



**FINAL REPORT | RFP2 | FORENSIC AUDIT /  
INVESTIGATION ON PRIMARY AND SECONDARY  
MARKET TRANSACTIONS OF EMPLOYEES PROVIDENT  
FUND INVOLVING TREASURY BONDS ISSUED /  
TRANSACTIONED DURING THE PERIOD FROM 1 JANUARY  
2002 TO 28 FEBRUARY 2015**

**THE CENTRAL BANK OF SRI LANKA**

9 November 2019

# CONTENTS

GLOSSARY.....	4
TERMS OF REFERENCE .....	6
NOTICE TO THE READER.....	8
LIMITATIONS.....	9
1. INTRODUCTION .....	13
OBJECTIVES OF THE FORENSIC AUDIT .....	14
SCOPE OF FORENSIC AUDIT .....	14
2. EXECUTIVE SUMMARY .....	16
3. WORK PERFORMED .....	31
PROCESS UNDERSTANDING DISCUSSIONS AND PROCESS WALK THROUGHS.....	31
REVIEW OF RELEVANT LAWS / REGULATIONS / POLICIES / CIRCULARS / GUIDELINES / MANUALS.....	33
REVIEW OF DOCUMENTS FOR INVESTMENTS IN TREASURY BONDS THROUGH AUCTIONS .....	34
REVIEW OF DOCUMENTS FOR INVESTMENTS MADE THROUGH DIRECT PLACEMENTS .....	35
REVIEW OF DOCUMENTS FOR PURCHASE OF TREASURY BONDS FROM THE SECONDARY MARKET .....	37
REVIEW OF DOCUMENTS FOR DIVESTMENT OF TREASURY BONDS IN THE SECONDARY MARKET .....	38
DATA ANALYSIS PROCEDURES .....	39
PUBLIC DOMAIN SEARCHES ON POTENTIAL NEXUS BETWEEN THE CBSL EMPLOYEES AND PRIMARY DEALERS .....	40
DIGITAL FORENSIC .....	41
VOICE RECORDINGS REVIEW .....	54
APPROACH AND METHODOLOGY FOR VOICE RECORDINGS REVIEW: .....	59
REVIEW OF CALL RECORDS.....	60
TRAVEL DETAILS REVIEW:.....	64
BANK ACCOUNT DETAILS REVIEW - IDENTIFIED CBSL OFFICIALS .....	64
BANK ACCOUNT REVIEW- PRIMARY DEALERS .....	65
OTHER PROCEDURES.....	66
INTERVIEWS WITH FORMER AND CURRENT EMPLOYEES OF THE EPF .....	66
4. PROCESS UNDERSTANDING OF TREASURY BOND INVESTMENTS AND DIVESTMENTS .....	67
BACKGROUND.....	67
INVESTMENT IN TREASURY BONDS: PRIMARY MARKET - AUCTIONS .....	68
INVESTMENT IN TREASURY BONDS: PRIMARY MARKET - DIRECT PLACEMENTS .....	70
PRIMARY MARKET: APPROVAL PROCESS.....	71
INVESTMENT TREASURY BONDS - SECONDARY MARKET.....	71
DIVESTMENTS OF TREASURY BONDS - SECONDARY MARKET .....	72
SECONDARY MARKET: APPROVAL PROCESS .....	73

5. INVESTMENT IN TREASURY BONDS AUCTIONS.....	74
6. PARTIAL PARTICIPATION IN AUCTIONS BY THE EPF IN TREASURY BONDS AUCTIONS.....	98
7. EPF BIDS REJECTED COMPLETELY / PARTIALLY IN THE TREASURY BOND AUCTIONS .....	112
8. EPF NOT INVESTED THROUGH DIRECT PLACEMENTS.....	122
9. LOWER YIELD RATE OFFERED TO THE EPF IN DIRECT PLACEMENTS.....	138
10. DEVIATIONS FROM INVESTMENT POLICY STATEMENT AND INVESTMENT AND TRADING GUIDELINES SPECIFIED FOR THE EPF DEPARTMENT .....	151
11. INVESTMENT IN TREASURY BOND BY THE EPF THROUGH SECONDARY MARKET .....	175
12. DIVESTMENTS IN THE SECONDARY MARKET .....	230
13. RECOMMENDATION .....	259
14. REVIEW OF VOICE RECORDING .....	261
15. PUBLIC DOMAIN SEARCHES.....	270
16. DIGITAL FORENSICS .....	285
17. OTHER OBSERVATIONS - CUSTODIAN SPECIFIC REVIEW: .....	295
CUSTODIAN: T UDAYASEELAN .....	295
CUSTODIAN: KLAC NAVEEN ANURADHA.....	314
18. ANNEXURES .....	316
19. EXHIBITS.....	320

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To,

Date: 9 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 Primary and Secondary Market Transactions of Employees Provident Fund involving Treasury Bonds Issued/Transacted during the period from 1 January 2002 to 28 February 2015.

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/2018/02) between the Monetary Board of the Central Bank of Sri Lanka (the "CBSL" or 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 14 October 2019 and clarifications obtained as of 7 November 2019. Accordingly, changes in circumstances or information available after the above dates could affect the findings of 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](mailto:srinivasarao@bdo.in)

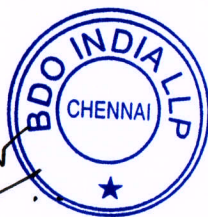
Thanking you

Yours faithfully

For BDO India LLP

  
Srini Vasa Rao

Partner



## GLOSSARY

#	ACRONYM	DESCRIPTION
1	AFS	Available for Sales
2	AG	Assistant Governor
3	ASL	Acuity Securities Limited
4	DS	Deputy Superintendent
5	BDO India or We or Us	BDO India LLP
6	BOC	Bank of Ceylon
7	BO	Back Office
8	BPS	Basis Points
9	CAL	Capital Alliance Limited
10	CBCL	Commercial Bank of Ceylon Plc
11	CBSL	The Central Bank of Sri Lanka
12	CDS	Central Depository System
13	CEO	Chief Executive Officer
14	CID	Criminal Investigation Department
15	Client or You	The Monetary Board of Central Bank of Sri Lanka
16	COPE	Committee on Public Enterprise
17	Daily FT	Daily Financial Times
18	DG	Deputy Governor
19	DIT	Director of Information Technology
20	DOA	Delegation of Authority
21	DOD	Domestic Operations Department
22	DS	Deputy Superintendent
23	DVF	Delivery versus Free
24	DVP	Delivery versus Payment
25	EPF	Employees' Provident Fund
26	ESI	Electronically Stored Information
27	ETF	Employees' Trust Fund
28	ETS	Entrust Securities PLC
29	FAMC	Forensic Audit Monitoring Committee
30	FCTL	First Capital Treasuries Limited
31	FMD	Fund Management Division
32	FO	Front Office
33	HSBC	Hongkong and Shanghai Banking Corporation
34	HTM	Held to Maturity
35	IBSL	Institute of Bankers of Sri Lanka

#	ACRONYM	DESCRIPTION
36	IPS	Investment Policy Statement
37	IRMD	Internal Risk Management Department
38	ITD	Information Technology Department
39	ITG	Investment Trading Guidelines
40	LSS	LankaSecure System
41	MO	Middle Office
42	MLA	Monetary Law Act
43	NSB	National Savings Bank
44	NTWSL	Natwealth Securities Limited
45	OSI	Operating System Information
46	PABC	Pan Asia Banking Corporation PLC
47	PB	People 's Bank
48	PCOI	Presidential Commission of Inquiry on the issuance of Treasury Bonds during the period 01 February 2015 to 31 March 2016
49	PDD	Public Debt Department
50	PTL	Perpetual Treasuries Limited
51	Report	Final Report
52	Review Period	1 January 2002 to 28 February 2015
53	ROC	Registrar of Companies
54	Rs.	Lankan Rupees
55	RTGS	Real Time Gross Settlement System
56	RVF	Receipt Versus Free
57	RVP	Receipts Versus Payments
58	SEPF	Superintendent Employees Provident Fund
59	SAS	Senior Assistant Superintendent
60	SLB	Seylan Bank PLC
61	SLFRS	Sri Lanka Accounting Standards
62	SMB	Sampath Bank PLC
63	SPOC	Single Point of Contact
64	SSD	Support Services Division
65	SSSS	Scripless Securities Settlement System
66	TEC	Technical Evaluation Committee
67	TOR / RFP	Terms of Reference / Request for Proposal
68	Treasury Department	Treasury Operations Department
69	Union Bank	Union Bank of Colombo PLC
70	WAYR	Weighted Average Yield Rate
71	WTSL	Wealthtrust Securities Limited
72	YTM	Yield to Maturity



## TERMS OF 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: <a href="https://burgessforensics.com/computer-forensics-glossary/">https://burgessforensics.com/computer-forensics-glossary/</a>
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: <a href="https://docs.microsoft.com/en-us/windows-server/identity/ad-ds/get-started/virtual-dc/active-directory-domain-services-overview">https://docs.microsoft.com/en-us/windows-server/identity/ad-ds/get-started/virtual-dc/active-directory-domain-services-overview</a>
3	Captive Sources	Captive sources are financial institutions which are required to purchase and hold Government Securities. Source: <a href="#">Opinion Report of Panel of Expert Officials</a>
4	CFD	Holds Scripless Securities issued under the Special Scheme for Sri Lankan Diaspora and Migrant Workforce, including customers who hold dual citizenship. Source: <a href="#">LankaSettle System Rules</a>
5	Clean Price	The clean price is the price of a coupon bond not including accrued interest payments. The clean price is typically the quoted price on financial news sites. This price does not include any interest accrued between the scheduled coupon payments for the bond. Source: <a href="https://www.investopedia.com/terms/c/cleanprice.asp">https://www.investopedia.com/terms/c/cleanprice.asp</a>
6	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: <a href="https://resources.infosecinstitute.com/category/computerforensics/introduction/areas-of-study/legal-and-ethical-principles/chain-of-custody-in-computer-forensics/#gref">https://resources.infosecinstitute.com/category/computerforensics/introduction/areas-of-study/legal-and-ethical-principles/chain-of-custody-in-computer-forensics/#gref</a>
7	Cut-off point	A point at which the issuer decided whether or not a particular security is worth issuing. Source: <a href="https://www.investopedia.com/terms/c/cutoffpoint.asp">https://www.investopedia.com/terms/c/cutoffpoint.asp</a>
8	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: <a href="https://www.edrm.net/wp-content/uploads/2017/03/20160422-EDRM-Glossary-2.pdf">https://www.edrm.net/wp-content/uploads/2017/03/20160422-EDRM-Glossary-2.pdf</a>
9	Deal Ticket	A deal ticket, commonly known as a trading ticket, is a record of all the terms, conditions, and basic information of a trade agreement. Source: <a href="https://www.investopedia.com/terms/d/deal_ticket.asp">https://www.investopedia.com/terms/d/deal_ticket.asp</a>
10	Digital Footprint	The information about a particular person that exist on the Internet as a result of their online activity. Source: <a href="https://www.lexico.com/en/definition/digital_footprint">https://www.lexico.com/en/definition/digital_footprint</a>
11	Digital Forensics	Digital forensics is a branch of forensic science focused on recovery and investigation of artifacts found on digital devices. Source: <a href="https://www.lawtechnologytoday.org/2018/05/digital-forensics/">https://www.lawtechnologytoday.org/2018/05/digital-forensics/</a>
12	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 audiovisual 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.

#	TERM	DESCRIPTION/ MEANING/ INTERPRETATION
		Source: <a href="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">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</a>
13	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: <a href="https://burgessforensics.com/computer-forensics-glossary/">https://burgessforensics.com/computer-forensics-glossary/</a>
14	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: <a href="https://www.edrm.net/wp-content/uploads/2017/03/20160422-EDRM-Glossary-2.pdf">https://www.edrm.net/wp-content/uploads/2017/03/20160422-EDRM-Glossary-2.pdf</a>
15	Held to Maturity	Held-to-maturity (HTM) securities are purchased to be owned until maturity. Source : <a href="https://www.investopedia.com/terms/h/held-to-maturity-security.asp">https://www.investopedia.com/terms/h/held-to-maturity-security.asp</a>
16	Keyword	A significant word from a title or document used specially as an index to content. Source: <a href="https://www.merriam-webster.com//dictionary/keyword">https://www.merriam-webster.com//dictionary/keyword</a>
17	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: <a href="https://burgessforensics.com/computer-forensics-glossary/">https://burgessforensics.com/computer-forensics-glossary/</a>
18	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: <a href="https://definitions.uslegal.com/l/litigation-hold">https://definitions.uslegal.com/l/litigation-hold</a>
19	Metadata	Data that provides information about other data Source: <a href="https://www.merriam-webster.com/dictionary/metadata">https://www.merriam-webster.com/dictionary/metadata</a>
20	Multiple Price Bidding	Multiple price bidding in an Auction where each successful bidder pays the price stated in its bid. Source: <a href="#">Opinion Report of Panel of Expert Officials</a>
21	OWN	LankaSecure direct Participant’s own account / Central Bank of Sri Lanka’s own account. Source: <a href="#">Lanka Settle System Rules</a>
22	Price Sensitive Information	Of information likely to affect bond prices if it were made public. Source: <a href="https://www.lexico.com/en/definition/price-sensitive">https://www.lexico.com/en/definition/price-sensitive</a>
23	Primary Dealers	Primary Dealer/s means any commercial banks, company or other person appointed by the Monetary Board as a Primary Dealer for the purpose of dealing with the CBSL as counterparty in the Primary and Secondary Markets for stock and securities. Source: <a href="#">Opinion Report of Panel of Expert Officials</a>
24	Repurchase Agreement (“REPO”)	Repurchase Agreement (Repo)” means an agreement by which one party agrees to sell Scripless Securities to another on an undertaking to buy back such securities on an agreed date on agreed terms. Source: <a href="#">Lankasettle System Rules</a>
25	Reverse Repo	Reverse Repurchase Agreement (Reverse Repo)” means an agreement by which one party agrees to buy Scripless Securities from another on an undertaking by such party to sell back such securities on an agreed date on agreed terms. Source: <a href="#">Lankasettle System Rules</a>



## NOTICE TO THE READER

1. 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 “CBSL” or the “Client” or “You”) in accordance with the scope of work defined in Contract of 1 April 2019 (“Contract”).
2. 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.
3. 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.
4. 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.
5. 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.
6. Based on discussions with the CBSL, this Report consolidates the data provided as of 20 September 2019, information gathered during interviews conducted as of 14 October 2019 and clarifications obtained as of 1 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.
7. 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.
8. 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.

