct placement method for issue of Treasury Bonds. The CBSL issued electronic devices (desktop / laptop computers, iPads and mobile phones, where applicable) to these custodians that could have been used by them and were identified by the DIT based on the “Last Log-In details” appearing in the “Active Directory” available. BDO India did not independently verified the completeness and accuracy of the “Last log-in” information as assessed by the DIT. The electronic devices identified (hereinafter referred to as “Target Devices”) by the DIT were physically handed over to BDO India for performing forensic technology / eDiscovery procedures.
- 3.6.2. BDO India relied upon the device identification method (based on “Last Log-In” details as per the “Active Directory”) adopted by the DIT of the CBSL, in the absence of IT Asset register, with a detailed record of all electronic devices issued by the CBSL and the changes in the devices issued, if any. It is possible that the identified devices weren’t used by the custodians during “Review Period” under the TOR-1, as identification of device was based on “Last Log In” details. This method would identify one (last / latest) machine used by the custodian/s. These machine(s) could be different from the machine(s) used by the custodians during the Review Period.
- 3.6.3. The Outlook email server backup / spooled copies of the respective custodians at the CBSL email accounts were provided by the DIT for review, to BDO India. We have not independently verified the completeness of the same. In respect of 12 custodians (*Refer Annexure 5*)³⁹, the DIT confirmed that email backup was not available at the server prior to June 2012 and the email communications prior to this period were not accessible to BDO India for review. (*Refer Exhibit 16*)⁴⁰.

³⁸ Refer Annexure 5 for the list of 12 identified employees and their respective Target Devices along with rationale for their identification.

³⁹ Refer Annexure 5 for the list of 12 identified employees and their respective Target Devices along with rationale for their identification.

⁴⁰ Refer Exhibit 16 for a copy of e-mail confirmation from the DIT for outlook e-mail backup.

3.6.4. The CBSL email platform migrated from IBM Lotus notes to Microsoft Outlook in June 2012. As informed by the DIT, back-up of email communications related to the prior period of June 2012, were not maintained (Refer Exhibit 39)⁴¹. Accordingly, an email communication of the custodians related to the Review Period prior to June 2012 were not accessible for BDO India for review.

3.6.5. Based on discussion with DIT regarding the identified and availability of electronic devices of 12 custodians, a total of 7 Desktops drives, 2 Laptop drives and 4 I-pads were identified for performing Digital Forensic procedures. Due to non-availability of electronic devices and possibility of limited information on the available devices, the back-up of available server emails of the 12 custodians was also obtained and analyzed.

3.6.6. The table below is a summary of 13 Target Devices acquired from 12 custodians identified as relevant for review under the TOR-1-:

Table 7: Summary of Target Devices

#	Particulars	Count
1	Total number of custodians	12
2	Total number of Desktop Hard drives (A)	7
3	Total number of Laptop Hard drives (B)	2
4	Total number of I-pad (C)	4
	Total number of Target Devices (D) =(A+B+C)	13

3.6.7. Provided below is a list of electronic devices and availability of email backup copies on server identified (by the DIT) that pertains to the respective custodians:

Table 8: Count of Target Devices and availability of email backup copies

#	NAME	DESKTOP	LAPTOP	I-PAD	SERVER EMAIL	TOTAL
1	Mr. Arjuna Mahendran	1	1	2	1	5
2	Mr. N W G R D Nanayakkara	1	1	1	1	4
3	Mr. S S Ratnayake	1	Not issued	Not issued	1	2
4	Mrs. U L Muthugala	1	Not issued	Not issued	1	2
5	Mrs. C M D N K Seneviratne	1	Not issued	Not issued	1	2
6	Dr. M Z M Aazim	1	Not issued	1	1	3
7	Ms. W N S Fernando	1	Not issued	Not issued	1	2

⁴¹ Refer Exhibit 39 for a copy of e-mail communication by the DIT regarding migration of email communication platform.

#	NAME	DESKTOP	LAPTOP	I-PAD	SERVER EMAIL	TOTAL
8	Mr. C J P Siriwardana	Not Traceable	Not issued	Not issued	1	1
9	Mr. W A Wijewardena	Not Traceable	Not issued	Not issued	Not Traceable	-
10	Mr. K G D D Dheerasinghe	Not Traceable	Not issued	Not issued	Not Traceable	-
11	Mrs. C Premaratna	Not Traceable	Not issued	Not issued	Not Traceable	-
12	Mr. BDWA Silva	Refer Note 1	Not issued	Not issued	1	1
Total		7	2	4	9	22

Note 1: ESI review for Mr. BDWA Silva was limited to email communication available on the CBSL server.

Note 2: Device not traceable are the devices that were not traced / identified by the DIT (Refer Exhibit 38)⁴²

Note 3: Devices not issued are the devices that were not issued by the CBSL to respective custodians.

Mentioned below is the detailed methodology of procedures taken to perform digital forensic and e-discovery procedures (Refer Annexure 49)⁴³.

3.6.8 ACQUISITION OF TARGET DEVICES:

The Target Devices of 12 Identified CBSL Employees related to the scope of work under TOR-1 were requested from the CBSL, to perform Digital forensic / e-Discovery procedures explained as following:

- A. Target Devices were identified by the DIT of the CBSL based on the “Last Log-In” details as appearing in the Active Directory in absence of IT Asset register and hand-held (mobile) devices.
- B. Target devices pertaining to identified custodians, who are the current employees of the CBSL were acquired directly from the respective custodians with the help of DIT. Executives of the ITD of the CBSL removed the “storage device” from the desktop / laptop of the custodians and physically handed over to BDO India, for processing. Storage media (HDD / SSD) was removed in the presence of the respective custodians and the storage media was handed over by ITD to BDO India. The handheld devices pertaining to the custodians, who are the current employees of the CBSL, were identified by the DIT and were handed over to BDO India.

⁴² Refer Exhibit 38 for email communication with DIT for device availability confirmation and screenshots of Active Directory records.

⁴³ Refer Annexure 49 for list of forensic tools used to perform Digital Forensic / E-Discovery on Target Devices.

- C. Chain of Custody (“COC”) was documented in respect of each Target Device and maintained through-out the examination. COC encompasses the custodian details, Target Device details, time, date & location of handover from the DIT or the respective custodian. COC (*Refer Exhibit 18*)⁴⁴ was prepared for each device of the custodian and related image was marked individually.
- D. The DIT or custodian signed-off the COC form after verification of the facts recorded representing the acquisition of the Target Device and the associated activities performed.
- E. Handheld devices were handed over to BDO India by the respective custodians or the DIT in presence of Executives from IT department. These devices were provided by the CBSL for review Password (if any) was provided by the custodian for the screen lock and was mentioned in COC form. Four electronic devices were identified by the CBSL Board Secretariat, as were issued to Mr. Arjuna Mahendran. During the handover of handheld devices, custodians were asked to unlock the devices with the password in the presence of the CBSL IT executives.

In case access to iCloud for Apple devices, the custodians agreed to administer the password whenever required by BDO India. The password details were not captured in the COC as the custodians rejected to share the same in the COC.

3.6.9 IMAGING OF TARGET DEVICES:

After the Target Devices were physically acquired from the respective custodian or the DIT, forensic image was created in the manner as explained under:

- A. Each hard drive or handheld device provided by the custodian or the DIT was marked uniquely in respect to the project. Same details were mentioned in the COC form of the respective identified device.
- B. Globally accepted Forensic imaging tools which includes Tableau TX-1, Logicube Falcon, Tableau-T35u write blocker and Access Data Forensic Tool Kit Imager were used to create the forensic image of the Target Devices.
- C. During the process of creating forensic image or acquisition of handheld device details such as case ID, evidence ID, examiner name and unique description was fed to the machine

⁴⁴ Refer Exhibit 18 for copies of COC forms of Target devices for respective custodians.

- D. These details also reflect in Additional log file (*Refer Exhibit 17*)⁴⁵ that was generated after creation of forensic image in case of hard drives. These log files encompass the imaging details including but not limited to Target Device details, destination details, task date & time, acquisition & verification hash values (Md5 & SHA-1), details of forensic image and disk sectors etc.
- E. Forensic image created from the respective Target Device was marked as primary evidence or master copy or original evidence. A duplicate copy of the forensic image was created and marked as working copy. Original evidence was stored aside after creating a duplicate copy from it. Further, Digital Forensic / e-Discovery procedures were carried out on the working copy.
- F. Handheld devices were acquired using globally accepted mobile acquisition tool Cellebrite UFED. Best possible method recommended in the application for acquisition of the Target Device was adopted.
- G. Advanced logical extraction and file system extraction was adopted to acquire target handheld mobile devices. Information such as but not limited to evidence ID, case ID, custodian details, device details, acquisition details, tool details and task date & time were updated in the COC form.

3.6.10 RETURNING OF TARGET DEVICES:

- A. After completion of forensic imaging procedure / e-Discovery or acquisition of Target Device and handheld devices respectively were returned to the DIT or the respective custodian in the presence of the IT Executives of the CBSL, as the case may be.
- B. At the time of returning the Target Device, COC was updated with the required information including but not limited to date of return, time & location, returned by and recipient name. Physical condition of the device was also verified by the DIT or the respective custodian at the time of handing over of Target Device from BDO India to the DIT or respective custodian. After verification of physical condition of the Target Device and verification of information on COC, the DIT or respective custodian signs-off the COC.

3.6.11 EXTRACTION OF ELECTRONICALLY STORED INFORMATION:

- A. Duplicate or working copy was created from the original image which was directly created from the Target Device. This duplicate forensic image was administered on the forensic platform to carry out e-discovery procedures.

⁴⁵ Refer Exhibit 17 for details of logs generated with forensic image of Target Devices.

- B. ESI contained therein the target Device was extracted using standard OEM provided “Encase Enscript” which is based on 46⁴⁶ extensions using Guidance Encase tool.
- C. Target Device system information such as Operating System Information (*Refer Annexure 6*)⁴⁷, User account information (*Refer Annexure 7*)⁴⁸, and basic information and volume details about the image (*Refer Annexure 8*)⁴⁹ was extracted from the forensic image of the Target Devices to gather information about the system.
- D. In case of handheld device, ESI such as device information, messages and chats, calendar notes, voice call log were extracted using mobile forensic tool.
- E. The extracted ESI was verified to confirm that the extraction is comprehensive. As per **SECTION 3 OF EVIDENCE ORIDNANCE ACT, No. 14 of 1895** “*Evidence means and includes -*
- (a) *All statements which the court permits or requires to be made before it by witnesses in relation to matters of fact under inquiry, such statements are called oral evidence;*
- All documents produced for the inspection of the court; such documents are called documentary evidence”* As per **SECTION 38 OF COMPUTER CRIME ACT, NO. 24 OF 2007**, the term “*document includes an electronic record*” and “*electronic record means, information, record or data generated, stored, received or sent in an electronic form or microfilm, or by any other similar means*”.
- As per **SECTION 3 OF ELECTRONIC TRASANCTION ACT, NO. 19 OF 2006** “*No data message, electronic document, electronic record or other information shall be denied legal recognition, effect, validity or enforceability on the ground that it is in electronic form.*”
- F. Based on the marked status of presence and user activity on the drive ESI comprised of the four categories of data, which are as under:
1. **ACTIVE DATA:** Active data can be defined as ESI stored on the storage device of computer systems, which can be directly accessed, readily visible to operating system and / application software that was used to create it and is directly available to users without un-deletion, alteration, or restoration. It was identified by “Description” property in “Encase” forensic tool.

⁴⁶ Extensions used for extraction- doc, docx, docm, dot, dotx, wrd, wpt, wpd, dotm, rtf, pst, ost, dbx, eml, eml, vcf, msg, otm, oft, ics, msf, nsf, mbox, mbx, bmp, pdf, txt, jpg, jpeg, png, tiff, tif, gif, csv, xlsx, xls, xltm, xl, xlsb, xltx, xlb, xlc, xlt, xlk, and xlw.

⁴⁷ Refer Annexure 6 for details of Operating system information of Target Devices.

⁴⁸ Refer Annexure 7 for details of User Accounts information of Target Devices.

⁴⁹ Refer Annexure 8 for Basic information and details of volume of data in reviewed Target Devices.

2. **DELETED DATA:** Deleted data comprises of files that are no longer readily accessible to the user, due to the deletion activity requested by the user. When a file is deleted by user, operating system only marks them as deleted, but they are physically present on the hard drive. Deleted data will stay on the drive for as long as it is not overwritten by the other data.

The overwritten files are the sub-set of deleted files which are overwritten by other files on its physical location on the hard drive. Deleted and Overwritten files are identified by the “Description” property in “Encase” forensic tool.

3. **CARVED DATA:** File carving is the process used to extract data from a disk drive or other storage devices without the assistance of the file system that originally created the file. Data extracted through this process is called Carved data and it depends on the fragments.

On forensic image of the Target Device’s carving was attempted on “all at sector boundaries” by “X-ways” Forensic tool based on the “recovery by type” option. The extracted results may contain duplicates as well due to false positive hits or repetitive attempt to carve the data. The availability / accessibility of the carved files depends on the size of the original file deleted and respective file built up from the unallocated spaces by file carving method.

“Recover my Email” forensic tool was used to recover deleted message (if any) and repairing (if required) of composite email files (.ost or .pst) to the extent possible.

4. **INTERNET ARTEFACTS:** Internet artefacts relating to browsing activity, internet banking, emails and chats and Internet artefact, extraction was performed by using forensic tool “Magnet Axiom”.
- G. The count of files (Refer Annexure 9)⁵⁰ per extension for the Review Period was determined based on date of creation. Metadata for the ESI was extracted by means of using “Encase Enscript”. Details such as the date of creation of file was identified by “File created” metadata⁵¹ property.

⁵¹ Refer Annexure 9 for the count of files per extension.

H. The count of files per extension for the Review Period was determined based on date of creation of the file. The duplicate files were identified based on the “Is Duplicate” metadata were removed. “Duplicate” metadata for the file was derived from the hash values of the file computed. In case the hash value of the file was not calculated, stated file was taken as original. Count of files per extension for the Review Period of TOR- 5 was deduced based on the metadata extracted for the files. The metadata was extracted using “Encase Enscript” which was based on extensions. Report generated with the help of “Encase Enscript” encompasses properties of file such as but not limited to file created date, modify date, last accessed date, marked status of presence on the hard drive i.e. active file or deleted file, hash computed of the file. Count of file was calculated by following steps provided below:

- Files were initially filtered based on the “created date” property to determine the files that were created in the Review Period pertaining to TOR-1.
- Later, duplicates were removed by filtering the column marked as “Duplicate” and selecting “No”. File Duplicate “Yes” or “No” was determined on the basis on hash value computed for the file. If Hash value is not computed for the file, file under stated condition was assumed as Original file (not a duplicate copy of another file).
- Files then were filtered out on basis on their presence marked on the device i.e. active file or deleted file. Files marked in column “Is deleted” or “Deleted” as “Yes” or “No” were separated and count was taken for active and deleted files.

3.6.12 INDEXING OF DATA:

Globally accepted and standard tools were used to perform indexing of the ESI extracted from the forensic image of the Target Device. Indexing of the ESI was performed to bring completed data set of ESI on one single platform and perform keyword searches for each custodian. Indexed Data comprised of active files, deleted files and carved user files extracted from Target Device image, server emails provided by the CBSL and recovered email file. Following is the classification of various indexed files:

Table 9: Indexing of Data

#	Type of Files	Type of Documents
1	User Files	<ul style="list-style-type: none">• Word documents• Excel Files• Notepad Files
2	Email Files	<ul style="list-style-type: none">• Lotus Notes• Outlook message files such as msg, eml• Composite email files such as nsf, ost and pst files

To perform keyword searches, extracted ESI was distributed in two types of file formats namely “searchable file format” and “non-searchable file format”.

The file formats and process of keyword searching on these file formats are as under:

- A. In case of “searchable File format” such as word files, excel files, emails, pdf, keyword searching can be performed by directly searching those identified keywords in respective data set.
- B. In case of “non-searchable file format” such as multimedia files, scanned pdf, images, keyword searching cannot be performed and accordingly, manual review was performed.

Table 10: Summary of available ESI extracted using work procedures mentioned above

#	Custodian	Forensic Tool	Active ESI ⁵²	Deleted ESI ⁵³	Server Emails
1	Mr. Arjuna Mahendran	Tableau TX-1	18,326	719	13,374
2	Mr. Arjuna Mahendran	Tableau TX-1	18,021	34,830	13,374
3	Mr. N W G R D Nanayakkara	Tableau TX-1	21,740	323,199	35,805
4	Mr. S S Ratnayake	Tableau TX-1	121,151	526,988	59704
5	Mrs. C M D N K Seneviratne	Logicube Falcon	40,956	219,383	33,806
6	Dr. M Z M Aazim	Logicube Falcon	24,498	84,195	26,402
7	Mrs. U L Muthugala	T35u & FTK Imager	31,698	105,842	16,668
8	Ms. W N S Fernando	Tableau TX-1	11,361	39,021	17,149
9	Mr BDWA Silva	Not applicable	Not applicable	Not applicable	7,994

3.6.13 KEYWORD SEARCHING AND REVIEW:

- A. After the extracted ESI was indexed on the e-discovery platform, the data set was filtered in order to identify relevant document with the help of “keyword”.
- B. Keyword search was performed to filter relevant evidence from the extracted data set of ESI to perform focused review.

⁵² Active ESI comprises of the data which can be directly accessed, readily visible to OS and user

⁵³ Deleted ESI comprises of data not readily available to the user, due to deletion activity

- C. The final list (*Refer Annexure 10*)⁵⁴ of keywords applied to the searchable ESI extracted from Target Devices incorporate the following:
1. Case specific keywords such as Treasury Bonds, Perpetual, Arjun etc;
 2. Custodian specific keywords such as name of custodian, parts of mail address, mobile number of custodians and email addresses;
 3. General Keywords that apply to engagements of this nature such as irregularity, noncompliance, fraud, investments, confidential etc; and
 4. Other terms suggested by the CBSL vide email communication (*Refer Exhibit 19*)⁵⁵ of 23 July 2019.
- D. In order to conduct the focus and precise review, keywords were created (*Refer Annexure 11*)⁵⁶ in consultation with the CBSL based on the document review and information available in public domain. As data set contains numerous files, keywords help to filter the relevant data.
- After the keywords searching, results were extracted and email communication pertaining to Review Period⁵⁷ were reviewed in order to collect the evidence, if any.
- E. ESI provided to review manually and based on keyword searches was examined or reviewed on two levels. First level review of the ESI was done on the complete data set provided after extraction and keyword searching. The reviewer tags or marks important information or file in the categories such as Informative, Relevant, Suspicious, Corroborative etc. Relevant information extracted out from first level review of ESI was again later reviewed as per its relevance to the case. Thereafter, the observations were incorporated in the Report.

3.6.14 REVIEW OF IPAD DEVICE:

Report of the device was generated which encompasses details such as device information, message and chats, multimedia files, call records were exported in readable format report and reviewed manually.

⁵⁴ Refer Annexure 10 for the list of keywords along with their rationale.

⁵⁵ Refer Exhibit 19 for the email of 23 July 2019 for keyword suggestions by the CBSL.

⁵⁶ Refer Annexure 11 for the count of keywords for each identified employee of the CBSL.

⁵⁷ Review Period is January 2002 to February 2015.

3.7. COMPUTATION OF LOSS TO THE GOVERNMENT

- 3.7.1. Performed data analytic procedures on the issuance of Treasury Bonds through Auctions and Direct Placements and identified the instances wherein loss⁵⁸ had been incurred due to the decisions taken by the Tender Board and the PDD;
- 3.7.2. Identified instances that indicates loss caused to the Government of Sri Lanka due to acceptance of bids offers in Auctions at Weighted Average Yield Rates (“WAYR”) higher than the Secondary Market yield rates of similar maturity;
- 3.7.3. Identified instances where funds were raised by PDD at yield rates different from the yield rate proposed in yield rate structure, Cut-off rates in Auctions and / or prevailing Secondary Market yield rates of similar maturity at the time of issuance of Treasury Bonds through Direct Placements; and
- 3.7.4. Calculated the loss caused through raising funds from Treasury Bond Auctions and Direct Placements in the above cases and ascertained the maximum and minimum loss caused to the Government of Sri Lanka.

3.8. VOICE RECORDINGS REVIEW

- 3.8.1. During the discussions, the PDD employees informed that the CBSL did not installed the voice recording system for fixed telephones lines in Front Office. In the absence of this data from the CBSL, the records available at all the PDs was requested for analysis.
- 3.8.2. The copies of Voice Record data for the dealer room telephone lines was requested from 15 Designated PDs (“DPD” or “PD”) to examine the conversations, if any, related to the Treasury Bond issuances through Auctions and Direct Placements.
- 3.8.3. The copies of Voice Record data were requested from the PDs, in respect of specific dates selected based on the anomalies observed during the document review, data analysis procedures and review of ESI. The Voice Record data in respect of a total of 93 unique dates (190 instances across different PDs) was requested from the PDs and a total of 27 Voice Records were received as on the date of this Report.
- 3.8.4. Refer Table 11 below for a summary of PD-wise Voice Record data (*Refer Annexure 12*)⁵⁹ for the specific dates requested and received along with the responses from PDs where Voice Record in respect of the specific dates requested was not available:

⁵⁸ “loss that can be avoided through mitigation” (source: <https://www.ceframe.eu/thesaurus/en/index>)

⁵⁹ Refer Annexure 12 for PD-wise list of various dates for which the Voice Records were requested

Table 11: Summary of PD-wise record data

#	Name of PD	Date of Request	Number of instances requested	Number of instances received	Count of VR files received	PD Remarks Summary for data non-availability (Refer Exhibit 20) ⁶⁰
1	Acuity Securities	12-Aug-2019	6	-	-	Data not available
2	BOC	12-Aug-2019	40	19	10,382	Partial data provided.
3	Capital Alliance	12-Aug-2019	16	-	-	Recordings are not available prior to the year 2011. Recordings cannot be sorted for the period from year 2011 to 2012. Hence, not made available.
4	Commercial Bank of Ceylon	12-Aug-2019	17	2	6,415	Partial data provided.
5	Entrust Securities PLC	12-Aug-2019	8	-	-	Data not received (The Managing agent of the company is not in a position to provide the phone recordings)
6	First Capital	12-Aug-2019	16	1	186	Partial data provided.
7	HSBC	12-Aug-2019	2	-	-	Does not hold records beyond the regulatory and legal retention requirements (i.e.) 6 years. Sort time for the extraction of the pending records is 17 weeks.
8	NatWealth	12-Aug-2019	4	-	-	System installed on 08.06.2015. No recordings available prior to installation of the system
9	NSB	12-Aug-2019	54	-	-	Recordings are not available prior to the year 2017
10	People's Bank	12-Aug-2019	11	4	1,341	Partial data provided.
11	PTL	12-Aug-2019	2	-	-	The CBSL have extracted the phone records of PTL from the recordings obtained by PCOI, since the company is not functioning as of now. (Refer Exhibit 5) ⁶¹ .
13	Sampath Surakum	12-Aug-2019	1	-	-	No communication received till date
14	Seylan Bank Asset Management Limited	12-Aug-2019	12	-	-	No communication received till date
15	Seylan Bank PLC	12-Aug-2019	1	1	165	Data provided
Total			190	27	18,489	

⁶⁰ Refer Exhibit 20 for copies of communications received from the PDs

⁶¹ Refer Exhibit 5 for the memo provided by the CBSL regarding the phone recordings requested from the PDs

3.8.5. Provided below is a summary of PD-wise number of Voice Records for the specific dates reviewed:

Table 12: PD-wise number of voice records for the specific dates reviewed

#	Name of PD	VR date	Count
1	Seylan Bank PLC	13-Sep-2011	165
2	People's Bank	21-Jan-2013	366
4	First Capital Treasuries PLC	2-Apr- 2014	183
Total			714

3.8.6. On review of the Voice Record data received from the PDs, certain inconsistencies were noted. The accuracy of the assessment of available evidence in the form of Voice Record is subject to the following limitations:

- A. The Voice Record was collated / compiled by the respective PDs. The data compilation whether performed from the original source of the record or subsequent copies, is not independently verified;
- B. The details of various applications and tools used, if any, by the PDs for the purpose of either recording or retrieval and storage of the Voice Record and associated technical configurations and limitations associated, are not known;
- C. The Voice Records provided by the PDs was considered as is basis wherein, the verification as to whether all the fixed lines used for the calls during the Review Period, is not verified. Further, it is also not known as to if any other Voice Record mechanism is used by the PDs;
- D. It is also not verified as to if the calls compiled represent all the calls occurred during Review Period that pertain to the investments in Treasury Bond transactions in the Primary or Secondary Market;
- E. There is no means to verify the veracity of the Voice Record provided by the PD at every call record level. The Voice Record provided is considered to be complete conversation in that record;
- F. Confirmation of completeness of the conversation in a voice record is not verifiable through independent source, in the absence of the voice record system at the CBSL. For the purpose of review, the duration of the call and the conversation content is assumed to be comprehensive;
- G. Inconsistencies were noted in the date & time stamp captured in respect of certain Voice Record, when compared to the transaction date & time stamps recorded in the CBSL's Auction

system. Due to the possible editability of the “client” & “server” system date and time stamps, it is not possible to establish the relatedness of the calls with precision; and

- H. The details of the callers for the Voice Record were not available to identify distinctly, the calls with the CBSL employees.
- I. Following deficiencies were noted in the quality / properties of the Voice Records provided by the PDs:

Table 13: Deficiencies noted in quality / properties of the voice records provided by PDs

#	PD Name (>100 KB)	Audible VR	Blank records	Records not working	Inaudible voice	Partial record
1	Seylan Bank PLC	134	11	-	-	20
2	People's Bank	232	24	-	40	70
3	First Capital Treasuries PLC	182	1	-	-	-
Total		548	36	-	40	90

3.8.7. Considering the extent of the Voice Record files received and the associated limitations, the records were selected following the approach detailed below, to identify the relevant evidences:

- A. Identified the dates of Auction and Direct Placement transactions wherein occurrence of “loss” was identified OR irregularities OR inconsistencies were noted during the transaction / data review;
- B. The Voice Record related to the specific dates were segregated and records were stratified based on parameters such as (1) call time and (2) call duration;
- C. The Voice Records under each of the above stratum were prioritized as following and a combination of the prioritization was used to select the record for review and identification of the relevant evidence:
 1. Priority-1: Voice Record during the Auction date & time;
 2. Priority-2: Voice Record related to the date preceding the Auction date;
 3. Priority-3: Voice Record related to the settlement dated;
 4. Priority-4: Voice Record with call duration (assessed based on file size) more than 5 min
 5. Priority-5: Voice Record with call duration (assessed based on file size) between 1-5 min;
 6. Priority-6: Voice Record with call duration (assessed based on file size) up to 1 min; and
 7. Priority-7: Voice Record related to dates where different PDs were issued securities at different rates on the same day for the same ISIN.
- D. Relevant reference of the voice recordings indicating any flow of price sensitive information, if any is provided in the respective section.

3.9. REVIEW OF CALL RECORDS

3.9.1. Basis the investigative findings and details obtained during the inquiries conducted with the CBSL employees, the communication logs of the official contact number(s) used by the below mentioned employees was requested from the CBSL.

3.9.2. The following details were obtained for the said employees, for the Review Period:

Table 14: Details of the identified employees

Employee ID	Name of the official	Period requested	Mobile Number	Remarks
1462	Mr. C J P Siriwardena	3 December 2007- 14 June 2010	772016621	Data received for following period: 20 May 2008 - 23 May 2008 10 July 2008 - 23 July 2008 21 October 2008 - 31 October 2008 12 November 2008-11 - 31 November 2008 1 January 2009 - 6 February 2009 18 February 2009 - 27 February 2009 31 May 2009 - 2 June 2009 20 August 2009 - 31 October 2009 20 January 2010 - 29 January 2010 20 February 2010 - 28 February 2010 8 June 2010 - 14 June 2010
1575	Mr. N W G R D Nanayakkara	1 January 2012 - 8 February 2015	771911042	Data received for following period: 1 February 2012 - 3 February 2012 1 April 2012 - 3 April 2012 9 April 2012 - 22 June 2012 11 February 2013 - 13 February 2013 29 July 2013 - 31 July 2013 10 October 2013 - 15 October 2013 1 April 2014 - 5 May 2014 15 July 2014 - 17 July 2014 1 November 2014 - 31 December 2014 1 January 2015 - 8 February 2015
2841	Mr. S S Ratnayake	21 June 2010 - 31 December 2011	773559649	Data received for following period: 21 June 2010 - 31 December 2010 1 February 2011 - 8 February 2011 27 February 2011 - 28 February 2011 1 May 2011 - 10 July 2011 5 October 2011 - 12 October 2011 20 October 2011 - 16 December 2011
1674	Mrs. E H Mohotty	16 February 2009 - 4 September 2013	-	No official mobile phone issued by the CBSL

Employee ID	Name of the official	Period requested	Mobile Number	Remarks
1790	Mr. S A Y K Samararatunge	1 November 2012 - 31 December 2013	-	No official mobile phone issued by the CBSL
1678	Ms. M S M P Fernando	5 August 2008 - 30 September 2015	-	No official mobile phone issued by the CBSL
1948	Ms. W N S Fernando	2 December 2010 - 26 February 2013	-	No official mobile phone issued by the CBSL
1373	Mrs. C Premarathna	14 October 2004 - 2 December 2007	-	No official mobile phone issued by the CBSL
1676	Dr. M Z M Aazim	28 August 2014 - 20 September 2015	771548323	01.11.2014 to 20.09.2015
1693	Mr. S Obeysekara	1 October 2015 - 22 September 2016	-	No official mobile phone issued by the CBSL
1888	Ms. L S Fernando	15 June 2015 - 30 September 2015	-	No official mobile phone issued by the CBSL
1658	Mr. N D Y C Weerasinghe	1 January 2002- 28 February 2015	-	No official mobile phone issued by the CBSL
1436	Mrs. C M D N K Seneviratne	1 September 2009 - 20 September 2015	777664149	Data received for following period: 1 September 2009 - 31 October 2009 20 January 2010 - 29 January 2010 20 February 2010 - 28 February 2010 8 June 2010 - 31 December 2010 1 February 2011 - 8 February 2011 27 February 2011 - 28 February 2011 1 May 2011 - 10 July 2011 5 October 2011- 12 October 2011 20 October 2011 - 16 December 2011 1 February 2012 - 3 February 2012 1 April 2012 - 3 April 2012 9 April 2012 - 22 June 2012 11 February 2013 - 13 February 2013 29 July 2013 - 31 July 2013 10 October 2013 - 15 October 2013 1 April 2014 - 5 May 2014 15 July 2014 - 17 July 2014 1 November 2014 - 31 December 2014 1 January 2015 - 20 September 2015
1455	Mr. T H B Sarathchandra	21 September 2015 - 1 October 2017	779765168	Data received for following period: 21 September 2015 - 31 December 2015 1 January 2016 - 31 December 2016 1 January 2017 - 1 October 2017

Employee ID	Name of the official	Period requested	Mobile Number	Remarks
1536	Mrs. U L Muthugala	1 January 2012 - 31 August 2016	771291848	Data received for following period: 1 February 2012 - 3 February 2012 1 April 2012 - 3 April 2012 9 April 2012 - 22 June 2012 11 February 2013 - 13 February 2013 29 July 2013 - 31 July 2013 10 October 2013 - 15 October 2013 1 April 2014 - 5 May 2014 15 July 2014 - 17 July 2014 1 November 2014 - 31 December 2014 1 January 2015 - 31 December 2015 1 January 2016 - 31 August 2016

3.9.3. A telephone directory containing contact numbers and usernames was also received from the Criminal Investigation Department (CID).

3.9.4. The data received from the CID and the CBSL was reviewed and mapped with the date of Auctions and Direct Placements for the issue of Treasury Bond wherein any irregularities were noted, during the Review Period. The data was reviewed to understand the nature of relationship between various CBSL employees, considering the time and duration of the conversations between them. The following observations were made during the review.

- A. During the review of the call logs for other CBSL employees, no other communication of the CBSL employees was noted with the external parties / PD outside the office hours; and
- B. The regular conversations between the CBSL employees were noted during the official timings. A few conversations between them occurred outside the official timings; however, no irregularities were identified with regards to the issue of Treasury Bonds on the said dates and hence the communication was not analysed.

3.10. TRAVEL DETAILS REVIEW

3.10.1 The travel details including (local and foreign travel) of the identified employees of the CBSL was requested from the CBSL to ascertain if the employees had travelled together in the past for personal / official purpose.

3.10.2 The details were reviewed to establish if there was any close association between the employees which could have resulted in taking critical decisions in their personal interest.

3.10.3 The details received were related to the foreign travel of the CBSL employees in their professional capacity. No anomalies were noted with regards to the travel undertaken by them.

3.11. REVIEW OF BANK ACCOUNT DETAILS OF PDs

3.11.1 The bank account details of the 16 PDs was requested from the CBSL during the Review Period to uncover if there were undue amount transfers made to any identified CBSL employees. The data was received for the below mentioned PDs and its related companies.

Table 15: Details of the bank accounts of PDs and related companies

#	Name of PD	Number of accounts	Data Status- Received/Not Received
1	Acuity Securities Limited	10	2009 - 2019
2	Bank of Ceylon	2	2010 - 2016
3	Capital Alliance Limited	26	2002 - 2019
4	Commercial Bank	2	2002 - 2010
5	Entrust Securities PLC	12	2002 - 2018
6	First Capital	49	2002 - 2019
7	HSBC	1	2013 - 2017
8	NSB	14	2005 - 2019
9	Natwealth Securities Limited	1	2013 - 2019
10	Pan Asia Banking Corporations PLC	-	Not Received
11	People Banks	-	Received but not readable
12	Perpetual Treasuries Limited	18	2013 - 2016
13	Sampath Bank	2	2002 - 2012
14	Seylan Bank	2	1999 - 2016
15	Union Bank of Colombo PLC	-	Not Received
16	WealthTrust Securities Limited	4	2011 - 2019

3.11.2 A list of bank account numbers of the identified CBSL employees was made available by the CBSL. Additionally, during ESI review conducted on the official device(s) of the said employees, several account numbers were obtained. A list of bank account numbers was prepared for each official and mapped against the bank statements obtained for the PD to uncover if any money transfer has been done.

3.11.3 During the review / mapping, no amount transfer was noted from any PD to the identified CBSL employees, in the above stated period for which the data was available.

4. PROCESS UNDERSTANDING

4.1. BACKGROUND

4.1.1. The CBSL functions⁶² as the fiscal agent for the Government of Sri Lanka and holds the responsibility for issuing Government Securities to fulfil the future monthly cash requirements of the Government of Sri Lanka as notified by the Treasury Operations Department from time to time. Under Section 113⁶³ of the Monetary Law Act, the CBSL is responsible for managing the Public Debt.