## LIMITATIONS

The findings detailed in this Report should be read in conjunction with the following limitations:

1. This Report is based on the information received, discussions held with and explanations provided by the CBSL and its employees till 1 November 2019. The Supporting documents for execution of investment transactions such as Cashflow statements for 2003, Minutes of the Investment Committee meetings, Deal Tickets and counterparty confirmations for 2005 and 2006 were not available.
2. For the purpose of the review, the CBSL provided scanned copies of documents and information pertaining to the investments, divestments transactions by EPF in Treasury Bonds and remittances during 1 January 2002 till 28 February 2015 (the “Review Period”). BDO India has not independently identified or collected the documents. The EPF department provided confirmation on the completeness and comprehensiveness of the data / documents / information provided for review. The confirmation provided by the EPF department cannot be independently verified / validated by BDO India.
3. The understanding of the operational processes for the investments / divestments in the Treasury Bonds in Primary and Secondary Market during the Review Period was obtained based on the explanation provided by the current and former employees of the PDD and the EPF departments and information and documents provided for review.
4. There was no process of recording the telephone conversations (voice call recordings) between the FO employees at the EPF and the Primary Dealers or the PDD for the transaction related to Treasury Bonds through Auction / Direct Placements / Secondary Market, as confirmed by the EPF, during the Review Period. Hence, the independent verification whether these communications took place or not cannot be confirmed / verified.
5. IT Asset Register was not maintained by the Information Technology Department (“ITD”) at CBSL, accordingly, the details of IT assets assigned to the CBSL employees cannot be identified with certainty. The electronic devices pertaining to the selected 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 CBSL employees for the Review Period.
6. Licensed tools were used in conducting digital forensic on the devices provided by the ITD of identified officials of the CBSL. 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.

7. The completeness of the email communication data cannot be established as multiple instances of email data file deletions were noted during the digital forensic procedure 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, ITD confirmed that Litigation Hold<sup>1</sup> was introduced effective 1 July 2019 and all emails which are not permanently deleted as on 1 January 2019, are available on the server. (Refer Exhibit 1)<sup>2</sup> Our review of emails was limited to the extent of email data backup provided by the ITD of the CBSL.
8. 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.
9. 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 2)<sup>3</sup>. Server logs for inbound and outbound emails to the CBSL email domain, were not available for the period June 2012 to March 2018. (Refer Exhibit 3)<sup>4</sup>
10. The audit logs for AS/400 application for the Review Period were not available. The audit logs of Central Depository System (“CDS”) was provided but the same was not in readable format. Hence, the modification / additions / changes / deletion of the Auction, Direct Placement data in the AS/400 and CDS data could not be independently verified and the person responsible for changes, if any, cannot be identified.
11. Investment and Divestment data from the “CDS” and “SAP” data are available only from the period, from March 2005 and September 2006 respectively. As informed by the EPF, data pertaining to the period 1 January 2002 to 28 February 2005 was recorded manually in spreadsheet<sup>5</sup> form maintained by the EPF. Accordingly, the transaction details compiled from the Monetary Board minutes have not been independently validated and considered as such for the detailed review.
12. The specimen signatures of the EPF employees, provided by the HR department of CBSL were used for comparison of signatures on the transaction documents.

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<sup>1</sup> “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/> )

<sup>2</sup> Refer Exhibit 1 for an email of 29 J 2019 for implementation of Litigation Hold.

<sup>3</sup> Refer Exhibit 2 for an email of 2 August 2019 for requesting the IT firewall logs.

<sup>4</sup> Refer Exhibit 3 for an email of 4 August 2019 for requesting the outlook mail exchange server logs.

<sup>5</sup> Refer Terms of Reference Section of this Report for the definition of “Spreadsheet”.

13. The findings in this Report are limited to the review of documents made available for the review and Interviews conducted. (Refer Annexure 2)<sup>6</sup>
14. We relied on the voice recordings provided by select Primary Dealers. We have not checked the authenticity / comprehensiveness of the data. During the review of voice recordings provided by the Primary Dealers, there appears limitations on the quality of the voice call data provided by the Primary Dealers, which are defined in the Section 3 of the Report. Hence, the review of communication between the officials of the EPF and Primary Dealers / PDD / other parties cannot be verified / confirmed.
15. 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 understanding 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 the date of this Report.
16. During the searches of information as 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. 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.
17. The system security logs of AS/400 data was provided. However, in order to analyse the changes or deletion / modification / user change, application logs were not made available for review. (Refer Exhibit 4)<sup>7</sup>
18. Copies of audited financial statements, annual returns submitted by the Primary Dealers to the Department of Register of Companies, Sri Lanka are not made available for review. 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.

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<sup>6</sup> Refer Annexure 2 for list of interviews conducted with the officials of CBSL.

<sup>7</sup> Refer Exhibit 4 for an email of 2 August 2019 for non-availability of IT audit logs.

19. The review performed for the bank account details of the CBSL employees and Primary Dealers 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) the PDD provided the listing of Auctions for the period 1 January 2002 till 31 October 2004. However, the complete information of bid details such as participants, yield rate and quantity for the issuance of Treasury Bonds through Auctions were not available. In the listing of Direct Placements provided by PDD for the period 1 January 2002 till 31 December 2004, details of the “Placement arranged on date” were not provided.

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# 1. INTRODUCTION

## 1.1 BACKGROUND

- 1.2 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 Primary objective<sup>8</sup> of ensuring the economic and price stability in Sri Lanka.
- 1.3 The CBSL acts as an advisor on economic affairs and banker to the Government of Sri Lanka and tasked with managing the Employee Provident Fund (“EPF”) and country’s public debt.
- 1.4 The EPF was established under the Employees’ Provident Fund Act No.15 of 1958, where the Monetary Board of the CBSL is vested with the responsibility of receiving contributions, investing excess funds, maintaining proper accounts and paying benefits to its members.
- 1.5 The CBSL raises public debt through Treasury Bills and Treasury Bonds etc., to fulfil the future monthly cash requirements of the Government of Sri Lanka, as notified from time to time by the Department of Treasury Operations of the General Treasury.
- 1.6 Pursuant to the allegations of losses caused to the EPF in the process of Investment in Treasury Bonds, an internal examination was conducted by the CBSL covering EPF’s Investments from 1 February 2015 to 31 March 2016 and the Report of the examination was submitted to the Monetary Board of the CBSL in March 2017. Referring to the CBSL’s internal examination, the Presidential Commission of Inquiry (“PCOI”) stated<sup>9</sup> that the PCOI, during its inquiry, identified several areas of concern about the manner in which the EPF operated and transacted upon Treasury Bonds. PCOI recommended inter alia, that the investigation by the Monetary Board of CBSL should, “...carefully examine the transactions entered into by the EPF and identify whether a loss was caused to the EPF and, if so, identify the persons responsible...”.
- 1.7 Consequently, pursuant to the Contract Letter of 1 April 2019, the CBSL appointed BDO India LLP to conduct a forensic audit / investigation on Primary and Secondary Market transactions of the EPF involving Treasury Bonds issued / transacted during 1 January 2002 to 28 February 2015 (“Review Period”).

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<sup>8</sup> Source: <https://www.cbsl.gov.lk/en/about/about-the-bank/overview>

<sup>9</sup> Refer Recommendation 15 of Chapter 33 of the PCOI Report.



## OBJECTIVES OF THE FORENSIC AUDIT

1.8 The objectives of the forensic audit / investigation, set out in the Contract No: RFP/CBSL/BS/FA/2018/02 of 1 April 2019 are as following:

- A. Examine the laws, policies, guidelines, etc. applicable and the Market environment during the period under review;
- B. Ascertain if there were any deviations from these laws, policies, guidelines etc.;
- C. Ascertain if there were any irregularities or misconduct in the transactions / Investments made in the Treasury Bonds;
- D. Ascertain if any losses have been caused to the EPF;
- E. If any losses have been caused to the EPF, quantify such losses and identify the persons responsible for such losses; and
- F. Ascertain if any private party / parties has / have benefitted at the expense of the EPF.

*“In this regard, it will be important to understand and assess the Market environment (level of secondly Market developments in terms of liquidity, technology, availability of information, overall macroeconomic conditions, etc.) and the working environment including risk management, internal controls, communication and monitoring aspects, within which the transactions and interactions have taken place at the EPF during the period under review and identify any deficiencies that may contributed to the losses”.*

## SCOPE OF FORENSIC AUDIT

1.9 Contract of 1 April 2019 defines the scope of forensic audit, to perform a comprehensive audit / scrutiny of the following practices adopted, and actions taken by the EPF with respect to the Primary and Secondary Market transactions during the Review Period:

- A. *Participation in Primary Auctions and Direct Placements;*
- B. *Secondary Market purchase and sale;*
- C. *Primary Market participation in comparison to the cashflow of EPF;*
- D. *Secondary Market transactions in comparison to the cashflow of EPF;*
- E. *Selection of counterparties and concentrations;*
- F. *Execution of transactions, authority limits and other control measures used in comparison to the provisions of Investment and Trading Guidelines (“ITG”);*
- G. *Segregation of duties, especially front, middle and BO functions;*
- H. *Effectiveness of decision-making process by various Committees such as internal Investment Committee, dealer’s meetings and Investment Committee;*
- I. *Investment and Trading practices relating to ‘Held to Maturity’ (HTM), trading and available for sale (“AFS”) portfolios; and*
- J. *If Divestments from the above portfolios and accounting for thereof, have been carried out in accordance with the relevant internal policies and applicable accounting standards.*

In reference to the objectives and scope of work, a brief table elaborating the coverage of this Report mentioned in the Contract with reference to the subsequent Section is provided below:

Table 1: Coverage of objective and scope of work

#	Objective and Scope of Work	Report Section Reference	Section
1	Examine the laws, policies, guidelines etc. applicable and the Market environment during the period under review	Process understanding of Treasury Bonds Investments and Divestments	4
2	Ascertain if there were any deviations from these laws, policies, guidelines, etc.	Deviations from Investment Policy Statement, 2002 and Investment and Trading Guidelines 2007 and 2011 specified for the EPF Department	10
3	Ascertain if there were any irregularities or misconduct in the transactions/ Investments made in Treasury Bonds	EPF not participated in Auctions	5
		EPF partial participation in Auctions	6
		EPF bids rejected in Auctions	7
		EPF not invested through Direct Placements	8
4	Ascertain if any losses have been caused to the EPF	Loss due to the EPF not participated in Auctions	5
		Loss due to the EPF not invested through Direct Placements	8
5	If any losses have been caused to the EPF quantify such losses and identify the persons responsible for such losses	Loss due to lower yield rate offered by PDD to the EPF in Direct Placements	9
		Loss on Investment in Treasury Bonds through Secondary Market	11
6	Ascertain if any private party / parties has/ have benefitted at the expense of the EPF *	Computation of Loss on Divestment of Treasury Bonds (HTM Portfolio) in the Secondary Market	12
		Computation of Loss on Divestment of Treasury Bonds (Trading Portfolio) in the Secondary Market	12

\* The private party / parties benefited at the expense of the EPF is / are identified at the respective Section of the Report.

## 2. EXECUTIVE SUMMARY

*This Executive Summary sets out a summary of the key observations arising from the review in relation to the objectives and scope of work. This Executive Summary should be read in conjunction with the detailed observations mentioned in this Report.*

*The observations in this Report are subject to completion of interview with the former Governor Mr. Ajith Nivard Cabraal. The clarification awaited from his interview are highlighted in the respective Sections of the Report.*

### OBSERVATIONS

#### EPF NOT PARTICIPATED IN AUCTIONS

- 2.1 During 1 January 2003<sup>10</sup> till 28 February 2015, the PDD conducted 465 Auctions. The EPF has not participated in 190 of these Auctions. It may be noted that the EPF has not participated in more than 60% of the Auctions during 2003, 2007, 2008 and 2009.
- 2.2 In 109 out of 190 instances, the available cash on the settlement date of the Auction was more than 30% of the offered amount in the Auction. In 19 instances, the cashflow statement was not available (cumulative offered amount was Rs. 20.25 Billion. In the remaining 62 Auctions, the cash available was less than 30% of cumulative offered amount.
- 2.3 The cumulative cash available<sup>11</sup> approximately Rs. 90.31 Billion was utilized for the refund of Contribution to members (Rs. 34.11 Billion (38%)), Investment in Primary Market (Rs. 31.83 Billion (35%)) and for Investment in Secondary Market was utilized (Rs. 24.36 Billion (27%)).
- 2.4 Subsequent Investments made for purchase of Rs. 8.47 Billion of Treasury Bonds for same ISIN on comparison with the weighted average yield rate of Auction, resulted in loss to the EPF Rs. 41.89 Million (Auctions 12.31 Million (3 to 37 basis points), Direct Placements Rs. 13.50 Million (2 to 27 basis points) and Secondary Market Rs. 16.08 Million (0.4 to 32 basis points)).
- 2.5 Subsequent Investments made for purchase of Rs. 5.82 Billion for different ISIN on comparison with "Ask Price" published by the PDD ("Two-way Quotes") resulted in loss amounting to Rs. 53.82 Million (Auctions 31.78 Million (9 to 37 basis points), Direct Placements Rs. 22.04 Million (9 to 22 basis points)).