4.1.2. The Monetary Board, vide meeting of 14 February 1997, recommended to the Government of Sri Lanka for Auction of Treasury Bonds through PDs from March 1997 (Refer Exhibit 21)⁶⁴.

4.1.3. In accordance with the provisions of the Registered Stock and Securities Ordinance⁶⁵, the CBSL have the authority to take any action necessary for the issue and trading of scripless Treasury Bonds.

4.1.4. The PDs are Direct Participants in the settlement systems operated by the CBSL. As per the Operational Manual of the PDD (Version 2 updated as of 31 July 2013):

“The Primary Dealers (PDs) are dedicated intermediaries appointed by the Monetary Board of CBSL to deal in Government securities” and Primary Dealers “are expected to support the primary issuances of Government securities through underwriting / bidding commitments, success ratios, (future) and improve Secondary Market trading system, which would contribute to price discovery, enhance liquidity, turnover and encourage holding of G- Sec amongst a wider investor base, which will eventually contribute in achieving the government objective of low cost borrowings at a prudent level of risk.”

4.1.5. There were 19 Institutions (Refer Annexure 13)⁶⁶, which were operating as PDs during the period 1 January 2005 to 28 February 2015. In addition to these, the EPF was also permitted for purchase of Treasury Bonds from the primary market⁶⁷.

⁶² As per Section 106 (1) of the Monetary Law Act

⁶³ As per the PDD operational manual version 2 updated as of 31 July 2013

⁶⁴ Refer Exhibit 21 for the extract of minutes of Monetary Board meeting of 14 February 1997

⁶⁵ Incorporating amendments up to 31 December 2004

⁶⁶ Refer Annexure 13 for the list of PDs along with their current status

⁶⁷ As per Report issued by the Auditor General on 30 September 2016

4.1.6. The Monetary Board of the CBSL established PDD⁶⁸, for raising of funds to meet the fund requirements of the Government. As per the Operational Manual of the PDD (Version 2 updated as of 31 July 2013), the PDD performs the following functions:

1. Servicing the debt obligations;
2. Enhancing the safety of investors of the Government securities;
3. Broadening and diversifying foreign investor base in the Government securities; and
4. Ensuring the transparency in Public Debt management.

4.1.7. Based on discussions⁶⁹ with the PDD employees and additional information gathered through expert opinion reports⁷⁰ made available by the CBSL, it is understood that Treasury Bonds are generally issued for maturities of more than one year with a face value of Rs. 100 each. The CBSL adopts following two methods⁷¹ for issue of Treasury Bonds:

- A. **Auction:** It is the system where Auction process is initiated, and bids are received from PDs following the publication of a notice for the issuance of Treasury Bonds. The Auction is conducted through competitive multiple price⁷² bidding. The bids are accepted at lowest possible yield rates keeping in view the cash requirement of the Government.
- B. **Direct Placement:** It is the system whereby issue of Treasury Bonds are made to a single buyer or limited number of buyers without a public offering. Under this method, Treasury Bonds are issued to PDs and captive sources.

Parliamentary Copy

⁶⁸ As per Section 33 of the Monetary Law Act incorporating amendments up to 30 June 2014

⁶⁹ Refer Section 3.1 for list of discussions undertaken with employees of CBSL

⁷⁰ Refer Section 3.2.8 of the Report for the list of reports provided by the CBSL

⁷¹ Refer Para 4.1 of the Report issued by Auditor General's Department on 30 September 2016

⁷² "Multiple price bidding means where each successful bidder pays the price stated in the bid" (Source: Registered Stock and Securities Ordinance-6th Revision)

4.2. PROCESS OF ISSUE OF TREASURY BONDS

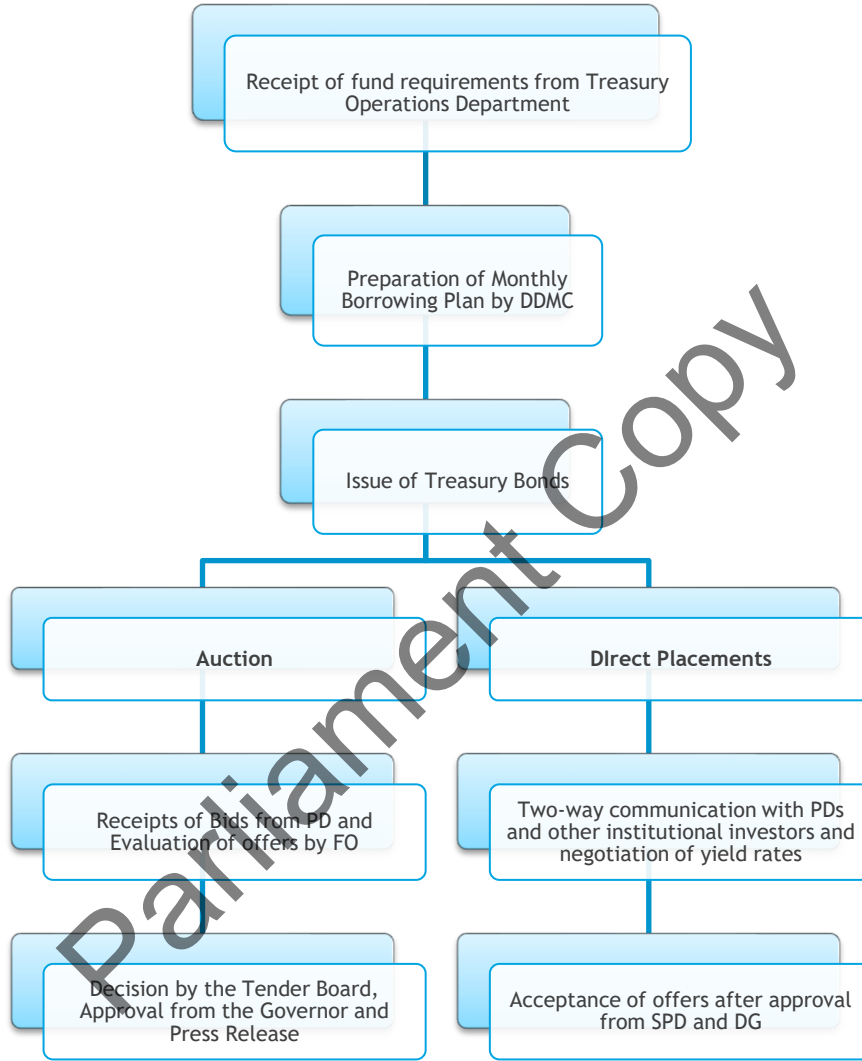
- 4.2.1. The understanding of the process for issue of Treasury Bonds, as it existed throughout the Review Period, was obtained through review of copies of the Public Debt Department Operational Manuals (Version 2005, Version 2007 and Version 2 updated as of 31 July 2013) (hereinafter jointly referred to as “PDD Operational Manual”) and corroborated through discussions with the designated current and previous employees of the PDD. The final process documents⁷³ for issue of Treasury Bonds vide Auction as well as Direct Placement were signed by the designated current and previous employees of the PDD. The subsequent analysis of policy guidelines, deviations and loss computations is based on the same as explained in the further Sections (*Refer Section 5 and Section 8*)⁷⁴.
- 4.2.2. As per the PDD operational manual, the PDD consists of six divisions which are responsible for carrying its functions:
- A. Front Office (“FO”);
 - B. Middle Office (“MO”);
 - C. Back Office (“BO”);
 - D. Central Depository System (“CDS”);
 - E. Supervision Division (“SD”); and
 - F. Support Services Division (“SSD”).
- 4.2.3. The activities pertaining to issue, accounting and analysis of Treasury Bonds were performed by FO, MO and BO while the activities pertaining to support services, supervision services and recording of securities were performed by CDS, SD and SSD. A brief description of activities performed by FO, MO and BO for issue of Treasury Bonds, as per PDD Operational Manual is synthesised below:
- A. FO of the PDD was responsible for planning the mobilizing required funds for the Government at the lowest possible cost with reasonable degree of risk through implementation of the domestic borrowing programme approved by the Monetary Board;
 - B. MO was responsible for performing analysis of debt dynamics for risk management on public debt in order to ensure best practices of efficient public debt management. It also obtains and updates master database and daily report (Secondary Market yield rates); and

⁷³ Refer Exhibit 7,10 and 31 for copies of signed process documents.

⁷⁴ Refer Section 5 and 8 of the Report for the policy deviations and the computation of loss.

C. BO made service payments (principal and interest) on domestic debt raised by the PDD and foreign debt raised by the Government.

4.2.4. The process of issue of Treasury Bonds during the Review Period is explained by way of the following flow-chart:



The above activities performed as part of the public debt raising process, as explained by the PDD is summarised in subsequent Sections.

4.2.5. RECEIPT OF FUND REQUIREMENT FROM THE TREASURY OPERATIONS DEPARTMENT

Chapter XVII of the Constitution of the Government of Sri Lanka forms the foundation of Parliament's power over all the public finances. The process for deciding and raising the cashflow requirements corroborated by discussion with Treasury Operations Department, Ministry of Finance, the Government of Sri Lanka ("Treasury Operations Department") are as under:

- A. Ministry of Finance, the Government of Sri Lanka, prepares an estimate of revenue and expenditure with the help of other departments and agencies functioning under them;
- B. The Treasury Operations Department consider these estimates in rationalising the requirement of debt funding and prepare the Debt Repayment and Borrowing Program for the respective fiscal year;
- C. The MO of the PDD keeps track on the Government Borrowing Programme, maintains the domestic debt database and the foreign debt database. They provide the estimates of public debt maturity and service obligations for the next month to the Treasury Operations Department.
- D. The Treasury Operations Department provides the cashflow requirement to the PDD on a monthly basis, which includes amount of debt funding⁷⁵ required by the Government for next month after considering the forecast of total revenue and expenditure (recurrent expenditure, capital expenditure and debt service costs) in that month;
- E. The monthly cashflow Statements are provided by the Treasury Operations Department in the hard copy formats to the CBSL. The monthly cashflow Statements are also provided to the employees of the FO of the PDD though e-mails by the employees of the Treasury Operations Department;
- F. The debt to be raised by the CBSL during the month is specified along with the instrument type (Treasury Bonds, Treasury Bills, Sri Lanka Development Bonds, and other instruments) in the cashflow Statements;
- G. In case of fund requirements for administrative purposes and other ad-hoc matters, separate request in written form is made by the Treasury Operations Department. The instructions received from the Treasury Operations Department or Deputy Secretary to the Treasury included the purpose of the relevant administrative issue, the amount to be issued in Treasury Bonds, the maturity period of the Treasury Bonds to be issued, the yield rate at which the Treasury Bonds to be issued;

⁷⁵ This requirement cannot exceed the limit specified in the Appropriation Act.

- H. The CBSL cannot raise any additional funds over and above the requirements stated in annual borrowing limits as per the Appropriation Act. The borrowings created at any point in time should not exceed the limits approved in annual borrowing plan approved by the Parliament;
- I. Prefunding the requirements of the Treasury Operations Department by the PDD is undertaken based on multiple factors including favourable market conditions, interest cost in the period, market liquidity and the limits approved in the annual borrowing plan for a fiscal year;
- J. Based on the discussions with Treasury Operations Department, it was explained that prefunding cannot be done based on unilateral decision of the CBSL and concurrence is required from the Deputy Secretary of Treasury or the Director General of Treasury Operations Department;
- K. Any shortfall in raising funds against the requirements raised by the Treasury Operations Department due to unfavourable market conditions, is required to be communicated to the Treasury Operations Department in writing and these shortfalls are then met through alternate methods of funding;
- L. It was also clarified by the CBSL official that FO of the PDD provides the details of operations such as value and offers of Treasury Bonds issued through Auctions and Direct Placements on daily basis to the Treasury Operations Department; and
- M. During the Review Period, the PDD raised aggregate funds of Rs. 4,731.22 Billion (*Refer Annexure 14A*)⁷⁶ through the issuance of Treasury Bonds for the purpose of cashflow Statements provided by the Treasury Operations Department and Rs. 480.41 Billion (*Refer Annexure 14B*)⁷⁷ for the purpose of administrative requirements provided by the Treasury Operations Department to the CBSL to be raised through issuance of Treasury Bonds.

4.2.6. FRAMEWORK OF DOMESTIC DEBT MANAGEMENT COMMITTEE

The cashflow requirement received from the Treasury Operations Department is discussed by FO of the PDD with Domestic Debt Management Committee (“DDMC”) on monthly basis. The framework, administration, functions and operations of the DDMC⁷⁸ are as under:

- A. The Monetary Board, at its meeting on 5 November 1999⁷⁹ decided to appoint DDMC in order to improve domestic debt management strategies;

⁷⁶ Refer Annexure 14 A for the Cash Flow Requirements provided by the Treasury Operations Department during the Review Period

⁷⁷ Refer Annexure 14 B for the list of 209 Direct Placements made against the administrative requirement provided by the Treasury Operations Department

⁷⁸ As defined in the PDD Operational Manual version 2 updated as of 31 July 2013

⁷⁹ As per Appendix (FO-1) of the PDD Operational Manual version 2 updated as of 31 July 2013

- B. As per the PDD Operational Manual, the DDMC⁸⁰ consists of six members and this Committee reports to the Governor of the CBSL through the Assistant Governor (“AG”) overseeing PDD and the Deputy Governor (“DG”) overseeing the PDD. The constitution of DDMC is explained as under:
1. Superintendent of Public Debt (the Chairman);
 2. Director, State Accounts Department MOF (Member);
 3. Director, Domestic Operation Department (Member);
 4. Director, Economic Research Department (Member);
 5. Director, Statistics Department (Member); and
 6. Additional Superintendent of Public Debt (Member, Secretary).
- C. As per directions from the Monetary Board, a representative from the Treasury Operations Department is required (*Refer Exhibit 22*)⁸¹ to participate in the monthly meetings of the DDMC to discuss Monthly Borrowing Program for subsequent month. The meetings of DDMC are held on a monthly basis or more frequently⁸², if necessary, in order to define the borrowing programme for the following month.
- D. The roles and functionalities of the DDMC are as following:
1. Decide on the borrowing programme in the immediate future considering the cashflow requirements of the Treasury Operations Department while adhering to budgetary limits and market developments; and
 2. Determine the bid series consisting volume, composition and the maturity structure of the issues of domestic public debt to meet the requirements.
- E. The monthly borrowing programme determined by the DDMC for the following month consists of details such as date of proposed Auctions / Direct Placements, value of Auctions and maturity period⁸³. This monthly borrowing program is approved in the DDMC meeting by its members and the Deputy Governor overseeing PDD through the Assistant Governor overseeing the PDD⁸⁴ prior to the final approval of the Governor of the CBSL.

⁸⁰ As per Appendix (FO-1) of the PDD Operational Manual version 2 updated as of 31 July 2013

⁸¹ Refer Exhibit 22 for Letter from Treasury for the period from August 2013 up to February 2015 wherein no representative from the Treasury Operations Department attended the DDMC meetings.

⁸² As per the Operational Manual of PDD version 2005

⁸³ The maturity of ISIN was included as part of the DDMC Borrowing Programme as per the PDD Operational Manual of 2007

⁸⁴ There was no reference of approval from designated employees in the PDD Operational Manual and it was understood from discussion with employees of the PDD at the CBSL

- F. The DDMC⁸⁵ should prepare the monthly borrowing programme one week prior to the beginning of each month for the forthcoming month on the basis of:
 - a. Approved annual borrowing programme;
 - b. The cashflow requirements of the Government for the prospective month obtained from the Treasury Operations Department; and
 - c. Resources available in the market.
- G. There is possibility of deviations from the monthly borrowing program defined in the DDMC meetings and cashflow requirement received from Treasury Operations Department such as swapping of instrument type depending on the market conditions and appreciation / depreciation of the currency⁸⁶. However, such changes are subject to the concurrence from the Deputy Secretary or the Director General of Treasury Operations Department.
- H. The minutes for the DDMC meetings are being circulated, in hard copy, to the Treasury Operations Department for approval, within a reasonable time, post the monthly meeting.

4.2.7. RAISING OF FUNDS THROUGH ISSUE OF TREASURY BONDS

After the preparation of the monthly borrowing programme by the DDMC, the FO of the PDD proceed with issue of Treasury Bonds. The detailed process for issue of Treasury Bonds through Auctions and Direct Placements is as under:

A. AUCTION OF TREASURY BONDS

1. The Auctions for issue of Treasury Bonds are conducted on the electronic platform maintained in “AS - 400” system. This system of “AS - 400” was first established during the month of October 2004. The first Auction transaction registered on this platform was from 7 January 2005. The PDs maintaining fund accounts and securities account with the CBSL are members of this electronic platform and can place their bids for the Auctions through this electronic platform.
2. The PDD, in consultation with the Treasury Operations Department, issues an indicative half-yearly Auction calendar which contains information about the tenor of the Treasury Bonds and the dates on which the Auctions will be held⁸⁷.

⁸⁵ As per the PDD Operational Manual version 2 updated as of 31 July 2013

⁸⁶ Vide discussion of 11 July 2019 with the Treasury Operations Department

⁸⁷ This practice of preparation of Auction calendar was established under the PDD Operational Manual of 2013 v2 updated as of 31 July 2013 and continued till the end of the Review Period.

It was noted that although the same was prepared and discussed with Treasury Operations Department, its implementation was not strictly followed and the same was used for budgetary purposes only.

3. Based on the directions of the DDMC, the FO of PDD along with the SPD, identify the International Securities Identification Numbers (“ISIN”) to be offered considering the following factors:

- a. Coupon Rate of ISIN:

The ISINs with coupon rates similar to or higher than the rates prevailing in the secondary market are preferred to other ISINs.

- b. Bunching:

Bunching is a phenomenon where a ceiling is decided on the accumulated face value of ISINs already issued and traded in the Secondary Market. Any new issues or re-issues using the ISINs beyond the ceiling limit are not favored. The ceiling of an outstanding face value of a particular ISIN depends upon the size of the economy and the market conditions. As per discussion with former SPD, the ceiling is generally considered as approximately 1% of the prevailing Gross Domestic Product / Economy size. On discussion with Mr. S S Ratnayake, it was informed that ceiling of outstanding face value of a particular ISIN amounts to Rs. 200 billion. However, there are no written guidelines for defining the ceiling of an ISIN.

- c. Repayment and Interest payment cycle:

The existing burden and repayment cycle (due dates) for a particular ISIN in the given period are considered for determining which ISINs issued.

- d. Fund Requirement of Treasury:

The number of ISINs offered to the market participants depends on the fund requirement of the Treasury.

- e. Liquidity:

ISINs of greater liquidity, not only based on outstanding value but also on the basis of well diversified investor holdings, are issued at comparatively lower yields vice versa low liquid ISINs.

4. Generally, the amount offered by the PDD under each ISIN is less than the required value mentioned in the DDMC borrowing plan or the cashflow requirements of the Treasury Operations Department. The rationale for such action for less amount is that the bid prices submitted by PDs for small offered value is better as compared to large values and it helps in minimizing the cost of raising the funds.

5. After the finalisation of Auction details, advertisement on the website of the CBSL and newspaper is published. Thereafter, on the scheduled date, Auction starts at 8:30 a.m. and the bidding process closes at 11:00 AM. The bids entered by PD and the EPF through electronic bidding system is recorded in “AS-400” system. The timings for the Auctions as specified above are for the period after 31 July 2013. However, for the period prior to 31 July 2013, the PDD Operational Manual states that, “*The Front-Office should announce each Auction to the market through the system at least before 8:00 a.m. of the date of the Auction*”.
6. In the event, when a PD is unable to enter bids into electronic bidding system, the PDD could either extend the closing time of the Auction or enter such bids as approved by the SPD / DSPD. Such transmitted bids cannot be edited or withdrawn by PD after informing it to the PDD. However, this practice of accepting the manual bids from the PDs was established vide manual of 2007. No such reference or acceptance was noted in PDD manual version of 2005.
7. The request for manual bids is made by the PD through a phone call to the FO during the Auction time i.e. prior to 11:00 AM, also accompanied by a fax from the authorized representative of a PD after closure of the Auction which is documented as ‘Tender Forms’. The faxes were generally received within 5-10 minutes after closure of Auction or before in the event of system access break down / technical problem. The main screen of the AS-400 system interface appears as:
 - a. Enter / Edit Auction announcement;
 - b. View bids;
 - c. Enter / Edit Bids;
 - d. Print bids classified under dealer;
 - e. Print bid highest-price first;
 - f. View results;
 - g. Print results;
 - h. Change Password and
 - i. Exit.
8. The bids could be reviewed immediately after the Auction time is closed. The FO extracts bid received sheets from the system and send these details to designated employees of the PDD for evaluation of the various bids submitted by the PDs.

9. The departmental recommendations provided through the preparation of summary reports, are performed in the following manner:
 - a. For the year of 2005 to 2007, by the FO of the PDD including the amount requested by the Treasury upon consultation with the Secretary of the Treasury Operations Department⁸⁸;
 - b. For the year of 2008 to 2013, by the FO of the PDD after consultation with the Treasury Operations Department⁸⁹; and
 - c. For the year of 2013 up to February 2015, by the FO of the PDD⁹⁰.
10. After the closure of Treasury Bond Auction, bids evaluation is done by the FO of the PDD, FO submits following information / documents to the Tender Board:
 - a. Summary report giving different types of options with different combinations of cut-off rate / WAYR including the departmental recommendation based on the existing market conditions. This report also includes results of the previous comparable Auction and bid details of the current Auction; and
 - b. Analyse details of primary and Secondary Market yield rates and the prevailing yield curve.
11. The formation, functions, operations and administration of the Tender Board is as under:
 - a. The Committee of Tender Board⁹¹ consist of the following members:
 - i. The Deputy Governor, In-charge of the PDD (the Chairman);
 - ii. The Assistant Governor, In-charge of the PDD (Member);
 - iii. The Superintendent of Public Debt (Member);
 - iv. The Director, Domestic Operation Department (Member);
 - v. The Director, Economic Research Department (Member); and
 - vi. The Additional Superintendent of Public Debt (Secretary and Member).
 - b. The Tender Board reports to the Governor and is required to meet after closing of every Treasury Bond Auction.

⁸⁸ As per the PDD Operational Manual for the year 2005

⁸⁹ As per the PDD Operational Manual for the year 2007

⁹⁰ As per the PDD Operational Manual v2 updated as of 31 July 2013

⁹¹ As per (Appendix FO-12) of PDD Operational Manual version 2 updated as of 31 July 2013

- c. The objective of Tender Board is to determine the maturity-wise volume to be issued and the cut-off rate to be accepted at each Auction considering the developments in the market and Treasury's borrowing requirements while adhering to monetary policy requirements of the CBSL.
 - d. The Tender Board takes decisions on the amount to be accepted at the lowest and optimal cost and risk combination. Generally, the higher funds than the offered value are accepted to meet any shortfall or expecting increase in future yield rates.
12. The Tender Board, inter-alia, discuss the existing liquidity position of the market, current Secondary Market yield rates and market perceptions, current monetary policy and cashflow requirements of the Government in deciding the optimal option for an Auction.
 13. The Tender Board also compare WAYR of the bids placed during current Auction with the prevailing Secondary Market yield rates of similar maturities and the WAYR of corresponding previous Auction.
 14. The final decision of the Tender Board is submitted for the information and approval of the Governor of the CBSL.
 15. After the approval from the Governor of the CBSL, results are published by the PDD through an official Press Release indicating the ISIN, WAYR, the value offered, bids received, bids accepted, etc. in the Auction.

B. DIRECT PLACEMENTS OF TREASURY BONDS

In case the DDMC decides to raise funds through Direct Placements against the cashflow requirements of the Treasury, the process is as under:

1. As per the Operational Manual of PDD (*Refer Exhibit 23*)⁹², FO has to make arrangements to meet financing need as much as possible through Auctions. The balance fund requirements of the Government as indicated in the approved Borrowing Program may be arranged through Direct Placements with PDs and any other institution approved by the Monetary Board.

⁹² Refer Exhibit 23 for the copy of the highlight from PDD Operation Manual version 2013

2. The yield rates for the purpose of issue of Treasury Bonds through Direct Placements method were determined as provided in the table below:

Table 16: Yield Rates for issuance of Treasury Bonds through Direct Placements

#	Period	Determination of yield rates
1	January 2005 - December 2007	SPD in consultation with the Head of the FO, DSPD, ASPD(S) and the employees of the MO of the PDD
2	2008	Approved by the Monetary Board in a special yield rate structure
3	January 2009 - September 2012	SPD in consultation with the Head of the FO, DSPD, ASPD(S) and the employees of the MO of the PDD
4	October 2012 - February 2015	FO in discussions with and the guidance of SPD and approved by the Deputy Governor overseeing PDD through Assistant Governor overseeing PDD

3. The Monetary Board approved a special yield rate structure to be used for Direct Placements of Treasury Bonds in respect of captive investors during the period of January 2008 - April 2008 (*Refer Exhibit 24*)⁹³ and which was revised for the period of May 2008 - December 2008 (*Refer Exhibit 25*)⁹⁴.
4. As per the tabled board paper (*Refer Exhibit 24*)⁹⁵ in the Monetary Board meeting of 7 January 2008, the captive investors group operated in the long-term debt market were state owned and state managed captive type sources and the major captive investors were Employees Provident Fund, Employees Trust Fund and National Savings Bank.
5. In the year 2008, the Monetary Board (*Refer Exhibit 26*)⁹⁶ approved the issue of Treasury Bonds by way of Direct Placements to the EPF and the other captive sources at an interest rate of 5 (five) basis points above the Secondary Market rates through private placements for creating liquidity in the market.
6. However, from the period of October 2012 to February 2015, a yield rate structure (price approval list) was prepared by FO after discussion with SPD, ASPD and DSPD on a weekly basis for the reference of ISINs preferred for proposing the rates and issuing to the market.

⁹³ Refer Exhibit 24 for the minutes of the Monetary Board meeting held on 7 January 2008. Tabled Board Paper - MB/PD/1/26/2008

⁹⁴ Refer Exhibit 25 for the minutes of the Monetary Board meeting held on 2 May 2008. Tabled Board Paper - MB/PD/11/6/2008

⁹⁵ Refer Exhibit 24 for the minutes of the Monetary Board meeting held on 7 January 2008. Tabled Board Paper - MB/PD/1/26/2008

⁹⁶ Refer Exhibit 26 for the minutes of the Monetary Board meeting held on 7 October 2008. Tabled Board Paper - MB/PD/25/20/2008

7. Mr. Dhammika Nanayakkara confirmed before PCOI (Page no 440, Chapter 11) (Refer Exhibit 27)⁹⁷ that, a policy was set out on issues of Treasury Bonds through Direct Placements in a memo dated 20 September 2012 which reads as follows:

“Direct Placements of T-bonds

- i. Direct Placements of T-bonds will be conducted only if the Tender committee has decided to do so.*
 - ii. T-bond Direct Placements shall be conducted at weighted average yield rates decided at the latest primary Auction for the particular maturity.*
 - iii. If the latest primary Auction yield rate of the particular maturity is older than two weeks, the Committee shall decide the yield rate for the Direct Placement in consideration of the development in macroeconomic variables, the medium and long term macroeconomic outlook, movement in the yield rates at subsequent T-bill Auctions and also the Secondary Market yield rates. SPD shall prepare the rates for Direct Placements and obtain the approval of the Chairman of the Committee through the relevant Assistant Governor.*
 - iv. Duly approved yield rates referred to in iii. Above, shall be used for Direct Placements of T-bonds.*
 - v. Details of the Direct Placements shall be reported to the Chairman of the Committee on weekly basis.”*
8. Therefore, the approval on the yield rates was obtained from the Deputy Governor overseeing PDD from 1 October 2012 (Refer Exhibit 10)⁹⁸.
9. There are no written guidelines (Refer Exhibit 11)⁹⁹ for identifying the ISINs for which rates were proposed in the yield rate structure and the ISINs offered in the market during a particular issue. The SPD in consultation with the employees of the FO of PDD determines the ISINs to be offered in the market considering the factors such as Coupon Rate of ISIN, Bunching, Repayment and Interest payment cycle, Funds Requirement of the Treasury Operations Department, Liquidity, etc.

⁹⁷ Refer Exhibit 27 for Extract of PCOI stating the policy statement

⁹⁸ Refer Exhibit 10 for Summary of discussion for process understanding of issuance of Treasury Bonds through Direct Placements signed on 26 June 2019

⁹⁹ Refer Exhibit 11 for Summary of discussion with PDD on clarification on general queries on the process of issuance of Treasury Bonds through Direct Placement signed on 3 July 2019

10. The above yield rates for issue of Treasury Bonds through Direct Placements are arranged equal to or below the WAYR of the most recent Auction of similar maturity. When there is no corresponding Auction for instrument, the prevailing Secondary Market yield rates are applied with the consent of the Governor of the CBSL or SPD. An approval on the final yield rate structure is obtained by SPD from the DG through the AG overseeing PDD on the date on which such yield rate structure is prepared¹⁰⁰.
11. At times, spread over the referred rates are used as the volume-based inducements which are offered to the participants upon subscribing to particular ISIN. The volume-based inducements' spread was the basis points provided in the yield rate structure depending on the market conditions and the fund requirements of Treasury. The PDs subscribed in the ISINs with the rates over and above the approved rates but within the spread of basis points as provided in the structure. The SPD had discretion to accommodate the fund requirements of Treasury within the approved yield rate and the approved inducements.
12. Thereafter, on proposing the yield rates in the yield rate structure, ISINs to be offered in the market are determined by SPD among the ISINs for which yield rates are proposed. The demand of a particular ISIN and its tradability in the Secondary Market plays a vital role in determination of the ISINs to be offered for the respective Direct Placements.
13. Thereafter, two-way communications take place between the FO and PD regarding the quantity, value and yield rate of the Treasury Bonds. There are no formal announcements made for the issue of Treasury Bonds through Direct Placements. The market participants are aware that the funds would be accepted by way of Direct Placements after the Auctions.
14. The calls are primarily placed by the FO mainly to the state banks EPF & ETF. The PD calls the employees of the FO to check on the rates of the ongoing Direct Placements issues and selection of parties is based on "First Come, First Serve" basis. There are no written guidelines for the selection of parties for raising funds through Direct Placements. The issue through Direct Placements are open for all the participants of the Primary Market.

¹⁰⁰ As per the PDD Operational Manual version 2 updated as of 31 July 2013

15. In addition to the above, issue of Treasury Bonds through Direct Placements is made against the requests received from the Treasury for their “Administrative requirements”. Such Direct Placements involve issue of Treasury Bonds to designated PD as instructed by the Treasury and generally includes state banks. The Treasury provides following details for the purpose of administrative requirements:
- a. Name of the PD;
 - b. Amount to be issued;
 - c. Tenor; and
 - d. Yield Rates (If no yield rates were provided, yield rates in the Secondary Market were considered for the purpose of determining yield rates).
16. After closing the negotiations for regular as well as administrative fund requirements, the FO generates Issuance Tickets by entering the data fields from the Direct Placement list and the request from treasury for administrative requirements, to a stand-alone computer system. The verbal approval of the SPD is obtained on such Issuance Tickets. The exceptional approval is obtained from the Deputy Governor overseeing PDD on verbal basis depending on the situation.
17. After recording the deal details in the Direct Placement list, details were recorded in the requisite fields of Direct Placement stand-alone computer system in order to generate the Issuance Ticket. Issuance Ticket comprises of the following information:
- a. Name of the PD;
 - b. Name of the Chief Dealer of market participant;
 - c. Yield Rate of the Treasury Bond offered (Before tax / After tax);
 - d. Price of the Treasury Bond offered (Before tax / After tax);
 - e. Face Value of the Bond;
 - f. Accrued interest;
 - g. Tax amount;
 - h. Total amount payable; and
 - i. Placement arranged on date (“Transaction Date”)
18. The date on which details are entered in the stand-alone computer system from the Direct Placement list to generate the Issuance Ticket is produced by the system and is displayed at the bottom of the Issuance Ticket as “Placement arranged on” date. Vide discussions of 29 July 2019 with Mr. S S Ratnayake, the “Placement arranged on” date is considered as the transaction date on which the placement is arranged between the PDD and the EPF or PD for a particular transaction to be performed on the settlement date.
19. The issue of Treasury bonds through Direct Placements generally settles either on the same day i.e. T+1 basis or within five days i.e. T+5 basis.

20. After verbal approval of the SPD on the Issuance Ticket, a fax is provided to the respective PD for confirmation of the quantity, price and value of Treasury Bonds. The copy of the Issuance Tickets is handed over to MO, BO and CDS divisions of PDD for subsequent processing to be performed on the settlement date.
21. The placement details are then entered from the Issuance Tickets into the computer system known as 'Placement System' (operating on the AS-400 platform) for generating the 'Direct Placement Report'. The approval of DG overseeing PDD is obtained on the Direct Placement report through the AG overseeing PDD, SPD and ASPD.
22. Daily information of Direct Placement transactions is submitted to the Deputy Governor overseeing PDD, through Assistant Governor overseeing PDD for final approval and information. In that report, transaction wise name of the PD or the captive sources, ISIN, yield rate and the amount are reported. Further, at the end of each month, transaction wise details of given month's Direct Placement details are reported to the Governor through the implementation plan.

4.2.8. ISSUANCE OF SECURITIES AND REMITTANCE OF FUNDS TO THE ACCOUNT OF GENERAL TREASURY

Upon finalisation of accepted offers from Auction / Direct Placement, FO forwards the list of accepted offers to the BO. The process of issue of securities and remittance of funds to the Treasury Operations Department, as per PDD Operational Manual, Lanka Settle System Rules and discussion with the CBSL personnel (PDD and DIT) is as under:

- A. After the details of successful bids are entered in AS-400, a Securities Settlement Instruction is created containing the details - Participant Name, Account Type, Beneficial Owner (if applicable) and ISIN.
- B. The Lanka Settle Secure System ("LSSS")¹⁰¹ automatically creates "Securities Account" based on the information contained in each Securities Settlement Instruction as required according to the criteria above. Each PD also has a "Settlement Account" in Real Time Gross Settlement ("RTGS") System.

¹⁰¹ SSSS and CDS are the main elements of LSSS architecture. SSSS facilitates the settlement of transactions in Script-less securities and CDS records ownership (title) of script-less securities

- C. The settlement of script-less Government securities in Script-Less Securities Settlement System (“SSSS”) take place on Delivery versus Payment basis (“DVP”) on the date of settlement of Auction / Direct Placement. The DVP settlement is made only if there are sufficient funds and securities are available in the Settlement Account and Securities Account respectively.
- D. On the settlement date, script-less securities are transferred to successful PD with the corresponding fund transfer from settlement account of PD in RTGS system to PDD current account. This transfer of holdings of script-less securities is recorded electronically in the Central Depository System.
- E. The transaction-wise details as per AS-400 and CDS are compared for the Review Period for Auction and Direct Placements.
- F. Once the funds are received in the PDD current account, BO collects the PD wise allocation information from FO. The net settlement statements are prepared by BO based on the information provided by FO and shared vide fax to each successful participant.
- G. For the purpose of crediting funds to the account of Treasury Operations Department, BO creates “GLS Data Input Sheet” indicating the amount to be transferred to Deputy Superintendent of Treasury and a copy of this “GLS Data Input sheet” is forwarded to Domestic Operations Department (“DOD”).
- H. Based on “GLS Data Input Sheet” received from BO, DOD enter journal entry in the accounting software “I-Glass” by debiting PDD current A/c and crediting the account of Deputy Superintendent of Treasury. Thereafter, the funds are transferred to the account of General Treasury.
- I. Upon comparing the transaction-wise amount receivable from participants as per AS-400 records with the transaction recorded in the “I-Glass” software for Auctions and Direct Placements no anomalies are noted in remittance of funds from each PD to the PDD current account and transmitting of the same to the account of General Treasury maintained at DOD of the CBSL.

4.2.9. The following is the quantum¹⁰² of Treasury Bonds issued through Auctions and Direct Placements during the Review Period:

Table 17: Issuances through Direct Placements and Auctions (Amount in Rs. Billion)

Period	Issuance through Direct Placements			Issuance through Auction			Amount Accepted
	Count of Placements ¹⁰³	Count of transactions ¹⁰⁴	Accepted Face Value	Count of Auctions Conducted ¹⁰⁵	Count of ISIN offered	Amount Accepted	
Jan 2015- Feb 2015	13	37	93.45	-	-	-	93.45
2014	90	557	832.95	7	17	31.75	864.70
2013	103	414	815.94	13	30	201.20	1,017.13
2012	141	697	908.90	9	24	59.33	968.22
2011	114	446	576.84	9	24	26.11	602.95
2010	106	393	462.48	16	37	44.60	507.08
2009	88	604	649.21	30	80	53.73	702.94
2008	89	525	455.83	39	77	32.81	488.63
2007	100	355	382.67	38	70	18.51	401.19
2006	80	284	267.30	42	69	40.90	308.20
2005	66	192	177.35	44	65	49.15	226.50
Total (A)	990	4504	5,622.90	247	493	558.08	6,180.98
2004	40	97	162.86	30	34	56.34	219.20
2003	33	69	135.10	28	51	77.70	212.80
2002	0	0	-	1	3	5.00	5.00
Total (B)	73	166	297.96	59	88	139.04	437.00
Total (C) = (A)+(B)	1063	4670	5,920.86	306	581	697.12	6,617.98

¹⁰² The listing of issue of Treasury Bonds through Auction and Direct Placement is provided for January 2005 to February 2015 by DIT and the same was not available for the period January 2002 to December 2004. The listing of transactions for the period January 2002 to December 2004 was provided by MO of PDD.

¹⁰³ Count of Placements are the unique ISINs offered in a particular period of time

¹⁰⁴ Count of transactions are the total transactions of issuances of Treasury Bonds on all Direct Placement dates during the Review Period. There could be multiple transactions in single instance of Direct Placement.

¹⁰⁵ Excluding the Auction held on 27 February 2015 due to overlapping of the Review Period with RFP/TOR - 4

4.2.10. The detailed examination of the deviations and irregularities in issuance of Treasury Bonds through Auctions and Direct Placements is explained in subsequent Sections of this Report.

4.2.11. The Direct Placements in Treasury Bonds ranged between 78.30% and 100% during the period 2005 to 2015. The proportions of Treasury Bonds issued through Direct Placements and Auctions to the total issues made are provided in the table below:

Table 18: Comparison of Direct Placements and Auctions to the total issuances

(Amount in Rs. Billion)

Year	Issuance of Treasury Bonds through Direct Placements	Issuance of Treasury Bonds through Auctions	Total Issuance of Treasury Bonds	Ratio of Direct Placement and Auction (Based on Face Value)
2005	177.35	49.15	226.50	78.30%
2006	267.30	40.90	308.20	86.73%
2007	382.67	18.51	401.19	95.39%
2008	455.83	32.81	488.63	93.29%
2009	649.21	53.73	702.94	92.36%
2010	462.48	44.60	507.08	91.20%
2011	576.84	26.11	602.95	95.67%
2012	908.90	59.33	968.22	93.87%
2013	815.94	201.20	1,017.13	80.22%
2014	832.95	31.75	864.70	96.33%
2015	93.45	-	93.45	100.00%
Total	5,622.90	558.08	6,180.98	

DETAILED OBSERVATIONS

- ▶ The detailed observations in the subsequent Sections of the Report are based on the understanding of activities performed by the PDD in raising the public debt as required by the Treasury Operation Department. Refer Section 4 of this Report for the detailed overview of the activities performed by the PDD.
- ▶ The Section-wise bifurcation of the detailed observations in the subsequent Section of the Report is as under:

Table 19: Classification of Observations

# Observations	Section Reference
1 Deviations from Laws, Regulations and Guidelines	
(i) Compliance with Registered Stock and Securities Ordinance	Section 5.1
(ii) Approval Process of the PDD Operational Manual	Section 5.2
(iii) PDD Operational Manual not updated	Section 5.3
(iv) Deviations in information submitted to the Management and the Monetary Board	Section 5.4
(v) Deviation from the Approved Yield Rates	Section 5.5
(vi) Suspension of Direct Placements on 27 February 2015	Section 5.6
2 Irregularities in Direct Placement issues	
(i) Settlement of Direct Placements made beyond five days from transaction date	Section 6.1
(ii) ISIN offered in Direct Placements without conducting Auctions	Section 6.2
(iii) Same ISIN offered to same PDs at different prices on the same Transaction Date and same Settlement Date	Section 6.3
(iv) Same ISIN offered to different PDs at different prices on the same Transaction Date and same Settlement Date	Section 6.4
3 Irregularities in issuance of Treasury Bonds through Auctions	
(i) Irregular bidding pattern indicating potential leakage of price sensitive information	Section 7.1
(ii) Analysis of cancelled Auctions	Section 7.2
4 Computation of loss	
(i) Computation of loss in Auctions	Section 8.1
(ii) Computation of loss in Direct Placements	Section 8.2

5. DEVIATIONS FROM THE LAWS, POLICIES AND GUIDELINES

5.1. COMPLIANCE WITH REGISTERED STOCK AND SECURITIES ORDINANCE

- 5.1.1. As explained in Section 4.1 of the Report, the Central Bank of Sri Lanka have the authority to take any action necessary for the issue and trading of scripless Treasury Bonds.
- 5.1.2. There were no deviations noted with respect to the provisions applicable under the Registered Stock and Securities Ordinance¹⁰⁶, based on the combined reading of the provisions of Registered Stock and Securities Ordinance, PDD Operational Manual and the process understanding gathered from the former and current officials of the PDD.

5.2. APPROVAL PROCESS OF THE PDD OPERATIONAL MANUAL

- 5.2.1. The copies (different versions) of the PDD Operational Manual applicable for the Review Period were provided. A review of these manuals indicate that these manuals were not approved by the Monetary Board of the CBSL. (Refer Exhibit 1)¹⁰⁷. The details of activities performed in raising of public debt on behalf of the Treasury Operations Department, can at best be considered as practices adopted / followed by the PDD.
- 5.2.2. As explained in Section 4 above, the Monetary Board, vide a meeting of 14 February 1997, recommended the Government of Sri Lanka for Auction of Treasury Bonds through PDs from March 1997. However, the policies and procedures adopted by the CBSL for execution of this recommendation was not approved by the Monetary Board of the CBSL.

¹⁰⁶ Incorporating amendments up to 31 December 2004

¹⁰⁷ Refer Exhibit 1 for E-mail communication for non-approval of PDD Operational Manual by the Monetary Board

- 5.2.3. During an interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2016 (Refer Exhibit 15)¹⁰⁸, regarding the PDD Operational Manual updated as on 31 July 2013 he stated that “It was approved through the line of reporting i.e. through the Assistant Governor (Mr. A. Kamalasiri) to the Deputy Governor (Mr. Anand Silva). Thereafter, it was sent to the Internal Audit Department of CBSL as well. There was no internal requirement that the Operational Manual of the various departments should be approved by the Monetary Board. Also, the Monetary Board never asked for the same.” No contrary information was obtained during the interviews conducted with the former Deputy Governors of the CBSL overseeing PDD during the Review Period.
- 5.2.4. During discussions with the current members of the Monetary Board, it was explained that there was no such stated procedure defined for the PDD Operational Manuals to be submitted to the Monetary Board on an annual basis.
- 5.2.5. The Monetary Board, at its Meeting No. 16/2017 held on 28 April 2017, decided that all Head of Departments (“HDD”) shall follow the prescribed procedure for maintaining annually updated Operational Manuals for their respective departments. An Internal Memorandum, dated 16 May 2017, was circulated to all Heads and Additional Heads of the respective Departments for updating Operational Manuals on annual basis which specify that the HDD shall follow the procedures given below:
- A. By the end of November of each year, the HDD shall update the Operational Manuals in line with relevant policy decision taken up to that date. The first update was required to be completed before 30 November 2017 in line with all policy decisions taken till 30 November 2017. Thereafter, by 30 November of each year, the Operational Manuals shall be updated based on the policy decision taken during the preceding 12-month period.
 - B. The HDD shall then obtain the approval of the relevant Assistant Governor and Deputy Governor overseeing the Department for the Operational Manuals updated as at 30 November 2017 and thereafter, for all updated done annually.
 - C. The first page of each Operational Manual shall contain a Positive Assurance Statement and jointly signed by relevant HDD, Assistant Governor and Deputy Governor confirming that the Operational Manual has been updated as at the given date and its contents are in conformity with all applicable laws, regulations, internal policies and procedures, delegated authority of the CBSL / relevant departments, etc.

¹⁰⁸ Refer Exhibit 15 for the statement of facts signed by Mr. Dhammika Nanayakkara on 25 and 26 September 2019

- D. Each HDD shall submit a copy of the updated Operational Manual to Department of Internal Audit (“DIA”) before 31 December of each year along with the abovementioned Positive Assurance Statement.
- E. In instances where there are no policy decisions or updates required to an Operational Manual, the HDD shall inform DIA in writing through the relevant Assistant Governor and Deputy Governor by 31 December of that year.
- F. The DIA shall collect the Operational Manuals from all the Departments and submit the copies of the Positive Assurance Statements of all Departments to the Monetary Board for their information before end January of the following year.
- G. In instances of significant changes that need to be incorporated into an Operational Manual on an immediate basis, updated shall be done by the HDD with approval of the relevant Assistant Governor and Deputy Governor and a copy of such updated Operational Manual, along with the Positive Assurance Statement, shall be submitted to the DIA. The Positive Assurance Statement of such Manual shall be submitted for information of the Monetary Board by DIA within a month of receipt of same from the concerned Department.

5.2.6. It was informed that with effect from 2017, the above-mentioned process has been adopted on an annual basis.

5.3. PDD OPERATIONAL MANUAL NOT UPDATED

- 5.3.1. As explained in Section 4.2.7 of the Report, a policy was introduced (*Refer Exhibit 27*)¹⁰⁹ by the former SPD Mr. Dhammika Nanayakkara on issuances of Treasury Bonds through Direct Placements vide memo dated 20 September 2012 and with effect from October 2012 till February 2015, the yield rate structures were prepared and approved by the DG overseeing PDD. These yield rate structures provide ISINs to be offered and yield rates forming basis of negotiating with the market participants before issuance of Treasury Bonds through Direct Placements.
- 5.3.2. Nevertheless, the PDD Operational Manual updated as on 31 July 2013 does not include the concept of preparation, authorisation and implementation of yield rate structure. Therefore, the governing documents for operations of PDD does not formalise the concept of yield rate structure and deviant from the understanding that all policies and procedures are adequately captured in the PDD Operation Manual.

¹⁰⁹ Refer Exhibit 27 for the Extract of PCOI stating the policy statement

5.4. DEVIATIONS IN INFORMATION SUBMITTED TO THE MONETARY BOARD

- 5.4.1. Till 31 December 2007, the CBSL raised funds through Direct Placements by way of issuance of Treasury Bonds to the EPF and other captive sources only.
- 5.4.2. In the Monetary Board Paper dated 7 January 2008¹¹⁰ (Refer Exhibit 24), it was stated that “*the Government needed to borrow large amounts of money by way of Treasury Bonds and it was not able to raise through the normal Auction process at a reasonable yield rates. Therefore, Monetary Board approval was sought for raising funds available with captive types investors through Direct Placements as per the yield rate structure proposed for medium and long-term Treasury Bonds.*”. This Monetary Board paper was signed by Dr. W A Wijewardena, Mr. M A R C Cooray, Mrs. C Premarathna and Mr. C J P Siriwardena¹¹¹.
- 5.4.3. The Monetary Board approval was given to raise the funds available with captive type large investors through Direct Placements. Further, considering the bunching problem in the domestic debt, Monetary Board instructed to issue long term securities in order to lower the refinancing risk in the future. Accordingly, PDD raised Rs. 115 Billion from EPF, NSB and ETF by issuing Treasury Bonds through Direct Placements during January-April 2008.
- 5.4.4. As per the decision of the Monetary Board Meeting held on 2 May 2008 (Refer Exhibit 25)¹¹², the Monetary Board approved the proposed rate structure to be used for Direct Placements of Treasury Bonds in respect of captive type large investors such as Employees’ Provident Fund, National Saving Bank and Employees’ Trust Fund during May-December 2008.
- 5.4.5. The Monetary Board also approved the issuance of Treasury Bonds to EPF and other captive sources at an interest rate of 5 basis points above the Secondary Market rates through Direct Placements in the Monetary Board meeting held on 7 October 2008 (Refer Exhibit 26)¹¹³.
- 5.4.6. Hence, it is evident that the Monetary Board discussed and approved the issue of Treasury Bonds by way of Direct Placements only to the EPF and the “other Captive Sources”. The Monetary Board has not specifically discussed and approved issuance of Government securities through Direct Placements to from PDs other than EPF and “other Captive Sources”.

¹¹⁰ Refer Exhibit 24 for copy of Minutes of the Monetary Board meeting held on 7 January 2008. Tabled Board Paper - MB/PD/1/26/2008

¹¹¹ The then Deputy Governor, Assistant Governors and Acting SPD respectively

¹¹² Refer Exhibit 25 for Minutes of the Monetary Board meeting held on 2 May 2008. Tabled Board Paper - MB/PD/11/6/2008

¹¹³ Refer Exhibit 26 for Minutes of the Monetary Board meeting held on 7 October 2008. Tabled Board Paper - MB/PD/25/20/2008

- 5.4.7. However, from February 2008 onwards, the PDD had been issuing Government securities through Direct Placements to PDs (other than EPF) and “other Captive Sources”.¹¹⁴ Subsequently, the PDD submitted Monetary Board papers on a monthly basis indicating / listing of non-EPF and non-captive sources issuances through Direct Placements. However, this practice of accepting Direct Placements from PDs has never been questioned by the Monetary Board.
- 5.4.8. The minutes of the meeting of the Monetary Board held on 28 August 2017, inter alia, mention that, *“From 2003, details of all Direct Placements were reported to the Monetary Board and the details were given in the Annual Report which is a Report of the Monetary Board. After 2007, all details were incorporated in the Public Debt Department’s (PDD) debt bulletin. Accordingly, the Board noted that there was implicit approval of the Monetary Board for Direct Placements.”*
- 5.4.9. On review of the Annual Reports and debt bulletins of Public Debt Department’s (PDD), it was noted that these reports don’t contain the PDs wise break up of issue of Treasury Bonds through Direct Placements which was provided to the Monetary Board.
- 5.4.10. It was explained by the CBSL employees that the summary of funds raised (PD-wise) by issue of Treasury Bonds through Direct Placement method was submitted to the Governor on a monthly basis through the DDMC implementation plan submitted in the DDMC meeting. Hence, it is construed that the Governor being the chairman of the Monetary Board, acceptance of Direct Placements by PDD from Non-Captive PDs was in the knowledge of the Monetary Board and the practice of accepting the Direct Placements from other than “captive sources” was continued by PDD from 2008 onwards.
- 5.4.11. During an interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2016 (Refer Exhibit 15)¹¹⁵, he confirmed that *“All the issues of Treasury Bonds through Direct Placements were reported on the daily basis to the DG through Direct Placement Reports (PD-wise); on the monthly basis to the Governor through the DDMC Implementation Plan submitted in the DDMC meetings (PD-wise) and to the Monetary Board through the Progress of information of borrowing program on quarterly basis (Total of direct placements and Auctions). However, in the absence of any requirements from Monetary Board, the specific information on funds raised through Direct Placements from non-captive PDs was not submitted.”* No contrary information was obtained

¹¹⁵ Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

during the interviews conducted with the formers Deputy Governors of the CBSL overseeing PDD during the Review Period.

- 5.4.12. The Direct Placements were the primary method of raising public debt by the issue of Treasury Bonds. Out of the total debts raised amounting to Rs. 6,180.98 Billion during the period of January 2005 to February 2015, PDD has raised Rs. 5,622.90 Billion by issue of Treasury Bonds through Direct Placements. The total amount of Direct Placements accepted from EPF and other Captive Sources during the Review Period is Rs. 5,069.23 Billion which is 90.15% of the total Direct Placements made to the PDs.
- 5.4.13. Further, no Direct Placements was made to Non-Captive PDs till the year 2007. The total amount of Direct Placements accepted by the PDD from February 2008 onwards from PDs who were not the “Captive Sources” is Rs. 553.67 Billion which is 9.85% of the total Direct Placements made to the PDs till 28 February 2015. However, The Monetary Board had given approval only for the acceptance of Direct Placements from “Captive Sources”.
- 5.4.14. The PDD officials who approved the Direct Placements during the period after the year 2008 are as following:

Table 20: Officials of PDD approving Direct Placements

YEAR	DESIGNATION	NAMES OF THE OFFICIALS	PERIOD
2008	DG overseeing the PDD	Dr. W A Wijewardena	
	SPD	Mr. C J P Siriwardena	
2009	DG overseeing the PDD	Dr. W A Wijewardena	Up till 6 July 2009
	SPD	Mr. C J P Siriwardena	
2010	DG overseeing the PDD	Mr. K G D D Dheerasinghe	From 12 February 2010
	SPD	Mr. C J P Siriwardena	Up till 14 June 2010
		Mr. S S Ratnayake	From 14 June 2010
2011	DG overseeing the PDD	Mr. K G D D Dheerasinghe	
	SPD	Mr. S S Ratnayake	
2012	DG overseeing the PDD	Mrs. C Premarathne	Up till 16 December 2012
		Mr. B D W A Silva	From 17 December 2012
	SPD	Mr. N W G R D Nanayakkara	
2013	DG overseeing the PDD	Mr. B D W A Silva	
	SPD	Mr. N W G R D Nanayakkara	
2014	DG overseeing the PDD	Mr. B D W A Silva	
	SPD	Mr. N W G R D Nanayakkara	
2015	DG overseeing the PDD	Mr. B D W A Silva	Up till 9 February 2015
		Mr. P Samarasiri	From 9 February 2015
	SPD	Mr. N W G R D Nanayakkara	Up till 6 February 2015
		Mrs. C M D N K Seneviratne	From 9 February 2015

- 5.4.15. The following table depicts the year-wise and Captive and Non-Captive Primary Dealers-wise the aggregate number of Direct Placements accepted by the PDD during the period 1 January 2005 to 28 February 2015. It was noted that the loss caused from the Direct Placement transactions with non-captive PDs were not falling as the outliers when compared to transactions with the EPF and other captive sources.

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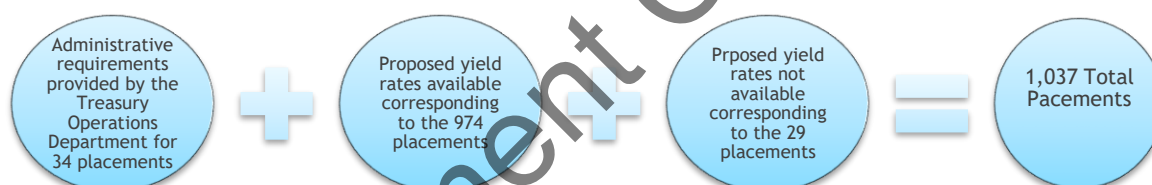
Table 21: Year-wise and Captive and Non-Captive Primary Dealers wise Direct Placements

(Amount In Billion)

#	Name of the PD	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	%
Captive PDs														
1	Employees Provident Fund	71.79	108.64	170.84	196.63	227.88	190.64	277.36	319.60	331.97	223.57	30.80	2,149.72	38.23%
2	Bank of Ceylon	35.91	45.72	60.45	57.96	160.49	98.14	114.71	364.85	230.21	141.66	4.05	1,314.14	23.37%
3	NSB Fund Management Company Limited	27.94	39.78	120.35	78.18	114.25	109.00	96.87	107.37	114.58	138.23	12.37	958.92	17.05%
4	People's Bank	41.72	73.16	31.03	67.57	61.40	43.02	76.51	74.13	49.44	104.23	24.23	646.44	11.50%
	Total (A)	177.35	267.30	382.67	400.34	564.02	440.80	565.46	865.95	726.20	607.68	71.45	5,069.23	90.15%
Non-Captive PDs														
5	Commercial Bank of Ceylon Limited	-	-	-	3.55	25.11	5.28	2.25	23.57	21.50	82.01	10.00	173.26	3.08%
6	First Capital Treasuries Limited	-	-	-	20.51	19.98	0.40	1.50	7.66	11.61	15.08	-	76.74	1.36%
7	WealthTrust Securities Limited	-	-	-	-	-	-	-	6.28	26.59	34.06	6.60	73.53	1.31%
8	Seylan Bank PLC	-	-	-	-	-	12.06	2.50	0.19	8.60	28.24	2.00	53.59	0.95%
9	Acuity Securities Limited	-	-	-	1.28	3.79	1.71	0.75	1.52	14.64	21.66	-	45.33	0.81%
10	Hongkong & Shanghai Banking Corp.	-	-	-	-	-	-	-	-	3.17	36.17	3.40	42.74	0.76%
11	Capital Alliance	-	-	-	4.54	9.66	1.16	3.71	2.77	3.39	3.67	-	28.89	0.51%
12	Seylan Bank Asset Mgmt.	-	-	-	16.44	6.47	-	-	-	-	-	-	22.90	0.41%
13	Entrust Securities PLC	-	-	-	6.20	13.13	0.97	0.34	0.96	0.24	0.79	-	22.62	0.40%
14	Sampath Surakum	-	-	-	0.20	6.00	-	-	-	-	-	-	6.20	0.11%
15	Natwealth Securities Limited	-	-	-	2.78	1.06	0.10	0.34	-	-	1.10	-	5.37	0.10%
16	Perpetual Treasuries	-	-	-	-	-	-	-	-	-	2.50	-	2.50	0.04%
	Total (B)	-	-	-	55.49	85.18	21.67	11.39	42.95	89.73	225.26	22.00	553.67	9.85%
	Grand Total (C) = (A)+(B)	177.35	267.30	382.67	455.83	649.21	462.48	576.84	908.90	815.94	832.94	93.45	5,622.90	100.00%

5.5. DEVIATION FROM THE APPROVED YIELD RATES

- 5.5.1. As explained in Section 4.2.7 B of the Report, from October 2012 - February 2015, yield rate structures were prepared and approved by the DG overseeing PDD. These yield rate structures provide ISINs to be offered and yield rates forming basis of negotiating with the market participants before issuance of Treasury Bonds through Direct Placements.
- 5.5.2. The various market factors such as Coupon Rate of ISIN, Bunching, Interest and repayment cycle, Fund Requirements of the Treasury Operations Department and market liquidity were taken into consideration for proposing the yield rates. The yield rate structure also includes the volume-based inducements to be provided to the PDs on the basis of volumes invested by them¹¹⁶.
- 5.5.3. During the Review Period, 1,037 Direct Placements were made for issue of Treasury Bonds amounting to Rs. 1,822.71 Billion pertaining to the period of October 2012 to February 2015 wherein the policy of preparing the yield rate structure was functioning.



- 5.5.4. Out of above 1,037 Direct Placements, 34 Direct Placements amounting to Rs. 151.70 Billion were made against the administrative requirements provided by the Treasury Operations Department and were directive of the rates. Hence, the issue-rates considered for such placements, even if higher than the proposed rates, were not considered for review (*Refer Annexure 14 B*)¹¹⁷.
- 5.5.5. Out of the remaining 1,003 Direct Placements, it was noted that proposed yield rates corresponding to the 974 placements amounting to Rs. 1,627.13 Billion were available and the proposed yield rates corresponding to the 29 placements amounting to Rs. 43.87 Billion could not be ascertained due to the non-availability of yield rate structures or the yield rates corresponding to the ISINs in the yield rate structures.

¹¹⁶ Refer Exhibit 10 for Summary of discussion for process understanding of issuance of Treasury Bonds through Direct Placements signed on 26 June 2019

¹¹⁷ Refer Annexure 14 B for the list of 209 Direct Placements made against the administrative requirement provided by the Treasury Operations Department.

PROPOSED YIELD RATES AVAILABLE CORRESPONDING TO THE PLACEMENTS MADE

5.5.6. Out of the 974 placements amounting to Rs. 1,627.13 Billion wherein the proposed yield rates corresponding to the placements were available, 832 placements amounting to Rs. 1,289.83 Billion were made at an issue-rate equal to or below the proposed yield rates.

5.5.7. 142 out of 974 placements amounting to Rs. 337.30 Billion were made above the proposed yield rates including the volume-based inducements. The proposed yield rates were the benchmark rates determined by the SPD and approved by DG overseeing PDD after considering various market factors as explained in Section 4.2.7. of the Report and were used by the FO of the PDD in negotiation with the PDs. Therefore, the issuance of Treasury Bonds in 142 placements above the proposed yield rates are considered significant and irregular. The table below summarizes the year-wise and PD-wise break-up of these 142 Direct Placements (*Refer Annexure 15*)¹¹⁸:

Table 22: 142 Direct Placements above the proposed yield rates (Amount in Rs. Billion)

#	Year	Name of PD	Number of Placements	Amount Tendered
1	2012	Bank of Ceylon	3	10.27
		Employees Provident Fund	7	58.71
		NSB Fund Management Company Limited	4	7.74
		People's Bank	2	2.66
		WealthTrust Securities Limited	1	0.20
2	2013	Acuity Securities Limited	1	2.00
		Bank of Ceylon	14	15.87
		Capital Alliance	1	0.01
		Commercial Bank of Ceylon Limited	1	0.50
		Employees Provident Fund	12	85.33
		Entrust Securities PLC	2	0.01
		First Capital Treasuries Limited	9	3.50
		NSB Fund Management Company Limited	4	14.91
		People's Bank	3	6.63
		Seylan Bank PLC	5	3.25
		WealthTrust Securities Limited	8	1.55
3	2014	Acuity Securities Limited	2	1.00
		Bank of Ceylon	3	5.00
		Commercial Bank of Ceylon Limited	8	16.00
		Employees Provident Fund	9	37.14
		First Capital Treasuries Limited	6	1.25

¹¹⁸ Refer Annexure 15 for the details of 142 Direct Placements where the issue rates were higher than the approved yield rates

#	Year	Name of PD	Number of Placements	Amount Tendered
		NSB Fund Management Company Limited	15	41.28
		People's Bank	3	6.67
		Perpetual Treasuries	1	0.20
		WealthTrust Securities Limited	15	7.30
4	2015	Hongkong & Shanghai Banking Corp.	1	4.92
		Commercial Bank of Ceylon Limited	2	3.40
Total			142	337.30

5.5.8. During an interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)¹¹⁹, it was explained that these deviations might have been done due to the strict funding requirements of the Government and were verbally discussed with concerned DG overseeing the PDD before finalising the deal. However, these deviations were not explicitly documented either on the yield rate structure signed by the SPD, AG and DG overseeing PDD, nor on the Direct Placement Reports signed by SPD and DG overseeing PDD. No contrary information was obtained during the interviews conducted with the former Deputy Governors of the CBSL overseeing the PDD during the Review Period.

5.5.9. The employees of the PDD approving the above 142 Direct Placements are as following:

Table 23: PDD employees during 142 Direct Placements

#	Designation	Official of PDD	Period
1	DG overseeing PDD	Mrs. C Premarathna	1 Jan 2012 - 16 December 2012
		Mr. B D W A Silva	17 December 2012 - 9 February 2015
		Mr. P Samarasiri	9 February 2015 - 28 February 2015 ¹²⁰
2	SPD	Mr. N W G R D Nanayakkara	1 January 2012 - 6 February 2015
		Mrs. C M D N K Seneviratne	9 February 2015 - 28 February 2015

¹¹⁹ Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

¹²⁰ End of the Review Period

5.5.10. Subsequently, it was identified that out of above 142 irregular issuances of Treasury Bonds through Direct Placements, 33 placements amounting to Rs. 77.63 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting in a loss of Rs. 871.10 Million to the Government of Sri Lanka. The computation of loss is explained in detail in subsequent Section (Refer Section 8.2).

PROPOSED YIELD RATES NOT AVAILABLE CORRESPONDING TO THE PLACEMENTS MADE

5.5.11. Out of the 29 placements amounting to Rs. 43.87 Billion wherein the proposed yield rates were not available corresponding to the placements made, in 10 placements amounting to Rs. 10.33 Billion, the yield rate structures were not available. Consequently, the issues of Treasury Bonds in these 10 placements are considered as irregular and unauthorized. A year-wise and PD-wise list of these 10 Direct Placements (Refer Annexure 16 and Exhibit 15A)¹²¹ is provided below:

Table 24: Yield Rate Structures not available (Amount in Rs. Billion)

#	Year	Name of PD	Number of Placements	Amount Tendered
1	2013	Capital Alliance	1	0.01
2	2014	Bank of Ceylon	1	4.44
		Commercial Bank of Ceylon Limited	1	1.00
		First Capital Treasuries Limited	1	0.30
		NSB Fund Management Company Limited	1	0.95
		People's Bank	2	2.63
		Perpetual Treasuries	1	0.25
		WealthTrust Securities Limited	2	0.75
TOTAL			10	10.33

5.5.12. In the remaining 19 out of 29 Direct Placements amounting to Rs. 33.54 Billion, the yield rates were not mentioned in the approved yield rate structures for the ISINs issued in these placements. Consequently, the issuance of Treasury Bonds through Direct Placements in these 19 instances is considered as irregular and unauthorized.

¹²¹ Refer Annexure 16 and Exhibit 15A for the list of 10 Direct Placements wherein the Yield Rate Structures were not available

- 5.5.13. Out of the 19 placements, in two placements amounting to Rs. 4.35 Billion, it was specifically mentioned in the yield rate structures that these bond series “will not be offered”. The details of two placements are summarized as following:

Table 25: ISINs mentioned as “will not be offered” (Amount in Rs. Billion)

#	Placement arranged date	Bond Series	Name of PD	Name of buyer	Amount Tendered
1	13-Aug-2013	11.25%2014A	Bank of Ceylon	HSBC	3.90
2	14-Aug-2013	09.00%2014A	Bank of Ceylon	Citi Bank	0.45
TOTAL					4.35

- 5.5.14. A year-wise and PD-wise list of remaining 17 Direct Placements is provided below (Refer Annexure 17 and Exhibit 15B)¹²²:

Table 26: Yield-rates corresponding to the ISINs not available (Amount in Rs. Billion)

#	Year	Name of PD	Number of Placements	Amount Tendered
1	2013	Bank of Ceylon	6	8.40
		NSB Fund Management Company Limited	1	1.10
		Seylan Bank PLC	1	1.25
2	2014	Bank of Ceylon	1	2.00
		Commercial Bank of Ceylon Limited	1	6.00
		NSB Fund Management Company Limited	1	0.94
		Peoples’ Bank	2	5.21
		WealthTrust Securities Limited	4	4.30
TOTAL			17	29.19

- 5.5.15. During an interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)¹²³, he stated “The above deviations were because of the willingness of the investors to invest in some particular series only and the funding requirements of the Government. If the investors preference is that series only and we need to fund the Government requirements, we had to compromise factors such as bunching, etc. These deviations were verbally discussed with the Deputy Governor (during my period Mrs. C. Premarathne and Mr. Anand Silva) and a post-facto approval was obtained. The deviations were not explicitly mentioned on the Direct Placement Reports submitted for approval.” No contrary information was obtained during the interviews

¹²² Refer Annexure 17 and Exhibit 15B for the List of 19 Direct Placements wherein the yield rates corresponding to the ISINs were not available

¹²³ Refer Exhibit 15 for Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

conducted with the former Deputy Governors¹²⁴ of the CBSL overseeing PDD during the Review Period.

- 5.5.16. It may be noted that the Direct Placements Reports submitted to the DG overseeing PDD, didn't mention about the above identified deviations and the 29 Direct Placements were approved by the following PDD employees:

Table 27: PDD employees during 29 Direct Placements

#	Designation	Official of PDD	Period
1	DG overseeing PDD	Mr. B D W A Silva	17 December 2012 - 9 February 2015
		Mr. P Samarasiri	9 February 2015 - 28 February 2015 ¹²⁵
2	SPD	Mr. N W G R D Nanayakkara	1 January 2012 - 6 February 2015
		Mrs. C M D N K Seneviratne	9 February 2015 - 28 February 2015

- 5.5.17. Subsequently, it was identified that out of above 29 placements which are considered as irregular and unauthorized, nine placements amounting to Rs. 16.75 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to the loss of Rs. 18.71 Million to the Government of Sri Lanka.

- 5.5.18. In summary, in 42 placements (*Refer Section 5.5.10 & 5.5.17 and Annexure 18*)¹²⁶ a loss of Rs. 889.81 Million was caused to the Government of Sri Lanka due to the deviations in the issue rates over and above the prevailing Secondary Market yield rates of similar maturities. The computation of loss is explained in detail in Section 8.2. of the Report. The PD-wise break-up of this loss is as below:

Table 28 : Loss in 42 Direct Placements

(Amount in Rs. Million)

Classification	BOC	Commercial Bank	EPF	NSB	People's Bank	Seylan Bank	Wealth Trust	Total
Yield rates higher than proposed rates	376.98	12.84	69.87	279.56	116.44	-	15.41	871.10
Yield rates not available	9.88	3.71	-	2.38	-	2.74	-	18.71
Total	386.86	16.55	69.87	281.94	116.44	2.74	15.41	889.81

¹²⁴ Mr. W A Wijewardena (former Deputy Governor overseeing the PDD for the period 7 August 2002 to 6 July 2009), Mr. K G D D Dheerasinghe (former Deputy Governor overseeing the PDD for the period 12 February 2010 to 31 December 2011) and Mr. B D W A Silva (former Deputy Governor overseeing the PDD for the period 27 September 2012 to 9 February 2015).