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<sup>10</sup> For 2002 the details of Auctions and Direct Placement were not provided by the PDD.

<sup>11</sup> Available cash for subsequent utilisation - Lower of cumulative offered amount or available cash.

- 2.6 In minutes of the Investment Committee meetings of EPF on the dates of Auctions, there was no evidence of deliberation on non-participation in the respective Auctions. Former employees of the EPF, however, stated that during the Investment Committee meetings, all the instances of participation and non-participations were discussed. The EPF Fund Managers (current and former) stated that at times the PDD requests the EPF not to participate in Auction and invest the EPF funds through the Direct Placement. The EPF has also followed the practice of Investment through Direct Placements rather than participation in Auctions. However, there is no evidence of such instructions from the PDD in writing, produced for review.

*Please refer Section 5 of this Report for detailed observations.*

### **EPF BID AMOUNT LESSER THAN THE OFFERED AMOUNT IN AUCTION and EPF BIDS WERE REJECTED IN AUCTION**

- 2.7 Transactions where the EPF's bids were less than the amount offered by the PDD in the Auction and EPF bids were rejected (either completely or partially) were reviewed to verify if the lower investment and the bid submissions at higher rates by the EPF was intended to benefit any specific Primary Dealer. The documents in support of the transactions and associated digital and Voice Records did not indicate anomalies or irregularities to this effect.

### **INVESTMENTS THROUGH DIRECT PLACEMENTS**

- 2.8 During 1 January 2003 and 28 February 2015<sup>12</sup>, in 2,028 (tender value Rs.3,554 Billion) out of 2,673 Direct Placements by the PDD (tender value Rs. 5,888 Billion), the EPF has not made any Investments in approximately 60% of total offered by the PDD. The percentage of EPF's Investments in Direct Placement, in 2009, 2012 and 2014 were approximately 35% which was below average of 40%.
- 2.9 In 96 out of 230 instances reviewed, the available cash on the settlement date of the Direct Placement was more than 30% of the offered amount in the Direct Placement. The cumulative cash available was approximately Rs. 62.24 Billion of which, there was an allocation of Rs. 20.16 Billion (33%) for refund contribution to members, Rs. 15.86 Billion (25%) for Investment in the Primary Market and Rs. 26.22 Billion (42%) for Investment in the Secondary Market.

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<sup>12</sup> For 2002 the details of Direct Placement conducted by the PDD is not available.

- 2.10 The subsequent Investment Rs. 3.29 Billion in Treasury Bonds for same ISIN on comparison with price offered for Direct placement, resulted in loss to the EPF amounting Rs. 5.53 Million (Auctions Rs. 0.01 Million (0.5 basis points), Direct Placements Rs. 4.53 Million (2 to 27 basis points) and Secondary Market Rs.0.99 Million (3 to 12 basis points).
- 2.11 Subsequent Investments made for purchase of Rs. 1.25 Billion for different ISIN on comparison with "Ask Price" published by the PDD ("Two-way Quotes") resulted in loss amounting to the Rs. 17.31 Million to the EPF (Auctions Rs. 8.68 Million (45 basis points)), (Direct Placements Rs. 8.63 Million (22 basis points)).
- 2.12 Due to the non-availability of documents relating to the communication between the PDD and the EPF with regard to the offer or request from the EPF for Direct Placement, the rationale for the EPF not investing in Direct Placement despite availability of adequate cash on the settlement date cannot be commented upon.
- 2.13 In addition, there is no evidence indicating evaluation by MO of the FMD on Treasury Bonds issued by the PDD. It may be noted this evaluation is required as per ITG, 2007 and ITG, 2011.
- 2.14 There is no voice recording facility at the FMD during the Review Period and unavailability of emails of the officials of the EPF, negotiation / collusion, if any, made by the officials in the FMD or by the EPF management could not be confirmed.

*Please refer Section 8 of this Report for detailed observations.*

## **LOWER YIELD RATE OFFERED BY THE PDD TO THE EPF IN DIRECT PLACEMENTS**

- 2.15 During the review, it was noted that the PDD offered lower yield rate to the EPF. The following is a summary of observation (detailed observation and findings were discussed in Section 6.3 of this Report).
- 2.16 In 46 out of 203 instances the PDD offered yield rate was lower than the previous Auction weighted average yield rate. Due to lower yield rate, the EPF had incurred loss of Rs. 256.37 Million.

11

2.17 In 94 out of 346 instances, the PDD offer yield rate was lower than the Secondary Market yield rate. There was no previous Auction conducted two-weeks prior to placement arranged on date in 346 placements. Hence, the Secondary Market rate was compared. Due to lower yield rate, the EPF had incurred loss of Rs. 8,716.48 Million. Please refer to the table below for details:

**Table 2 - Summary of loss**

(Rs. In Million)

Year	Weighted average yield rate of previous Auction		Secondary Market yield rate	
	Number of Instances	Loss Amount	Number of Instances	Loss Amount
2008	1	3.07	12	3,687.72
2009	7	164.22	7	226.64
2010	12	60.52	23	1,803.81
2011	5	6.68	24	1,033.83
Loss for instances pertaining to 2008 to 2011	25	234.49	66	6,752.00
Total Loss for all instances under review (January 2007 to February 2015)	46	256.37	94	8,716.48

2.18 As per the witness statement of Mr. Dhammikka Nanayakkara (the former Superintendent of PDD) before PCOI, confirmed that the Direct Placements of Treasury Bonds shall be conducted at the weighted average yield rate decided at the preceding Auction.

2.19 Minutes of the Monetary Board meeting of 7 October 2008 stated that "...Issuing Treasury Bonds to EPF and other captive sources at an interest rate 5 basis points above the Secondary Market rates through private placements.".

2.20 During the period 2008 to 2011, the EPF yield rate was significantly lower in comparison to the Secondary Market yield rate even though the Monetary Board has approved the issue of Treasury Bonds to the EPF and other captive sources at an interest rate of five basis point above prevailing the Secondary Market yield rate. It is evident that the PDD has not offered the prevailing market rate to the EPF.

2.21 Voice Recordings between the PDD and the EPF and relevant email back-up were not made available for the review. Hence, the relevant communication between the officials of the PDD and the EPF cannot be ascertained.

*Please refer Section 9 of this Report for detailed observations.*



## DEVIATIONS FROM POLICY STATEMENT AND GUIDELINES

### Deviations by FO

- 2.22 The Investment Policy Statement, 2002 (in force till 2006) does not specify any limits for DOA for execution of transactions (Investments and Divestments) by FO. All the Investments were to be approved by the Investment Committee.
- 2.23 On review of Deal Tickets from 2002 till 2006, in 189 Investment transactions (out of 282 transactions where Deal Tickets were available) and in 74 Divestment transactions (out of 87 transactions where Deal Tickets were available), the Deal Tickets were not signed by FO officer.
- 2.24 As per ITG, 2007, the Head of FMD can approve Rs. 100 Million (single trade) and SEPF can approve investments up to Rs. 200 Million per single trade. In 18 out of 100 instances, the officer of FO had exceeded the specified single trade limit amounting to Rs.100 Million per trade.
- 2.25 As per ITG, 2011, the Head of FMD can approve investments valuing Rs. 2 Billion per day. In 50 out of 143 instances, the Head of FMD had exceeded the specified limit for the investment transactions in the HTM portfolio. The same transactions were reported in the market variance observation (refer section 11 of this Report) and the resulting loss amounting to Rs. 205 Million out of Rs.565 Million in the year 2014.
- 2.26 As per ITG, 2011, in 61 out of 128 instances, the staff of FO had executed the transactions exceeding the specified limit of Rs. 500 Million per day for Divestment transactions in the trading portfolio.
- 2.27 As per ITG, 2011, in 82 out of 102 instances of Divestments of HTM Portfolio, it was noted that the staff of FO had exceeded the authorized limit of transaction amounting to Rs. 500 Million per day. The same transactions were reported in the market variance observation (refer section 11 of this Report) and the resulting loss amounting to Rs. 14.38 Million in the year 2014 and 2015.

### Deviations by the approving authority

- 2.28 During the period 2002 to 2006, in 7 out of 282 transactions, the Deal Tickets were not approved by the Deputy Superintendent and in 205 of 282 transactions the Deal Tickets were not approved by the Superintendent for Investment. The same transactions were reported in the market variance observation (refer section 11 of this Report) and the resulting loss amounting to Rs. 3.35 Million.

- 2.29 On review of 87 Deal Tickets during 2002 and 2006, 11 transactions where the Deal Tickets were not approved by the Deputy Superintendent and in 69 transactions the Deal Tickets were not approved by the Superintendent for Investment. The loss due to sale at a lower price amounted to Rs. 4.70 Million.
- 2.30 In one instance for Investment transaction on 31 October 2014, the SEPF had exceeded the approval limit of Rs. 10 Billion specified as per ITG, 2011.
- 2.31 During the period 2012 and 2015, prior approval of transactions was not documented, and it is only ratified by the approving authority (Superintendent, Deputy Superintendent and Assistant Superintendent).

### **Ratification by the Investment Committee**

- 2.32 Counterparty details were not presented to the Investment Committee from June 2014 when transactions with PTL had been executed. Such information was not called for by the members of the Investment Committee as well.
- 2.33 In 98 out of 102 transactions amounting to Rs. 46.95 Billion, prior approval from the Investment Committee was not available for sale of HTM Treasury Bonds in the period from 2012 till 2015.
- 2.34 In the absence of the Deal Tickets, counterparty confirmations and the date of approval and signature of the approving authority, it is not possible to establish if the transactions were adequately approved or ratified as per the ITG, 2007 and 2011.
- 2.35 Based on the interviews with the current and former employees of the EPF and review of the documents, it was noted that the transactions were approved by designated authorities of the EPF on trust basis without analyzing the market conditions. Further, the officials without prior experience and knowledge on Investment and Divestment in the Secondary Market were approving the transactions.

*Please refer Section 10 of this Report for detailed observations.*

### **INVESTMENT IN TREASURY BOND THROUGH SECONDARY MARKET**

- 2.36 On analysis of the Secondary Market purchases during the Review Period, it was noted that the purchases made in 5 years (i.e.) 2002, 2003, 2004, 2013 and 2014 constituted 79% amounting to Rs. 142.89 Billion of the total purchases made by the EPF from Secondary Market.
- 2.37 The EPFs participation from June 2013 increased significantly post the then Governor expressing his concern to actively participate in the Secondary Market to the members of the Investment Committee and the top management of EPF on 4 June 2013.

## Loss on purchase of Treasury Bonds in Secondary Market

- 2.38 In 177 out of 651 purchase transactions, it was noted that the purchase price of the EPF was higher than the Secondary Market price resulting in loss of Rs. 620.81 Million.
- 2.39 Investments made during 2014 contributed 91.03% of the total loss incurred by the EPF amounting to Rs. 565.15 Million. The difference between the purchase yield rate and prevailing Market yield rate was ranging between 1 to 80 basis points.
- 2.40 It was noted that the loss from transaction with PTL, PABC and WTL in 2014 amounts to approximately Rs. 321 Million (52% on the overall loss for the period) with the variance in the yield rate ranging from 4 to 80 basis points.
- 2.41 Trades in seven specific ISINs out of 32 ISINs (LKB00922G017, LKB01024A014, LKB01529A012, LKB01529E014, LKB030444F019, LKB01123I017 and LKB02034A012) contributed to loss of Rs. 518 Million. These ISINs were highly traded by the PTL, PABC, WTL, Seylan and FCTL in Secondary Market.

*Table 3 Comparison of opening price and closing price of the highly traded ISINs*

Bond series	Price and Yield of the first transaction in the year 2014			Weighted Average rate	Price and Yield of the last transaction in the year 2014			Duration (in Months)	Decrease in Yield (A-B) (in Basis Points)
	Date	Price	Yield Rate (A)		Date	Price	Yield Rate(B)		
LKB00922G017	20-Jan-14	108.97	9.62%	118.75	31-Dec-14	125.43	6.85%	12	277
LKB01024A014	24-Jan-14	109.6	9.86%	122.66	26-Dec-14	128.88	7.04%	12	282
	3-Jan-14	95.8	9.68%	98.32	21-Oct-14	103.98	8.42%	10	126
LKB01123I017									
LKB01529A012	10-Mar-14	118.85	10.47%	130.26	26-Dec-14	142.23	8.04%	10	243
LKB01529E014	15-Jul-14	120.76	8.20%	130.94	26-Dec-14	138.34	5.99%	6	222
LKB02034A012	18-Jun-14	121.2	10.65%	119.66	30-Oct-14	142.11	8.79%	5	186
LKB030444F019	4-Jul-14	116.06	11.57%	129.15	26-Dec-14	149.34	9.08%	6	249

- 2.42 The Secondary Market prices of these ISINs were significantly increased in 2014 from the opening price and the increase percentage ranging from 9% to 29%. These ISIN were highly traded by the PTL, PABC, WTL, Seylan and FCTL in the Secondary Market. Similarly, as detailed in the above table the yield rate varied between 126 to 282 Basis points.

## Analysis of transactions with PTL, PABC and WTL in 2014

- 2.43 The overall loss from trades through PTL (directly / through intermediary) amounts to Rs. 222.76 Million (which is 36% of the loss incurred due to higher purchase price paid in comparison with the Market price).

**Table 4 Loss from PTL via intermediaries, PABC and WTL** (Rs. In Million)

Counterparty Name	Sub-Total (Rs. In Million)	No of transactions	Loss due to Market Variance	% of proportion on the total loss of Rs.620.81
Perpetual Treasuries Limited	8,411	20	97.19	16%
Through Pan Asia Banking Corporation PLC	6,413	14	111.15	18%
Through WealthTrust Securities Limited.	704	1	14.42	3%
<b>Total</b>	<b>15,528</b>	<b>35</b>	<b>222.76</b>	

- 2.44 PABC acted as the intermediary in 13 out of 24 transactions carried out with the EPF in the following instances, which ultimately lead to loss due to higher purchase price of Treasury Bonds in Secondary Market amounting to Rs.111.15 Million.

### Price variance between counterparties with PTL transactions

- 2.45 In 27 of 30 transactions executed with PTL, it was indicated that PTL had always charged a higher price to the EPF compared to the other counterparties. One illustrative instance is explained in the table below:

**Table 5 Price paid by EPF in comparison between counterparties on 17 October 2014 for the sample ISIN LKB01024A014**

#	Seller	Counterparty	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B) (Rs. in Million)
1	PTL	EPF	5,000,000	126.73	3.01	15.05
2	PTL	CA	500,000	123.72		
3	PTL	CBCL	500,000	124.08		
4	PTL	CBCL	500,000	125.18		
5	PTL	NW	500,000	123.72		
<b>Total</b>					<b>3.01</b>	<b>15.05</b>

- 2.46 In 4 out of 15 transactions with Seylan Bank PLC during the year 2014, indicates that Seylan had sold the Treasury Bonds at higher price to the EPF as compared to the other counterparties.

**Table 6 Price paid by EPF in comparison between counterparties on 4 November 2014 for the ISIN LKB00922G017**

#	Seller	Counterparty	Quantity (A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF (A*B)	Calculated Yield	Yield difference (in Basis Points)
1	SEY	EPF	17,500,000	124.10	0.96	16.8	7.07	14
2	SEY	CALD	500,000	123.14			7.22	
3	SEY	CCEY	500,000	123.40			7.18	
4	SEY	CCEY	500,000	123.40			7.18	
5	SEY	CSS	500,000	123.14			7.22	
6	SEY	FCTL	1,000,000	123.27			7.20	
7	SEY	NWS	500,000	123.27			7.20	

#### Price variance of same ISIN on the same day

- 2.47 On comparison of purchase price between multiple counterparties / Primary Dealers on the date of transaction where the same ISIN was purchased from more than one counterparty, the EPF had paid excess price in comparison with the weighted average purchase price of the ISIN resulted in a loss of Rs. 12.59 Million for the period 2002 to 2004 and 2007 to 2014. About 78% of the loss of Rs.7.21 Million was due to higher price paid to PTL, PABC and WTL.
- 2.48 It was attempted to review the quotes from select counterparties, but the relevant quotes received from the parties were not made available for review. Hence, the reason for a loss of Rs. 7.21 Million from PTL, PABC and WTL were not ascertained.

#### Ratification by the Investment Committee

- 2.49 On review of Investment Committee minutes for 2014, it was noted that FO did not provide to the Committee, the counterparty details for the investments made by them. Further, the members of the Committee did not raise concerns / called-for the details about the concentration of the investments made from PTL, PABC and WTL.
- 2.50 It is apparent that the top management of the EPF had been ignorant / negligent about the market condition.

*Please refer Section 11 of this Report for detailed observations.*

## **DIVESTMENTS IN TREASURY BONDS**

### **Analysis of divestment in Held to Maturity portfolio**

- 2.51 The major value of the Treasury Bonds from HTM portfolio were sold during 2013 and 2014 which amounts to Rs.75.19 Billion (41% of total sales 182.43 Billion during the Review Period).
- 2.52 Increased sales trend in HTM portfolio was noted especially after the concerns expressed by the then Governor and subsequent decisions by the Investment Committee to actively participate in Secondary Market.

### **Computation of loss on Divestment in Secondary Market**

- 2.53 In 41 of 136 transactions (between January 2007 and February 2015), the EPF had sold Treasury Bonds at a lower price compared to the Secondary Market price resulting in loss of Rs. 26.46 Million.
- 2.54 In 2014 the loss amounted to Rs. 12.40 Million (47%) which is higher compared to the loss of Rs. 3.43 Million (13%) and Rs. 8.62 Million (33%) respectively in 2012 and 2013.
- 2.55 The short sale of HTM bonds in the Secondary Market requires approval from the Investment Committee, as per ITG 2011. However, there was no evidence of such approvals.

### **Price variance between the counterparties - Held to Maturity Portfolio**

- 2.56 On comparison of sale price between multiple counterparties on the date of transaction where the same ISIN was sold to more than one counterparties, it was noted that in 5 transactions (4 transaction dates), the EPF had sold at lower price in comparison with weighted average price of the ISIN to other parties resulting in a loss of Rs. 5.34 Million for the period 2002 to 2004 and from 2007 to 2015. There were no specific counter parties identified during the review that were relatively benefited more than others.
- 2.57 The loss due to price variance between the counterparties for 2005 and 2006 was not ascertained due to the Non availability of the Deal Tickets.
- 2.58 In the absence of Deal Tickets and voice call recording system in the EPF department, the potential collusion, if any; between the Primary Dealer and FO cannot be ascertained.

*Please refer Section 12 of this Report for detailed observations.*



## **Divestment of Treasury Bonds in trading portfolio**

- 2.59 On comparison of sale price of Treasury Bonds with the prevailing Secondary Market prices during January 2007 to February 2015, it was noted that in 92 of 314 transactions, the EPF had sold Treasury Bonds at a lower price compared to the prevailing Secondary Market price of the same ISIN resulting in loss of Rs. 68.83 Million. There were no specific counterparties identified during the review that were relatively benefited more than others.
- 2.60 Treasury Bonds in the trading portfolio, valuing at Rs.30.42 Billion were sold during 2009 and 2010 and Treasury Bonds valuing Rs. 22.51 Billion was sold during 2013 and 2014. Increase in the trend in sale of trading portfolio of Treasury Bond was post decision made by the Investment Committee to actively participate in the Secondary Market in 2008 (Minutes of Investment Committee decision dated 3 November 2008) and 2013 (Minutes of Investment Committee decision dated 5 June 2013).
- 2.61 During the year 2008, 80% of the transactions were with Capital Alliance Limited (Rs. 6.31 Million) and Standard Chartered Bank PLC (Rs. 6.27 Million).
- 2.62 In 2009, loss from transactions with Seylan Bank PLC was Rs. 8.91 Million and NSB was Rs. 6.71 Million constituting approximately 61% of the loss of Rs. 25.20 Million. Similarly, HSBC and NTB attributed to Rs. 6.79 Million resulting in 16% of the loss incurred in the year.
- 2.63 In 2010, transactions with Seylan Bank PLC and Bank of Ceylon caused a loss of Rs. 9.01 Million out of total loss of Rs 18.92 Million.
- 2.64 In 2014, transactions with PTL created a loss of Rs. 5.74 Million out of total loss of Rs. 7.44 Million in the year.

## **Price variance in transactions between the counterparties - Trading Portfolio**

- 2.65 In 18 transactions, the EPF had sold securities at different prices resulting in a loss based on comparison of sale price with the weighted average price at which the same ISIN was sold to different counterparty. The loss amounted to Rs. 0.51 Million.
- 2.66 There was no voice record facility at the FMD and use of mobile phones by employees was allowed. In the absence voice recording facility, the price negotiation between the counterparties and FO could not be ascertained.
- 2.67 Current and former employees confirmed about lack of controls in evaluation process by FO in the Secondary Market.

*Please refer Section 12 of this Report for detailed observations.*

## REVIEW OF VOICE RECORDINGS

- 2.68 Voice recordings for 1,163 dates were requested from the Primary Dealers in the absence of voice recording facility at FO. However, the selected Primary Dealers provided 295 voice recordings.
- 2.69 Voice records pertaining to 235 dates were requested from 12 Primary Dealers. However, voice records pertaining to 5 (five) dates from three Primary Dealers were only provided. On review of voice records to the extent of the data made available, there is no conversation noted that pertained to transactions in Auctions.
- 2.70 Voice recordings for 55 dates requested from PTL, PABC and WTL for the period 2014 were not received. From the voice recording of Seylan Bank and First Capital Treasuries Limited dated 30 October 2014 and 31 October 2014, it is evident that the EPF had majorly transacted with PTL and acted as facilitator to PTL in the Secondary Market with Mr. T Udayaseelan being the point of contact.
- 2.71 It is apparent that the top management of the EPF had been inefficient in identifying the pattern of transaction executed between PTL and the EPF. Further, the EPF was referred to as friend of Perpetual in one of the voice recordings

*Please refer Section 14 of this Report for detailed observations*

## DIGITAL FORENSICS

- 2.72 BDO India performed extensive digital forensic / eDiscovery procedures on individuals identified from the document reviewed, discussion and interview with key stakeholders. There were certain challenges including but not limited to data completeness and availability. We were able to retrieve few email communications as defined below:
- 2.73 As per an email conversation of Mr. BHI Saman Kumara and Mr. Murtaza Jafferjee, it was evident that Secondary Market was manipulated by some of the Primary Dealers who had benefitted from such market condition. It also appears that Mr. Saman Kumara was involved in the market manipulation and he had agreed to share the details with Mr. Murtaza Jafferjee including the person involved.
- 2.74 It appears that investigation needs to be conducted for the scenario of Market manipulation in the Secondary Market during the period 2015 and 2016 as stated by Mr. BHI Saman Kumara in his mail that, "No it is happen and gone I will tell what happen when I meet you and the person told me that also."

*Please refer Section 16 of this Report for detailed observations.*

## OTHER MATTERS - T UDAYASEELAN

2.75 Mr. T Udayaseelan had executed transactions related to Investment and Divestment in Secondary Market during the period 2007 to 2017. On review of the transactions, deviations from the transaction authorization limits, price variances from the market price and concentration on specific counterparties such as PTL and PABC (Refer Section 10, 11 and 12 of this Report for detailed findings) were observed. Summary of information shared by Mr. T Udayaseelan are detailed below:

- A. PTL and PABC offered better rates and the required quantity was available with them. This is the reason for selecting these Primary Dealers for Investment and Divestment transactions. However, in absence of the quotes received from the Primary Dealers and voice recording of the dealer room, the rates offered by other counterparties cannot be confirmed. Refer Section 11 of this Report for the observation on the transaction executed by the EPF with PTL and PABC.
- B. He could not deny the fact that the employees of PTL including Mr. Kasun Palisena and Mr. Nuwan Salgado had referred to him as “Charlie”.
- C. The cashflow statement prepared by him (please refer Section 14 of the Report for details) contains the source of income, assets and liabilities acquired during 2007 till 2017. However, during the years 2015 and 2016 the value of assets acquired was disproportionate to the accumulated income disclosed in the statement, differential amounts to Rs. 5.7 Million and 8.7 Million respectively.
- D. Mr. T Udayaseelan responded that there is no specific explanation available to provide the reason for disproportionate asset and it is coincidentally occurred during the bond scam period of 2015-16. This matter requires to be investigated to identify the assets of his family members and dependents. This information was requested but not provided as on the date of this report.
- E. He received cheques from Universe Capital Private Limited (“UCPL”) and stated that it was the dividend cheque for the investments made in the shares of Ceylon Tea Services PLC. As per Registrar of Companies information, Mr. Palaniyandy Ramaswamy (Cousin of Mr. T Udayaseelan) was director and shareholder since May 2015. Further, Mr. T Udayaseelan stated that Mr. Palaniyandi Ramaswamy does not have basic educational qualification. This matter requires to be further investigated to identify the purpose of cheque received, the objective of forming UCPL and the ultimate stakeholder of this company.

F. A LinkedIn profile in the name of Mr. T Udayaseelan was noted wherein, it was mentioned that Mr. T Udayaseelan worked as the Independent Broker in PTL during January 2014 - December 2016 for 3 years. However, Mr. T Udayaseelan stated that he denied of creating LinkedIn profile.

*Please refer Section 17 of this Report for detailed observations.*

2.76 The EPF's loss from transactions in the Primary Market (Auctions and Direct Placements) was Rs. 9,074.33 Million and loss from transactions in the Secondary Market (Investments and Divestments) was Rs. 751.61 Million.

2.77 Following is the summary of loss assessed from the various scenarios explained in the detailed observation Section of this Report:

**Table 7: Summary of Loss** (Rs. In Million)

#	Particulars	Reference to the Report Section	Loss
<b>1.</b>	<b>Non - Participation in Auction despite the available cash</b>	<b>5</b>	
A.	In five instances where excess amount was paid in subsequent Auctions for same ISIN.		12.31
B.	In five instances where excess amount was paid in subsequent Auctions for different ISIN		31.78
C.	In 11 Instances where excess amount was paid in subsequent Investment in Direct Placement for same ISIN.		13.50
D.	In 4 Instances where excess amount was paid in subsequent Investment in Direct Placement for different ISIN.		22.04
E.	In 15 Instances where excess amount was paid in subsequent Investment in Secondary Market for same ISIN.		16.08
<b>2</b>	<b>Investment in Direct Placement</b>	<b>8</b>	
A.	In two instances where excess amount was paid in subsequent Investment in Auction for same ISIN.		0.01
B.	In two instances where excess amount was paid in subsequent Investment in Auction for different ISIN.		8.68
C.	In five instances where excess amount was paid in subsequent Investment in Direct Placement for same ISIN		4.53
D.	In one instance where excess amount was paid in subsequent Investment in Direct Placement for different ISIN		8.63
E.	In four Instances where excess amount was paid by EPF in subsequent Investment in Secondary Market for same ISIN.		0.99
<b>3</b>	<b>Lower yield rate offered by PDD in Direct Placement</b>	<b>9</b>	
A	In 46 instances, the PDD offered rate in Direct Placement was lower than the weighted average yield rate of previous Auction		256.37
B	In 94 instances, the PDD offered rate in Direct Placement was lower than the Secondary Market yield rate on the placement date. (when previous Auction reference rate was not available)		8,716.48
<b>4</b>	<b>Comparison of Secondary Market purchase price with Market price as per "two-way quotes"</b>	<b>11 &amp; 12</b>	

#	Particulars	Reference to the Report Section	Loss
A	In 177 instances, the EPF purchase price was higher than the Market price		620.81
B	In 41 instances, Treasury Bonds sold from the HTM portfolio at lower price compared to the Market price		26.46
C	In 92 instances, Treasury Bonds sold from Trading portfolio at lower price compared to the Market price		68.83
5	<b>Comparison of purchase/sales price to another Primary Dealer price on same day for the same ISIN</b>	11 & 12	
A	In 104 transactions, the EPF paid excess purchase price in comparison of weighted average paid for the same ISIN on same day for the same transaction day and settlement day		12.59
B	In 4 sales transactions related to HTM portfolio, the EPF sold at lower price in comparison of maximum sale price for the same ISIN on same day.		5.34
C	In 18 sale transactions related to AFS portfolio, the EPF sold at lower price in comparison of maximum sale price for the same ISIN on same day.		0.51

Note: The above-mentioned transaction counts are not mutually exclusive; hence the total amount of loss cannot be computed.