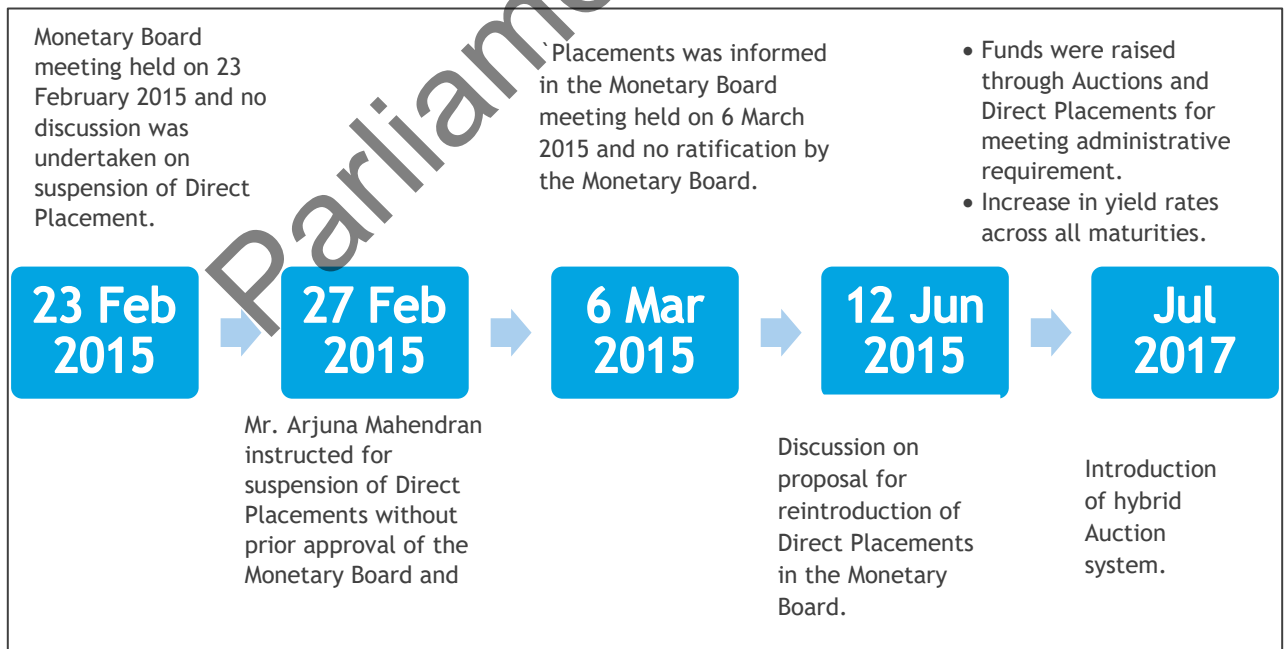
¹²⁵ End of the Review Period.

¹²⁶ Refer Annexure 18 for the list of 42 Direct Placements deviations and the loss caused.

5.6. SUSPENSION OF DIRECT PLACEMENTS ON 27 FEBRUARY 2015

BACKGROUND

- 5.6.1. As stated earlier in Section 4.2.7 B of the Report, the Monetary Board approved the issue of Treasury Bonds by way of Direct Placements only to the EPF and the “Other Captive Sources”. The Monetary Board has not specifically approved accepting Direct Placements from PDs other than EPF and Captive sources. However, from 2008, the PDD started accepting Direct Placements from PDs other than EPF and “Other Captive Sources” and this practice of accepting funds from PDs through Direct Placements method was never questioned by the Monetary Board.
- 5.6.2. Till February 2015, over 90% of the funds raised from issue of Treasury Bonds were obtained by accepting Direct Placements. Therefore, this practice of the PDD accepting Direct Placements was entrenched in the market. The dealers expected the PDD to continue to accept Direct Placements and the quantum of funds raised by way of Auction of Treasury Bonds would continue to constitute a relatively small proportion of the total fund requirement.
- 5.6.3. On 27 February 2015, the PDD discontinued the Direct Placements as a method for raising funds on the instructions given by Arjuna Mahendran, the then Governor of the CBSL. The below chart depicts the events capturing the suspension of Direct Placements and subsequent actions of the CBSL:



The details of the above-mentioned events are explained in subsequent Sections.

5.6.4. MONETARY BOARD MEETING HELD ON 23 FEBRUARY 2015

On review of minutes (*Refer Exhibit 28*)¹²⁷ of the Monetary Board held on 23 February 2015, it was noted that there was consideration on the monetary policy, currency swap arrangement with Reserve Bank of India, progress reports on statutory examinations of Licensed Banks and various other matters. However, there was no discussion regarding changes in the Direct Placements and any decision of suspending the Direct Placements.

5.6.5. SEQUENCE OF EVENTS ON 27 FEBRUARY 2015 AND GOVERNOR' INSTRUCTIONS ON SUSPENSION OF DIRECT PLACEMENTS

- A. As per the facts stated in PCOI, on 27 February 2015, Arjuna Mahendran visited the PDD and inquired about the Auction details and specifically on the bids that had been received. The requisite details could not be shared with him since the Auction was in progress and details were not available. At the closure of Auction, the PDD of the CBSL prepared the option sheet for the Auction and after evaluation, the PDD recommendation was to accept bids valuing to Rs. 2.608 Billion.
- B. Dr. M Z M Aazim stated before the PCOI that at the second visit to the PDD, Mahendran's inquired about the Auction results and instructed to accept all bids. The senior management of the PDD raised concerns on acceptance of all bids amounting to Rs. 20 Billion as it would increase the yield rates in the Secondary Market. Thereafter, Mahendran instructed SPD to accept bids to a value of approximately Rs. 10 Billion.
- C. Dr. M Z M Aazim also stated before the PCOI that Mahendran had also mentioned at this point that we could move away from Direct Placements methodology. CMDNK Seneviratne also stated before the PCOI that Mahendran instructed that this is the best time to stop this alternative arrangement like Direct Placements and the PDD should start accepting funds only through market-based Auctions.
- D. Mr. Arjuna Mahendran testified before the PCOI and confirmed that he had indeed given such instructions to the officers of the PDD.

¹²⁷ Refer Exhibit 28 for the minutes of the Monetary Board meeting of 23 February 2015

5.6.6. MONETARY BOARD MEETING HELD ON 6 MARCH 2015

- A. Arjuna Mahendran (Para 50, Section 5.50, Chapter 5 of the PCOI) confirmed before the PCOI that his decision to continue only public Auction and stoppage of Direct Placements was agreed at the Monetary Board meeting held on 6 March 2015.
- B. On review of minutes of the Monetary Board held on 6 March 2015 (Refer Exhibit 29)¹²⁸, Para 3.3 of the minutes states that *“The chairman informed the Board that the Central Bank temporarily suspended the method of Direct Placements of Treasury Bills and Treasury Bonds used to raise the funds for the Government with a view to move towards a greater market mechanism based on standard Auction system followed alternatively at present. Accordingly, the Central Bank at the 30-year Treasury Bond Auction held on 27 February 2015 decided to accept Rs. 10 Billion out of Rs. 20 Billion worth bonds received for Rs. 1 Billion announced to the market for bids in order to meet the Government’s funding requirement only from the open market bids”*.
- C. The minutes of the Monetary Board did not provide any information regarding the discussion undertaken on this matter. Also, it was not ratified by the Monetary Board as done in other matters which was discussed on that day i.e., *“The Board having considered the paper observed that the objective of introducing the Special Standing Deposit Facility Rate of 5 percent to encourage private credit has now been achieved as indicated by the increased growth of private credit at 11.5 percent in January 2015 and, therefore, it is now desirable to stabilize the overnight call money rate back within the normal policy rates corridor. Accordingly, the Board ratified the withdrawal of the Special Standing Deposit Facility Rate of 5 percent by the Central Bank with effect from 2 March, 2015.”*
- Therefore, it cannot be concluded that the Monetary Board provided its approval for suspension of Direct Placements method for raising funds.
- D. During interview with Dr. M Z M Aazim on 20 September 2019 (Refer Exhibit 14)¹²⁹, he confirmed that *“verbal instruction to suspend direct issuances were confirmed by a Monetary Board communication dated March 6, 2015. During the interim period, PDD did not have any written communication but could not execute any transactions given the established practice of price approvals, ISIN approvals by the Senior Management.”*

¹²⁸ Refer Exhibit 29 for the minutes of Monetary Board meeting held on 6 March 2015

¹²⁹ Refer Exhibit 14 for the Statement of Fact signed by Dr. M Z M Aazim on 20 September 2019

- E. As stated in **Section 8 of the Monetary Law Act** that *“The Monetary Board of the Central Bank shall, in addition to determine the policies or measures authorised to be adopted or taken under this Act, be vested with the powers, duties and functions of the Central Bank under this Act and be generally responsible for the management, operations and administration of the bank.”*
- F. Indrajit Coomaraswamy (Para 21 of Section 5.1 of Chapter 5 of the PCOI) confirmed before the PCOI that such powers are vested in the Monetary Board only and *“cannot be delegated to the Governor to exercise as an individual”*.
- G. Hence, it can be inferred as Direct Placements was suspended by the Mahendran without prior approval of the Monetary Board and the powers of Monetary Board cannot be delegated to Governor only. Also, this decision can be treated as unapproved decision as the Monetary Board did not ratify the decision taken by Mahendran.

Moreover, it was an inappropriate action by the PDD by relying on verbal instruction of the Governor instead of waiting for the written approval from the Monetary Board and discontinued Direct Placements as method of raising funds by the PDD.

5.6.7. INDECISIVE APPROACH OF THE MONETARY BOARD ON REINTRODUCTION OF DIRECT PLACEMENTS IN 2015

- A. At the Monetary Board meeting held on 12 June 2015, the reintroduction of Direct Placements was discussed, and the Board was of the view that re-introduction of the direct issuance of the Government securities to a maximum limit of 10% of the total Auctions would be appropriate to keep the interest rates under control. However, it was decided that the timing was not appropriate to such an action until the market improves further.
- B. The Monetary Board did not ask for specific study to be undertaken by the CBSL for evaluating the benefits and consequences of Direct Placements as method of raising funds.
- C. During interview of Dr. M Z M Aazim on 20 September 2019 (*Refer Exhibit 14*)¹³⁰, he also confirmed that *“The PDD was not directed to undertake any study of the advantages and disadvantages of direct issuances at that time. It would have been appropriate to have a detail study before initiating action of this magnitude.”*

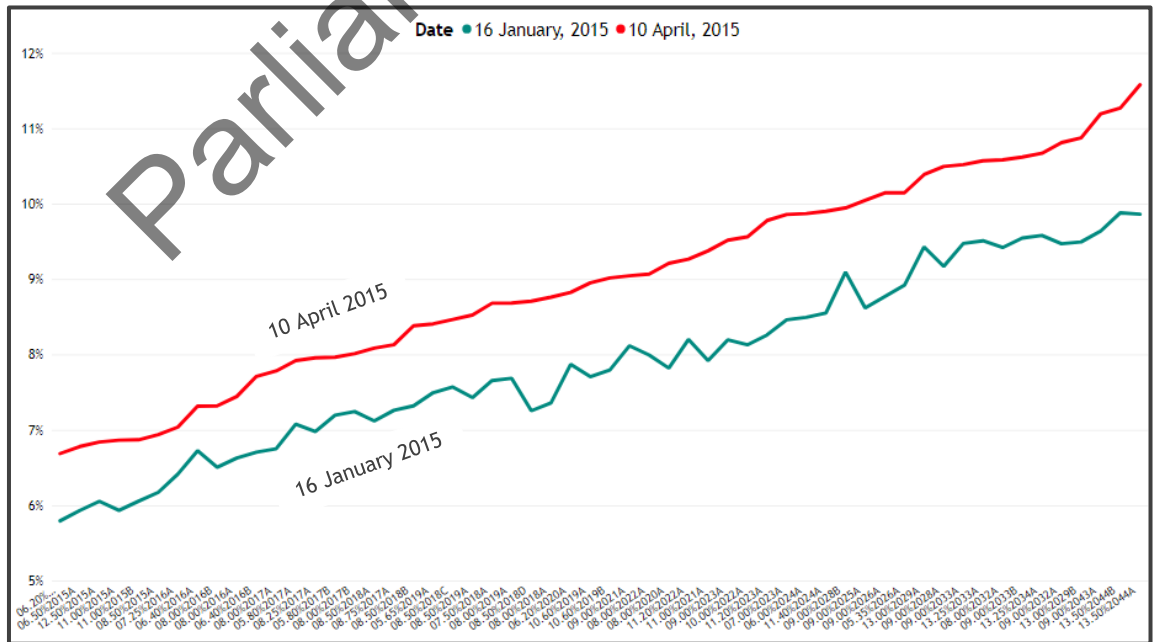
¹³⁰ Refer Exhibit 14 for the Statement of Fact signed by Dr. M Z M Aazim on 20 September 2019

- D. Contrary to the view expressed at the meeting on 12 June 2015 and the increasing trend in yield rates of Treasury Bonds, the minutes of the Monetary Board meeting on 31 August 2015 stated that *“The Board re-affirmed the need to implement primary issues of Treasury bonds through Auctions. SPD was instructed to revert to the Board with a detailed plan to fulfil these objectives”*.
- E. The Monetary Board considered the re-introduction of a type of Direct Placements in the meeting held on 13 July 2016 as non-competitive bidding. Later, in the Monetary Board meeting of 20 July 2017, there was introduction of new system of issuing Treasury Bonds which used the Auction method as the first *“phase”* and accepting type of Direct Placements as second *“phase”*.

5.6.8. IMPACT OF SUSPENSION OF DIRECT PLACEMENTS ON YIELD RATES OF TREASURY BONDS

- A. In order to analyse the immediate impact of suspension of Direct Placements, the yield rates of the ISINs traded in Secondary Market prior to and after the date of suspension of Direct Placements i.e., 27 February 2015 were analysed.
- B. The ISIN traded in Secondary Market on 16 January 2015 and 10 April 2015 were analysed on sample basis and noted that there was surge in yield rates of ISIN traded on both these dates, due to the suspension of Direct Placements.

Following is the brief analysis of yield rates of ISIN traded on 16 January 2015 and 10 April 2015:



C. Dr. W A Wijaywardena before the PCOI (*Para 23, Section 5.19, Chapter 5 of the PCOI*) explained that *“Auction system allows the market manipulation to increase the interest rates to their own advantage. Now when the Direct Placements was taken out the Central Bank the Monetary Board has no way of controlling it”*.

It was also explained that the *“Direct Placements system is used by all the countries in the world. It’s not only Central Bank of Sri Lanka”* and stated that *“Number one is the Central Bank lost a very powerful weapon, number two it allowed the primary dealers to manipulate interest rates, number three the Government was losing money. Those are the three repercussions”*.

D. Based on above facts and analysis, it can be concluded that suspension of Direct Placements was one of the major factors for the upward shift in yield rates across all maturities.

5.6.9. On review of the public domain searches, a media article published in Daily FT (*Refer Exhibit 30*)¹³¹ of 11 July 2016 which states that *“just three days before the scandalous bond Auction, the Monetary Board had decided, going by a paper submitted by the Public Debt Department, to issue Treasury Bonds in a combination of both Auctions and direct sales.”*

5.6.10. During interviews with Mrs. U L Muthugala and Ms. L S Fernando, it was confirmed that there was no such board paper submitted by the PDD to the Monetary Board before the bond Auction.

During interview with Dr. M Z M Aazim on 20 September 2019 (*Refer Exhibit 14*)¹³² it was stated, *“The Deputy Governor (P Samarasiri) overseeing PDD was not in the favour of Direct Placement since he assumed to oversee financing arrangements by the PDD. My assertion of his dislike may due to concerns of way in which the placement window operated at that time in terms of price, ISIN, communications. Such considerations could have improved easily and facilitated the established issuance modality of raising funds. The PDD was not directed to undertake any study of the advantages and disadvantages of direct issuances at that time. It would have been appropriate to have a detail study before initiating action of this magnitude.”*

5.6.11. Based on above facts and analysis, it can be concluded that Mr. Arjuna Mahendran acted improperly and in excess of his authority by immediate suspension of Direct Placements without prior approval of the Monetary Board. Due to the suspension of Direct Placements, there was an increase in yield rates of ISIN in the market and apparently lost control on governing the yield rates.

¹³¹ Refer Exhibit 30 of the Daily FT of 11 July 2016

¹³² Refer Exhibit 14 for the Statement of Fact signed by Dr. M Z M Aazim on 20 September 2019

- 5.6.12. As stated by PCOI in its report after necessary inquires with the employees of the CBSL, the PDD or the Monetary Policy Committee had not conducted any impact assessment study before suspension of Direct Placements. There had not been study conducted to assess positive or negative implications on the market and the ability of the PDD to successfully raise Public Debt at acceptable costs.
- 5.6.13. The action of suspension of Direct Placements by the then Governor was required prior approval of the Monetary Board and proper study & research was not performed to assess the impact of suspension of Direct Placements.

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6. IRREGULARITIES IN DIRECT PLACEMENT ISSUES

6.1. SETTLEMENT OF DIRECT PLACEMENTS MADE BEYOND FIVE DAYS FROM TRANSACTION DATE

- 6.1.1. As explained earlier in Section 4.2.7 B of the Report, the “placement arranged” dates as provided in the issuance tickets are the automatic system generated dates on which deal details were entered in the Direct Placement stand-alone computer system to generate the issuance tickets by the employees of the FO of the PDD. On these dates, the deals are negotiated and concluded between the employees of the FO of the PDD and the EPF or PD.
- 6.1.2. The PDD Operational Manuals updated as of 31 July 2013, (including the original versions of the year 2005 and the year 2007) is silent in relation to maximum settlement time for issue of Treasury Bonds through Direct Placements.
- 6.1.3. During discussions (*Refer Exhibit 31*)¹³³, it was explained that the settlement date for an issue of Treasury Bonds made through Direct Placements could be between cash basis i.e. T+0 and to the maximum of T+5, depending upon the requirements of the Treasury Operations Department and availability of the funds with the market investors (*Refer Exhibit 11*)¹³⁴.
- 6.1.4. However, vide discussions of 29 July 2019 with Mr. S S Ratnayake (Former AG)¹³⁵, it was confirmed that the issue of Treasury Bonds through Direct Placements should generally be settled either on the same day or in the following day from the placement arranged date. If the funding requirement of the Treasury Operations Department is not urgent and if it is expected that the yield rates would be stable for some days, the settlement date could be extended beyond one day.

¹³³ Refer Exhibit 31 for the summary of discussions with Mr. N W G R D Nanayakkara (the former SPD for the period of 1 January 2012 to 6 February 2015) on 1 August 2019

¹³⁴ Refer Exhibit 11 for the summary of discussion with PDD on clarification on general queries on the process of issuance of Treasury Bonds through Direct Placement signed on 3 July 2019

¹³⁵ Former SPD for the period of 21 June 2010 to 31 December 2011

6.1.5. During an interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)¹³⁶ regarding the gap of more than two business days between the placement arranged date and the settlement date, he informed that, “The gap of more than two business days between the placement arranged date and the settlement date depends on the fund requirements of the Government and the funds available with the Primary Dealers.” No contrary information was obtained during the interviews conducted with the former Deputy Governors¹³⁷ of the CBSL overseeing the PDD during the Review Period.

6.1.6. The 4,295 placements amounting to Rs. 5,142.49 Billion (excluding the administrative requirements) were made during the Review Period, and out of 4,295 Direct Placements, in 178 placements (Refer Annexure 19)¹³⁸ amounting to Rs. 157.75 Billion the placement arranged date was not available in the issuance tickets. A table containing breakdown indicating the difference between the placement arranged date and the settlement date and the amounts corresponding to the 4,117 placements amounting to Rs. 4,984.75 Billion is provided below:

Table 29: Gap between settlement date and the transaction date (Amount in Rs. Billion)

#	Gap between days	Count of placements ¹³⁹	Percentage of count (%)	Amount Tendered	Percentage of amount (%)
1	0-1	1,917	46.56%	2,100.92	42.15%
2	2-5	2,005	48.70%	2,633.91	52.84%
3	More than 5	195	4.74%	249.917	5.01%
	TOTAL	4,117	100%	4,984.75	100%

¹³⁶ Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara for on 25 and 26 September 2019

¹³⁷ Mr. W A Wijewardena (former Deputy Governor overseeing the PDD for the period 7 August 2002 to 6 July 2009), Mr. K G D D Dheerasinghe (former Deputy Governor overseeing the PDD for the period 12 February 2010 to 31 December 2011) and Mr. B D W A Silva (former Deputy Governor overseeing the PDD for the period 27 September 2012 to 9 February 2015)

¹³⁸ Refer Annexure 19 for the List of 178 Direct Placements where transaction date was not available

¹³⁹ Excluding placements where the placement arranged date was not available in the issuance tickets

6.1.7. A year-wise breakdown of the 195 transactions wherein the gaps between the transaction date and the settlement date is more than 5 days is provided in the table below (Refer Annexure 20)¹⁴⁰:

Table 30: Year-wise gap between settlement date and Placement arranged date
(Amount in Rs. Billion)

#	Year	Count of placements	Amount tendered
1	2005	4	3.50
2	2006	2	1.60
3	2007	3	3.64
Total (A) 2005-2007		9	8.74
4	2008	12	6.20
5	2009	101	140.37
6	2010	18	13.86
7	2011	9	11.85
8	2012	19	42.64
9	2013	13	9.75
10	2014	13	16.10
11	2015	1	0.41
Total (B) 2008-2015		186	241.18
Grand Total (A) + (B)		195	249.92

6.1.8. The following steps were performed to verify if the irregularities identified in the 195 Direct Placements were due to the excessive funding requirements of the Treasury Operations Department:

STEP 1: Reviewed the Monthly Cash Flow Statements as available in the information provided by PDD for the Review Period

Step 2: Identified the Months wherein the fund requirements from issuance of Treasury Bonds were more than Yearly average requirements and mapped with the months in which irregularities were noted.

STEP 3: Identified the date-wise requirements of Treasury Operations Department for above-mentioned mapped months and marked the dates wherein the requirements of Treasury Department were in excess of Rs. 10 Billion on a settlement date.

¹⁴⁰ Refer Annexure 20 for the 195 Direct Placements wherein the gap between the transaction date and the settlement date was more than five days

STEP 4: Identified all the issuances of Treasury Bonds through Auctions and Direct Placements (including irregular transactions) wherein funds in excess of Rs. 10 Billion were raised on the settlement dates for meeting funding requirements.

STEP 5: Bifurcated the irregular transactions between transactions covered within excessive requirements from Treasury Operations Department as per Step 4 above and Direct Placements arranged after fulfilment of the excessive funding requirements on a settlement date.

6.1.9. On performing the above steps for 195 Direct Placements, the following observations were noted (*Refer Annexure 20*)¹⁴¹:

- A. 50 out of 195 Direct Placements amounting to Rs. 46.77 Billion, were made during the period when excess funding requirements were received from the Treasury Operations Department and are marked as *Placements within high funding requirements*.
- B. For 34 out of 195 Direct Placements relating to 9 months and amounting to 55.50 Billion, the Cash Flow Statements as provided by the Treasury Operations Department were not available and therefore the funding requirements of the Treasury Operations Department for these Direct Placements could not be analysed.
- C. For remaining 111 out of 195 Direct Placements amounting to Rs. 147.65 Billion, the requirements of the Treasury Operations Department were less than Rs. 10 Billion which are not considered to be excessive.

6.1.10. It was further analysed that out of the 145 placements (111 Direct Placements and 34 Direct Placements), in 141 placements amounting to Rs. 198.72 Billion, the difference between the transaction date and the settlement date was ranging between 6-9 days. In four placements aggregating to Rs. 4.43 Billion, the difference between the transaction date and the settlement date was more than 10 days. The four placements wherein the difference between is identified as more than 10 days are tabled below:

¹⁴¹ Refer Annexure 20 for the 195 Direct Placements wherein the gap between the transaction date and the settlement date was more than five days

Table 31: Gap of more than 10 days (Amount in Rs. Billion)

#	ISIN	Bond Series	Placement Arranged	Settlement Date	Name of the PD	Gap	Tender Amount	Issue Rate	SMR on TD ¹⁴²	SMR on SD ¹⁴³	Difference ¹⁴⁴	
1	LKB00614D017	11.75%2014B	1-Apr-2009	15-Apr-2009	First Capital	14	0.1	16.70%	17.43%	17.24%	0.19%	
2	LKB00614D017	11.75%2014B	1-Apr-2009	15-Apr-2009	First Capital	14	0.25	16.70%	17.43%	17.24%	0.19%	
3	LKB01019E016	08.50%2019A	23-Jul-2009	3-Aug-2009	Capital Alliance	11	0.1	13.09%	13.21%	12.88%	0.33%	
4	LKB00313I015	06.75%2013A	1-Dec-2010	15-Dec-2010	People's Bank	14	3.98	8.15%	8.15%	8.28%	0.13%	
Total							4.43					

6.1.11. Vide discussions of 29 August 2019 with Dr. M Z M Aazim (*Refer Exhibit 32*)¹⁴⁵, it was informed that the gap between the placement transaction date and the settlement date varied from more than one day because of the availability of funds with the various investors on the settlement date. He also stated that the investors knew their receipts in terms of debt service payments and the maturities coming in. Further, the yield rates were administratively defined and were not dynamic during that period and therefore, the PDD had arranged the placement for even 14 days prior to the settlement date.

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¹⁴² Prevailing Secondary Market yield rate for similar maturity on transaction date

¹⁴³ Prevailing Secondary Market yield rate for similar maturity on settlement date

¹⁴⁴ Difference between Secondary Market yield rates on transaction date and settlement date

¹⁴⁵ Refer Exhibit 32 for the e-mail communication with Dr. M Z M Aazim regarding the gap of 14 days

6.1.12. Based on the above, the following analysis is further performed across 145 placements wherein the gap between the placement arranged date and the settlement date is more than five days:

Table 32: Placements where gap is more than five days (Amount in Rs. Billion)

#	Count of placements	Amount Tendered	Remarks
1	31	79.62	The prevailing Secondary Market rates on either the placement arranged date, or the settlement date were not available in the Daily Summary Reports provided by the MO of the PDD and hence, not reviewed.
2	8	3.57	The prevailing Secondary Market rates on the transaction date and the settlement date were equal.
3	106	119.97	<p>The prevailing Secondary Market rates on the transaction date and the settlement date varied</p> <ul style="list-style-type: none"> • In 79 placements, the prevailing Secondary Market rates on transaction date was higher than prevailing Secondary Market rates on settlement date • In 27 placements, the prevailing Secondary Market rates on transaction date was lower than prevailing Secondary Market rates on the settlement date

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6.1.13. It was noted that, out of 79 placements, in 14 placements amounting to Rs. 13,114 Million, the issue rate was below the prevailing Secondary Market rate on the date on which the placement was arranged, whereas on the date of settlement, the issue rates were higher than the prevailing Secondary Market rates. The 14 identified Direct Placements are provided in the table below (*Refer Annexure 21 and Exhibit 32 A*)¹⁴⁶:

Table 33: List of 14 Direct Placements

(Amount in Rs. Million)

#	ISIN	Bond series	Placement arranged	Settlement date	Name of the PD	Gap in days	Amount	Whether IR more than SMR on placement arranged date?	Whether IR more than SMR on settlement date?
1	LKB00206F017	08.00%2006A	12-Apr-05	18-Apr-05	EPF	6	500	No	Yes
2	LKB00206F017	08.00%2006A	12-Apr-05	18-Apr-05	NSB	6	2,000	No	Yes
3	LKB00413B018	13.50%2013A	17-Mar-09	23-Mar-09	NSB	6	350	No	Yes
4	LKB00413B018	13.50%2013A	17-Mar-09	23-Mar-09	First Capital	6	250	No	Yes
5	LKB00413B018	13.50%2013A	17-Mar-09	23-Mar-09	BOC	6	300	No	Yes
6	LKB00413B018	13.50%2013A	17-Mar-09	23-Mar-09	First Capital	6	500	No	Yes
7	LKB00613D019	10.50%2013A	17-Mar-09	23-Mar-09	NSB	6	250	No	Yes
8	LKB00613D019	10.50%2013A	17-Mar-09	23-Mar-09	First Capital	6	500	No	Yes
9	LKB00613D019	10.50%2013A	17-Mar-09	23-Mar-09	NSB	6	500	No	Yes
10	LKB01019E016	08.50%2019A	23-Jul-09	3-Aug-09	Capital Alliance	11	100	No	Yes
11	LKB00615C156	11.75%2015A	27-Jul-10	2-Aug-10	NSB	6	500	No	Yes
12	LKB00615C156	11.75%2015A	27-Jul-10	2-Aug-10	Seylan Bank PLC	6	4,000	No	Yes
13	LKB02023J016	07.00%2023A	5-Aug-11	12-Aug-11	Capital Alliance	7	2,200	No	Yes
14	LKB01518G152	08.50%2018B	10-Apr-12	16-Apr-12	NSB	6	1,164	No	Yes
TOTAL							13,114		

¹⁴⁶ Refer Annexure 21 and Exhibit 32 A for the List of 14 Direct Placements where the gap between transaction date and settlement date was more than 5 days

6.1.14. However, no analysis was performed by the PDD on the impact of the prevailing Secondary Market rates between the transaction date and the settlement date. During interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)¹⁴⁷ regarding the impact of the prevailing Secondary Market rates, he stated that, “We did not examine whether material change in rate structure took place from the transaction date to settlement date in case the gap was more than two days”.

6.1.15. It may be noted that the Direct Placements Reports submitted to the DG overseeing PDD, didn’t mention about the above identified deviations and the 14 Direct Placements were approved by the following PDD employees:

Table 34: PDD employees during 14 Direct Placements

#	Designation	Official of PDD	Period
1	DG overseeing PDD	Dr. W A Wijewardena	Up to 6 July 2009
		Mr. K G D D Dheerasinghe	12 February 2010 - 31 December 2011
		Mrs. C Premarathna	1 January 2012 - 16 December 2012
2	SPD	Mrs. C Premarathna	14 October 2004 - 2 December 2007
		Mr. C J P Siriwardena	3 December 2007 - 14 June 2010
		Mr. S S Rathnayake	21 June 2010 - 31 December 2011
		Mr. N W G R D Nanayakkara	1 January 2012 - 6 February 2015

6.2. ISIN OFFERED IN DIRECT PLACEMENTS WITHOUT CONDUCTING AUCTIONS

6.2.1. As stated in the PCOI Report and explained by the PDD, the main purpose for which the PDD held Treasury Bond Auctions, from time to time, was to establish the Market Prices for the different Tenors of Treasury Bonds that were offered at that Auction and, thereafter, using those prices to determine the Yield Rates at which the PDD would raise funds Direct Placements to raise the bulk of the funds required by way of Public Debt. Thus, minimising the possibility of having an adverse impact on the public debt management activity of the CBSL of the Government of Sri Lanka.

6.2.2. Each issue of scripless Treasury Bonds is allocated a unique International Security Identification Number (“ISIN”)¹⁴⁸ by the FO of the PDD through the system. Thus, each issue of Treasury Bonds through Auctions and / or Direct Placements will carry a unique ISIN.

¹⁴⁷ Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

¹⁴⁸ The ISIN is 12 characters in length. Country Code, Type of Securities, Tenor and Maturity Date are defined within the number.

6.2.3. During the review of issue of Treasury bonds through Auctions and Direct Placements for the Review Period, it was noticed that total 139 ISIN were offered both through Auctions and Direct Placements. However, 34 ISIN were offered only through Direct Placements and the same ISIN were never offered in the Auctions. Further, there were no formal announcements made for the issue of these ISIN for raising funds through Direct Placements.

6.2.4. The list of 34 ISIN through which aggregate amount of Rs. 674.73 Billion offered through Direct Placements is given below:

Table 35: ISINs offered through Direct Placements (Amount in Rs. Billion)

#	ISIN	Bond Series	Count of ISIN	Amount	Remarks
1	LKB00215I202	12.50%2015A	3	24.26	
2	LKB01024L011	06.00%2024A	6	7.00	
3	LKE00308L149	SLIB01.00%2008A	2	22.00	Offered for administrative purpose
4	LKE00309F305	01.00%2009A	1	3.00	
5	LKE00410F301	01.00%2010A	1	3.00	
Total(A)			13	59.26	
6	LKB00317C019	08.25%2017A	16	63.84	
7	LKB00507E177	11.75%2007A	16	8.47	First offered for administrative purpose and then offered for regular cash flow requirement.
8	LKB00507I020	11.75%2007F	11	3.27	
9	LKB00517A018	08.00%2017A	30	90.72	
Total(B)			73	166.30	
10	LKB00109D018	16.00%2009A	34	10.30	
11	LKB00206F017	08.00%2006A	2	2.50	
12	LKB00206G155	08.00%2006B	1	0.20	
13	LKB00210E152	15.50%2010F	5	3.10	
14	LKB00213J056	08.84%2013A	1	0.40	
15	LKB00213K211	09.22%2013A	1	0.47	
16	LKB00306I019	07.90%2006A	7	4.40	
17	LKB00407H157	07.80%2007A	1	0.50	
18	LKB00417E153	08.75%2017A	67	84.69	Offered for regular cash flow requirement.
19	LKB00508A157	09.75%2008A	6	2.25	
20	LKB00508I150	07.70%2008A	4	6.43	
21	LKB00516I013	08.00%2016A	45	44.44	
22	LKB00608F261	11.50%2008A	3	1.83	
23	LKB00608G194	11.50%2008B	3	0.84	
24	LKB00608I133	11.50%2008E	4	1.95	
25	LKB00608J073	11.50%2008G	9	9.08	
26	LKB00819K017	08.00%2019A	84	55.85	
27	LKB01013A157	08.50%2013A	46	62.93	
28	LKB01023I019	11.20%2023A	4	12.85	

#	ISIN	Bond Series	Count of ISIN	Amount	Remarks
29	LKB01226F014	11.00%2026A	2	15.41	
30	LKB02032J017	09.00%2032A	25	35.29	
31	LKB02033G011	13.25%2033A	12	23.51	
Total(C)			366	379.23	
32	LKB00507E318	11.75%2007B	23	10.03	First offered for regular cash flow requirements then offered for administrative purpose
33	LKB00608I026	11.50%2008D	10	4.41	
34	LKB00619I155	10.60%2019B	32	55.49	
Total(D)			65	69.94	
Total (E)=(A)+(B)+(C)+(D)			517	674.73	

6.2.5. Out of the above 34 ISIN, 5 ISIN amounting to Rs. 59.26 Billion were offered for administrative purpose against the administrative requirements provided by the Treasury Operations Department and not offered for the regular cashflow requirement.

Further, 4 out of 34 ISIN, amounting to Rs. 166.30 Billion were first offered for administrative purpose against the administrative requirements provided by the Treasury Operations Department and then offered for regular cashflow requirement.

In the remaining 25 ISIN, 22 ISIN amounting to Rs. 379.23 Billion were offered only for regular cashflow requirements and 3 ISIN amounting to Rs. 69.94 Billion were first offered for regular cashflow requirements then offered for administrative purpose against the administrative requirements provided by the Treasury Operations Department. (Refer Annexure 22)¹⁴⁹

¹⁴⁹ Refer Annexure 22 for the details of ISINs not offered in Auctions

6.2.6. The Year-wise and PD-wise issuance of Treasury Bonds through Direct Placement of the 25 ISIN is given below:

Table 36: Year-wise and PD-wise issuance of Treasury Bonds through Direct Placements

Placement Year	Name of the PD	(Amount in Rs. Billion)	
		Count of ISIN	Amount
2005	Bank of Ceylon	6	3.40
	Employees Provident Fund	1	0.50
	NSB Fund Management Company Limited	5	4.20
	People's Bank	2	1.00
2006	Bank of Ceylon	3	0.50
	Employees Provident Fund	5	3.80
	People's Bank	25	10.03
2007	Bank of Ceylon	8	12.61
	Employees Provident Fund	2	6.42
	NSB Fund Management Company Limited	14	5.79
	People's Bank	2	1.16
2008	Bank of Ceylon	5	2.10
	Commercial Bank of Ceylon Limited	2	0.50
	Employees Provident Fund	4	10.60
	Entrust Securities PLC	5	0.90
	First Capital Treasuries Limited	11	3.56
	Natwealth Securities Limited	4	0.30
	NSB Fund Management Company Limited	4	1.00
	Seylan Bank Asset Management	3	2.55
2009	Acuity Securities Limited	1	0.10
	Bank of Ceylon	4	14.10
	Capital Alliance	2	1.55
	Employees Provident Fund	1	4.62
	Entrust Securities PLC	2	0.95
	First Capital Treasuries Limited	6	1.56
	NSB Fund Management Company Limited	14	10.37
	People's Bank	1	1.30
	Sampath Surakum	1	6.00
	Seylan Bank Asset Management	2	1.50
2011	Bank of Ceylon	2	0.87
2012	Acuity Securities Limited	1	0.10
	Bank of Ceylon	31	6.44
	Capital Alliance	8	0.88
	Commercial Bank of Ceylon Limited	6	3.05
	Employees Provident Fund	7	24.52

Placement Year	Name of the PD	Count of ISIN	Amount
	Entrust Securities PLC	1	0.05
	First Capital Treasuries Limited	3	0.13
	NSB Fund Management Company Limited	17	7.37
	People's Bank	3	4.76
	WealthTrust Securities Limited	9	2.25
2013	Bank of Ceylon	2	1.10
	Commercial Bank of Ceylon Limited	1	0.50
	Employees Provident Fund	8	28.91
	Entrust Securities PLC	2	0.04
	First Capital Treasuries Limited	7	3.00
	Hongkong & Shanghai Banking Corp.	2	3.00
	NSB Fund Management Company Limited	3	4.48
	People's Bank	5	3.36
	WealthTrust Securities Limited	11	2.98
2014	Acuity Securities Limited	19	15.39
	Bank of Ceylon	9	10.41
	Capital Alliance	1	0.30
	Commercial Bank of Ceylon Limited	21	24.10
	Employees Provident Fund	5	19.87
	Entrust Securities PLC	2	0.55
	First Capital Treasuries Limited	15	3.20
	Hongkong & Shanghai Banking Corp.	7	27.27
	Natwealth Securities Limited	2	0.55
	NSB Fund Management Company Limited	27	58.14
	People's Bank	9	24.57
	Perpetual Treasuries	1	0.20
	Seylan Bank PLC	8	6.43
	WealthTrust Securities Limited	23	10.68
2015	Commercial Bank of Ceylon Limited	1	5.00
	Employees Provident Fund	3	19.21
	Hongkong & Shanghai Banking Corp.	1	1.70
	People's Bank	2	10.35
	WealthTrust Securities Limited	1	0.50
Total		431	449.17

6.2.7. The above 25 ISIN offered through Direct Placements are not offered in Auction depicts lack of transparency on account of the PDD as the market investors were not aware about the offering of these different types of ISIN having different coupon rates and different maturity period which are issued in the Primary Market.

6.2.8. During interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)¹⁵⁰ he stated that “There were instances where large funding requirements of the Government which cannot be sourced through existing ISINs due to less investor demand, deep discount nature and some of those series have already reached to a level beyond which PDD thought that there would be a rollover risk (Bunching). Therefore, new ISINs were introduced with prior approval of DG. These approvals were obtained in verbal form prior to the introduction of the rate sheets. All such issuances were made only to State owned entities first and later made available to all other PDs. These ISINs might have been known to other Investors/PDs (non-captive sources) only through the Secondary Market trading.”.

6.2.9. It was further identified that out of the above 431 issuances of Treasury Bonds through Direct Placements, 94 placements amounting to Rs. 55.15 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to the loss of Rs. 0.81 Billion to the Government of Sri Lanka. The computation of loss is explained in detail in subsequent Section (Refer Section 8.2).

6.3. SAME ISIN OFFERED TO SAME PD AT DIFFERENT PRICES ON THE SAME TRANSACTION DATE AND SAME SETTLEMENT DATE

6.3.1. During the review of issue of Treasury Bonds through Direct Placements method for the Review Period, it was noticed that in 54 instances the Direct Placements accepted from same PDs on same transaction date having same settlement date and same ISIN were made at different prices (Refer Annexure 23 and Exhibit 40)¹⁵¹.

6.3.2. The details of Year-wise and PD-wise count of transactions and the amount tendered in the 54 instances is provided below:

Table 37: Year-wise PD and the count of transactions (Amount in Rs. Million)

Year	Name of the PD	Count of transactions	Tender Amount
2007	Employees Provident Fund	2	1,000.00
	NSB Fund Management Company Limited	14	8,790.00
2008	Employees Provident Fund	2	350.00
	First Capital Treasuries Limited	2	250.00
	NSB Fund Management Company Limited	6	4,625.00
2009	NSB Fund Management Company Limited	6	7,055.50
2011	NSB Fund Management Company Limited	4	1,300.00

¹⁵⁰ Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

¹⁵¹ Refer Annexure 23 for the List of 54 Direct Placements to Same PDs at different prices and Exhibit 40 for the documents pertaining to 54 Direct Placements to same PDs at different prices

Year	Name of the PD	Count of transactions	Tender Amount
	People's Bank	2	1,811.00
2012	Bank of Ceylon	14	12,839.65
	NSB Fund Management Company Limited	2	100.00
Total		54	38,121.15

- 6.3.3. During an interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)¹⁵², he confirmed that “Generally, PDD wanted to make Direct Placements at or below the rates approved by the DG. However, sometimes PDD had to issue at a high rate to the investors because of the funding requirements of the Government. At a point of the day, we conducted Direct Placements at a particular rate with a particular Primary Dealer and later during the day, we had diverted to something higher/lower than the same rates due to the funding requirements of the Government.” No contrary information was obtained during the interviews conducted with the former Deputy Governors of the CBSL overseeing PDD during the Review Period.
- 6.3.4. In view of above, the steps explained in Section 6.1.8. of the Report were performed to verify if the irregularities identified in the 54 instances were due to excessive funding requirements of the Treasury Operations Department.
- 6.3.5. On performing the above steps for 54 instances, the following observations were noted (Refer Annexure 23)¹⁵³:
- A. 4 out of 54 instances amounting to Rs. 3.35 Billion, were made during the period when excess funding requirements were received from the Treasury Operations Department and are marked as *Placements within high funding requirements*.
 - B. For 26 out of 54 instances amounting to 17.67 Billion, the Cash Flow Statements as provided by the Treasury Operations Department were not available and therefore the funding requirements of the Treasury Operations Department for these Direct Placements could not be analysed.
 - C. In remaining 24 out of 54 instances amounting to Rs. 17.12 Billion, the requirements of the Treasury Operations Department were less than Rs. 10 Billion which are not considered to be excessive.

¹⁵² Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

¹⁵³ Refer Annexure 23 for the List of 54 Direct Placements to Same PDs at different prices

6.3.6. It was further identified that, out of the above 54 issuances of Treasury Bonds through Direct Placements, 16 placements amounting to Rs. 8.47 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to a loss of Rs. 53.37 Million to the Government of Sri Lanka. The computation of loss is explained in detail in subsequent Section (*Refer Section 8.2*). No irregularities were noted in the secondary market subsequent to issuance of these ISINs.

6.4. SAME ISIN OFFERED TO DIFFERENT PD AT DIFFERENT PRICES ON THE SAME TRANSACTION DATE AND SAME SETTLEMENT DATE

6.4.1. During the review of issuance of Treasury Bonds through Direct Placements method for the Review Period, it was noticed that in 207 instances the Direct Placements accepted from different PDs on same transaction date having same settlement date and same ISIN were made at different prices (*Refer Annexure 24 and Exhibit 41*)¹⁵⁴.

6.4.2. The details of Year-wise and PD-wise count of transactions and the amount tendered in the 207 instances is provided below:

Table 38: Year-wise PD and the count of transactions (Amount in Rs. Million)

Year	Name of the PD	Count of ISIN	Tender Amount
2005	Bank of Ceylon	2	1,292.00
	Employees Provident Fund	2	8,250.00
	NSB Fund Management Company Limited	3	1,615.00
	People's Bank	2	350.00
2007	Bank of Ceylon	8	1,622.00
	Employees Provident Fund	6	39,705.00
	NSB Fund Management Company Limited	16	16,416.00
	People's Bank	5	3,832.00
2008	Acuity Securities Limited	2	511.00
	Bank of Ceylon	10	5,606.00
	Capital Alliance	4	735.00
	Commercial Bank of Ceylon Limited	1	200.00
	Employees Provident Fund	9	45,625.00
	Entrust Securities PLC	1	500.00
	First Capital Treasuries Limited	6	3,700.00
	Natwealth Securities Limited	2	1,000.00

¹⁵⁴ Refer Annexure 24 for the list of 207 Direct Placements to Different PDs at different prices and Exhibit 41 for the documents pertaining to 207 Direct Placements to different PDs at different prices

Year	Name of the PD	Count of ISIN	Tender Amount
	NSB Fund Management Company Limited	15	17,480.00
	People's Bank	7	7,543.00
	Seylan Bank Asset Mgmt.	4	3,700.00
2009	Bank of Ceylon	4	5,311.00
	Capital Alliance	1	500.00
	Employees Provident Fund	3	1,000.00
	Entrust Securities PLC	1	500.00
	First Capital Treasuries Limited	1	500.00
	NSB Fund Management Company Limited	8	10,645.50
	People's Bank	1	4,715.00
2011	Bank of Ceylon	3	1,186.30
	Commercial Bank of Ceylon Limited	1	300.00
	Employees Provident Fund	4	14,401.00
	Entrust Securities PLC	1	60.00
	Natwealth Securities Limited	1	30.00
	NSB Fund Management Company Limited	3	1,351.00
	People's Bank	4	3,411.00
2012	Acuity Securities Limited	2	120.00
	Bank of Ceylon	21	15,681.74
	Capital Alliance	2	240.00
	Commercial Bank of Ceylon Limited	5	3,900.00
	Employees Provident Fund	3	21,811.40
	First Capital Treasuries Limited	1	300.00
	NSB Fund Management Company Limited	18	7,888.30
	People's Bank	5	6,687.70
	WealthTrust Securities Limited	3	600.00
2014	Commercial Bank of Ceylon Limited	2	4,005.10
	NSB Fund Management Company Limited	1	914.26
	People's Bank	1	1,500.00
	Perpetual Treasuries	1	100.00
	WealthTrust Securities Limited	1	1,500.00
Total		207	268,841.30

6.4.3. In view of above, the steps explained in Section 6.1.8. of the Report were performed to verify if the irregularities identified in the 207 instances were due to excessive funding requirements of the Treasury Operations Department.

6.4.4. On performing the above steps for 207 instances, the following observations were noted (*Refer Annexure 24*)¹⁵⁵:

- A. 30 out of 207 instances Direct Placements amounting to Rs. 61.64 Billion, were made during the period when excess funding requirements were received from the Treasury Operations Department and are marked as Placements within high funding requirements.
- B. For 80 out of 207 instances amounting to 79.09 Billion, the Cash Flow Statements as provided by the Treasury Operations Department were not available and therefore the funding requirements of the Treasury Operations Department for these Direct Placements could not be analysed.
- C. 95 out of 207 instances amounting to Rs. 127.19 Billion, the requirements of the treasury operations department were less than Rs. 10 billion which are not considered to be excessive.
- D. In 2 out of 207 instances amounting to Rs. 0.92 Billion were arranged after the fulfilment of the fund requirements of the Treasury Operations Department through Treasury Bonds and were termed as *Placements after the fulfilment of requirements*.

6.4.5. It was further identified that, out of the above 207 issues of Treasury Bonds through Direct Placements, 80 placements amounting to Rs. 63.49 Billion were made over and above the prevailing Secondary Market yield rates of similar maturities resulting to loss of Rs. 835.49 Million to the Government of Sri Lanka. The computation of loss is explained in detail in subsequent Section (*Refer Section 8.2*). No irregularities were noted in the secondary market subsequent to issuance of these ISINs.

¹⁵⁵ Refer Annexure 24 for the list of 207 Direct Placements to Different PDs at different prices

7. IRREGULARITIES IN ISSUANCE OF TREASURY BONDS THROUGH AUCTIONS

7.1. IRREGULAR BIDDING PATTERNS INDICATING POTENTIAL LEAKAGE OF PRICE SENSITIVE INFORMATION

7.1.1. During 1 January 2005 to 28 February 2015¹⁵⁶, 247 Auctions were conducted by the PDD wherein, 493 offers of Treasury Bonds were made. Of these 493 offers, 112 offers were cancelled (*Refer Annexure 25*)¹⁵⁷ and 381 offers were accepted by the PDD.

7.1.2. The Treasury bonds were issued to the PD which are either captive or non-captive sources. The classification of PD as captive and non-captive sources for the period under review is as under:

Table 39: Classification of PD

#	Name of PD	Classification
1	Bank of Ceylon	Captive Source
2	Employees' Provident Fund	Captive Source
3	NSB Fund Management Company Limited	Captive Source
4	People's Bank	Captive Source
5	Acuity Securities Limited	Non-Captive Source
6	Capital Alliance Limited	Non-Captive Source
7	Commercial Bank of Ceylon PLC	Non-Captive Source
8	Entrust Securities PLC	Non-Captive Source
9	First Capital Treasuries Limited	Non-Captive Source
10	Hongkong & Shanghai Banking Corporation	Non-Captive Source
11	Natwealth Securities Limited	Non-Captive Source
12	Pan Asia Banking Corporation PLC	Non-Captive Source
13	Perpetual Treasuries Limited	Non-Captive Source
14	Sampath Bank PLC	Non-Captive Source
15	Seylan Bank PLC	Non-Captive Source
16	Union Bank of Colombo PLC	Non-Captive Source
17	WealthTrust Securities Limited	Non-Captive Source

¹⁵⁶ Auction details of 27 February 2015 has been excluded from this review as it is covered in RFP / TOR - 4

¹⁵⁷ Refer Annexure 25 for the list of 112 cancelled offers

- 7.1.3. Based on the various investigation reports including PCOI Report, it was noted that originating PD submitted bids on behalf of another PD (“beneficiary PD”) and these beneficiary PD also submit bids from their own account in the same offer. This mechanism of submission of bids on behalf of Beneficiary PD is hereinafter referred as “Front Ending” for review.
- 7.1.4. On specific request (*Refer Exhibit 33*)¹⁵⁸ to the PDD for verification of documentation submitted by PD in case of Front-Ending, it was clarified that “*As per the Auction participation, each PD has to submit minimum of bids amounting to 10 per cent of the Auction volumes. Therefore, it is expected that each PD competitively price its bids and not collude with any other PDs.*”
- 7.1.5. In order to identify the instances of Front-Ending during the Review Period, a request was placed by the CBSL with the PDs to submit the documents evidencing the instances wherein the PDs have placed bids on behalf of another PD. On review of documents made available till date, no instance of Front-Ending is noted for the Review Period¹⁵⁹.
- 7.1.6. The following analysis were performed on bids appearing in AS/400 as modified by including the Front-Ending transaction in beneficiary PD (if any) and excluding it from PD submitting such bids:
- A. Value accepted by PDD was 3 times more than the amount offered by PDD Section- 7.1.8.
 - B. Comparison of value submitted by PD against value offered by the PDD- Section 7.1.9.
 - C. Analysis of Success ratio and Allocation ratio- Section 7.1.10.
 - D. Acceptance of bids only from non-captive sources- Section 7.1.11
 - E. Bids accepted after closure of the Auction- Section 7.1.12
- 7.1.7. The following ratios were analysed while performing the analysis of bids submission and allocated to PD:
- Success Ratio:* Value allocated to PD against the value offered by a PD
- Allocation ratio:* Value allocated to a PD against the total accepted value by the PDD

¹⁵⁸ Refer Exhibit 33 for the E-mail communication of 29 August 2019 for requesting documents of front-ending.

¹⁵⁹ Excluding the Auction held on 27 February 2015 due to overlapping of the Review Period with RFP/TOR - 4

7.1.8. VALUE ACCEPTED BY THE PDD WAS 3 TIMES MORE THAN THE AMOUNT OFFERED BY THE PDD:

- A. On review of Auction data as per AS/400, the amount offered by the PDD was less than the funds requirement of the PDD. However, it was noted that in three out of 381 offers, the amount accepted by the PDD was 3 times more than the amount offered by the PDD. Below mentioned are the details of such instances:

Table 40: Details of Amount Accepted by PDD (Amount in Rs. Million)

#	Date of Auction	ISIN	Bond series	Amount offered by PDD	Amount accepted by PDD	Ratio	Name of PD	Percentage of amount accepted
1	4-May-2010	LKB00612D151	06.85%2012A	500	1,502	300%	Captive Sources:	
							NSB	16.05%
							Peoples Bank	4.06%
							Non-Captive Sources:	
							Commercial Bank of Ceylon	39.95%
							First Capital	26.63%
							Seylan Bank	6.66%
							Entrust Securities	3.33%
							Natwealth Securities	3.33%
							2	8-May-2012
BOC	78.8%							
EPF	19.7%							
Non-Captive Sources:								
Wealth Trust	0.5%							
Seylan Bank	1%							
3	11-July-2013	LKB00718K151	08.00%2018A	2,000	7,400	370%	Captive Sources:	
							BOC	59.46%
							Peoples Bank	13.51%
							NSB	6.76%
							EPF	6.76%
							Non-Captive Sources:	
							Commercial Bank of Ceylon	13.51%

- B. Based on above analysis, these three identified offers require detailed scrutiny in order to identify the possible leakage of price sensitive information and any benefit passed on to PD. However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest these anomalies are directly or indirectly linked to any potential nexus between the PDD officials and the beneficiary PDs.

7.1.9. COMPARISON OF BIDS SUBMITTED BY PD AGAINST VALUE OFFERED BY THE PDD

- A. As per Section 7.1.4. of the Report, each PD had to submit minimum of bids amounting to 10 per cent of the Auction volumes. Upon discussion with official of the PDD, it was also explained that PD submitted bids more than the value offered by the PDD based on the liquidity position and investment policy of the respective PD.
- B. In order to analyse the correlation between the value of bids submitted by PD and value offered by the PDD, the following procedures were performed:
1. Ascertained the total value of bids submitted by PD based on ISIN and date of placement entered in AS/400 data;
 2. Identified the total value offered by the PDD for each offer from the AS/400;
 3. Mapped the total value submitted by PD against the value offered by the PDD for each offer; and
 4. Identified the instances where value submitted by PD was more than the value offered by the PDD.
- C. Based on above procedures, it was noted that in 181 offers out of 493 offers, an individual PD submitted the bids for more than the value offered by PDD and the value of bids submitted by PD against the value offered by the PDD was ranging between 100%-300%. (Refer Annexure 26)¹⁶⁰.
- D. However, in two offers out of 493 offers, the value of bids submitted by PD was 3 times more than the total value offered by the PDD. It was noted that in the above one offer, captive investor was allocated bids of more than 35% of the total value of bids accepted by the PDD as mentioned in the table below:

Table 41: List of one offer

(Amount in Rs. Million)

#	Date of Auction*	ISIN	Name of PD	Value offered by PDD (A)	Value accepted by PDD (B)	Value of Bids submitted by PD		% of Bids submitted by PD against Offered value by PDD (C/A)*100	Value allocated to PD after Front ending (D)	Allocation ratio (D/B)
						Value before Front ending (C)	Value after Front ending (C)			
Captive sources										
1	8-May-2012	LKB00617G153	BOC	1,000	5,075	6,200	6,200	620%	4,000	78.82%

¹⁶⁰ Refer Annexure 26 for the details of 181 offers wherein the PDD accepted bids more than the offered amount

- E. Based on above analysis, no unusual trend was noted in the submission of bids by PD as compared to the value offered by the PDD.

7.1.10. ANALYSIS OF SUCCESS RATIO AND ALLOCATION RATIO OF PD IN EACH OFFER

- A. In order to analyse the PD to whom maximum bids were allocated along with the value of bids submitted by such PD, the following procedures were performed, after considering the value of Front Ending done by beneficiary PD and excluding the same bids submitted by original bidder PD:
1. Reviewed the AS/400 data and identified the accepted offers by excluding the 112 cancelled offers;
 2. Calculated success ratio = Total value of bids allocated to PD / Total value of bids submitted by PD;
 3. Calculated allocation ratio = Total value of bids allocated to PD / Total value of bids accepted by the PDD; and
 4. Identified offers with respect to PD who had success ratio of 100% as well as allocation ratio of more than 35%; and
 5. Identified offers with respect to PD who had success ratio of more than 35% as well as allocation ratio of more than 35%.
- B. Based on above procedures, it was noted that in 265 offers out of 381 accepted offers, 12 PDs (4 captive investor and 8 non-captive investors) submitted bids in such a manner that the success ratio of their bids was 100% and allocation ratio of bids were more than 35%. Below mentioned are the details of 265 offers where 298 bids were submitted by 12 PDs (*Refer Annexure 27*)¹⁶¹.

Table 42: List of 265 offers (Amount in Rs. Billion)

Year	Name of PD	Number of Bids	Amount
2005-2007	Bank of Ceylon	6	2.97
	Capital Alliance	3	1.20
	Employees Provident Fund	50	27.52
	NSB Fund Management Company Limited	28	12.35
	People's Bank	26	13.55
	Seylan Bank Asset Management	5	3.00
2008-2015	Acuity Securities Limited	1	0.50
	Bank of Ceylon	5	1.80
	Capital Alliance	5	1.60

¹⁶¹ Refer Annexure 27 for the list of 265 offers wherein 298 bids were submitted and the success ratio of PDs was 100% and the allocation ratio was more than 35%

Year	Name of PD	Number of Bids	Amount
	Commercial Bank of Ceylon Limited	6	7.93
	Employees Provident Fund	108	204.80
	Entrust Securities PLC	2	0.10
	First Capital Treasuries Limited	5	1.29
	Hongkong & Shanghai Banking Corp.	1	0.60
	NSB Fund Management Company Limited	29	31.77
	People's Bank	5	6.35
	Seylan Bank Asset Management	5	2.15
	Seylan Bank PLC	2	1.05
	Bank of Ceylon	6	2.97
	TOTAL	298	323.52

- C. It was also noted that 104 offers out of 381 accepted offers, 14 PD (4 captive investors and 10 non-captive sources) submitted bids in such a manner that the success ratio of their bids was ranging between 35% to 99% and allocation ratio of bids were more than 35%. Below mentioned are the details of 104 offers where 110 bids were submitted by the PDs (Refer Annexure 28)¹⁶²:

Table 43: List of 104 offers (Amount in Rs. Billion)

Year	Name of PD	Number of Bids	Amount
2005-2007	Bank of Ceylon	3	2.05
	Capital Alliance	1	0.61
	Employees Provident Fund	8	7.40
	Entrust Securities PLC	1	0.37
	Hongkong & Shanghai Banking Corp.	1	1.10
	NSB Fund Management Company Limited	5	1.85
	People's Bank	4	1.20
	Sampath Surakum	2	1.12
	Seylan Bank Asset Management	7	5.44
2008-2015	Acuity Securities Limited	1	1.51
	Bank of Ceylon	19	74.65
	Capital Alliance	1	0.55
	Commercial Bank of Ceylon Limited	4	3.35
	Employees Provident Fund	7	24.30

¹⁶² Refer Annexure 28 for the list of 104 offers wherein 110 bids were submitted and the success ratio of PDs was between 35% to 100% and the allocation ratio was more than 35%

Year	Name of PD	Number of Bids	Amount
	Entrust Securities PLC	1	0.20
	First Capital Treasuries Limited	4	5.80
	Natwealth Securities Limited	1	0.22
	NSB Fund Management Company Limited	24	18.96
	People's Bank	4	2.57
	Seylan Bank Asset Management	9	5.50
	Seylan Bank PLC	3	4.75
	TOTAL	110	163.53

Based on above analysis, it indicates that there was possibility of leakage of price sensitive information due to which success ratio and allocation ratio was more than 35%. However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest these anomalies are directly or indirectly linked to any potential nexus between the PDD officials and the beneficiary PDs.

7.1.11. ACCEPTANCE OF BIDS ONLY FROM NON-CAPTIVE SOURCES

- A. On review of Auction data, it was noted that no allocations were made to captive sources in 21 offers out of 381 accepted offers (Refer Annexure 29)¹⁶³. However, the captive sources had submitted substantial value of bids. The details of the 43 bids where bids were submitted by captive sources and no allocation were made are as following:

Table 44: Details of bids submitted by Captive Sources (Amount in Rs. Million)

Year	Name of PD	Number of Bids	Amount
2005-2007	Capital Alliance	2	8.00
	Commercial Bank of Ceylon	1	0.04
	Entrust Securities PLC	1	0.30
	First Capital Treasuries	2	0.39
	Hongkong & Shanghai Banking Corp.	1	1.00
	Natwealth Securities	2	0.17
	Sampath Surakum	3	0.80
	Seylan Bank Asset Management	7	4.44
	2008-2015	Acuity Securities Limited	4
Capital Alliance		5	1.87
Commercial Bank of Ceylon		2	0.75

¹⁶³ Refer Annexure 29 for list of 21 offers where captive sources were not allotted.

Year	Name of PD	Number of Bids	Amount
	Entrust Securities PLC	2	0.20
	First Capital Treasuries	4	1.79
	Natwealth Securities	2	0.20
	Seylan Bank Asset Management	5	1.82
	TOTAL	43	23.51

- B. In the above mentioned 21 offers, it was noted that 9 PDs were allocated more than 25% of the total value of bids accepted by the PDD. A brief snapshot of these 21 offers where 38 bids were placed by PD is appended below (Refer Annexure 30)¹⁶⁴

Table 45: Details of bids allocated to 9 PD (Amount in Rs. Million)

Year	Name of PD	Number of Bids	Amount
2005-2007	Capital Alliance	2	0.80
	Entrust Securities PLC	1	0.30
	First Capital Treasuries	2	0.39
	Hongkong & Shanghai Banking Corp.	1	1.00
	Natwealth Securities	2	0.17
	Sampath Surakum	2	0.70
	Seylan Bank Asset Management	7	4.44
2008-2015	Acuity Securities	2	1.70
	Capital Alliance	5	1.87
	Commercial Bank of Ceylon	2	0.75
	Entrust Securities PLC	2	0.20
	First Capital Treasuries	4	1.79
	Natwealth Securities	2	0.20
	Seylan Bank Asset Management	4	1.77
	Total	38	16.11

The above-mentioned offers require investigation as the captive sources were not allocated bids in the Auction. However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest these anomalies are directly or indirectly linked to any potential nexus between the PDD officials and the beneficiary PDs.

¹⁶⁴ Refer Annexure 30 for the list of winning PDs (More than 25%) in 21 offers wherein the captive sources were not awarded.

7.1.12. BIDS ACCEPTED AFTER CLOSURE / DURING EXTENTION OF THE AUCTION

A. As per the process explained in Section 4.2 of the Report, the following are the updates in the various versions of the PDD Operational Manual regarding the closure of the Auctions, extension of the timings for submission of the bids and manually entering the bids into the system:

Table 46: Original versions of the PDD Operational Manual

Particulars/ Period	2005	2007	2013
Closing of Auction	Auction will automatically close on scheduled time	Auction will automatically close on scheduled time	Closing time of the Auction is 11 AM
Extension of Auction timings	No Clause	The closing time of the Auction can be extended with the approval of SPD if there's a valid reason (System failure)	The closing time of the Auction can be extended with the approval of SPD or DSPD if there's a valid reason (System failure)
Entering the bids submitted by the PDs in manual form	No Clause	In case the PD is unable to place bids in the system, it shall inform the FO before the closing time	In case the PD is unable to place bids in the system, it shall inform the FO before the closing time

B. With regard to the Auction timings for the period from 2005 up till 2013, the closing time of the Auction was considered as 11 a.m. for the detailed analysis of the bids submitted during the Review Period. As per the processes confirmed with the former SPD's and the best practices followed during the Review Period, it was understood that the closing time of the Auction was 11 a.m. across the Review Period.

C. It was explained that the extension of Auction timings and the submission of manual bids after closure of the Auction were not provided in the PDD Operational Manual version 2005. As per the Operational Manual updated in 2007, the closing time of the Auction can be extended with the approval of SPD in case of system failure and in case the PD is unable to place bids in the system. However, the PD shall inform the officials of the FO before the closing time of the Auction.

- D. During the Review Period, it was noted that, in 56 offers, 61 bids were submitted at the cut-off rate corresponding to the amount accepted in the Auctions and after the closing time / during the extension time of the Auction. The earliest and the latest of the bids placed in these 56 offers was ranging between 11 AM to 12:38 PM. The summarized table of the 56 offers where 61 bids were placed, is provided below (Refer Annexure 31)¹⁶⁵:

Table 47: Bids submitted after closure / during extension of the Auction

(Amount in Rs. Billion)

Year	Name of PD	Count of Bids submitted	Amount
2005-2007	Employees Provident Fund	12	5.45
	NSB Fund Management Company Limited	3	0.6
	People's Bank	1	0.1
2008-2015	Bank of Ceylon	3	2
	Capital Alliance	1	0.7
	Employees Provident Fund	31	65.7
	First Capital Treasuries Limited	2	0.55
	NSB Fund Management Company Limited	6	4.55
	People's Bank	2	0.70
Total		61	80.35

- E. The submission of the bids at the cut-off rate of the Auction after the closure of the Auction signify that the PDs have potential access to unpublished price sensitive information for bidding at the cut-off rate after the Auction time.
- F. However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest these anomalies are directly or indirectly linked to any potential nexus between the PDD officials and the beneficiary PDs.

¹⁶⁵ Refer Annexure 31 for the list of 61 bids submitted after the closure of Auction / extension of the Auction, at the cut-off rate

7.2. ANALYSIS OF CANCELLED AUCTIONS

BACKGROUND

- 7.2.1. It was noted that out of 493 offers issued during Review Period, 112 offers were cancelled by the Tender Board. The rationale for cancellation of offers as recorded in the minutes of the Tender Board meeting for the respective offers was that the cut off WAYR of bids submitted by the participants was much higher than the prevailing WAYR of Secondary Market.
- 7.2.2. Upon enquiry (*Refer Exhibit 34*)¹⁶⁶ with officials of the PDD, it was explained that these offers were cancelled primarily due to the reason that the cut off WAYR of bids submitted by the participants was much higher than the prevailing WAYR of Secondary Market and cancellation of such offers also helps in controlling the WAYR of Secondary Market resulting into minimizing the costs to the government.
- 7.2.3. Performed the analysis of cancellation of Auctions on the subsequent Auctions and the Direct Placements.

CANCELLED AUCTIONS AND SUBSEQUENT ACCEPTED AUCTIONS

- A. In order to analyse the impact of cancellation of offers on the subsequent Auctions, the following procedures were performed:
1. Identified the yield rates till the offered value of cancelled ISIN from the Summary option Sheet wherein “WAYR till the offered amount” as prepared by the FO of the PDD;
 2. Identified the subsequent accepted Auctions of the same ISINs;
 3. Compared the amount offered in both the Auctions;
 4. Compared the WAYR (till offered amount as provided in the summary option sheets) of the cancelled Auction with the weighted average yield rate of the next accepted auction;
 5. Identified Auctions wherein the PDD has accepted *less amount* in the subsequent Auctions at *higher yield rates*; and

¹⁶⁶ Refer Exhibit 34 for the e-mail communication of Dr. M Z M Aazim for cancellation due to the reason that cut off was high

- B. Based on the above analysis, the above-mentioned irregularities were identified as under:
1. In 32 offers out of 112 cancelled offers, same ISINs was accepted in subsequent Auctions (*Refer Annexure 32*)¹⁶⁷;
 2. Out of 32 offers, in 23 offers, the PDD has accepted less amount at higher yield rates.
 3. Cancellation of offer on an Auction date increased the pressure of acceptance of requisite funds from other offers on the same or subsequent Auction date and the same led to acceptance of funds at higher yield rates by the CBSL.