*This Executive Summary is intended to provide a high-level overview of key findings of this investigation. For a complete understanding of the issues, work performed and detailed findings, this Report should be read in its entirety including 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

- 3.1 The detailed work performed during forensic audit / investigation on Primary and Secondary Market transactions of the EPF involving Treasury Bonds issued / transacted during the Review Period is as under:

### PROCESS UNDERSTANDING DISCUSSIONS AND PROCESS WALK THROUGHS

- 3.2 Conducted discussions with the Superintendent of EPF (“SEPF”) along with Director and other senior employees to obtain an overview of the EPF operations as currently organized, the laws applicable (Refer Annexure 1)<sup>13</sup> and governing the operations of EPF, the department and divisions involved, and key management personnel associated with the operations.
- 3.3 Obtained the division wise list of employees worked in the EPF department during the Review Period.
- 3.4 Conducted meetings with select Front Office (“FO”), Middle Office (“MO”) & Back office (“BO”) employees and Superintendent, Additional Superintendent and Deputy Superintendent performed their duties during the Review Period.
- 3.5 Conducted meetings with the employees currently working in the EPF, former employees of the EPF but currently working in other CBSL departments, to obtain a detailed understanding on the following (Refer Annexure 2 and 3)<sup>14</sup>:
- A. Applicable laws, policies, guidelines, regulations process and practices followed at present and that existed during the Review Period;
  - B. Functions, roles and responsibilities of divisions of the EPF department;
  - C. The operational guidelines applicable to the processes at the EPF, including guidelines on Investment and Divestment in Treasury Bonds;
  - D. Process and delegation of authority for approval of Investment / Divestment transactions;
  - E. Documents required to be maintained for each process.
- 3.6 Performed walkthroughs of the processes with the existing process owners of the Fund Management Division (“FMD”) to understand the process that existed during the Review Period and the sequence of activities performed along with the documents maintained by the personnel of following departments of FMD:
- A. Front Office (FO);
  - B. Middle Office (MO); and
  - C. Back Office (BO).

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<sup>13</sup> Refer Annexure 1 for Listing of applicable laws, regulations, guidelines and directions applicable to the EPF operations.

<sup>14</sup> Refer Annexure 2 and 3 for the list of meetings conducted with former and current employees.

- 3.7 Provided fortnightly updates to the Forensic Audit Monitoring Committee (“FAMC”) appointed by the Monetary Board, on approach adopted for forensic audit / investigation, procedures performed, red flags identified, key challenges faced and the planned way forward. (Refer Annexure 4)<sup>15</sup>
- 3.8 Attended meetings with the Hon’ble Governor and Assistant Governor overseeing the EPF and provided updates on the progress of the information received challenges in identification of information / documents relevant for review.
- 3.9 Held discussions with the representatives of Criminal Investigation Department (“CID”) of Sri Lanka, for the following:
- A. Understand the nature and scope of the investigation conducted;
  - B. Nature and details of evidences (electronic devices, voice recordings and contact details retrieved) analysed; and
  - C. Request for sharing of evidences (electronic devices, voice recordings and contact details retrieved) for review.

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<sup>15</sup> Refer Annexure 4 for the Minutes of the FAMC meetings and list of meetings



## REVIEW OF RELEVANT LAWS / REGULATIONS / POLICIES / CIRCULARS / GUIDELINES / MANUALS

3.10 Identified the laws, policies, guidelines, accounting standards, circulars, guidelines, operational manuals based on various sources such as EPF, CBSL website and reports of external inquiries such as, the PCOI Report, the Auditor General Report and from the list provided by the EPF department. The list of laws, policies and guidelines are detailed below<sup>16</sup>:

- A. Employee Provident Fund Act, 1958 (Amended in the year 2012);
- B. Investment Policy Statement - December 2002 and December 2011;
- C. Investment Trading Guidelines - 21 March 2007 and December 2011;
- D. EPF Operations Manual;
- E. Lanka Secure Settlement System Rules;
- F. EPF Handbook;
- G. Standard of Professional Conduct - December 2002; and
- H. Sri Lanka Accounting Standards (SLFRS).

3.11 Below mentioned are the key provisions noted from the review of laws, policies, guidelines, circulars and accounting standards:

- A. As per Section 5 (1)(e) of the EPF Act, the Monetary Board may invest such moneys of the Fund which are not immediately required for the purposes of the EPF Act, in such securities as the Board may consider fit and may sell such securities. Refer Section 4 for detailed functions of the Investment Committee and FMD (“FMD”);
- B. As per LKAS 39, “Financial Instrument: Recognition and Measurement”, Whenever sale or reclassification of more than an insignificant amount of ‘Held to Maturity’ Investments do not meet any of conditions specified, any remaining held to maturity Investment shall be reclassified as available for Sale;
- C. As per the Section 1.2 of Investment Policy Statement, 2002, the objective of the Investment Committee is to guide the fund to prudent Investment decisions within the guidelines stipulated in the policy statement; and
- D. The objective of the Investment Trading Guidelines (“ITG”) is to streamline the Investment decision process of the EPF and maximize the return on the portfolio, while managing the risk at acceptable levels. As per the ITG subject to the ratification of the Investment Committee, the delegation of authority to execute the Secondary Market transactions (Investment and Trading portfolio) lies with the SEPF and FMD subject to the limits specified.

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<sup>16</sup> The list is not exhaustive.

## REVIEW OF DOCUMENTS FOR INVESTMENTS IN TREASURY BONDS THROUGH AUCTIONS

- 3.12 Identified the list of Auctions conducted by the PDD as recorded in the transaction listing for the period 1 January 2002 to 30 September 2004, the transactions recorded in the AS/400 for the period of 19 October 2004 to 28 February 2015 and Investment transactions recorded in SAP during the period 1 September 2006 to 28 February 2015 for the listing of the transactions.
- 3.13 Prepared an Auction calendar, mapped all the dates when the Auctions were conducted by the PDD.
- 3.14 Reviewed the Auction data and identified:
- A. Auctions where the EPF has participated and not participated;
  - B. Auctions where the EPF amount was accepted fully and partially rejected; and
  - C. Auctions where the bids from the EPF were equal, less or more than the offered amount.
- 3.15 Identified the list of documents for review based on the process understanding and documentation maintained by the FMD for Investment in Treasury Bonds in Primary Market through Auctions.
- 3.16 Reviewed the following documents prepared as part of the process along with the details of transactions extracted from AS/400 and SAP:
- A. PDD Auction Announcement;
  - B. PDD Auction Result;
  - C. Cashflow statements of Settlement Date;
  - D. FMD recommendation sheet;
  - E. Daily market summary report;
  - F. Approval from SEPF / DSS / Additional SEPF as per DOA;
  - G. Minutes of Meeting of the Investment Committee; and
  - H. Confirmation from the PDD for Auction results.
- 3.17 Reviewed the following additional information / documents to corroborate the details captured in the documents supporting the Auctions:
- A. Minutes of the Monetary Board; and
  - B. Attendance records of employees, where considered necessary.
- 3.18 Reviewed the cashflow statements to check the availability of funds on a settlement day of Auctions and computed the excess availability of cash, in case of Auctions not participated and where the bids from the EPF were for amounts lesser than the amount offered by the PDD.
- 3.19 Reviewed the recommendation by FO / MO to ascertain the rationale behind the Investment made and whether the factors considered for the recommendations, were in line with the prevailing market conditions.

- 3.20 Reviewed confirmation letter from the PDD to verify if the bid price and yield rate submitted by the EPF, are the rates recommended by the MO and or approved by the Superintendent / Deputy Superintendent / Additional Superintendent of EPF.
- 3.21 Reviewed the approval documents to verify if the execution of the transaction is in line with the DOA specified in the Investment Trading Guidelines (“ITG”)<sup>17</sup> and identified instances of deviations from DOA in the execution of the transaction.
- 3.22 Reviewed minutes of the Investment Committee meetings to verify that prior approval / ratification from the Investment Committee was obtained for Investments made in the Primary Market.
- 3.23 Compared the signatures of the officials in the documents with the specimen signatures provided by the HR Department to confirm the acceptability of the documents and identify the indicators, if any, of potential fabrication of documents supporting the transactions.
- 3.24 Verified the attendance records to confirm the presence / absence of specific employees, associated with transactions indicating potential violations of DOA during the approval of Investments.

### **REVIEW OF DOCUMENTS FOR INVESTMENTS MADE THROUGH DIRECT PLACEMENTS**

- 3.25 Identified the list of Direct Placements conducted by the PDD as recorded in the transaction listing for period 1 January 2002 to 31 March 2005, the transactions recorded in the AS/400 for the period of 1 April 2005 to 28 February 2015 and Investment transactions recorded in SAP during the period 1 September 2006 to 28 February 2015.
- 3.26 Prepared Direct Placement Calendar mapping, for the dates when the Direct Placements were conducted by the PDD.
- 3.27 Identified the list of Direct Placements involving Investments from the EPF.
- 3.28 Identified the list of documents to be reviewed based on process understanding and documentation maintained by the FMD for Investments in Treasury Bonds through Direct Placement in the Primary Market.

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<sup>17</sup> Refer Section 10 of this report for Delegation of Authority.

- 3.29 Reviewed the following documents prepared as part of the process understanding along with the details of transaction extracted from AS/400 and SAP:
- A. PDD email communication on the Direct Placement;
  - B. Daily Cashflow Statements;
  - C. FMD Recommendation Sheet;
  - D. Daily Market Summary report;
  - E. Approval from SEPF / DSS / Addl SEPF as per DOA;
  - F. Investment Committee Minutes;
  - G. Approval from the SEPF; and
  - H. Confirmation Letter from the PDD.
- 3.30 Reviewed the following additional information / documents to corroborate the details made available for Direct Placement:
- A. Minutes of the Monetary Board meetings to verify the details of Investments made through Direct Placements;
  - B. Attendance records of employees; and
  - C. Specimen signatures of the select employees.
- 3.31 Reviewed the EPF's cashflow statements to check the fund position on settlement date of Direct Placement and assessed the excess cash, if any, when the EPF had not opted for the opportunity in Direct Placements;
- 3.32 Reviewed the recommendations made by FO / MO on the yield rate and amount to be invested through Direct Placement. Also attempted to check whether the same data was considered, and parameters evaluated for providing recommendations were in line with the prevailing Market situations;
- 3.33 Reviewed the confirmation letter from the PDD to verify on the quantity, yield rate and amount invested are as recommended by MO;
- 3.34 Reviewed FO / MO approval document to verify if the execution of the transaction is in line with the DOA specified in the ITG and identified instances of deviations from DOA, if any, in the execution of the transactions;
- 3.35 Reviewed minutes of the Investment Committee meetings to verify if, prior approval / ratification from the Investment Committee was obtained for the Investments made in the Primary Market;
- 3.36 Compared the signatures of the officials in the documents with the specimen signatures provided by the HR Department of CBSL to confirm the acceptability of the documents and identify the indicators, if any, of potential fabrication of documents supporting the transactions; and
- 3.37 Verified the employee attendance records to confirm the presence / absence of specific employees, associated with transactions indicating potential violations of DOA during the approval / ratification of Investments.

## REVIEW OF DOCUMENTS FOR PURCHASE OF TREASURY BONDS FROM THE SECONDARY MARKET

- 3.38 Identified transactions recorded in transactions listing (in spreadsheet) provided by the EPF department for the period 1 January 2002 to 30 September 2004 and CDS data for the period 1 March 2005 to 28 February 2015.
- 3.39 Prepared a list of documents for review, based on the process understanding and documentation maintained by the current FMD employees for purchase of Treasury Bonds in the Secondary Market.
- 3.40 Reviewed the following documents prepared as part of the process along with the details of transactions extracted from CDS and SAP:
- A. Request for Quotation;
  - B. Quotations received from the counterparty;
  - C. FMD Recommendation Sheet;
  - D. Minutes of the Investment Committee meetings;
  - E. Deal Tickets;
  - F. Confirmation by the EPF;
  - G. Counterparty confirmation; and
  - H. Approval from SEPF / DS / Additional SEPF of EPF as per DOA.
- 3.41 Reviewed the following additional information / documents to corroborate the details captured in the documents supporting the Secondary Market Investments:
- A. Minutes of the Monetary Board meetings to verify the listing of Investments made in the Secondary Market;
  - B. Attendance records of employees, where considered necessary; and
  - C. Specimen signature of employees.
- 3.42 Reviewed suggestions made by MO to identify instances where recommendations were not in line with the prevailing Market rate.
- 3.43 Reviewed the Deal Tickets to verify the details of transactions executed such as date of execution of the transaction, amount invested and yield rate. Also, verified whether the specified yield rate was in line with the recommendations made by MO. Reviewed the Deal Tickets to verify if the approval obtained from the designated authority (Head of FMD, Chief Dealer, SEPF, Addl. EPF or DSS) were in line with the DOA specified in the ITG and identified instances of deviations from DOA in the execution of these transactions.
- 3.44 Reviewed minutes of the Investment Committee meetings to verify if, prior approval / ratification from the Investment Committee was obtained for Investments made in the Secondary Market.
- 3.45 Compared the signatures of officials in the documents with the specimen signatures provided by the HR department to confirm the acceptability of the documents and identify the indicators, if any, of potential fabrication of documents supporting the transactions.