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¹⁶⁷ Refer Annexure 32 for the list of 32 offers wherein the same ISIN was accepted in the Auctions subsequent to cancelled Auction

Below are the details of 23 offers wherein lower amounts were accepted in the subsequent Auctions at the higher yield rates:

Table 48: Details of cancelled offers and subsequent accepted Auctions

(Amount in Rs. Million)

#	Bond series	Cancelled Auction			Accepted Auctions			Whether amount accepted in subsequent Auction is less	Differential amount	Whether yield rate accepted in subsequent Auction is high	Differential Rate (Basis points)
		Date of Auction	Amount offered	WAYR at offered amount	Date of Auction	Amount accepted	WAYR				
1	15.50%2010A	12-Feb-2008	1,000	18.92%	26-Feb-2008	475	20.00%	Yes	525	Yes	108.11
2	15.50%2010A	18-Feb-2008	500	18.15%	26-Feb-2008	475	20.00%	Yes	25	Yes	185.15
3	15.50%2010E	30-Dec-2008	2,000	18.06%	1-Jan-2009	200	23.33%	Yes	1800	Yes	526.7
4	07.50%2009C	28-Jul-2006	2,000	11.38%	7-Aug-2006	850	12.28%	Yes	1150	Yes	89.86
5	14.50%2011A	10-Apr-2008	500	17.96%	22-Apr-2008	200	18.94%	Yes	300	Yes	98.00
6	14.50%2011A	26-Feb-2008	500	17.10%	11-Mar-2008	400	18.94%	Yes	100	Yes	184.00
7	14.50%2011A	3-Mar-2008	1,000	17.72%	11-Mar-2008	400	18.94%	Yes	600	Yes	121.99
8	14.50%2012A	2-Feb-2009	1,500	19.45%	17-Feb-2009	770	20.09%	Yes	730	Yes	64.28
9	13.50%2013A	2-Feb-2009	1,000	19.10%	17-Feb-2009	800	20.03%	Yes	200	Yes	92.75
10	11.50%2013A	30-Jun-2009	500	13.20%	13-Jul-2009	250	14.40%	Yes	250	Yes	120.06
11	11.75%2007C	28-Apr-2005	1,000	9.77%	12-May-2005	750	10.33%	Yes	250	Yes	56.00
12	11.50%2008F	18-Oct-2005	1,500	11.21%	28-Oct-2005	560	12.27%	Yes	940	Yes	106.32
13	11.50%2008F	6-Sep-2005	1,000	11.08%	15-Sep-2005	505	12.20%	Yes	495	Yes	112.19

#	Bond series	Cancelled Auction			Accepted Auctions			Whether amount accepted in subsequent Auction is less	Differential amount	Whether yield rate accepted in subsequent Auction is high	Differential Rate (Basis points)
		Date of Auction	Amount offered	WAYR at offered amount	Date of Auction	Amount accepted	WAYR				
14	11.50%2008F	4-Oct-2005	1,000	11.07%	13-Oct-2005	600	12.26%	Yes	400	Yes	118.73
15	11.50%2009A	12-Feb-2007	1,000	14.63%	27-Feb-2007	800	15.63%	Yes	200	Yes	100.5
16	09.50%2009A	3-Feb-2005	2,000	8.37%	11-Feb-2005	1500	9.18%	Yes	500	Yes	81.00
17	07.60%2009A	30-Jul-2007	2,000	18.10%	13-Aug-2007	550	19.19%	Yes	1450	Yes	109.19
18	07.60%2009A	7-Aug-2007	1,000	17.62%	13-Aug-2007	550	19.19%	Yes	450	Yes	156.62
19	07.60%2009A	27-Sep-2007	2,000	18.77%	4-Oct-2007	400	19.25%	Yes	1600	Yes	47.60
20	07.60%2009B	11-Jan-2007	1,500	13.70%	23-Jan-2007	400	14.56%	Yes	1100	Yes	86.02
21	07.60%2010A	30-Jul-2007	2,000	18.23%	13-Aug-2007	550	18.27%	Yes	1450	Yes	4.50
22	06.85%2012A	19-Apr-2007	1,000	14.95%	27-Apr-2007	400	15.80%	Yes	600	Yes	84.65
23	06.85%2012A	17-Apr-2006	500	10.98%	27-Apr-2006	100	12.12%	Yes	400	Yes	114.00

The allocation made to the PDs in the above 23 offers are provided below:

Table 49: Allocation made to PDs in the Auctions subsequent to cancelled Auctions

(Amount in Rs. Billion)

Year	Name of the PD	Count of transactions	Amount Tendered
2005-2007	Seylan Bank	20	0.36
	EPF	11	2.30
	NSB	8	2.40
	BOC	5	0.65
	People's Bank	4	1.52
	Natwealth	3	0.02
	Commercial Bank of Ceylon	3	0.20
	Capital Alliance	3	0.15
	HSBC	2	0.10
	Acuity Securities	2	0.10
	Entrust Securities PLC	2	0.05
	Commercial Bank of Ceylon	1	0.05
	Sampath Surakum	1	0.05
	2008-2015	Seylan Bank	10
First Capital Treasuries		8	0.62
Seylan Bank		4	0.85
NSB		3	0.50
Capital Alliance		3	0.25
Commercial BOC		2	0.25
BOC		2	0.10
Entrust Securities PLC		20	0.36
Total		117	11.4

However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest these anomalies are directly or indirectly linked to any potential nexus between the PDD officials and the beneficiary PDs.

CANCELLED AUCTIONS AND SUBSEQUENT ACCEPTED DIRECT PLACEMENTS

- A. In order to analyse the impact of cancellation of offers on the subsequent Direct Placements, the following procedures were performed:
1. Identified the yield rates till the offered value of cancelled ISIN from the Summary option Sheet wherein “WAYR till the offered amount” as prepared by the FO of the PDD;
 2. Identified the subsequent accepted Direct Placements of the same ISINs within 15 working days¹⁶⁸;
 3. Compared the amount offered in the Auctions and the amount accepted in the Direct Placements;
 4. Compared the weighted average yield rate (till offered amount as provided in the summary option sheets) of the cancelled Auction with the issue rate of the next accepted Direct Placement;
 5. Identified Auctions wherein the PDD has accepted less amount in the subsequent Direct Placements at higher yield rates; and
- B. Based on the above analysis, the above-mentioned irregularities were identified as under:
1. In 42 offers out of 112 cancelled offers, same ISINs was accepted in subsequent Direct Placement;
 2. Out of 42 offers (Refer Annexure 33)¹⁶⁹, in 3 instances, the PDD has issued Treasury Bonds at higher rates in subsequent Direct Placements.
 3. Cancellation of offer on an Auction date increased the pressure of acceptance of requisite funds from other offers on the same or subsequent Auction date and the same led to acceptance of funds at higher yield rates by the CBSL.
- C. However, due to the lack of voice recordings and other corroborative evidence, we can't identify whether these anomalies have identified due to the nexus between the PDD officials and the beneficiary PDs.

¹⁶⁸ Refer Section 4.2.7 B of the Report for the confirmation obtained from Mr. Dhammika Nanayakkara on the validity of the WAYR of Auctions on the Direct Placements in the next 15 working days.

¹⁶⁹ Refer Annexure 33 for the list of 42 offers wherein the same ISIN was accepted in the Direct Placements subsequent to Cancelled Auction

- D. Below are the details of 3 instances wherein lower amounts were accepted in the subsequent Direct Placements at the higher yield rates:

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Table 50: Details of Cancelled offers and subsequent accepted Auctions

(Amount in Rs. Million)

#	Bond series	Cancelled Auction			Accepted Direct Placement							
		Date of Auction	Amount offered	WAYR at offered amount	Date of transaction	Amount accepted	Name of the PD	Issue-rate	Whether amount accepted in subsequent Direct Placement is less	Differential amount	Whether yield rate accepted in subsequent Direct Placement is high	Differential Rate (Bps)
1	14.50%2011A	14-Mar-2008	1,000	17.84%	18-Mar-2008	856	NSB	18.08%	Yes	144	Yes	24.20
2	15.50%2010E	30-Dec-2008	2,000	18.06%	31-Dec-2008	323	BOC	20.60%	Yes	1,677	Yes	253.70
3	15.50%2010E	30-Dec-2008	2,000	18.06%	31-Dec-2008	1,626	People's Bank	21.00%	Yes	374	Yes	293.70
Total			5,000			2,805				2,195		

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8. COMPUTATION OF LOSS

8.1. COMPUTATION OF LOSS IN AUCTIONS

- 8.1.1. During the Review Period, total 306 auctions were conducted by the PDD wherein, 581 offers of Treasury Bonds were made. The auctions held during the period 2002 to 2004 could not be reviewed due to non-availability of supporting documents (*Refer point 2 of Limitations Section*). Hence, detailed review of only 493 offers could be performed for the period January 2005 to February 2015.
- 8.1.2. In 112 offers (*Refer Annexure 25*)¹⁷⁰ out of 493 offers, all the bids received from the PDs during the auction were cancelled and no amount was accepted. For the remaining 381 offers, Tender Board accepted bids aggregating to Rs. 558.08 Billion against offered value aggregating to Rs. 611.50 Billion.
- 8.1.3. As per the process explained in Section 4.2.7.A of the Report, the FO of the PDD / TEC evaluates the bids submitted by PD and provides various options to the Tender Board for raising of funds at different cut-off / WAYR. Thereafter, Tender Board evaluates the recommendations made by the FO of the PDD / TEC based on the existing liquidity position of the market, prevailing Secondary Market rates available in the auction presentation available as part of minutes of Tender Board Meetings and other market factors. The volume and cut-off WAYR for Treasury Bonds to be issued at each auction is approved at the lowest and optimal cost and risk combination.
- 8.1.4. As per the process understanding detailed in Section 4 of the Report, it was also noted that the MO of PDD prepares Daily Market Summary Reports based on simple average of the buying rates out of daily two-way quotes submitted by PD (*Refer Exhibit 35*)¹⁷¹ for various maturities, i.e., across different ISINs. As per PDD Operational Manual (version 2, updated as of 31 July 2013) and confirmed by Mr. SS Ratnayake¹⁷² during the discussion held on 29 July 2019, the rates provided by MO are supposed to be used by FO while preparing the proposal for acceptance of bids in an auction, for evaluation by the Tender Board.

¹⁷⁰ Refer Annexure 25 for the list of 112 cancelled offers

¹⁷¹ Refer Exhibit 35 for email communication of Middle Office for confirmation of Secondary Market rates

¹⁷² Mr. S.S. Ratnayake was the former SPD from 21 June 2010 to 31 December 2011

- 8.1.5. It was however noted that in 93 out of total 381 accepted offers (*Refer Annexure 34*)¹⁷³, there was difference between prevailing Secondary Market yield rates for similar maturities available in the auction presentation available as part of minutes of Tender Board Meetings and the rates provided by MO in the daily market summary reports.¹⁷⁴
- 8.1.6. In view of above, there were two sources for identifying the prevailing Secondary Market yield rates for similar maturities, i.e. auction presentation available as part of minutes of Tender Board Meetings and Daily Market Summary Reports as per MO. In order to assess in case any loss is caused to the Government of Sri Lanka in issuance of Treasury Bonds through Auctions during the Review Period, a “Base Rate” was calculated by comparing the above-mentioned two sources for identifying the prevailing Secondary Market yield rates for similar maturities.
- 8.1.7. Since the Daily Market Summary Reports published by MO were based on the simple average of the quotes submitted by the PDs and no other database is available for identifying the prevailing the Secondary Market rates on the Auction dates, these rates were increased by issue premium of 5 bps and thereafter, compared for computation of loss from issuance of Treasury Bonds through Auctions.

COMPUTATION OF BASE RATE

- 8.1.8. In case where prevailing Secondary Market yield rates of similar maturity were available in the auction presentation available as part of minutes of Tender Board Meetings and rates as per Daily Market Summary Reports were not available, then Secondary Market yield rates as per Auction presentation were considered as *Base Rate*.
- 8.1.9. In case where rates as per Daily Market Summary Reports were available and prevailing Secondary Market yield rates of similar maturity were not available in the auction presentation available as part of minutes of Tender Board Meetings, then rates of Daily Market Summary Reports were considered as *Base Rate*.
- 8.1.10. In case where prevailing Secondary Market yield rates of similar maturity were available in auction presentation available as part of minutes of Tender Board Meetings and rates as per Daily Market Summary Reports were also available, then higher of these two rates was considered as *Base Rate*.

¹⁷³ Refer Annexure 34 for the list of 93 offers where prevailing secondary market rate is not same as per the secondary market rate mentioned in auction presentation available as part of minutes of Tender Board Meetings.

¹⁷⁴ To the extent provided by the CBSL.

8.1.11. In case where prevailing Secondary Market yield rates of similar maturity were not available neither in the Auction presentation available as part of minutes of Tender Board Meetings nor in the Daily Market Summary Reports, loss was not computed in the absence of a *Base Rate* that can be adopted.

A brief summary of the basis of calculation of *Base Rate* is as under:

Table 51: Calculation of Base Rate

#	Secondary Market Rates as per minutes of Tender Board	Rates as per Daily Market Summary Reports	Base Rate adopted for computation of loss
1	Rates are Available	Rates not available	Secondary Market Rates as per Auction Presentation
2	Rates not available	Rates are Available	Rates as per Daily Market Summary Reports
3	Rates are Available	Rates are Available	Higher of Secondary Market Rates as per Auction Presentation or Rates as per Daily Market Summary Reports
4	Rates not available	Rates not available	No loss can be ascertained

8.1.12. The acceptance of bids at WAYR higher than the prevailing Secondary Market yield rates for similar maturity may have led to loss¹⁷⁵ to the Government of Sri Lanka (increase in borrowing cost). Such loss ranges between minimum loss aggregating Rs. 6.03 Million to maximum loss aggregating Rs. 151.07 Million.

8.1.13. On comparison of prevailing Secondary Market yield rates of similar maturity with the respective WAYR of the 381 accepted offers, the following observations were made:

A. In 24 offers out of 381 accepted offers, either the minutes of the Tender Board meeting or Press Release for auction results were not made available for review and hence, the WAYR for the corresponding offers were not available for comparison with the prevailing Secondary Market yield rates of similar maturity. Therefore, these 24 offers (*Refer Annexure 35*)¹⁷⁶ are not considered for computation of loss.

B. In 66 offers out of remaining 357 offers, prevailing Secondary Market yield rates for similar maturities were not available in the Daily Market Summary Reports or in the auction presentation available as part of minutes of Tender Board meetings. Therefore, these 66 instances could not be analysed for the purpose of calculation of loss. (*Refer Annexure 36*)¹⁷⁷

¹⁷⁵ As per Webster dictionary “an amount by which the cost of something exceeds its selling price”

¹⁷⁶ Refer Annexure 35 for the list of 24 offers where minutes of Tender Board and Press Release were not available

¹⁷⁷ Refer Annexure 36 for the list of 66 offers where prevailing Secondary Market yield rate were not available

- C. In 256 offers out of remaining 291 offers, the Tender Board has accepted offers at WAYR less than the prevailing Secondary Market yield rates of similar maturity. Therefore, loss is not computed on these 256 offers (*Refer Annexure 37*)¹⁷⁸.
- D. In remaining 35 accepted offers, the Tender Board has accepted the accept bids at WAYR higher than the prevailing Secondary Market yield rates of similar maturity, which has led to raising of funds at a higher cost and caused loss to the Government of Sri Lanka. (*Refer Annexure 38*)¹⁷⁹.

COMPUTATION OF MAXIMUM LOSS

- 8.1.14. On review of underlying documents such as minutes of the Tender Board for respective offers, Daily Market Summary Reports of MO corresponding to the auction date, Bids approved sheet for the bids accepted by the PDD and press release issued by the PDD for these 35 offers, it was noted that:
- A. The bids were accepted at WAYR higher than the Base Rate and the difference was ranging between 01-82 basis points (“Bps”).
 - B. For the purpose of calculation of loss caused to the Government of Sri Lanka from acceptance of bids at WAYR higher than the Base Rate, the following steps were performed in each instance:
 - Step 1: Identified the Base rate as mentioned in Section 8.1.8. to 8.1.11 of the Report.
 - Step 2: Computed the price from the Base Rate, using the price formula in Microsoft Excel, as explained below.
 - Step 3: Marked the price, identified in Step 2, as Base Price after grossing up the tax component from the identified price.
 - Step 4: Identified the bids (from the bids approved sheet), which were accepted and priced at less than the Base Price.
 - Step 5: Ascertained the difference between Base Price and bid price for each accepted bid identified in Step 4.
 - Step 6: Calculated the number of bonds issued to each PD by dividing the column “Amount Tendered” of bids approved sheet, with face value of each Treasury Bond i.e., Rs.100.
 - Step 7: Calculated the value of loss for each accepted bid identified in Step 5 by multiplying the number of Treasury Bonds issued (as per Step 6) and the differential price (as per Step 5).

¹⁷⁸ Refer Annexure 37 for the list of 256 offers where WAYR less than to prevailing Secondary Market yield rates for similar maturities.

¹⁷⁹ Refer Annexure 38 for the list of 35 offers where WAYR higher than to prevailing Secondary Market yield rates for similar maturities.

Step 8: Aggregated the value of loss for all the bids identified in Step 4 in order to calculate the loss for a particular ISIN.

8.1.15. For the purpose of identification of Base price based on the Base Rate, the price formula in the Microsoft Excel was used and considered settlement date, maturity date, rate, yield, redemption value, frequency of coupon payment, coupon payment and Base Rate, as under:

Base Price = “Price(settlement date, maturity date, rate, yld, redemption, frequency, basis)¹⁸⁰”

wherein;

Settlement date = security settlement date

Maturity date = security maturity date

Rate = security annual coupon rate

Yld = security annual yield rate

Redemption = Security redemption value

Frequency = number of coupon payments per year

Basis = type of day count basis to use

A. Based on above mentioned procedures, in 35 offers out of 381 offers, the maximum loss (Refer Annexure 38 and Exhibit 36)¹⁸¹ caused to the Government of Sri Lanka aggregating to Rs.151.07 Million and offer wise summary of loss is as under:

Table 52 : Maximum Loss

(Amount in Rs. Million)

#	Auction Date	ISIN	Bond Series	Amount Offered	Amount Accepted	WAYR	Base Rate	Loss
1	28-Apr-2005	LKB00508A017	11.75%2008A	1,000	250	9.62%	9.54%	0.52
2	10-May-2005	LKB00508A017	11.75%2008A	1,000	1,000	9.70%	9.63%	2.01
3	12-May-2005	LKB00508A017	11.75%2008A	1,000	800	9.70%	9.61%	1.80
4	20-May-2005	LKB00508A017	11.75%2008A	1,000	1,000	9.73%	9.63%	2.66
5	30-May-2005	LKB00609A013	11.50%2009A	1,500	1,100	9.82%	9.79%	1.10
6	1-Jul-2005	LKB00507J010	11.75%2007G	1,500	1,000	10.34%	10.32%	0.00
7	1-Jul-2005	LKB01013G154	08.50%2013B	500	500	10.58%	10.55%	1.50
8	30-Aug-2005	LKB00608J016	11.50%2008F	1,500	1,250	10.83%	10.80%	1.50
9	29-Sep-2005	LKB00608J016	11.50%2008F	2,000	2,000	11.02%	10.98%	2.12
10	13-Oct-2005	LKB00608J016	11.50%2008F	1,500	600	11.03%	11.03%	0.06

¹⁸⁰ Source: Formula in Microsoft Excel

¹⁸¹ Refer Annexure 38 for the list of 35 offers where WAYR higher than the base rate & detailed computation of loss and Exhibit 36 for documents pertaining to calculation of loss in Auctions

#	Auction Date	ISIN	Bond Series	Amount Offered	Amount Accepted	WAYR	Base Rate	Loss
11	29-Dec-2005	LKB00608K014	11.50%2008H	3,000	950	11.22%	11.05%	4.13
12	28-Nov-2006	LKB00508D011	09.75%2008B	2,000	1,270	12.92%	12.52%	6.55
13	27-Feb-2007	LKB00609A013	11.50%2009A	1,500	800	14.07%	14.05%	0.25
14	13-Aug-2007	LKB00609H018	07.60%2009A	2,000	550	17.27%	17.25%	0.33
15	24-Oct-2007	LKB00612J158	06.85%2012B	2,000	2,000	16.01%	16.00%	4.20
Total loss during 2005-2007 (A)								28.75
16	29-Jan-2008	LKB00610D015	07.60%2010A	750	685	18.88%	18.19%	7.54
17	24-Jun-2008	LKB00109F153	15.50%2009A	1,000	1,000	18.57%	18.50%	0.69
18	11-Sep-2008	LKB00412G019	13.50%2012B	1,500	1,010	17.48%	17.45%	0.83
19	29-Sep-2008	LKB00210G017	15.50%2010B	2,000	1,200	19.33%	18.60%	12.88
20	29-Sep-2008	LKB00311F155	14.50%2011B	2,000	925	19.22%	18.40%	15.33
21	29-Sep-2008	LKB00412G019	13.50%2012B	1,000	526	19.09%	18.50%	9.02
22	30-Oct-2008	LKB00210I153	15.50%2010D	3,000	1,300	20.43%	20.00%	8.54
23	30-Oct-2008	LKB00311I159	14.50%2011C	2,000.00	1,050.00	20.25%	20.25%	1.35
24	6-Jan-2009	LKB00210L157	15.50%2010E	500	500	20.99%	20.85%	1.08
25	2-Feb-2009	LKB00211A158	15.50%2011A	1,500	1,075	18.40%	18.35%	0.84
26	28-May-2009	LKB00615C156	11.75%2015A	1,000	1,000	13.47%	13.40%	2.71
27	23-Jun-2009	LKB01019E016	08.50%2019A	500	150	13.47%	13.25%	1.40
28	30-Jul-2009	LKB00413F159	11.50%2013A	1,500	1,350	12.88%	12.83%	2.22
29	30-Jul-2009	LKB00614D017	11.75%2014B	1,000	750	12.94%	12.92%	1.08
30	30-Jul-2009	LKB01019E016	08.50%2019A	500	220	13.09%	13.07%	0.62
31	13-Sep-2011	LKB00819A158	05.65%2019A	1,000	1,250	8.92%	8.81%	7.01
32	21-Jan-2013	LKB01628G019	09.00%2028A	4,000	4,500	12.25%	12.13%	28.57
33	27-Mar-2013	LKB01518G152	08.50%2018B	3,000	3,000	11.45%	11.45%	1.88
34	10-Jan-2014	LKB01529A012	13.00%2029A	3,000	3,500	10.61%	10.58%	10.11
35	27-Mar-2014	LKB03044A010	13.50%2044A	2,000	2,000	11.75%	11.70%	8.62
Total loss during 2008-2015 (B)								122.32
Grand Total (C) = (A)+(B)								151.07

Refer Annexure A for the list of Tender Board members for the 35 identified offers where accepted WAYR was more than the identified Base Rate.

COMPUTATION OF MINIMUM LOSS

- 8.1.16. In the scenario where the CBSL had to raise funds to the extent of funds requirement raised by the Treasury Operations Department, even if cut-off WAYR was higher than prevailing Secondary Market yield rates for similar maturity. Accordingly, the above mentioned 35 offers (identified in Section 8.1.13 D above) can be bifurcated as under:
- A. In 32 offers out of 35 offers, the loss might not have been caused to the Government of Sri Lanka as the Tender Board had to raise funds to meet the requirement of the Treasury Operations Department even at WAYR higher than prevailing Secondary Market yield rates for similar maturity.
 - B. In remaining 3 offers (*Refer Annexure 39*)¹⁸², loss might have been caused to the Government of Sri Lanka which could have been avoided if the Tender Board would have accepted offers till the offered value. There was an option of direct placements, the impact of possible direct placement not used in this place will be evaluated subsequently.
- 8.1.17. In order to compute the minimum loss in the above-mentioned 3 offers, the following steps were performed in each offer:
- Step 1: Identified the Base rate as mentioned in Section 8.1.8. to 8.1.11 of the Report.
 - Step 2: Computed the price from the Base Rate, using the price formula in Microsoft Excel.
 - Step 3: Marked the price, identified in Step 2, as Base Price after grossing up the tax component from the identified price.
 - Step 4: Identified the bids (from the bids approved sheet), where amount accepted was more than the amount offered.
 - Step 5: Ascertained the difference between Base Price and bid price for each accepted bid identified in Step 4.
 - Step 6: Calculated the number of bonds issued to each PD by dividing the column “Amount Tendered” of Bids Approved sheet, with face value of the Treasury Bond i.e., Rs.100.
 - Step 7: Calculated the value of loss for each accepted bid identified in Step 4, by multiplying the number of Treasury Bonds issued (as per Step 6) and the differential price (as per Step 5).

¹⁸² Refer Annexure 39 for the list of 3 offers out of 35 offers where accepted amount is more than the offered amount & detailed computation of loss

Step 8: Aggregated the value of loss for all the bids identified in Step 4 in order to calculate the loss for a particular ISIN.

8.1.18. For the purpose of identification of Base price based on the Base Rate, the price formula in the Microsoft Excel was used and considered settlement date, maturity date, rate, yield, redemption value, frequency of coupon payment, coupon payment and Base Rate, as mentioned in Section 8.1.15 of the Report.

8.1.19. Based on above mentioned procedures, in 3 offers, the minimum loss (*Refer Annexure 39 and Exhibit 37*)¹⁸³.caused to the Government of Sri Lanka aggregating to Rs. 6.03 Million and offer wise summary of loss is as under:

Table 53: Minimum Loss (Amount in Rs. Million)

#	Date of auction	ISIN	Bond series	Offered value	Accepted Value	WAYR	Base Rate	Loss
1	13-Sep-2011	LKB00819A158	05.65%2019A	1,000	1,250	8.92%	8.81%	1.41
3	21-Jan-2013	LKB01628G019	09.00%2028A	4,000	4,500	12.25%	12.13%	3.17
4	10-Jan-2014	LKB01529A012	13.00%2029A	3,000	3,500	10.61%	10.58%	1.44
TOTAL								6.03

8.1.20. Therefore, in the above-mentioned cases, acceptance of offers at WAYR higher than the Base Rate has still resulted in raising funds at higher cost. However, the loss to the Government of Sri Lanka has been reduced to Rs. 6.03 Million in this case.

¹⁸³ Refer Annexure 39 for the list of 3 offers out of 35 offers where accepted amount is more than the offered amount & detailed computation of loss and Exhibit 37 for documents pertaining to calculation of loss

8.2. COMPUTATION OF LOSS IN DIRECT PLACEMENTS

- 8.2.1. As explained above in Section 4.2.7 B of the Report, FO of the PDD has to make arrangements to meet financing need as much as possible through Auctions. The balance fund requirements of the Government as indicated in the approved Borrowing Program may be arranged through Direct Placements with PDs and any other institution approved by the Monetary Board. The rates forming basis of yield rates for issuance of Treasury Bonds under Direct Placements are determined as under:
- A. In case the Direct Placement transaction of an ISIN is preceded by an auction of ISIN of similar maturity (within 15 days¹⁸⁴), the yield rates for issuance of Treasury Bonds were based on the WAYR and cut-off yield rate of the corresponding preceding auction or at a rate decided by the relevant authorities (Governor or SPD¹⁸⁵).
 - B. When there is no corresponding auction for the ISINs offered under Direct Placements, the prevailing Secondary Market yield rates for similar maturities were applied with the consent of the SPD¹⁸⁶ or the Governor of the CBSL.
 - C. As explained in Section 8.1.4. above, as confirmed by Mr. SS Ratnayake¹⁸⁷ during the discussion held on 29 July 2019, the rates provided by MO were considered by FO as the prevailing Secondary Market yield rates for similar maturities.
- 8.2.2. For the purpose of calculating loss on the Direct Placement transactions of an ISIN which are preceded by an auction of ISIN of similar maturity, the issue rates were compared with the higher of cut-off rate of the preceding auction and prevailing Secondary Market rates for similar maturities as increased by issue premium of 5 bps¹⁸⁸.
- 8.2.3. For the purpose of calculating loss on the Direct Placement transactions undertaken during the period 1 January 2005 to 31 December 2007 which are not preceded by an auction of ISIN of similar maturity, the issue rates were compared with the prevailing Secondary Market rates for similar maturities as increased by issue premium of 5 bps¹⁸⁹.

¹⁸⁴ Refer Section 4.2.7 of the Report

¹⁸⁵ As per PDD Operations Manual

¹⁸⁶ As per the operational manual of PDD version 2013V2 updated as of 31.07.2013

¹⁸⁷ Mr. S.S. Ratnayake was the SPD from 21 June 2010 to 31 December 2011

¹⁸⁸ Refer Section 8.1.7. of the Report

¹⁸⁹ Refer Section 8.1.7. of the Report

The issue premium of 5 bps above the prevailing Secondary Market rate also covers the impact on Secondary Market rates due to adverse economic condition such as high level of inflation, revenue shortfall, huge defence expenditure etc. during the period 1 January 2005 to 31 December 2007

- 8.2.4. As explained in Section 4.2.7. B of the Report, on 7 January 2008, the Monetary Board approved a special yield rate structure to be used for Direct Placements of Treasury Bonds in respect of EPF and other captive sources for the period 7 January 2008 to 30 April 2008 (Refer Exhibit 24)¹⁹⁰. Subsequently, on 2 May 2008, the Monetary Board extended the period for use of prescribed yield rate structure (Refer Exhibit 25)¹⁹¹.
- 8.2.5. Hence, with effect from 7 January 2008, the issue rates of issuance of Direct Placement to the EPF and other captive sources were compared with the yield rate structure (Refer Annexure 40)¹⁹² approved by the Monetary Board for the purposes of calculation of loss.
- 8.2.6. As explained in Section 4.2.7 B of the Report, the Monetary Board approved issuance of Treasury Bonds to the EPF and other captive sources at an interest rate of 5 bps above the prevailing Secondary Market rates through Direct Placements on 7 October 2008 (Refer Exhibit 26)¹⁹³. Hence, additional 5 bps was added to the prevailing Secondary Market yield rates for placements made to EPF and other captive sources for the period 7 October 2008 to 28 February 2015. Further, without prejudice to the observation mentioned in the Section 5.4. of the Report, this benefit of additional 5 bps over the prevailing Secondary Market rate was also extended to the Non-captive sources for the period 7 October 2008 to 28 February 2015 at the time of calculation of loss in issuance of Treasury Bonds through Direct Placements.
- 8.2.7. For the purposes calculation of loss caused to the Government of Sri Lanka on account of issuance of Treasury bonds through Direct Placements, the Base Rate was determined and the same was compared with the Issuance Rate of Direct Placements on transaction date. The basis for determination of Base Rate is given below:

Table 54: Basis for determination of Base Rate

#	Period	Classification	Base Rate for Computation of Loss
1	2005 - 2007	1-Jan-2005 - 31-Dec-2007	• For the placements transactions made within 15 days of Auction of ISIN of similar maturity, the Base Rate is higher of cut-off rate of the preceding Auction and prevailing

¹⁹⁰ Refer Exhibit 24 for the copy of minutes of Monetary Board meeting held on 7 January 2008, Tabled Board paper - MB/PD/1/16/2008

¹⁹¹ Refer Exhibit 25 for the copy of minutes of Monetary Board meeting held on 2 May 2008, Tabled Board paper - MB/PD/11/6/2008

¹⁹² Refer Annexure 40 for Special Yield Rate structure approved by the Monetary Board for the Direct Placements made to the EPF and other captive sources

¹⁹³ Refer Exhibit 24 for the copy of minutes of Monetary Board meeting held on 7 October 2008, Tabled Board paper - MB/PD/25/20/2008

#	Period	Classification	Base Rate for Computation of Loss
			<p>Secondary Market rate including the issue premium of 5 bps.</p> <ul style="list-style-type: none"> For remaining placements transactions, prevailing Secondary Market yield rate including the issue premium of 5 bps on the transaction date of placement was considered as Base Rate.
2	2008 - 2015	7-Jan-2008 - 6-Oct-2008	<ul style="list-style-type: none"> For the placements made within 15 days of Auction of ISIN of similar maturity, the Base Rate is higher of cut-off rate of the preceding Auction and prevailing Secondary Market rate including the issue premium of 5 bps except for placements made to EPF and other captive sources. Yield rate structure approved by the Monetary Board was used as Base Rate for placements made to EPF and other captive sources. In case rates were not available for maturities in the yield rate structure approved by the Monetary Board and for placements were made to non-captive PDs, prevailing Secondary Market yield rate including the issue premium of 5 bps on the transaction date of placement was considered as Base Rate.
3	2008 - 2015	7-Oct-2008 - 26-Feb-2015	<ul style="list-style-type: none"> For the placements made within 15 days of Auction of ISIN of similar maturity, the Base Rate is higher of cut-off rate of the preceding Auction and prevailing Secondary Market rate including the issue premium of 5 bps. For remaining placements, prevailing Secondary Market yield rate including the issue premium of 5 bps on the transaction date of placement was considered as Base Rate.

8.2.8. Based on comparison of the issue rates of Direct Placements and Base rates on transaction dates, the after-tax issue price was lower than the Base Price calculated in 1,105 Direct Placement transactions and the same has resulted in loss of Rs. 10.47 Billion to the Government of Sri Lanka during the period 1 January 2005 to 28 February 2015.

8.2.9. The results from detailed examination of the 4,670 Direct Placement Transactions based on comparison of Base Rate with the Transaction rate is tabulated below:

Table 55: Classification of 4,670 Direct Placement transactions

#	Particular	No. of transactions	% of total transactions	Section Reference
1	Direct Placement transactions for the period 2002-2004	166	3.55%	4.2.9
2	Direct Placement transactions made against the administrative requirement of the Treasury	209	4.48%	8.2.10
3	Direct Placement transactions where placement arranged date/transaction date was not available	178	3.81%	8.2.12
4	Direct Placement transactions where prevailing Secondary Market rates as per the Daily Market Summary Reports were not available	229	4.90%	8.2.15
5	Direct Placement transactions where after-tax issue price mentioned in the Issuance Tickets were higher than the Base Price calculated	2,783	59.59%	8.2.13.A and 8.2.16
6	Direct Placement transactions where after-tax issue price mentioned in the Issuance Tickets were lower than the Base Price calculated	1,105	23.66%	8.2.13.B and 8.2.17
Total Direct Placement Transaction made during the Review Period		4,670	100%	

8.2.10. As explained in Section 4.2.9. of the Report, during the Period 1 January 2005 to 28 February 2015, 4,504 Direct placements transaction were made by the PDD. In 209 Direct placements transactions, out of 4,504 transactions, it was noted that the issuance of Treasury Bonds was made with respect to the administrative requirements of the Treasury. These Direct Placement transactions were identified based on Treasury Requests made available in the documents provided and note on the Issuance Ticket made by the officer of PDD.

8.2.11. Further, the administrative requirements of Treasury are provided to the PDD to fulfil the requirements of Treasury at a specific rate. The rate at which a placement is to be made is prescribed in the letter received from Treasury in this regard. Hence, these transactions were excluded while performing the procedures of calculation of Loss in issue of Treasury Bonds under direct placements. (Refer Annexure 14B)¹⁹⁴. Refer the Table below for the value of funds raised against the Treasury requirement divided into below mentioned period classification.

¹⁹⁴ Refer Annexure 14B for 209 Direct placements made against the administrative requirement from the Treasury Operations Department

Table 56: Value of funds raised against Treasury requirement (Amount in Rs. Billion)

#	Name of the PD	Jan 2005 - Dec 2007		Jan 2008 - Feb 2015		Total Tender Amount
		Count	Tender Amount	Count	Tender Amount	
1	Bank of Ceylon	33	60.34	55	226.84	287.17
2	Employees Provident Fund	21	12.60			12.60
3	NSB Fund Management Company Limited	11	9.31	6	28.62	37.93
4	People's Bank	64	61.75	19	80.95	142.71
	Total	129	144.00	80	336.41	480.41

8.2.12. In 178 Direct Placements transactions, out of remaining 4,295 Direct Placement transactions, placement transaction date was not available in the documents provided for the review. Therefore, determination of transaction date for determination of prevailing Secondary Market yield rate was not possible. Hence, the procedures for calculation of Loss could not be performed in these Direct Placement transactions due to lack of availability of transaction date on the issuance ticket provided with the documents (*Refer Annexure 19*)¹⁹⁵. Refer the table below for the breakup of 178 Direct Placement transactions divided into below mentioned period classification.

Table 57: Classification of 178 Direct Placement transactions (Amount in Rs. Billion)

#	Name of the PD	Jan 2005 - Dec 2007		Jan 2008 - Feb 2015		Total Tender Amount
		Count	Tender Amount	Count	Tender Amount	
1	Bank of Ceylon	29	16.69	7	5.54	22.23
2	Employees Provident Fund	39	62.70	4	17.63	80.33
3	NSB Fund Management Company Limited	20	18.90	4	6.92	25.82
4	People's Bank	69	25.07	2	2.90	27.96
5	First Capital Treasuries Limited	-	-	1	0.25	0.25
6	Seylan Bank Asset Mgmt.	-	-	2	1.10	1.10
7	Natwealth Securities Limited	-	-	1	0.05	0.05
	Total	157	123.35	21	34.39	157.75

¹⁹⁵ Refer Annexure 19 for the List of 178 Direct Placements \where transaction date was not available

8.2.13. In 1,102 Direct Placements transactions (*Refer Annexure 41*)¹⁹⁶ out of remaining 4,117 Direct Placement transactions, placement transaction date was preceded by an Auction within 15 days¹⁹⁷ of the placement transaction date, as of the same ISIN.

A. In 1,035 Direct Placements transactions, out of 1,102 Direct Placement transactions, the after-tax Issue price mentioned in the Issuance Tickets were higher than the Base Price calculated. Hence, Loss is not computed in these placement transactions. (*Refer Annexure 42*)¹⁹⁸.

B. In remaining 67 Direct Placements transactions, the after-tax issue price was lower than the Base Price calculated and the same resulted in loss of Rs. 290.32 Million to the Government of Sri Lanka (*Refer Annexure 43*)¹⁹⁹.

8.2.14. The following steps were performed for the purpose of calculation of loss across the 67 Direct Placements transactions where Treasury Bonds were issued through placement transactions where placement was preceded by the Auction:

STEP 1: Identified the after-tax issue Price as provided in the Issuance Ticket and marked it as the Issued Price.

STEP 2: Identified the higher of the Cut-off rate of the preceding Auction and the prevailing Secondary Market yield rate of similar maturities (as per the Daily Market Summary Report of MO of PDD on the "Placement arranged date" as provided in the Issuance Ticket) including the issue premium/additional benefit of 5 bps and marked it as the Base Rate.

STEP 4: Calculated the after-tax Base Price from the Base Rate for the instances identified in STEP 3. Base price was calculated from the price formula from Microsoft excel explained in Section 8.1.15. of the Report.

STEP 6: Ascertained the difference between Issued Price and Base Price and marked it as the Differential Price.

STEP 7: Calculated the Number of Bonds issued to each PD by dividing the face value provided in the Issuance Tickets with face value of Treasury Bond i.e. Rs.100.

¹⁹⁶ Refer Annexure 41 for the List of 1,102 Direct Placements where transaction date was preceded by an Auction within 15 days

¹⁹⁷ Refer chapter 11 of the PCOI Report mentioning number of days up till which auction rates were applicable for placement transactions

¹⁹⁸ Refer Annexure 42 for the list of 1,035 Direct Placement where issue price was higher than the Base price

¹⁹⁹ Refer Annexure 43 for the list of 67 Direct Placement where after-tax issue price was lower than the Base price and calculation of loss

STEP 8: Ascertained the loss by multiplying the Differential Price with the Number of Bonds issued to each PD.

8.2.15. In 229 Direct Placements transactions (*Refer Annexure 44*)²⁰⁰, out of remaining 3,015 Direct Placement transactions, the prevailing Secondary Market rates as per the Daily Market Summary Reports were not available. Hence, Loss could not be ascertained in these placements.

8.2.16. In 1,748 Direct placements transactions²⁰¹, out of remaining 2,786 Direct placements transactions the after-tax issue price mentioned in the Issuance Tickets were higher than the Base Price calculated (*Refer Annexure 45A and 45B*)²⁰². Hence, loss is not computed in these placement transactions.

8.2.17. In remaining 1,038 Direct Placements transactions²⁰³, the after-tax issued price were lower than the Base Price calculated and the same has resulted in Loss of Rs. 10.18 Billion to the Government of Sri Lanka (*Refer Annexure 46A and 46B*)²⁰⁴.

8.2.18. The following steps were performed for the purpose of calculation of loss across the remaining 1,038 placements transactions:

STEP 1: Identified the after-tax issue price as provided in the Issuance Ticket and marked it as the Issued price.

STEP 2: Identified the prevailing Secondary Market yield rate of similar maturities as per the Daily Market Summary Report of MO of PDD on the "Placement arranged date" as provided in the Issuance Ticket.

STEP 3: Identified the yield rates for the placements made to Captive PDs during the period 7 January 2008 to 6 October 2008, where yield rate was mentioned in the Monetary Board approved yield rate structure and marked as Base Rate for the placement transactions of the period 7 January 2008 to 6 October 2008.

²⁰⁰ Refer Annexure 44 for the list of 229 Direct Placements transactions where prevailing Secondary Market rates as per the daily market summary report were not available

²⁰¹ 116 Direct Placements transactions for the period 7-Jan-2008 to 6-oct-2008 and 1,632 Direct Placement transaction for the remaining Review Period

²⁰² Refer Annexure 45A and 45B for the list of 1,632 Direct Placements and 116 Direct Placements for the period 7-Jan-2008 to 6-oct-2008 i.e. 1,748 Direct Placements where issue price was higher than the Base price

²⁰³ 111 Direct Placements transactions for the period 7-Jan-2008 to 6-oct-2008 and 927 Direct Placement transaction for the remaining Review Period

²⁰⁴ Refer Annexure 46A and 46B for the list of 927 Direct Placements and 111 Direct Placements for the period 7-Jan-2008 to 6-oct-2008 i.e. 1,038 Direct Placements where issue price was lower than the Base price

STEP 4: For the placement transactions pertaining to period 1 January 2005 to 28 February 2015, added 5 bps in the prevailing Secondary Market rate for transactions, as identified in the STEP 2²⁰⁵ except for Placements transactions identified in STEP 3 and marked it as Base Rate.

STEP 5: Calculated²⁰⁶ Base Price from the Base Rates identified in STEP 3 and STEP 4. Base price was calculated from the price formula from Microsoft excel explained in Section 8.1.15 of the Report.

STEP 6: Ascertained the difference between Issued Price and Base Price and marked it as the Differential Price.

STEP 7: Calculated the Number of Bonds issued to each PD by dividing the face value provided in the Issuance Tickets with face value of Treasury Bond i.e. Rs. 100.

STEP 8: Ascertained the Loss by multiplying the Differential Price with the Number of Bonds issued to each PD.

8.2.19. Therefore, in 1,105 Direct Placements transactions issuance of Treasury Bonds through Direct Placements was made at the rates lower than the Base Price. Resultant to that, a total Loss of Rs. 10.47 Billion was caused to the Government of Sri Lanka. Refer the below table for the Primary Dealers-wise and Year-wise Loss breakup of 1,105 placement transactions. (Refer Annexure 43 and Annexure 46A and 46B and Exhibit 37)²⁰⁷.

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²⁰⁵ Refer section 8.2.3. of the Report

²⁰⁶ the Secondary Market Rates were calculated on the rates provided in the Daily Market Summary Reports plus 5 basis points

²⁰⁷ Refer Annexure 43 and Annexure 46 A and 46B for the list of 67 Direct Placements and 1,038 Direct Placements and calculation of loss and Exhibit 37 for documents pertaining to calculation of loss in Direct Placements

Table 58: Primary Dealers-wise and Year-wise loss breakup of 1,105 placement transactions

(Rs. In Millions)

#	Name of the PD	2005	2006	2007	Total Loss during 2005-2007	2008	2009	2010	2011	2012	2013	2014	2015	Total Loss during 2008-2015	Total Loss during Review Period	% of loss
Captive PDs																
1	Employees Provident Fund	0.98	10.90	0.77	12.65	2,362.96	102.31	33.17	74.84	3,048.24	582.36	200.08	-	6,403.96	6,416.60	61.28%
2	Bank of Ceylon	15.23	3.47	119.61	138.31	200.44	15.15	93.53	25.89	825.78	227.35	41.70	4.93	1,434.76	1,573.07	15.02%
3	NSB Fund Management Company Limited	4.61	3.67	253.98	262.26	585.15	82.39	55.85	47.81	404.66	58.43	12.18	4.08	1,250.54	1,512.80	14.45%
4	People's Bank	31.70	4.93	96.64	133.27	101.31	3.43	4.54	56.05	133.67	41.62	23.12	-	363.74	497.01	4.75%
	Total (A)	52.52	22.97	470.99	546.48	3,249.86	203.28	187.08	204.59	4,412.34	909.76	277.08	9.01	9,453.00	9,999.48	95.49%
Non-Captive PDs																
5	First Capital Treasuries Limited	-	-	-	-	31.14	23.45	-	-	55.03	6.48	1.97	-	118.07	118.07	1.13%
6	Commercial Bank of Ceylon Limited	-	-	-	-	0.25	-	-	-	57.49	39.65	18.68	1.08	117.15	117.15	1.12%
7	Acuity Securities Limited	-	-	-	-	2.31	9.26	-	0.32	5.22	64.71	-	-	81.82	81.82	0.78%
8	WealthTrust Securities Limited	-	-	-	-	-	-	-	-	10.90	18.18	21.25	-	50.33	50.33	0.48%
9	Seylan Bank PLC	-	-	-	-	-	-	-	-	1.09	17.71	6.23	0.43	25.45	25.45	0.24%
10	Capital Alliance	-	-	-	-	3.26	14.95	-	-	4.59	0.55	0.13	-	23.49	23.49	0.22%
11	Entrust Securities PLC	-	-	-	-	6.56	4.52	0.06	0.52	10.45	0.75	-	-	22.85	22.85	0.22%
12	Seylan Bank Asset Mgmt	-	-	-	-	12.44	-	-	-	-	-	-	-	12.44	12.44	0.12%
13	Hongkong & Shanghai Banking Corp.	-	-	-	-	-	-	-	-	-	-	11.28	-	11.28	11.28	0.11%
14	Natwealth Securities Limited	-	-	-	-	8.66	-	-	-	-	-	-	-	8.66	8.66	0.08%
15	Perpetual Treasuries	-	-	-	-	-	-	-	-	-	-	0.25	-	0.25	0.25	0.00%
	Total (B)	-	-	-	-	64.62	52.18	0.06	0.83	144.77	148.04	59.79	1.51	471.80	471.80	4.51%
	Grand Total (C) = (A) + (B)	52.52	22.97	470.99	546.48	3,314.49	255.46	187.14	205.42	4,557.10	1,057.79	336.86	10.52	9,924.79	10,471.28	100.00%
	Total of Tender Amount	13,150	19,653	51,538	84,161	165,985	27,468	27,931	109,268	460,068	168,292	113,466	10,653	1,083,131	1,167,292	

9. OTHER MATTERS

9.1. CONTROL LAPSES IN CONDUCT OF AUCTION AND DIRECT PLACEMENTS

9.1.1. Although the CBSL has introduced internal controls and decision-making process to ensure transparency and prevent irregularities in issuance of Treasury Bonds under Auction and Direct Placements, such controls and processes were found to be inadequate and ineffective during the Review Period.

9.1.2. Based on discussion with current and former officials of the CBSL, review of PDD Operation Manual and supporting documents for issuance of Treasury Bonds under Auction and Direct Placement for the Review Period, the following control lapses were noted in the regular conduct of operations by the PDD of the CBSL:

A. SELECTION OF PARTIES FOR THE DIRECT PLACEMENTS

1. It was noted that there was no definite system for identification and selection of the PDs for issue of Treasury Bonds through Direct Placements. The PDD Operational Manual states that *“FO communicates with relevant institutions to make arrangements for placements”*.
2. It was confirmed with the officials of PDD vide discussions of 16 May 2019 (Refer Exhibit 11)²⁰⁸ that, *“There was no selection process as all the market participants were well aware of the practices in place and were served on “First Come, First Serve” basis. Further, participants who can participate at Auctions can access the Direct Placements. Calls were primarily placed by the officers of the FO to the PDs affiliated to state banks (BOC, NSB, PB), EPF, ETF. In addition, continuous dialog was maintained with all the PDs in the market in order to obtain more knowledge on latest developments in the market.”*
3. Hence, it cannot be ascertained that the identification and selection of PDs done on a fair and independent basis.

²⁰⁸ Refer Exhibit 11 for the Summary of discussion with PDD on clarification on general queries on the process of issuance of Treasury Bonds through Direct Placement signed on 3 July 2019

B. LACK OF FORMAL ANNOUNCEMENTS FOR DIRECT PLACEMENTS

1. All Auctions conducted by the PDD of the CBSL were preceded by advertisement in the newspaper. Unlike the formal announcements made for issue of Treasury Bonds under the Auctions, there were no announcements made regarding the issue of Treasury Bonds through Direct Placements.
2. It can be concluded that a definite system for inviting bids from PDs for Direct Placements was not available in the PDD Operations Manual of PDD and all PDs were not given equal opportunity to participate in the Direct Placement

C. SELECTION OF ISINs FOR ISSUANCE UNDER DIRECT PLACEMENT

1. Based on the available information, it was noted that additional ISINs which were not offered in the Auctions were also issued through Direct Placements. This indicate a lack of transparency pertaining to the activities of the FO of the PDD since all the market participants were not aware about the ISINs offered by PDD directly under Direct Placements.
2. The analytic review of transactions of Auction and Direct Placement under the Review Period revealed that 25 ISINs were issued only through Direct Placements and never formed part of Auctions. (Refer Section 6.2.5.)²⁰⁹
3. During interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (Refer Exhibit 15)²¹⁰, regarding the information available with the PDs of the availability of these ISINs with the PDD, he stated that “These ISINs might have been known to the other Investors / Primary Dealers (Non-Captive Sources) only through the Secondary Market trading.”
4. In view of above, the Auction and Direct Placement process indicate lack of definite system to communicate all PDs about all the ISINs being offered by PDD and thereby, giving equal opportunity for bids.

²⁰⁹ Refer Section 6.2.5. of the Report for the detailed evaluation of 25 ISINs

²¹⁰ Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

D. VOICE RECORDINGS AND CCTV CAMERAS

1. The facilities for recording of calls or the call logs were not installed in respective offices and dealing rooms of the PDD to authenticate the negotiations between the officials of the FO of the PDD and the PDs. Also, the facilities for keeping a video record of the activities performed by the various divisional officials of the PDD were not available during the Review Period.
2. During interview with Mr. Dhammika Nanayakkara on 25 and 26 September 2019 (*Refer Exhibit 15*)²¹¹, it was explained that these best practices were not initiated by the CBSL in PDD function since neither any unforeseen event happened nor any auditor (internal or external) raised any concerns in this regard.
3. The PCOI recommended, “*The CBSL should ensure that, a Voice Recording System is used in the Front Office of the Public Debt Department and that a CCTV System is installed in the Public Debt Department*”. Subsequently, the Voice Recording facilities of identified landlines of FO of PDD and CCTV surveillance were installed in PDD in the year 2017.

E. IMPROPER HANDOVER OF DOCUMENTS

1. Vide discussions of 29 July 2019 with Mr. S S Ratnayake (*Refer Exhibit 12*)²¹² regarding handover of files / documents from the SPD to his successor, it was confirmed that, “All the documents received or prepared in PDD were filed and maintained in conformity with the CBSL/Secretarial and Department Circulars issued by SPD on the Divisional Maintenance and movements of files / documents. The operational files were always with the officers of PDD who were working on them. Other files were kept in file store, under the control of the Administrative Division. In/out movement of files/documents are recorded in a register. The physical access to the PDD area is always restricted and monitored. Hence, the files or documents were not separately handed over by preceding SPD to succeeding SPD and only pending/operational matters were specially informed to the succeeding SPD.”
2. The above-mentioned improper handover of documents caused some of the essential documents being not available for review.

9.1.3. In view of above internal control lapses, the efficacy of the review was impacted and resulted in a limitation in identifying the irregularities and evidences.

²¹¹ Refer Exhibit 15 for the Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019

²¹² Refer Exhibit 12 for the summary of discussion with Mr. S S Ratnayake, former SPD for the period of 21 June 2010 to 31 December 2011

10. DIGITAL FORENSICS

10.1. OVERVIEW

During the review of documents for Auction and Direct Placement method for issue of Treasury Bonds, there were instances wherein deviation / anomalies were noted in the process followed and the supporting documents for several Auctions. A list of 12 identified employees of the CBSL was prepared who were responsible for taking decisions related to issue of Treasury Bonds during the Review Period (hereinafter referred to as “custodian”) (Refer Annexure 5)²¹³ and their electronic devices (hereinafter referred as “Target Devices”) were identified and informed to the CBSL. The ITD identified the computers (desktops / laptops) issued to these employees, based on the last “Log-In” details recorded in the “Active Directory”.

10.2. REVIEW OF EMAILS

- 10.2.1. The summary of available digital evidences for all 12 identified employees of the CBSL was prepared and evaluated for potential linkage with the deviations and irregularities explained in the previous Sections of the Report (Refer Annexure 47)²¹⁴. The specific electronic evidences considered relevant to the findings of the Report are detailed in the respective Sections of the detailed observations.
- 10.2.2. The table below represents the availability of data/ emails/ facts considered relevant in respect of the deviations and irregularities in the issuance of Treasury Bonds for the Review Period:

Table 59: Summary of Evidences from ESI

#	Name of the official	Availability of digital evidences relevant to deviations or irregularities
1	Mr. Arjuna Mahendran	None
2	Mr. S S Ratnayake	None
3	Mr. C M D N K Seneviratne	None
4	Mrs. U L Muthugala	None
5	Dr. M Z M Aazim	None
6	Mr. N W G R D Nanayakkara	None
7	Ms. W N S Fernando	None
8	Mr. C J P Siriwardena	None

²¹³ Refer Annexure 5 for the list of 12 identified employees and their respective Target Devices along with rationale for their identification for the review.

²¹⁴ Refer Annexure 47 for the evidence matrix of identified custodians.

#	Name of the official	Availability of digital evidences relevant to deviations or irregularities
9	Mr. K G D D Dheerasinghe	None
10	Mrs. C Premarathna	None
11	Dr. W A Wijewardena	None
12	Mr. BDWA Silva	None

10.3. DELETION OF OUTLOOK FILES

10.3.1. During the extraction of ESI, logs indicating deletion of outlook .pst & .ost files were identified on target devices pertaining to select custodians (Refer Table 14). The identification of deleted outlook files and the anomalies identified are explained as below:

- A. An email platform / application is used for sending or receiving emails, maintain calendar, contacts etc. the CBSL implemented, Microsoft Outlook as email platform for email communication from June 2012. (Refer Exhibit 39)²¹⁵
- B. Mentioned below are the data file formats used by Microsoft Outlook²¹⁶.

1. Outlook data file (.PST):

It contains messages and other outlook items and is saved on the local computer (Target Device). In Outlook 2013 and earlier versions, IMAP account also used as an Outlook Data file (.pst).

An Outlook data file (.pst) can also be created for creating backup of email messages, calendar, contact and task data. When messages or other outlook items are saved in an outlook data file (.pst), the items are available only on the computer where the file is saved.

The location of outlook data file (.pst) created by using Outlook 2013 or Outlook 2016 typically is in “documents\outlook files” folder. Outlook data file (.pst) created by Microsoft outlook 2007 or earlier is on different location at “drive:\users\user\appdata\local\microsoft\outlook”.

2. Offline outlook data file (.OST):

The offline outlook data file (.ost) stores synchronised copy of mailbox information on local computer (Target Device). When the connection to the mail server is interrupted, one can still access all emails, calendar data, contacts etc. and on the restoration of connection, changes are automatically synchronized.

²¹⁵ Refer Exhibit 39 for copy of e-mail communication by the DIT regarding migration of email communication platform

²¹⁶ According to [Outlook app website](#)

The location of the offline outlook data file is at:
 “drive:\User\user\AppData\Local\Microsoft\Outlook”.

3. Database file for Mac:

It is used for Mac OS X systems; Outlook stores the indices in a proprietary Database file and stores the data records as a series of files nested within folders.

- C. The deleted and overwritten Outlook files were identified through description mentioned in the Encase tools.
- D. As confirmed by the DIT that “the user do not require any admin rights to access, delete and modify the email data file (format type “.pst/ .ost”) since it is automatically created in the C:\Users folder in any laptop / desktop.” (Refer Exhibit 2)²¹⁷

However, for deletion of “.ost” and “.pst”, user had to access the location “drive:\ User\ user\ AppData\ Local\ Microsoft\ Outlook” OR “Documents\Outlook Files” respectively, which may require the technical assistance to the user.

- E. The deletion of “.pst” and “.ost” files by a user is less common when compared to the deletion of emails through the email box and such deletion indicates a deliberate action by the user, with knowledge of the effects, to remove information from the Target Device/s.
- F. As per the logs generated by “Encase” using EnsCrypt, it was noted that composite outlook files (ost & pst) were deleted from the Target Devices and the table provided below summarizes instances of deleted outlook files (Refer Annexure 48)²¹⁸:

Table 60: Details of deleted outlook files

#	Custodian	Device	Name of the file deleted	Observation
1	Mr. Arjuna Mahendran	Laptop	arjunam@cbsl.lk.ost	An outlook file named “arjunam@cbsl.lk.ost” was observed as deleted on his Device. The description of the file in Encase Forensic tool was “File, Deleted, Overwritten, Archive, Not Indexed”. It was noted that “Entry modified ²¹⁹ ” detail was 30 June 2016 at 20:13 HRS.
2	Mrs. C M D N K Seneviratne	Desktop	deepa@cbsl.lk.ost	Six instances were noted during the review where outlook files were deleted on the following instances from the system. The description of the file in the Encase Forensic was “File, Deleted, Overwritten, Archive, Not Indexed”.

²¹⁷ Refer Exhibit 2 for the e-mail communication of 29 July 2019 for implementation of Litigation Hold.

²¹⁸ Refer Annexure 48 for the complete details of instances of deleted outlook files.

²¹⁹ Entry Modified date refers to the date when the Master File table was modified for the file

#	Custodian	Device	Name of the file deleted	Observation
				<p>It was noted that the “Entry Modified” for the deleted files were as followed:</p> <p>18-Aug-2016 at 9:24 HRS</p> <p>25-Apr-2017 at 15:16 HRS</p> <p>18-Jun-2018 at 9:10 HRS</p> <p>2-Jan-2019 at 9:00 HRS.</p> <p>2-Jan-2019 at 9:00 HRS</p> <p>10-Jan-2019 at 17:54 HRS</p>
3	Dr. M Z M AAZIM	Desktop	aazim@cbsl.lk(2).ost aazim@cbsl.lk.ost achive.pst	<p>Six instances were noted during the review where outlook files were deleted on the following instances from the system. The description of the file in the Encase Forensic was “File, Deleted, Overwritten, Archive, Not Indexed”.</p> <p>The “Entry Modification” date as followed:</p> <p>13- Dec-2013 at 14:48 HRS</p> <p>15-Aug-2017 at 18:43 HRS,</p> <p>15-Nov-2017 at 17:11 HRS</p> <p>27-Aug-2018 at 16:19 HRS</p> <p>20-Jun-2019 at 12:11 HRS</p> <p>24-Jun-2019 at 09:10 HRS</p> <p>An .pst file was also deleted from the system on 13-Dec-2013 at 14:48 HRS.</p>
4	Mrs. U L Muthugala	Desktop	muthugala@cbsl.lk.ost archive.pst muthugala.pst Muthu.pst archive.pst outlook.pst BOSS.pst outlook.pst	<p>Eight instances were noted where outlook files were deleted from laptop.</p> <p>“Entry Modified” dates as followed:</p> <p>17-Apr-2004 at 09:39 HRS</p> <p>23-Sep-2014 at 09:41 HRS²²⁰</p> <p>23-Sep-2014 at 10:05 HRS</p> <p>23-Sep-2014 at 09:41 HRS²²¹</p> <p>10-Aug-2016 at 16:15 HRS</p> <p>26-Aug-2016 at 09:29 HRS</p> <p>16-Nov-2018 at 15:33 HRS</p> <p>17-Apr-2019 at 09:34 HRS</p>

²²⁰ For file name Muthu.pst, the entry modified date is 23-sep-2014 09:41:48

²²¹ For file name archive.pst, the entry modified date is 23-Sep-2014 09:41:44

- G. In the case of Dr. M Z M Aazim, the confidential list of devices to be procured for digital imaging was originally sent on 18 June 2019 and subsequently, the .ost file was found to be deleted on his device. It raises a concern if there was any potential leak of confidential communication between BDO India and the CBSL. Further, Dr. M Z M Aazim received a Memo on 21 June 2019 from the Governor of the CBSL mentioning that the electronic device issued to him would be obtained by the Forensic Auditors for a digital image. However, the procurement of his device was delayed and procured on 25 June 2019 due to his official commitments.

It was noted that the file named “aazim@cbsl.lk.ost” was also deleted from his device. “Entry Modified” property for the mentioned file was **24 June 2019 at 9:10**, a day before the date when the system was due for handover and three days after a memo was issued to surrender his device. The deletion of outlook files appears a deliberate attempt to remove the data available on the device, which also is a breach as per the Information Security Policy of the CBSL.

During an interview with Dr. M Z M Aazim on 20 September 2019 (Refer Exhibit 14)²²² stated, *“I regularly delete emails after responding or forwarding to respective department or employees. I delete operational emails and clean delete folder as well due to limit restrictions. I remember most of the information I receive. I don’t know if it is in policy to keep emails/ files maintained. I am not aware of any deletion of outlook files from my system. It should be checked with IT department.”*

He also explained that he is unaware of the method of deletion of .pst or .ost files. As a practice, he deletes emails from outlook through the user interface, by selecting the emails manually and subsequently removes emails from the ‘delete’ folder. He confirmed that he deleted emails post 1 January 2019 as well. However, he maintained that he is not aware of the deletion activity at the date and time stamps as recorded in the digital forensic review. On further inquiry, Dr. MZM Aazim confirmed that during the date of recorded deletion activity, the target device was in his possession. The access to the target device is possible only through user specific log-in credentials, which were in his possession (not shared with anyone) and is known and used only by him. Also, he did not handover the target device to any other CBSL official during the process of acquisition of the device by BDO.

²²² Refer Exhibit 14 for the Statement of Fact signed by Dr. M Z M Aazim on 20 September 2019

H. Summary

- The log deletion of MS Outlook data files (“.pst” & “.ost”) were generated during the digital forensic procedures where the globally accepted forensic technology tools and evidence identification and extraction procedures were adopted. These logs were generated using the “Encase” forensic tool-based filters and standard OEM scripts in the “Encase” forensic tool.
- Users of electronic email applications usually delete selected non-essential emails (such as notifications, reminders and business development communications) and other emails considered redundant, to free-out the assigned storage space in the electronic device. Identification of such emails is performed selectively, individually and manually through the email system front-end user interface. This mode of deletion is considered usual and a general practice. This method of deletion is a standard functionality of the email application / tool and does not result in deletion of entire data file²²³ itself. Deletion of email data files requires the user to access specific location of files on the machine (laptop / desktop, usually referred-to as “custodian machines”), which is a designated location of the data files. Such deletion method is not a standard functionality feature of the email application. Accordingly, this method of deletion requires a deliberate attempt / action by the user. To avoid unintentional deletion of files and loss of organizational data, as a better practice, organizations usually restrict users’ access to the designated locations of the email data files through user access controls & permissions and through “Administrative” access rights to the computer device.
- The ITD confirmed that the CBSL employees’ access to the such designated locations in the custodians machines and the right to delete files in that folder, was not restricted and users could delete the files if they had the awareness of the file location along with an intention to perform such deletion action.
- During an inquiry, MS Outlook publisher’s technical support division confirmed that there is no technical feature or action that results in auto deletion of Outlook email data file stored in the designated (Program Files) folder, supporting the possibility that such deletion requires a deliberated action by people having access to the custodian machine.
- During the inquiries, the selected officers of the CBSL (on whose machine this deletion activity was identified during the forensic technology procedures) denied having knowledge of the file location and method of deletion. However, they also confirmed that:

²²³ Refer paragraph B for the details of the functionality & purpose of the email data file.

1. During the dates of logs indicating the deletion, the devices were in their own possession;
2. Access to the devices is restricted by user-specific access controls (log-in credentials) set-up by the ITD;
3. The officials have not shared the device access credentials issued by the ITD to any other employees of the CBSL;
4. Dr. Aazim also stated that there no occasion when he handed over the device to any other officers of the CBSL or to the ITD staff for any IT support requirement.

CONCLUSION

Based on the information gathered and confirmations received, it cannot be interpreted that the deletion activity could be the result of an automated action triggered by any other IT process or activity. It cannot also be construed that the deletion activity was performed by officials other than those, who these devices were assigned-to. Despite the active denial / rejection by the officials, of having performed the deletion activity, the possibility of deletion of the data files by the users themselves cannot be ruled-out.

It is pertinent to note that in case of Dr. Aazim, the deletion activity was logged on the dates, subsequent to the intimation of requirement for handover of the electronic devices for forensic investigation purposes and prior to the handover the device. Dr. Aazim also stated during an inquiry that usually, he deletes the older date email communications regularly to free-out the assigned disk-space on his computer machine. He also confirmed that her performed such activity post intimation of the need for surrender of the device or forensic investigation purposes with a specific requirement to handover the device without affecting the integrity of the data on the machine.

11. PUBLIC DOMAIN SEARCHES

11.1. IDENTIFY ASSOCIATION BETWEEN THE EMPLOYEES OF THE CBSL AND PD

- 11.1.1. During the review of documents for Auction and Direct Placements for the issue of Treasury Bonds, a list of employees of the CBSL were identified who were responsible for taking decisions related to issue of Treasury Bonds during the Review Period (hereinafter referred to as “*identified employees*”) (Refer Annexure 5)²²⁴.
- 11.1.2. The information with regards to the identified CBSL employees was collated from various sources to the extent possible, to unveil any association with the PDs. The Due Diligence was conducted which consisted of online public record research to obtain their employment, professional and family background, news media to identify political / business affiliations, directorship details and adverse publicity and checks on subscribed Global Compliance Databases.
- 11.1.3. The data with regards to 16 PDs was gathered from various sources including publicly available information, subscribed databases, Annual Reports as obtained from the respective company’s website and the data received from the Registrar of Companies (RoC). The RoC records of the 16 PDs were requested from January 2002 to March 2016 to determine if any of the identified employees of the CBSL and / or their family members had undisclosed association with the PDs. The data received for the PDs included Director’s details, shareholding pattern, audited financial statements, and change in shareholding pattern / directorship.

Parliament Copy

²²⁴ Refer Annexure 5 for List of 12 identified employees and their respective Target Devices along with rationale for their identification

11.1.4. The following information was gathered during the searches performed for the identified CBSL employees:

A. BACKGROUND CHECK AND MEDIA PROFILING

1. Professional association was noted between the CBSL employees and PD through Institute of Bankers of Sri Lanka (“IBSL”) which was established in the year 1964. IBSL is managed by a Governing Board of 12 high ranking banking sector professionals consisting of two members from the CBSL (a Deputy Governor as Chairman and an Assistant Governor as Vice Chairman), two from Bank of Ceylon (General Manager and Deputy General Manager), two from People’s Bank (CEO / General Manager and a Deputy General Manager), three from other banks and three from Fellows and Associates of the IBSL²²⁵. Hence, the designated employees of the CBSL were the members of IBSL intermittently and were professionally connected with the employees of the PDs.
2. During media checks performed for the former Governors of the CBSL, it was noted that the relatives of the former Governors had beneficial interest, held key managerial positions through directorship or shareholding in other PD and/ or its associated company. Further, research was conducted and the below mentioned details were gathered:
 - a. **Mr. AJITH NIVARD CABRAAL**
 - I. Mr. Ajith Nivard Cabraal was the former Governor of the CBSL and Chairman of the Monetary Board from July 2006 till January 2015. He also functioned as an Alternate Governor of the International Monetary Fund (IMF) and is a former Chairman of the South East Asian Central Banks’ (SEACEN) Board of Governors and the SAARC Central Bank Governors Forum. Prior to his appointment as a Governor of the CBSL, he was the Advisor to the former President, Honourable Mr. Mahinda Rajapaksa on Economic Affairs and the Secretary, Ministry of Plan Implementation.
 - II. It was mentioned in PCOI report and as noted during the public domain searches that the relatives of Mr. Ajith Nivard Cabraal held influential positions in PDs and/ or related company of PDs, during his tenure as a Governor of the CBSL.
 - III. Mr. Anthony Nihal Fonseka (“Nihal Fonseka”), cousin of Mr. Ajith Nivard Cabraal was the Chief Executive Officer of the DFCC Bank PLC (“DFCC”) from January

²²⁵ Source: [Website](#) of IBSL (last accessed on 2-Jul-2019)

2000 till September 2013 and Non - Executive Director of DFCC Vardhana (subsidiary of DFCC; amalgamated with DFCC in October 2015) from February 2009 - September 2015. He was also associated with Commercial Bank of Ceylon as a Director from January 2000 till January 2009. He was associated with Acuity Partners as a Director from July 2008 till July 2013, which is an investment bank promoted as an equally owned Joint Venture between DFCC and Hatton National Bank (HNB). The subsidiaries/ associates and business units operating under Acuity includes Acuity Securities Limited, a licenced PD for government securities.

- IV. Ms. Siromi Noel Wickramasinghe, sister of Mr. Ajith Nivard Cabraal was associated with the holding company of PTL, Perpetual Capital Holdings (Private) Limited as a Director from 23 December 2013 till 9 March 2015. The details with regards to her background were gathered from various sources which revealed that she was associated with HNB Assurance (fully owned subsidiary of HNB) as a Director from 2013 till 2017 and with Commercial Bank of Ceylon as a Director from 1 February 2009 till 26 May 2010. She was chairperson of the Housing Development Finance Corporation Bank of Sri Lanka (HDFC) from May 2010 till January 2015. It was gathered that Mr. Arjun Aloysius, son-in-law of Mr. Arjuna Mahendran (Governor of the CBSL from January 2015 till June 2016), was also associated with HDFC Bank during the said period and was appointed as a Director from May 2011*. It was noted that Ms. Siromi Noel Wickramasinghe was sharing key managerial positions at the holding company of PTL and previous organisation along with Mr. Arjun Aloysius and the details are as under:

Table 61: Key Managerial positions of Ms. Siromi Noel Wickramasinghe

Name of organisation	Name of individual	Type of association	Tenure	Common Tenure
HDFC	Ms. Siromi Noel Wickramasinghe	Chairmanship	May-2010 - Jan-2015	2010 -2012
	Mr. Arjun Aloysius	Director	From May 2011*	
Perpetual Capital Holdings (Private) Limited	Ms. Siromi Noel Wickramasinghe	Director	December 2013 till 9 March 2015	December 2013 till 9 March 2015
	Mr. Arjun Aloysius	Director	Since its inception on 10-Jun-2010	

* The date of termination of association could not be confirmed. Mr. Arjun Aloysius' association with the HDFC was not noted in the Annual Report of 2014 and onwards.