- 3.46 Verified the attendance records to confirm the presence / absence of specific employees, associated with transactions indicating potential violations of DOA during the approval of Investments.

### REVIEW OF DOCUMENTS FOR DIVESTMENT OF TREASURY BONDS IN THE SECONDARY MARKET

- 3.47 Identified the listing of transactions recorded in transactions listing provided by the EPF department for the period 1 January 2002 to 30 September 2004 and CDS data for the period 1 March 2005 to 28 February 2015.
- 3.48 Prepared a list of documents for review, based on the process understanding and documentation maintained by the current employees of the FMD for the Divestment of Treasury Bonds from Secondary Market.
- 3.49 Reviewed the following documents prepared as part of the process along with the details of transaction extracted from CDS and SAP:
- A. Request for Quotation;
  - B. Quotations received from the counterparty;
  - C. FMD recommendation Sheet;
  - D. Minutes of the Investment Committee meeting;
  - E. Deal Tickets;
  - F. Confirmation by the EPF;
  - G. Counterparty confirmation; and
  - H. Approval from Superintendent/ Deputy Superintendent / Additional Superintendent of EPF as per DOA.
- 3.50 Reviewed the following additional information / documents to corroborate the details captured in the documents supporting the Secondary Market transactions:
- A. Attendance records of employees;
  - B. Specimen signature of employees; and
  - C. Minutes of the Monetary Board papers.
- 3.51 Reviewed recommendations made by FO to identify instances where recommendations were not in line with the prevailing Market rates.
- 3.52 Reviewed Deal Tickets to verify the details of transactions executed such as date of execution, amount invested and yield rate of the transaction and verified whether the specified yield rate was in line with the recommendation made by FO.
- 3.53 Reviewed whether the approval obtained from the designated authority (Head of FMD, Chief Dealer, SEPF, Addl. EPF or DSS) is in line with the DOA specified in the ITG and identified instances of deviations from DOA in the execution of the transactions, if any.

- 3.54 Compared signatures of officials in the documents with the specimen signatures provided by the HR department to confirm the acceptability of the documents and identify the indicators, if any, of potential fabrication of documents supporting the transactions.
- 3.55 Reviewed minutes of the Investment Committee meetings to verify if, prior approval / ratification from the Investment Committee was obtained for the Divestments made in the Secondary Market. Referred the ITG along with the applicable accounting standards<sup>18</sup> and verified if the Divestments made were in accordance with the standards and guidelines.
- 3.56 Verified the attendance records to confirm the presence / absence of specific employees, associated with transactions indicating potential violations of DOA during the approval of Investments.

### DATA ANALYSIS PROCEDURES

- 3.57 Prepared the list of preliminary checks on the Auction, settlement and Investment transaction data sets from AS/400, CDS and SAP applications respectively, provided by the EPF, PDD and ITD departments relating to the Review Period to identify gaps, if any, in the data extracted and to check adequacy / appropriateness of data for performing analyses.
- 3.58 Developed analytical and logical tests, on best effort basis, primarily on understanding of the processes and data captured to identify abnormalities, if any.
- 3.59 Segregated the data into the following segments:
  - A. Auction - Participated and Not participated;
  - B. Direct Placements - Investments made by the EPF and Investments not made by the EPF;
  - C. Investments in the Secondary Market; and
  - D. Divestment in the Secondary Market.
- 3.60 Analysed the transaction data relating to Primary and Secondary Market Investments to identify trends and exceptions that require detailed scrutiny along with supporting documents;
- 3.61 Performed the following data analysis tests on CDS and AS/400 data to identify unusual trends and patterns (outliers), if any.
  - A. Compared the amount offered by the PDD by way of Auction against amount quoted by the EPF;
  - B. Analysed the percentage of amount allotted to the EPF as compared to different Primary Dealer;

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<sup>18</sup> Applicable Accounting standards - LKAS39", "Financial Instrument: Recognition and Measurement".



- C. Reviewed multiple bidding rates between the EPF and another Primary Dealer;
  - D. Compared with the prevailing Market rates with the Investment price made by the EPF;
  - E. Compared the tenures of bonds invested and bonds which were available for Investment;
  - F. Compared the yield rates between Investments made and the Auctions not participated;
  - G. Analysed instances of non-alignment of Auction dates with bond maturity date on which the EPF invested in;
  - H. Compared the EPF placement rates with PDD daily price report rates;
  - I. Compared EPF placement yield rate with rates offered to another Primary Dealer;
  - J. Compared the EPF purchase / sale price with Market rate published by the PDD;
  - K. Compared the prices for multiple purchase of same ISIN on the same day with same / different party;
  - L. Analysed the percentage of amount invested by the EPF in Secondary Market as compared to another Primary Dealer; and
  - M. Analysed the Divestment of Treasury Bonds categorized as 'Held to maturity' ("HTM").
- 3.62 Identified transactions indicating unusual trends and patterns (outliers) and selected those transactions for the detailed document review.

### **PUBLIC DOMAIN SEARCHES ON POTENTIAL NEXUS BETWEEN THE CBSL EMPLOYEES AND PRIMARY DEALERS**

- 3.63 Prepared a list of CBSL employees, associated with transactions where anomalies were noted / identified (hereinafter referred to as "identified officials").
- 3.64 Gathered and reviewed details with respect to the business / professional associations (records with the Registrar of Companies ("ROC") to the extent available in the public domain) of the identified officials as well as family members, if any.
- 3.65 Reviewed publicly available information and media archives for the Primary Dealer and its associated information.
- 3.66 Conducted public domain searches including but not limited to social and professional media profiling on the identified officials.
- 3.67 Ascertained association of the identified officials of CBSL and their family members with Primary Dealer.
- 3.68 Due Diligence was performed on the list of identified officials which covered public domain searches, press releases and media archives to identify business profile, business affiliations and adverse information, if available. The searches were conducted on subscribed Global Compliance Databases to identify any involvement of these identified officials for illegal activity or litigation cases, if any.

## DIGITAL FORENSIC

- 3.69 During the review of documents related to Investments made by the EPF during the issuance of Treasury Bonds by the PDD and the Investment / Divestment transactions in the Secondary Market, deviation and / or anomalies were noted in the process followed and the supporting documents maintained. A total of 25 CBSL employees (hereinafter referred to as “custodians”) (Refer Annexure 5 for the list of the custodians)<sup>19</sup> were identified who were responsible for taking decisions related to EPF’s Investment and Divestment in Treasury Bonds in Primary and Secondary Market. The CBSL issued electronic devices (desktop / laptop computers, iPads and mobile phones, where applicable) to these custodians that could have been used by them, were identified by the DIT based on the “Last Log-In details” appearing in the “Active Directory”<sup>20</sup> available. BDO India did not independently verify the completeness and accuracy of the “Last Log-in” information as ascertained 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.
- 3.70 BDO India relied upon the device identification method (based on “Last Log-In” details as per the Active Directory adopted by the DIT, 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-2, 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.
- 3.71 The Outlook email server backup / spooled for respective custodians’ at 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 25 custodians (Refer Table 7 below), 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 5)<sup>21</sup>.
- 3.72 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 6)<sup>22</sup>. Accordingly, an email communication of the custodians related to the Review Period prior to June 2012 were not accessible for BDO India for review.

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<sup>19</sup> Refer Annexure 5 for the list of 25 custodians and their respective Target Devices along with rationale for their identification.

<sup>20</sup> “The main service in Active Directory is Domain Services (AD DS), which stores directory information and handles the interaction of the user with the domain. AD DS verifies access when a user signs into a device or attempts to connect to a server over a network.” (Source: <https://searchwindowserver.techtarget.com/definition/Active-Directory>)

<sup>21</sup> Refer Exhibit 5 for a copy of email confirmation from the DIT for outlook email backup.

<sup>22</sup> Refer Exhibit 6 for a copy of email communication by the DIT regarding migration of email communication platform.

3.73 IDT confirmed that details of the electronic devices assigned to 5 custodians are not identifiable. A total of 12 devices (“Target Devices”) assigned to 11 custodians were identified by ITD for performing forensic technology procedures. Provided below is the summary of the 12 Target Devices acquired from 25 custodians:

**Table 8 Summary of Target Devices**

#	Particulars	Count
1	Total number of custodians	25
2	Total number of Desktop Hard drives (A)	11
3	Total number of I-pad (B)	1
	<b>Total number of Target Devices (C) =(A+B)</b>	<b>12</b>

3.74 Provided below is a list of electronic devices identified (by the DIT) that pertains to the respective custodians (Refer Annexure 98 for e-discovery of identified custodians):

**Table 9 Count of Target Devices and availability of email back files on server**

#	Name	Desktop	Laptop	I-Pads	Server email	Total
1	Dilini Udugamakorale	1	Not issued <sup>23</sup>	Not issued	1	2
2	WGR Harshapriya	*	Not issued	Not issued	1	1
3	GACN Ganepola	*	*	*	1	1
4	RAA Jayalath	1	Not issued	1	1	3
5	K Gunatilleke	*	*	*	1	1
6	Maheesha Wanniarachichi	*	*	*	1	1
7	BMWS Balasooriya	1	Not issued	Not issued	1	2
8	KLACN Anuradha	Not traceable <sup>24</sup>	Not issued	Not issued	1	1
9	S Pathumanapan	1	Not issued	Not issued	1	2
10	LY Dharmasena	Not traceable	Not issued	Not issued	Backup not traceable	0
11	Chandrasekharan Sivapriya	*	Not issued	Not issued	1	1
12	ETWRP Udakumbura	*	Not issued	Not issued	1	1
13	CMDNK Seneviratne	1	Not issued	Not issued	1	1

<sup>23</sup> Not Issued - devices that were not issued by the CBSL to the custodian.

<sup>33</sup> Refer Exhibit 7 for Not traceable devices and email backup copies on server that were requested by BDO but DIT unable to identify or track.

#	Name	Desktop	Laptop	I-Pads	Server email	Total
14	LDDY Perera	Not traceable	Not issued	Not issued	Backup not traceable	0
15	NLM Abeysekera	1	Not issued	Not issued	1	2
16	MSK Dharmawardane	*	Not issued	Not issued	1	1
17	C Premaratne	*	Not issued	Not issued	Backup not traceable	0
18	D Wasantha	Not traceable	Not issued	Not issued	1	1
19	BHI Samana Kumara	1	Not issued	Not issued	1	2
20	JDSJ Nanayakkara	1	Not issued	Not issued	1	2
21	T Udayaseelan	1	Not issued	Not issued	1	2
22	PN Weerasinghe	*	Not issued	Not issued	1	1
23	PWDNR Rodrigo	1	Not issued	Not issued	1	2
24	Ajith Nivard Cabraal	Not traceable	Not traceable	Not traceable	1	1
25	Amila Dahanayake	1	Not issued	Not issued	1	2
<b>TOTAL</b>		<b>11</b>	<b>0</b>	<b>1</b>	<b>22</b>	<b>33</b>

Note: \*ESI review was limited to email communication available on CBSL server. Devices not traceable are the devices that were not identified by the DIT.

- 3.75 During the ESI review on the devices identified by the DIT pertaining to the respective custodians, no documents related to the EPF transactions were noted (Refer Table 9).
- 3.76 During an enquiry with the DIT, it was confirmed that in case of employees currently working in CBSL, Target Devices identified using “Last Log-In” method in Active Directory were the devices that they are currently using in their respective department and not the devices used by them in the EPF department during the Review Period, January 2002 to February 2015. On enquiry with the EPF department, it was confirmed that after the transfer, employees are not allowed to take their desktop / laptop to other departments and the desktops / laptops are allocated to other employees. Due to absence of IT Asset Register and tracking mechanism, the DIT was unable to trace the devices in the EPF department for the select custodians.

3.77 In case of interdicted employees, during the enquiry with the DIT it was confirmed that devices of Mr. T Udayaseelan and Mr. S Pathumanapan, were also acquired from the non-EPF department (Refer Table 10).

**Table 10: Current / last known department of custodians in CBSL**

#	Custodian	Working status	Last known department
1	T Udayaseelan	Interdicted	Internal Audit Department
2	S Pathumanapan	Interdicted	Communications Department
3	PWDNR Rodrigo	Retired	Domestic Operations Department
4	BMWS Balasooriya	Currently working	Swift Division PSD
5	NLM Abeysekera	Currently working	Regional Development Department
6	RAA Jayalath	Currently working	Secretariat Department
7	CMDNK Seneviratne	Retired	Public Debt Department

The below mentioned steps were followed while conducting digital forensic on each of the respective Target Devices (Refer Annexure 6)<sup>25</sup>

**3.78 ACQUISITION OF TARGET DEVICES:**

The Target Devices of 25 identified officials / Custodians were requested and IDT identified 12 devices (11 desktops and 1 (one) iPad) belonging to 11 identified officials to perform forensic technology procedures explained as following:

- A. The DIT identified the electronic devices issued by the CBSL to the respective custodians based on “Last Log-In” details as recorded in the Active Directory and handheld mobile devices by the ITD.

<sup>25</sup> Refer Annexure 6 for the list of forensic tools used to perform Digital Forensic/ e-Discovery on Target Device.

- B. Target Devices pertaining to identified custodians were with the help of DIT. Executives of the ITD of the CBSL removed the “storage device” from the identified desktop / laptop of the custodians and 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 the 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.
- C. Electronic devices of custodians who are interdicted employees of the CBSL were previously secured by the respective departments and handed over to the DIT. ITD executives removed the storage device from those machines in presence of the DIT and handed over to BDO India to create forensic image<sup>26</sup>. (Refer Exhibit 8)<sup>27</sup>
- D. Chain of Custody (“COC form”) <sup>28</sup> was documented in respect of every Target Device and maintained through-out the examination. COC encompasses the custodian details, Target Device details, time, date and location of handover from the DIT or the respective custodian. COC (Refer Exhibit 9)<sup>29</sup> form was prepared for each device of the custodian and related image for was marked individually.
- E. The DIT or custodian signed-off the COC form after verification of the facts recorded, to evidence the handover of the device to BDO India for processing. A copy of the COC Form was also handed over to the DIT or the respective custodian. 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.”