- V. The associations of other relatives of Mr. Ajith Nivard Cabraal are mentioned in the subsequent table.

b. MR. ARJUNA MAHENDRAN

- I. Mr. Arjuna Mahendran is a Sri Lankan born, Singaporean economist and banker. He was appointed by the Honourable President, Mr. Maithripala Sirisena, in January 2015 as the Governor of the CBSL and served till 30 June 2016. He was the former Managing Director of HSBC Private Bank, Chief Investment Officer of Emirates NBD as well as the Chairman and Director-General of the Board of Investment of Sri Lanka.
- II. Mr. Arjuna Mahendran's son-in-law, Mr. Arjun Aloysius was previously associated with PTL (subsidiary of Perpetual Capital Holdings (Private) Limited) as its Chief Executive Officer and was appointed to its board from 19 September 2012 till 16 January 2015. As per a media article, Mr. Arjuna Mahendran had given assurance to the Honourable Prime Minister that his son-in-law will sever all associations with PTL prior to Mr. Arjuna Mahendran's appointment as a Governor of the CBSL on 15 January 2015²²⁶.
- III. In the year 2015, Mr. Arjun Aloysius' association with Perpetual Capital (Private) Limited and other group companies of PTL was noted. The same was corroborated by the statement made by Mr. Arjuna Mahendran before Commission of Inquiry that his son-in-law had a beneficial interest in PTL and continued to be a Director and Shareholder of the Holding Company of PTL while he was the Governor of the CBSL.
- IV. Mr. Arjun Aloysius started his career as a consultant to the Free Lanka Group and was later heading the Free Lanka Group's investment arm. He was CEO of Perpetual Asset Management, Deputy Chairman of WM Mendis and Company as well as a Board member of HDFC.

²²⁶ Source: [Colombo Telegraph](#)

3. The summary of associations of relatives of former Governor of the CBSL, during the Review Period is tabulated below:

Table 62: Summary of associations of relatives of former Governor of the CBSL

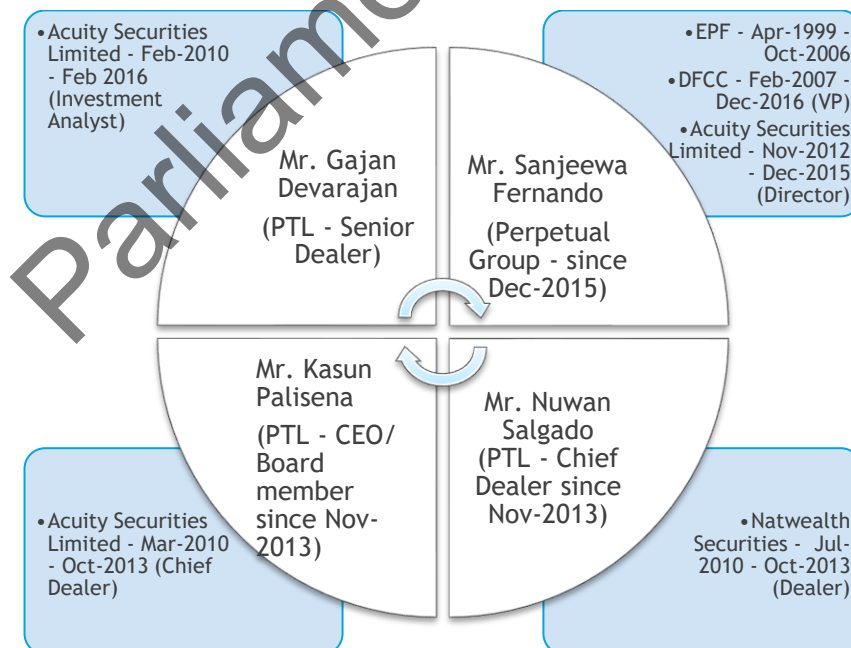
CBSL Official	Relation	Name identified	Association with PD	Type of association	Tenure
Mr. Ajith Nivard Cabraal	First Cousin	Mr. Amal Cabraal	HNB (JV partner of Acuity Securities-registered as a PD of the CBSL)	Director	April 2014 - Present
			Commercial Bank of Ceylon	Director	January 2000 - January 2009
	First Cousin	Mr. Nihal Fonseka	DFCC Vardhana (subsidiary of DFCC; amalgamated with DFCC in October 2015)	Non - Executive Director	February 2009 - September 2015
			DFCC (JV partner of Acuity Securities-registered as a PD of the CBSL)	CEO	January 2000 - September 2013
			Acuity Partners (JV between DFCC and HNB)	Director	July 2008 - July 2013
	Brother-in-law	Mr. Ravindra Balakantha Thambiah	DFCC	Director	July 2010 - January 2015
	Sister-in-law	Ms. Dhara Wijethilake	Sampath Bank	Director	2011 - Present
	Niece	Ms. Shibani Renuka Thambiah	DFCC	Director	2010 - 2015
	Brother-in-law	Mr. Ranel T Wijesinghe	BOC	Director	2013 - Present
			HNB Assurance	Director	2013 - 2017
Sister	Ms. Siromi Noel Wickramasinghe	Commercial Bank of Ceylon	Director	1-Feb-2009 - 26 May 2010	
		Perpetual Capital (Private) Limited, the parent company of PTL	Director	23 December 2013 - 4 December 2015	
		Chairmanship	HDFC	May 2010 - Jan-2015	
Mr. Arjuna Mahendran	Son-in-law	Mr. Arjun Aloysius	PTL	Director	19 September 2012 - 16 January 2015

CBSL Official	Relation	Name identified	Association with PD	Type of association	Tenure
			Perpetual Capital (Private) Limited	Director and Shareholder	Since inception on 10 June 2010
			HDFC	Director	May 2011

11.1.5. There were concerns expressed in the public domain, with regard to the propriety of Mr. Arjuna Mahendran’s intervention in the Treasury Bond Auction held on 27 February 2015 and questions raised on the Conflict of Interest and his relationship with Mr. Arjuna Aloysius.

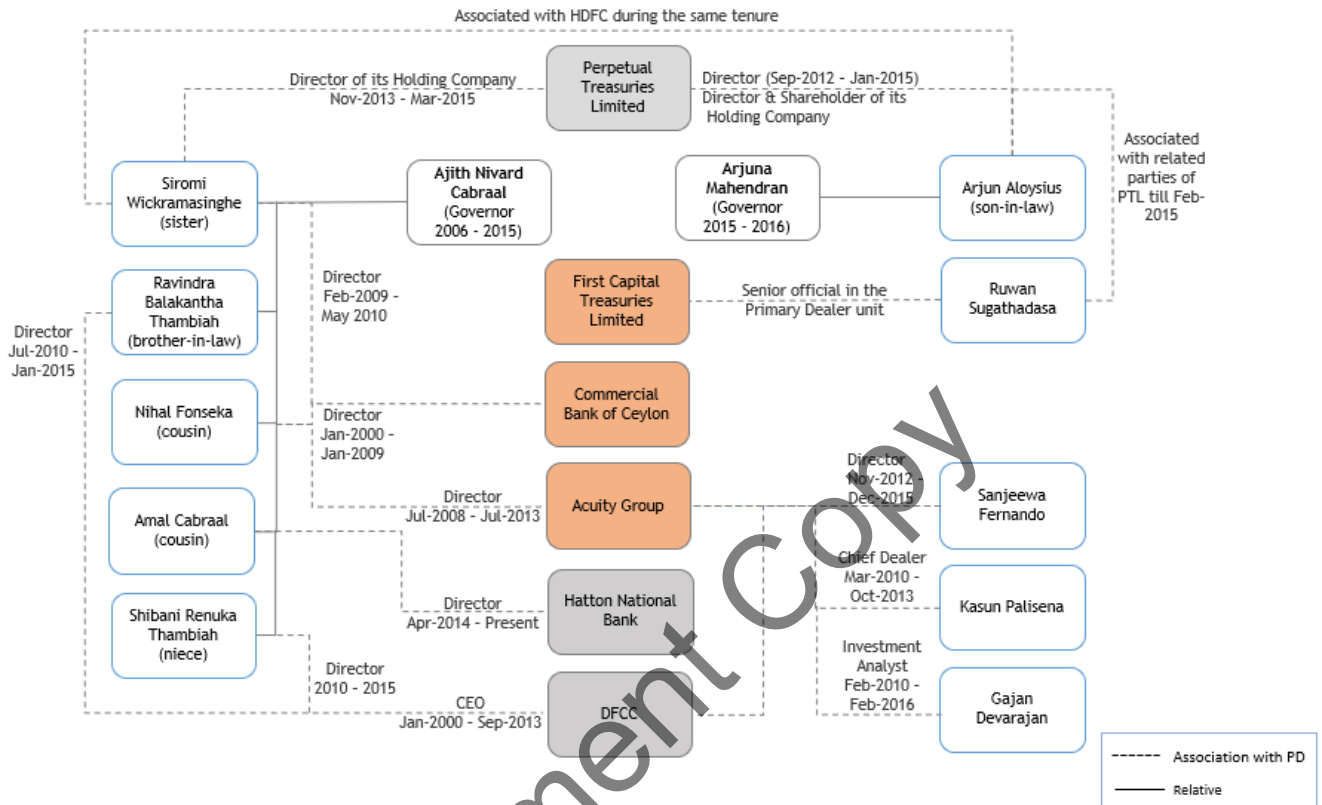
11.1.6. The background details of identified personnel of PTL²²⁷ were obtained during public domain searches, PCOI report and review of ROC records, to identify their previous association in any organisation and/or with any CBSL official prior to becoming a part of PTL from 2013 onwards. The previous employers of the personnel were identified to further ascertain if any such former association coincide with the irregularities or non-compliance in issuance of Treasury Bonds by the CBSL to those previous employer organisations.

11.1.7. The details obtained for identified personnel of PTL are depicted in the picture below:



²²⁷ <https://lk.linkedin.com/in/gajan-devarajan-b905602a>, <https://lk.linkedin.com/in/nuwan-salgado-65602836>

11.1.8. The figure below depicts the common association of PDs with the relatives of the former Governor and identified personnel of PTL:



11.1.9. During the review of the data in relation to Direct placements, the following irregularities were noted for the PDs.

A. Acuity Securities Limited

1. Out of the total placements made to Acuity Securities Limited during the Review Period, 80% of the said placements were made in the year 2013 - 2014 itself. It was observed that the placements during the period 2013 - 2014 were made at a higher rate due to which the CBSL incurred a loss of around Rs. 60 Million.
2. During the said period, Mr. Sanjeeewa Fernando and Mr. Gajan Devarajan were found to be associated with Acuity Securities Limited. It must be noted that Acuity, is promoted as an equally owned Joint Venture between DFCC and HNB. During the year 2014, Mr. Ravindra Balakantha Thambiah was associated with DFCC as a Director and Mr. Amal Cabraal joined HNB as a Director in April 2014.

B. Commercial Bank of Ceylon

1. A significant increase in the value of placements made to Commercial Bank of Ceylon was noted from Rs. 3.55 Billion in 2008 to Rs. 25.11 Billion in the year 2009.
2. During 2009, Mr. Nihal Fonseka and Ms. Siromi Noel Wickramasinghe were associated with Commercial Bank of Ceylon.

C. First Capital Treasuries Limited

1. In the years 2008 and 2009, a significant amount of investment was made by First Capital Treasuries Limited amounting Rs. 20.51 Billion in 2008 to Rs. 19.98 Billion in 2009. It was observed from Table 21 in Section 5.4 of the Report that the First Capital Treasuries Limited made the highest investments in Treasury Bonds through Direct Placement among non-captive PDs in 2008 and 2009²²⁸.
2. It was noted that Mr. Ruwan Prasanna Sugathadasa was associated with the PD at a key position during the said time. It was noted that Mr. Ruwan Prasanna Sugathadasa²²⁹ was subsequently associated with related parties of PTL and these association are detailed below:
 - a. As per the Annual Report of Brown Investments PLC for the year 2011-12, Mr. Ruwan Sugathadasa possessed over 16 years of experience in government and corporate debt market with over 10 years in a senior management capacity at First Capital Treasuries Limited.
 - b. He serves as a Director at several related parties of Brown Group including Free Lanka Capital Holdings PLC. FLC Holdings PLC (formerly Free Lanka Capital Holdings PLC) was previously an equally owned Joint Venture between Perpetual Holdings Limited (part of Perpetual Capital) and Browns Investment PLC (a subsidiary of Brown & Company PLC formed in 2008-2009).
 - c. On 3 March 2015, i.e. after four days of alleged Treasury bond scam on 27 February 2015, the members of Aloysius family exited from the Joint Venture. Perpetual Holdings Limited (part of Perpetual Capital) sold its 50 per cent stake to Brown Investments PLC.

²²⁸ Without prejudice to the deviation of issuance of Treasury Bonds to non-captive PDs without approval of Monetary Board

²²⁹ <https://www.marketscreener.com/business-leaders/Ruwan-Sugathadasa-0C0T7Y-E/biography/>,
<http://www.brownsinvestments.com/pdf/Browns-Investments-PLC-AR-2011-2012.pdf>

3. The ROC records were reviewed to gather details of the individuals associated with First Capital Treasuries Limited during the year 2008-2009, listed below are the details obtained:

Table 63: Details of individual associated with First Capital Treasuries Limited

Name of the individual	Designation
Mr. Dammika Ranawana	Director
Mr. Dinesh Schaffter	Director and Shareholder
Mr. Gammacharige Jinadasa	Director
Mr. Kankanamge Mendis Ariyaratne Godawatta	Director
Mr. Mahinda Godakandaarachchi	Director
Mr. Manamalabaduge Saman Jude Fernando	Director
Ms. Manjula Mathews	Director
Mr. Piankara Hewa Janaka Badula Sugathadasa	Director
Ms. Suhini Fernando	AGM / Chief Dealer
Mr. Sujeewa Rajapakse	Director
Mr. Sumith Chandrasiri Galmangoda Guruge	Director and Shareholder

- D. Based on the above facts, it may be noted that the increase in issuance of Treasury Bonds through Direct Placements to above identified PDs and resulting loss was at a circumstance when the identified individuals were associated with identified PDs. However, the documentary and digital evidences reviewed (as provided in the respective Sections of this Report) and limited number of voice recordings of dealer rooms of PDs did not suggest that the relationships and / or associations identified above have led to the Direct Placements being made at the higher yield rates. It is pertinent to note that the CBSL did not installed voice record system at the PDD and significant limitations existed on the availability of ESI in terms of email files and email deletions, as detailed in the respective Sections of this Report.

12. ANNEXURES

LIST OF ANNEXURES

#	Name of Annexure	Annexure Reference	Total number of Pages
1	Details of front ending transactions documents received from PDs	A/1	1
2	List of applicable laws, and guidelines and memo stated 26 July 2019 for providing copies of laws, regulations and guidelines	A/2	1
3	List of provided half-yearly internal audit reports and management audit reports	A/3	3
4	List of documents prepared for issuance of Treasury Bonds through Auctions and Direct Placements	A/4	1
5	List of 12 identified employees and their respective Target Devices along with rationale for their identification	A/5	3
6	Operating system information of Target Devices	A/6	3
7	Details of user account information of the Target Devices	A/7	4
8	Basic information and details of volume of data in reviewed Target Devices	A/8	1
9	Count of files per extension	A/9	3
10	List of keywords along with their rationale	A/10	5
11	Count of keywords for each identified employee of the CBSL	A/11	7
12	PD-wise list of various dates for which the Voice Records were requested	A/12	4
13	List of PDs along with their current status	A/13	1
14 A	Cash Flow Requirements provided by the Treasury Operations Department during the Review Period	A /14A	4
14 B	209 Direct Placements made against the administrative requirements provided by the Treasury Operations Department	A/14B	5
15	Details of 142 Direct Placements where the issue rates were higher than the approved yield rates	A/15	4
16	List of 10 Direct Placements wherein the Yield Rate Structures were not available	A/16	1
17	List of 17 Direct Placements wherein the yield rates corresponding to the ISINs were not available	A/17	1
18	List of 42 Direct Placements deviations and the loss caused	A/18	1
19	List of 178 Direct Placements where transaction date was not available	A/19	4
20	195 Direct Placements wherein the gap between the transaction date and the settlement date was more than five days	A/20	4
21	14 Direct Placements wherein the gap between the transaction date and the settlement date was more than five days	A/21	1
22	Details of ISINs not offered in Auctions	A/22	8
23	List of 54 Direct Placements to same PDs at different prices	A/23	1
24	List of 207 Direct Placements to Different PDs at different prices	A/24	4
25	List of 112 cancelled offers	A/25	3
26	Details of 181 offers wherein the PDD accepted bids more than the offered amount	A/26	3

#	Name of Annexure	Annexure Reference	Total number of Pages
27	List of 265 offers wherein 298 bids were submitted and the success ratio of PDs was 100% and the allocation ratio was more than 35%	A/27	5
28	List of 104 offers wherein 110 bids were submitted and the success ratio of PDs was between 35% to 100% and the allocation ratio was more than 35%	A/28	2
29	List of 21 offers where captive sources were not allotted	A/29	1
30	List of winning PDs (More than 25%) in 21 offers wherein the captive sources were not awarded	A/30	1
31	List of 61 bids submitted after the closure of the Auction/ extension of the Auction, at the cut-off rate	A/31	2
32	List of 32 offers wherein the same ISIN was accepted in the Auction subsequent to cancelled Auction	A/32	1
33	List of 42 offers wherein the same ISIN was accepted in the Direct Placements subsequent to Cancelled Auction	A/33	4
34	List of 93 offers where prevailing secondary market rate is not same as per the secondary market rate mentioned in auction presentation available as part of minutes of Tender Board Meetings	A/34	2
35	List of 24 offers where minutes of Tender Board and Press Release were not available	A/35	1
36	List of 66 offers where prevailing secondary market yield rates were not available	A/36	2
37	List of 256 offers where WAYR less than to prevailing secondary market yield rates for similar maturities	A/37	4
38	List of 35 offers where WAYR higher than the base rate and detailed computation of loss	A/38	3
39	List of 3 offers out of 35 offers where accepted amount is more than the offered amount and detailed computation of loss	A/39	1
40	Special yield rate structure approved by the Monetary Board for the Direct Placements made to the EPF and other captive sources	A/40	1
41	List of 1,102 Direct Placements which were preceded by an Auction within 15 days	A/41	30
42	List of 1,035 Direct Placement where issue price was higher than the base price	A/42	13
43	List of 67 Direct Placement where issue price was lower than the base price	A/43	1
44	List of 229 Direct Placements where prevailing secondary market yield rates as per the Daily Market Summary Report were not available	A/44	5
45A	List of 1632 Direct Placements where issue price was higher than the base price	A/45A	15
45B	List of 116 Direct Placements for the period 7-JAN-2008 to 6-OCT-2008 where issue price was higher than the base price	A/45B	3
46A	List of 927 Direct Placements where issue price was lower than the base price	A/46A	15
46B	List of 111 Direct Placements for the period 7-JAN-2008 to 6-OCT-2008 where issue price was lower than the base price	A/46B	2
47	Evidence matrix of identified custodians	A/47	36
48	Complete details of instances for deleted outlook files	A/48	1
49	List of Forensic Tools used to perform Digital Forensic / E-Discovery on Target Devices	A/49	2

#	Name of Annexure	Annexure Reference	Total number of Pages
50	Details of the meetings conducted with the Forensic Audit Monitoring Committee	A/50	1

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13. EXHIBITS

LIST OF EXHIBITS

#	Name of Exhibit	Exhibit Reference	Total number of Pages
1	E-mail communication for non-approval of PDD Operational Manual by the Monetary Board	E/1	3
2	E-mail communication of 29 July 2019 for implementation of Litigation Hold	E/2	3
3	E-mail communication of 2 August 2019 for requesting the firewall logs	E/3	1
4	E-mail communication of 4 August 2019 for requesting the outlook mail exchange server logs	E/4	1
5	Memo provided by the CBSL regarding the phone recordings requested from the PDs	E/5	1
6	E-mail communication of 2 August 2019 for non-availability of audit logs	E/6	2
7	Summary of discussion for process understanding of issuance of Treasury Bonds through Auctions signed on 25 June 2019	E/7	15
8	Summary of discussion for process understanding of remittance of funds received from the PDD and transmitting of the same to accounts of the Treasury Operations Department maintained at the DOD signed on 20 June 2019	E/8	2
9	Summary of discussion for system walkthrough signed on 9 July 2019	E/9	3
10	Summary of discussion for process understanding of issuance of Treasury Bonds through Direct Placements signed on 26 June 2019	E/10	1
11	Summary of discussion with PDD on clarification on general queries on the process of issuance of Treasury Bonds through Direct Placement signed on 3 July 2019	E/11	4
12	Summary of discussion with Mr. S S Ratnayake, Former SPD for the period 21 June 2010 to 31 December 2011	E/12	5
12 A	Summary of discussion with Mr. C J P Siriwardena, Former Deputy Governor of the PDD	E/12 A	3
12 B	Summary of discussion with Mrs. Premarathna, Former Deputy Governor of the PDD	E/12 B	4
13	Statement of Fact signed by Mrs. U L Muthugala on 6 September 2019	E/13	2
14	Statement of Fact signed by Dr. M Z M Aazim on 20 September 2019	E/14	2
15	Statement of Fact signed by Mr. N W G R D Nanayakkara on 25 and 26 September 2019	E/15	4
15 A	10 Direct Placements wherein the Yield Rate Structures were not available	E/15 A	10
15 B	19 Direct Placements wherein the yield rates were not available	E/15B	26
16	Copy of e-mail confirmation from DIT for outlook e-mail backup	E/16	4
17	Details of logs generated for forensic image of target devices	E/17	45
18	Copies of all CoC forms of Target Devices provided by the DIT	E/18	26
19	E-mail of 23 July 2019 for keyword suggestions by the CBSL	E/19	2
20	Copies of the communications received from PDs	E/20	17
21	Extract of minutes of Monetary Board meeting of 14 February 1997	E/21	19

#	Name of Exhibit	Exhibit Reference	Total number of Pages
22	Letter from Treasury for the period from August 2013 up to February 2015 wherein no representative from the Treasury Operations Department attended the DDMC meetings.	E/22	2
23	Copy of the highlight from PDD Operation Manual version 2013	E/23	2
24	Minutes of the Monetary Board meeting held on 7 January 2008. Tabled Board Paper - MB/PD/1/26/2008	E/24	6
25	Minutes of the Monetary Board meeting held on 2 May 2008. Tabled Board Paper - MB/PD/11/6/2008	E/25	4
26	Minutes of the Monetary Board meeting held on 7 October 2008. Tabled Board Paper - MB/PD/25/20/2008	E/26	2
27	Extract of PCOI stating the policy statement	E/27	2
28	Minutes of the Monetary Board meeting of 23 February 2015	E/28	19
29	Minutes of the Monetary Board held on 6 March 2015	E/29	31
30	Daily FT of 11 July 2016	E/30	9
31	Summary of discussion with Mr. N W G R D Nanayakkara, Former SPD for the period 1 January 2012 to 6 February 2015	E/31	31
32	E-mail communication with Dr. M Z M Aazim regarding the gap of 14 days	E/32	3
32 A	14 Direct Placements where the gap between transaction date and settlement date are more than 5 days	E/32 A	27
33	E-mail communication of 29 August 2019 for requesting documents of front-ending	E/33	2
34	E-mail communication of Dr. M Z M Aazim for cancellation due to the reason that cut off was high	E/34	2
35	E-mail communication of Middle Office for confirmation on Secondary Market rates	E/35	7
36	Documents pertaining to calculation of Loss in Auctions	E/36	633
37	Documents pertaining to calculation of Loss in Direct Placements	E/37	1,488
38	Email Communication with DIT for device availability confirmation and screenshot of active directory records	E/38	12
39	E-mail communication by the DIT regarding migration of email communication platform	E/39	1
40	Documents pertaining to 54 Direct Placements to same PDs at different prices	E/40	62
41	Documents pertaining to 207 Direct Placements to different PDs at different prices	E/41	237

ANNEXURE A

LIST OF CBSL EMPLOYEES OF ATTENDING THE TENDER BOARD MEETING FOR RESPECTIVE OFFERS

#	DATE OF AUCTION	NAME OF OFFICIAL	DESIGNATION	DEPARTMENT
1	28-Apr-2005	Dr. W A Wijewardena	Deputy Governor	-
		Mr. R A Jayatissa	Assistant Governor	-
		Dr. A G Karunasena	Assistant Governor	-
		Dr. D S Wijesinghe	Director	Domestic Operations Department
		Dr. H N Thenuwara	Director	Economic Research Department
		Dr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
2	10-May-2005	Dr. W A Wijewardena	Deputy Governor	-
		Mr. R A Jayatissa	Assistant Governor	-
		Mr. A G Karunasena	Assistant Governor	-
		Mr. D S Wijesinghe	Director	Domestic Operations Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt department
		Mr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt department
3	12-May-2005	Mr. R A Jayatissa	Assistant Governor	-
		Mr. H N Thenuwara	Director	Economic Research Dept
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt department
4	20-May-2005	Mr. R A Jayatissa	Assistant Governor	-
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt department
5	30-May-2005	Mrs. R B Weerasinghe	Superintendent of Public Debt	Public Debt department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. R A Jayatissa	Assistant Governor	-
		Mr. A G Karunasena	Assistant Governor	-
		Mr. D S Wijesinghe	Director	Domestic Operations Department
		Mr. H N Thenuwara	Director	Economic Research Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
6	1-Jul-2005	Mr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. R A Jayatissa	Assistant Governor	-
		Mr. A G Karunasena	Assistant Governor	-
		Mr. D S Wijesinghe	Director	Domestic Operations Department
		Mr. H N Thenuwara	Director	Economic Research Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt department
		Mr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt department

#	DATE OF AUCTION	NAME OF OFFICIAL	DESIGNATION	DEPARTMENT
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt department
		Mr. C J P Siriwardena	Deputy Superintendent of Public Debt	Public Debt department
7	30-Aug-2005	Dr. W A Wijewardena	Deputy Governor	-
		Mr. A G Karunasena	Assistant Governor	-
		Mr. D S Wijesinghe	Director	Domestic Operations Department
		Mr. H N Thenuwara	Director	Economic Research Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt department
		Mr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt department
		Mr. W A Wijewardena	Deputy Governor	-
		Mrs. M A R C Cooray	Assistant Governor	-
8	29-Sep-2005	Dr. A G Karunasena	Assistant Governor	-
		Dr. D S Wijesinghe	Director	Domestic Operations Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
		Dr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. C J P Siriwardena	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. W A Wijewardena	Deputy Governor	-
		Mrs. M A R C Cooray	Assistant Governor	-
9	13-Oct-2005	Dr. A G Karunasena	Assistant Governor	-
		Dr. D S Wijesinghe	Director	Domestic Operations Department
		Dr. H N Thenuwara	Director	Economic Research Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
		Dr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. C J P Siriwardena	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. W A Wijewardena	Deputy Governor	-
10	29-Dec-2005	Dr. D S Wijesinghe	Director	Domestic Operations Department
		Dr. W M Hemachandra	Additional Superintendent of Public Debt	Public Debt Department
		Mr. A Silva	Director	Economic Research Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. Y M W B Weerasekera	Assistant Governor	-
		Dr. D S Wijesinghe	Assistant Governor	-
		Dr. H N Thenuwara	Assistant Governor	-
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
11	28-Nov-2006	Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. Y M W B Weerasekera	Assistant Governor	-
		Dr. D S Wijesinghe	Assistant Governor	-
12	27-Feb-2007	Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department

#	DATE OF AUCTION	NAME OF OFFICIAL	DESIGNATION	DEPARTMENT
		Dr. D S Wijesinghe	Assistant Governor	-
		Mr. A Kamalasiri	Acting Director	Domestic Operations Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
		Mr. V S B V Tennekoon	-	Economic Research Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mrs. M A R C Cooray	Assistant Governor	-
		Dr. H N Thenuwara	Assistant Governor	-
13	13-Aug-2007	Mr. A Kamalasiri	Acting Director	Domestic Operations Department
		Mrs. C Premaratne	Superintendent of Public Debt	Public Debt Department
		Dr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Additional Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
14	24-Oct-2007	Data Not Available		
		Mr. A Kamalasiri	Acting Director	Domestic Operations Department
		Dr. D S Wijesinghe	Assistant Governor	-
		Mrs. C Premaratne	Assistant Governor	-
15	29-Jan-2008	Mr. A Kamalasiri	Director	Domestic Operations Department
		Dr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Acting Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent Public Debt	Public Debt Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. D S Wijesinghe	Assistant Governor	-
		Mrs. C Premaratne	Assistant Governor	-
		Mr. A Kamalasiri	Director	Domestic Operations Department
16	24-Jun-2008	Dr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. D M Rupasinghe	Acting Superintendent of Public Debt	Public Debt Department
		Mrs. R B Weerasinghe	Deputy Superintendent of Public Debt	Public Debt Department
		Mrs. S Gunaratne	Deputy Director	Economic Research Department
		Mr. WA Wijewardena	Deputy Governor	-
		Dr. H N Thenuwara	Assistant Governor	-
		Mr. A Kamalasiri	Director	Domestic Operations Department
17	11-Sep-2008	Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekera	Additional Superintendent of Public Debt	Public Debt Department
		Mrs. Gunaratne	Additional Superintendent	Economic Research Department
		Dr. W A Wijewardena	Deputy Governor	-
18	29-Sep-2008	Dr. D S Wijesinghe	Deputy Governor	-

#	DATE OF AUCTION	NAME OF OFFICIAL	DESIGNATION	DEPARTMENT
		Dr. H N Thenuwara	Assistant Governor	-
		Mr. A Kamalasinghe	Director	Domestic Operations Department
		Dr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekara	Additional Superintendent of Public Debt	Public Debt Department
		Mr. S Gunaratne	Acting Director	Economic Research Department
		Mr. I H M S Herath	Deputy Superintendent of Public Debt	Public Debt Department
		Dr. W A Wijewardena	Deputy Governor	-
		Dr. D S Wijesinghe	Deputy Governor	-
		Dr. C Premaratne	Assistant Governor	-
		Mr. A Kamalasinghe	Director	Domestic Operations Department
19	30-Oct-2008	Dr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekara	Additional Superintendent of Public Debt	Public Debt Department
		Mr. S Gunaratne	Acting Director	Economic Research Department
		Mr. I H M S Herath	Deputy Superintendent of Public Debt	Public Debt Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. D S Wijesinghe	Assistant Governor	-
		Mrs. C Premaratne	Assistant Governor	-
		Mr. A Kamalasinghe	Director	Domestic Operations Department
20	6-Jan-2009	Mr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekara	Additional Superintendent of Public Debt	Public Debt Department
		Mr. S Gunaratne	Additional Director	Economic Research Department
		Mr. I H M S Herath	Deputy Superintendent of Public Debt	Public Debt Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. D S Wijesinghe	Assistant Governor	-
		Mrs. C Premaratne	Assistant Governor	-
		Mr. A Kamalasinghe	Director	Domestic Operations Department
21	2-Feb-2009	Mr. P N Weerasinghe	Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. H P T Wijesinghe	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. S Gunaratne	Additional Director of Public Debt	Economic Research Department
		Mr. I H M S Herath	Deputy Superintendent of Public Debt	Public Debt Department
		Mr. P W R B A U Herat	Deputy Governor	-
22	28-May-2009	Mr. DS Wijesinghe	Assistant Governor	-

#	DATE OF AUCTION	NAME OF OFFICIAL	DESIGNATION	DEPARTMENT
		Mr. H N Thenuwara	Assistant Governor	-
		Mr. D A G K Wijetunge	Director	Domestic Operations Department
		Mr. K D Ranasinghe	Additional Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekara	Additional Superintendent of Public Debt	Public Debt Department
		Dr. W A Wijewardena	Deputy Governor	-
		Mr. D S Wijesinghe	Assistant Governor	-
		Mr. H N Thenuwara	Assistant Governor	-
23	23-Jun-2009	Mr. A Kamalasinghe	Director	Domestic Operations Department
		Mr. S Gunaratne	Additional Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekara	Additional Superintendent of Public Debt	Public Debt Department
		Mr. D S Wijesinghe	Deputy Governor	-
		Mr. P Samarasinghe	Assistant Governor	-
		Mr. A Kamalasinghe	Director	Domestic Operations Department
24	30-Jul-2009	Mr. S Gunaratne	Director	Economic Research Department
		Mr. C J P Siriwardena	Superintendent of Public Debt	Public Debt Department
		Mr. C N Wijayasekara	Additional Superintendent of Public Debt	Public Debt Department
		Mr. K G D D Dheerasinghe	Deputy Governor	-
		Mr. W M Hemachandra	Assistant Governor	-
		Mr. S S Ratnayake	Superintendent of Public Debt	Public Debt Department
25	13-Sep-2011	Mr. D A G K Wijetunge	Additional Director	Domestic Operations Department
		Mr. S Gunaratne	Additional Director	Department of Economic Research
		Mr. S S Ratnayake	Additional Superintendent of Public Debt	Public Debt Department
		Mr. B D W A Silva	Deputy Governor	-
		Mr. A Kamalasinghe	Assistant Governor	-
		Mr. C J P Siriwardena	Assistant Governor	-
		Mr. N W G R D Nanayakkara	Acting Superintendent of Public Debt	Public Debt Department
26	21-Jan-2013	Mr. R A A Jayalath	Director	Domestic Operations Department
		Mr. S Gunaratne	Director	Department of Economic Research
		Mrs. U L Muthugala	Additional Superintendent of Public Debt	Public Debt Department
		Mr. B D W A Silva	Deputy Governor	-
		Mr. A Kamalasinghe	Assistant Governor	-
27	27-Mar-2013	Mr. S Lankathilake	Assistant Governor	-
		Mr. R A A Jayalath	Director	Domestic Operations Department

#	DATE OF AUCTION	NAME OF OFFICIAL	DESIGNATION	DEPARTMENT
		Mr. S Gunaratne	Director	Department of Economic Research
		Mrs. U L Muthugala	Additional Superintendent of Public Debt	Public Debt Department
		Mr. B D W A Silva	Deputy Governor	-
		Mr. A Kamalasiri	Assistant Governor	-
28	10-Jan-2014	Mr. W M Hemachandra	Assistant Governor	-
		Mr. N W G R D Nanayakkara	Superintendent of Public Debt	Public Debt Department
		Mr. D A G K Wijetunge	Director	Domestic Operations Department
		Mr. B D W A Silva	Deputy Governor	-
		Mrs. J P Mampitiya	Assistant Governor	-
29	27-Mar-2014	Mr. S Lankatilake	Assistant Governor	-
		Mr. N W G R D Nanayakkara	Superintendent of Public Debt	Public Debt Department
		Mrs. U L Muthugala	Additional Superintendent of Public Debt	Public Debt Department

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FOR MORE INFORMATION:

SRINIVASA RAO

+91 96001 13339
srinivasarao@bdo.in

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