### 3.79 IMAGING OF TARGET DEVICES:

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<sup>26</sup> “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/>)

<sup>27</sup> Refer Exhibit 8 for the Details of logs generated for forensic image of Target Devices.

<sup>28</sup> “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>)

<sup>29</sup> Refer Exhibit 9 for copies of CoC forms of Target Devices for respective custodians.

- A. After the Target Devices were physically acquired from the respective custodian or the DIT, Forensic Image<sup>30</sup> was created in manner explained under: 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.
- D. These details also reflect in Additional log file (Refer Exhibit 8)<sup>31</sup> that was generated during 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 and time, acquisition and verification hash values<sup>32</sup> (Md5 and SHA-1), details of forensic image and disk sectors etc.
- E. Forensic image created from identified 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 stored after creating a duplicate copy. Further, 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 application for acquisition of the Target Device was adopted. Advanced logical extraction and file system extraction was adopted to acquire target devices, handheld mobile 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.

### 3.80 RETURNING OF TARGET DEVICES:

- A. After completion of forensic imaging procedure / eDiscovery or acquisition of Target Device and handheld device respectively the target devices or acquisition of the Target Devices were returned to the DIT or the respective custodian in the presence of the CBSL IT Executives, as the case may be.

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<sup>30</sup> "Forensic Image of a device is the bit-by-bit, sector-by-sector direct copy of a physical storage device, including all files, folders and unallocated free and slack space." (Source: <https://whatis.techtarget.com/definition/forensic-image>)

<sup>31</sup> Refer Exhibit 8 for details of logs generated with forensic image of Target Devices.

<sup>32</sup> "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>)



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 and location, returned by and recipient name. Physical condition of the device was also verified by the DIT at the time of handing over of Target device from BDO India to the DIT or the respective custodian. After verification of physical condition of the Target Device and verification of information on COC, the DIT or respective custodian and BDO India signs-off the COC.

### 3.81 EXTRACTION OF ELECTRONICALLY STORED INFORMATION:

- A. Duplicate or working copy was created from the original image which was directly created from the Target Device image. This duplicate forensic image was administered on the forensic platform to carry out e-discovery procedures.
- B. ESI contained therein the from the target Device was extracted using standard OEM provided “Encase Enscript” which is based on 46 extensions<sup>33</sup> contained therein the Target Device using Guidance Encase tool.
- C. Target Device system information such as Operating System Information (Refer Annexure 7)<sup>34</sup> and User account information (Refer Annexure 8)<sup>35</sup>, and basic information and volume details about the image (Refer Annexure 9)<sup>36</sup> 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 -
1. *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;*
  2. *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”.*

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<sup>33</sup> Extensions used for extraction- doc, docx, docm, dot, dotx, wrd, wpt, wpd, dotm, rtf, pst, ost, dbx, eml, emlx, 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.

<sup>34</sup> Refer Annexure 7 for details of Operating system artefacts of reviewed Target Devices.

<sup>35</sup> Refer Annexure 8 for details of User Accounts of reviewed Target Devices.

<sup>36</sup> Refer Annexure 9 for Basic information and volume of data details of reviewed Target Devices.

3. 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 status of presence on the drive / system, 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.
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.
4. On forensic image of the Target Device’s carving was attempted on “all at sector boundaries” by “X-ways” Forensic tool using 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 by Email”, forensic tool was used to recover deleted message (if any) and repairing (if required) of composite email (.ost or .pst files)
5. **INTERNET ARTEFACTS:** In case of Internet artefacts relating to browsing activity, internet banking, emails and chats and Internet artefact, extraction was performed by using forensic tool namely “Magnet Axiom”.

G. The count of files (Refer Annexure 10)<sup>37</sup> per extension for the Review Period was determined based on date of creation. Metadata<sup>38</sup> for the ESI was extracted out using “Encase Enscript”. Details such as the date of creation of file was identified by “File created” metadata<sup>39</sup> property.

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- 2 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-2.
- 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 were then 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.

### 3.82 INDEXING OF DATA:

A. Extracted ESI was indexed using globally accepted forensic tools to bring 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:

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<sup>37</sup> Refer Annexure 10 for Count of files per extension.

<sup>38</sup> metadata - “data that provides information about other data”. (source- <https://www.merriam-webster.com/dictionary/metadata>)

<sup>39</sup> “a set of data that describes and gives information about other data”. (Source: <https://whatis.techtarget.com/search/query?q=metadata>)

Table 11: Indexing of data

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

B. To perform keyword searches<sup>40</sup>, extracted ESI was distributed in two types of file formats namely “Searchable file format” and “Non-searchable file format”.

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

1. 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.
2. 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.

### 3.83 KEYWORD SEARCHING AND REVIEW OF ESI:

- A. After the extracted ESI was indexed on the eDiscovery 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<sup>41</sup> to perform focused review.

<sup>40</sup> “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/>)

<sup>41</sup> 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 audiovisual 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](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)

- C. The final list (Refer Annexure 11)<sup>42</sup> 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. List of keywords sent for CBSL vide email communication (Refer Exhibit 10)<sup>43</sup> on 2 August 2019.
- D. In order to conduct the focus and precise review, keywords were created (Refer Annexure 12)<sup>44</sup> 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.
- E. ESI provided to review manually and based on keyword searches was examined or reviewed for the review period<sup>45</sup> 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.

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<sup>42</sup> Refer Annexure 11 for the list of keywords along with their rationale.

<sup>43</sup> Refer Exhibit 10 for the email of 2 August 2019 for keyword list sent to the CBSL.

<sup>44</sup> Refer Annexure 12 for the count of keywords for each identified employee of the CBSL.

<sup>45</sup> Review Period is 1 January 2002 to 28 February 2015.

### 3.85 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.

**Table 12: Summary of ESI extracted using work procedures mentioned above**

#	Custodian	Forensic Tool	Count of Files		Count of emails in Server	
			ACTIVE <sup>46</sup>	Deleted <sup>47</sup>	Active	Deleted <sup>48</sup>
1	Dilini Udugamakorale	T35u and FTK Imager	23,546	38,265	17,201	4,509
2	W.G.R Harshapriya	NA <sup>49</sup>	NA	NA	93,488	13,796
3	G.A.C.N Ganepola	NA	NA	NA	4,121	1,904
4	RAA Jayalath	Tableau TX-1	19,441	97,581	95,242	22,573
5	K Gunatilleke	NA	NA	NA	2,125	18,229
6	Maheesha Wanarachi	NA	NA	NA	2990	464
7	BMWS Balasooriya	Logicube Falcon	17,713	765,077	8,351	3,144
8	KLACN Anuradha	NA	NA	NA	12,895	351
9	S Pathumanapan	Logicube Falcon	16,143	356,042	8,591	179
10	LY Dharmasena	NA	NA	NA	NA	NA
11	Chandrasekharan Sivapriya	NA	NA	NA	11,620	395
12	ETWTRP Udakumbura	NA	NA	NA	1,362	5,570
13	CMDNK Seneviratne	Logicube Falcon	40,956	219,383	6,079	12,620
14	LDDY Perera	NA	NA	NA	NA	NA
15	NLM Abeysekera	T35u and FTK Imager	25,302	110,528	4,761	63

<sup>46</sup> Active ESI comprises of the data which can be directly accessed, readily visible to OS and user.

<sup>47</sup> Deleted ESI comprises of data not readily available to the user, due to deletion activity.

<sup>48</sup> Emails present in deleted folder, Recoverable Items and Purges folder in outlook files.

<sup>49</sup> NA is not applicable.

#	Custodian	Forensic Tool	Count of Files		Count of emails in Server	
			ACTIVE <sup>46</sup>	Deleted <sup>47</sup>	Active	Deleted <sup>48</sup>
16	MSK Dharmawardane	NA	NA	NA	325	5,547
17	C Premaratna	NA	NA	NA	NA	NA
18	D Wasantha	NA	NA	NA	13,908	1,292
19	BHI Samana Kumara	T35u and FTK Imager	15,380	79,602	7070	1499
20	JDSJ Nanayakkara	Logicube Falcon	25,315	85,282	158	16,940
21	T Udayaseelan	Tableau TX-1	8,337	42,764	8,688	455
22	PN Weerasinghe	NA	NA	NA	22,983	28,675
23	PWDNR Rodrigo	Tableau TX-1	22,815	162,438	14,357	18,125
24	Ajith Nivard Cabraal	NA	NA	NA	1341	0
25	Amila Dahanayake	Logicube Falcon	19,144	552,008	14,959	39

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## VOICE RECORDINGS REVIEW

- 3.86 As detailed in Section 14 of this Report, during the discussions, SEPF informed that voice recording system was not established for fixed line telephones in the FO of EPF (Refer Exhibit 12 for a copy of the Statement of Facts with EPF officials)<sup>50</sup>. In the absence of this data from EPF, copies of the voice recordings from the Primary Dealer associated with the Investment / Divestment transactions of the EPF were requested for review.
- 3.87 Voice Record data for the dealer room telephone lines at the Primary Dealer was requested from 18 Designated Primary Dealers to examine the conversations related to the Investment / Divestment transactions of EPF involving Treasury Bonds through Primary / or Secondary Markets, if any.
- 3.88 The Voice Record data was requested from the Primary Dealers, in respect of specific dates, on select basis, where anomalies were noted during the document review, data analytics procedures and review of ESI. Voice Record data in respect of a total of 1,163 dates was requested from the Primary Dealer. Voice Record data related to 295 dates was received as on the date of this Report.
- 3.89 Refer Table 13 for a summary of PD-wise Voice Record data for the specific dates requested and received along with the responses from Primary Dealer where Voice Record in respect of the specific dates requested was not available.

**Table 13 - Summary of PD-wise Voice Record data for the specific dates requested and received**

#	PD Name	Date requested	Total number of dates Voice Record requested	No of dates Voice Record data received	Count of Voice Record files received	PD remark summary for data non-availability
1	Bank of Ceylon	12-Aug-19	95	16	42,960	Partial data provided
2	Capital Alliance Limited.	12-Aug-19	89	52	13,563	Partial data provided
3	Citi Bank	12-Aug-19	26	25	5,031	4-Feb-2014 is a holiday. Hence, no call recording could be provided for the date.
4	Commercial Bank of Ceylon	12-Aug-19	66	36	221,823	Partial data provided
5	Deutsche Bank	12-Aug-19	32	0	0	No data provided

<sup>50</sup> Refer Exhibit 12 for the set of witness statements of Employees of the EPF wherein it was confirmed that voice recording system was not installed in the EPF department.

#	PD Name	Date requested	Total number of dates Voice Record requested	No of dates Voice Record data received	Count of Voice Record files received	PD remark summary for data non-availability
6	First Capital Treasuries Limited.	12-Aug-19	115	43	24,328	Partial data provided
7	HSBC	12-Aug-19	64	0	0	Does not hold voice record backup beyond the regulatory period and legal retention requirements (i.e.) 6 years. Sort time for the extraction of the pending record is 17 weeks.
8	NatWealth Securities Limited.	12-Aug-19	40	0	0	Call Recording system was installed only from 8-Jun-15, therefore, no call records for the requested period was not available
9	NSB Fund Management Company Limited.	12-Aug-19	169	0	0	No data available prior to 2017
10	Pan Asia Banking Corporation	12-Aug-19	47	0	0	Data provided is outside the Review Period
11	People's Bank	12-Aug-19	108	17	19,389	Partial data provided
12	Perpetual Treasuries Limited	12-Aug-19	39	0	0	Data cannot be provided since the company is not functioning as of now
13	Seylan Bank Asset Management Limited.	12-Aug-19	16	0	0	No data provided
14	Seylan Bank PLC	12-Aug-19	105	85	32,526	Partial data provided
15	Standard Chartered Bank PLC	12-Aug-19	34	0	0	No data provided
16	WealthTrust Securities Limited.	12-Aug-19	96	0	0	Data prior to 2015 was deleted

#	PD Name	Date requested	Total number of dates Voice Record requested	No of dates Voice Record data received	Count of Voice Record files received	PD remark summary for data non-availability
17	Hatton National Bank	12-Aug-19	11	11	2,962	Data provided
18	DFCC	12-Aug-19	11	10	1,641	Data provided
<b>Total</b>			<b>1,163</b>	<b>295</b>		

Table 14 Summary of voice recording reviewed relating to Auctions and Direct Placements

#	PD Name	Voice Record date	Count of records
1	First Capital Treasuries Limited	27-May-14	60
2	Seylan Bank PLC	27-May-14	126
		4-May-10	158
		3-Aug-10	191
<b>Total</b>			<b>535</b>

Table 15 Summary of voice recording reviewed relating to Investments and Divestments in the Secondary Market

#	PD Name	Voice Record date	Count of records
1	Seylan Bank PLC	31-Oct-14	136
		5-Aug-14	112
		30-Oct-14	111
		17-Oct-14	167
		13-Aug-14	134
		18-Jan-11	132
		3-Nov-14	130
		30-Apr-10	76
		3-May-10	129
		5-May-10	146
		4-May-10	158
		11-Nov-09	161
		4-Nov-14	113
2	First Capital Treasuries Limited.	5-Feb-14	104
		3-Feb-14	103
		14-Jun-13	156
		30-Oct-14	114

#	PD Name	Voice Record date	Count of records
		24-Jul-14	29
		11-Jul-13	123
		28-Aug-14	180
3	Citi Bank	19-Jun-13	308
Total			2,822

3.90 Discrepancy was noted in the recordings provided by Bank of Ceylon. It was noted that similar conversation under two different voice recordings was available under two different servers, the illustration of one voice record in both the servers is provided below:

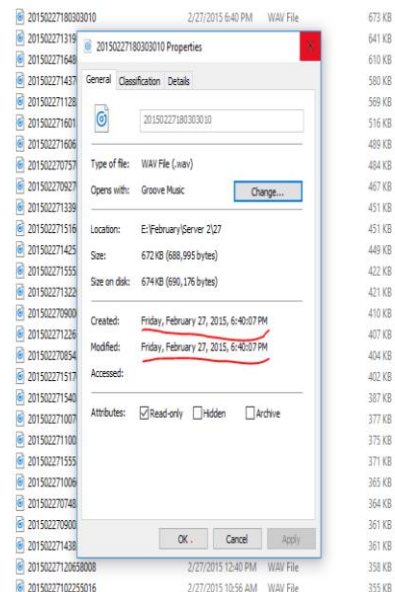
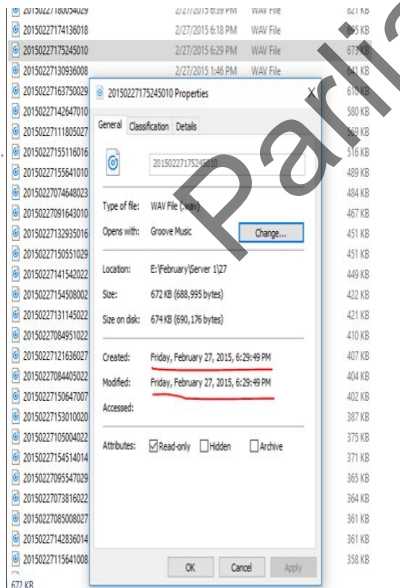
Table 16 Deficiency in BOC Voice recordings

#	Primary Dealer	Remarks
1	Bank of Ceylon	Two voice recordings of similar conversations apparently stored on two different servers, with the same date but different timings

Voice Record Name

20150227175245010.wav - Server 1

20150227180303010.wav - Server 2



- 3.91 On review of the Voice Recording data received from the Primary Dealers, 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 Recording was collated / compiled by the respective Primary Dealer. The data compilation whether performed from the original source of the record or otherwise Subsequent copies, are not independently verified.
  - B. The details of applications and tools used if any, by the Primary Dealers for the purpose of either identification or copying or recording or retrieval and storage of the Voice Recording and associated technical configurations and limitations associated, are not known.
  - C. The Voice Recording provided by the Primary Dealer was considered as-is basis only, the verification as to whether recording of calls from all the fixed lines used (where multiple fixed lines are used by Primary Dealer for calls during the Review Period) were included, is not verified. Further, it is also not known as to, if any, other Voice Recording application / mechanism is used by the Primary Dealer.
  - D. It is also not verified as to if the call record compilation is the complete set of call conversations occurred during the requested dates that pertain to the Investments in Treasury Bond transactions in the Primary or Secondary Markets.
  - E. There is no means to verify the veracity of the Voice Recording provided by the respective PD at every call record level. The Voice Recording provided is considered as the complete conversation in that conversation record.
  - F. Confirmation of completeness of the conversation in a voice record is not verifiable through independent source, in the absence of voice record system at the CBSL. For the purpose of review, the duration of the call and the conversation content is assumed to be complete and comprehensive.
  - G. Inconsistencies were noted in the date and time stamp captured in respect of certain Voice Recording, when compared to the transaction date and time stamps recorded in the CBSL's Auction system. Due to the possible editability of the "client" and "server" system date and time stamps, it is not possible to establish the relatedness of the calls with precision.
  - H. On sample review of the Voice Recording data provide by Bank of Ceylon, it was noted that the same call (different Voice Recording number, between the same parties, same duration and Voice Recording content) was retrieved from two different server sources, which show different date and / or time stamps. Further, instances were noted wherein, for the calls between Primary Dealer, the time stamps of the call at the two Primary Dealer appeared different with significant time gap,
  - I. On preliminary review of the Voice Recording provided by Pan Asia Banking Corporation, it was noted that the "file modified" date appears to be the date of extraction of the data (based on the same date and time stamp across all the calls stored on the storage medium). Inconsistencies were noted in the date and time details captured in the file name were also noted wherein the file serial number consistency did not match with the date and time flow, and

- J. The details of the callers for the Voice Recordings were not available to identify distinctly, the calls with CBSL officials.

### **APPROACH AND METHODOLOGY FOR VOICE RECORDINGS REVIEW:**

- 3.92 Considering the extent of Voice Recording files received and the limitations, the records were selected following the approach detailed below, to identify the relevant evidences:
- A. Identified the dates of Auction, Direct Placement and Secondary Market Investment and Divestment wherein occurrence of “loss” was identified OR irregularities OR inconsistencies were noted during the transaction / data review;
  - B. The Voice Recording 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 Recordings 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 Recording during the Auction date and time and / or Secondary Market transaction date;
    - 2. Priority-2: Voice Recording related to the date preceding the Auction date and / or Secondary Market settlement date;
    - 3. Priority-3: Voice Recording related to the settlement date for Auction and Direct Placement;
    - 4. Priority-4: Voice Recording related to date where exceptions were identified during document review / data analytics;
    - 5. Priority-4: Voice Recording with call duration (assessed based on file size) more than 5 min;
    - 6. Priority-5: Voice Recording with call duration (assessed based on file size) between 1min -5 min;
    - 7. Priority-6: Voice Recording with call duration (assessed based on file size) up to 1 min; and
    - 8. Priority-7: Voice Recording related to dates where different Primary Dealer were transacted with different rates on the same day for the same ISIN.
- 3.93 Relevant reference of voice recordings indicating sharing of information between Market participants regarding irregular trading activities of Treasury Bonds between EPF and PTL and / or PTL with other Market participants is provided in the respective Sections of the Report.

## REVIEW OF CALL RECORDS

3.94 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.

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

Table 17: Details of the identified officials

Employee ID	Name of Official	Period requested	Mobile Number	Data Received/ Remarks
1514	RAA Jayalath	09.02.2015 - 15.04.2016	777755980	2015-02-09 - 2015-12-31 2016-01-01 - 2016-04-15
1856	BHIS Kumara	03.11.2008 - 01.01.2017	NA	No official mobile phone issued by CBSL
1931	KLACN Anuradha	02.12.2010 - 30.09.2015	NA	No official mobile phone issued by CBSL
1822	T Udayaseelan	21.02.2008 - 30.09.2015	NA	No official mobile phone issued by CBSL
1889	S Pathumanapan	06.09.2010 - 01.04.2015	NA	No official mobile phone issued by CBSL
1580	PWDNR Rodrigo	01.07.2013 - 08.02.2015	773176597	2013-07-29 - 2013-07-31 2013-10-10 - 2013-10-15 2014-04-01 - 2014-05-05 2014-07-15 - 2014-07-17 2014-11-01 - 2014-12-31 2015-01-01 - 2015-02-08
1616	JP Gamalath	01.10.2015 - 04.01.2016	776604453	2015-10-01 - 2015-12-31 2016-01-01 - 2016-01-04
1756	NLM Abeysekera	01.07.2011 - 30.09.2015	NA	No official mobile phone issued by CBSL
1419	R Dheerasinghe	21.06.2010 - 31.12.2011	777275019	2010-06-21 - 2010-12-31 2011-02-01 - 2011-02-08 2011-02-27 - 2011-02-28 2011-05-01 - 2011-07-10 2011-10-05 - 2011-10-12 2011-10-20 - 2011-12-16
1607	TDH Karunarathne	29.04.2014 - 20.09.2015	773707349	2014-04-29 - 2014-05-05 2014-07-15 - 2014-07-17 2014-11-01 - 2014-12-31 2015-01-01 - 2015-09-20

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Employee ID	Name of Official	Period requested	Mobile Number	Data Received/ Remarks
1667	JDSJ Nanayakkara	01.04.2011 - to date	777368311	2011-05-01 - 2011-07-10 2011-10-05 - 2011-10-12 2011-10-20 - 2011-12-16 2012-02-01 - 2012-02-03 2012-04-01 - 2012-04-03 2012-04-09 - 2012-06-22 2013-02-11 - 2013-02-13 2013-07-29 - 2013-07-31 2013-10-10 - 2013-10-15 2014-04-01 - 2014-05-05 2014-07-15 - 2014-07-17 2014-11-01 - 2014-12-31 2015-01-01 - 2015-12-31 2016-01-01 - 2016-12-31 2017-01-01 - 2017-12-31 2018-01-01 - 2018-12-31 2019-01-01 - 2019-08-30
1642	SAL Muthukumara	01.09.1998 - 31.10.2010	NA	No official mobile phone issued by CBSL
1785	HA Hettihewa	23.07.2013 - 30.09.2015	NA	No official mobile phone issued by CBSL
1851	WGR Harshapriya	21.02.2008 - 01.01.2017	NA	No official mobile phone issued by CBSL
1788	TCU Jayanetti	01.10.2015 - 02.08.2016	773865858	2015-10-01 - 2015-12-31 2016-01-01 - 2016-08-02
1725	GCR Tharanga	23.03.2015 - 30.09.2015	NA	No official mobile phone issued by CBSL
8006	UP Jayasinghe	01.10.2015 - to date	NA	No official mobile phone issued by CBSL
1827	DL Rohini	18.02.2013 - 13.01.2019	NA	No official mobile phone issued by CBSL
1520	LDDY Perera	13.06.2011 - 03.11.2013	NA	No official mobile phone issued by CBSL
1878	D Udugamakorala	06.09.2010 - to date	NA	No official mobile phone issued by CBSL
1924	GACN Ganepola	02.12.2010 - 29.08.2013	NA	No official mobile phone issued by CBSL
8005	AAR Lanson	18.02.2013 - 17.11.2014	NA	No official mobile phone issued by CBSL
1459	K Gunatilleke	03.07-2008 - 30.06.2013	778289353	2008-07-10 - 2008-07-23 2008-10-21 - 2008-10-31 2008-11-12 - 2008-12-31 2009-01-01 - 2009-02-06 2009-02-18 - 2009-02-27 2009-05-31 - 2009-06-02 2009-08-20 - 2009-10-31 2010-01-20 - 2010-01-29 2010-02-20 - 2010-02-28 2010-06-08 - 2010-12-31 2011-02-01 - 2011-02-08 2011-02-27 - 2011-02-28 2011-05-01 - 2011-07-10 2011-10-05 - 2011-10-12 2011-10-20 - 2011-12-16 2012-02-01 - 2012-02-03 2012-04-01 - 2012-04-03 2012-04-09 - 2012-06-22 2013-02-11 - 2013-02-13



Employee ID	Name of Official	Period requested	Mobile Number	Data Received/ Remarks
NA	Ajith Nivard Cabraal	01.07.2006 - 09.01.2015	NA	No official mobile phone issued by CBSL
NA	Arjuna Mahendran	26.01.2015 - 30.06.2016	765205251	No records found
NA	DR. DS Wijesinghe	01.01.2002-28.02.2015		No official mobile phone issued by CBSL
NA	Dr. PN Weerasinghe	01.01.2002-28.02.2015	773678244	2008-05-20 - 2008-05-23 2008-07-10 - 2008-07-23 2008-10-21 - 2008-10-31 2008-11-12 - 2008-12-31 2009-01-01 - 2009-02-06 2009-02-18 - 2009-02-27 2009-05-31 - 2009-06-02 2009-08-20 - 2009-10-31 2010-01-20 - 2010-01-29 2010-02-20 - 2010-02-28 2010-06-08 - 2010-12-31 2011-02-01 - 2011-02-08 2011-02-27 - 2011-02-28 2011-05-01 - 2011-07-10 2011-10-05 - 2011-10-12 2011-10-20 - 2011-12-16 2012-02-01 - 2012-02-03 2012-04-01 - 2012-04-03 2012-04-09 - 2012-06-22 2013-02-11 - 2013-02-13 2013-07-29 - 2013-07-31 2013-10-10 - 2013-10-15 2014-04-01 - 2014-05-05 2014-07-15 - 2014-07-17 2014-11-01 - 2014-12-31 2015-01-01 - 2015-02-28
1560	AGU Thilakarathna	21.07.2010 - 31.05.2018	777964364	2010-07-21 - 2010-12-31 2011-02-01 - 2011-02-08 2011-02-27 - 2011-02-28 2011-05-01 - 2011-07-10 2011-10-05 - 2011-10-12 2011-10-20 - 2011-12-16 2012-02-01 - 2012-02-03 2012-04-01 - 2012-04-03 2012-04-09 - 2012-06-22 2013-02-11 - 2013-02-13 2013-07-29 - 2013-07-31 2013-10-10 - 2013-10-15 2014-04-01 - 2014-05-05 2014-07-15 - 2014-07-17 2014-11-01 - 2014-12-31 2015-01-01 - 2015-12-31 2016-01-01 - 2016-12-31 2017-01-01 - 2017-12-31 2018-01-01 - 2018-05-31
1613	MSK Dharmawardane	29.04.2014 - 20.09.2015	NA	No official mobile phone issued by CBSL

- 3.96 A telephone directory containing contact numbers and usernames was also received from the Criminal Investigation Department (CID). The username for several contact numbers, not listed in the telephone directory, was retrieved using a global phone directory.
- 3.97 The data received from the CID and the CBSL was reviewed and mapped with the date of Auctions, Direct Placements and critical dates of Investment / Divestment in the Secondary Market of Treasury Bonds 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 / Primary Dealer outside the office hours (5:00 HRS); 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 Investment / Divestment of Treasury Bonds on the said dates and hence, the communication was not further analysed.

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### TRAVEL DETAILS REVIEW:

- 3.98 The travel details including (local and foreign travel) of the identified CBSL employees was requested from the Client to ascertain if the employees had travelled together in the past for personal / official purpose.
- 3.99 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.
- 3.100 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.

### BANK ACCOUNT DETAILS REVIEW - IDENTIFIED CBSL OFFICIALS

- 3.101 The bank account details of the 4 (four) identified CBSL employees was requested from the CBSL during the Review Period to uncover if there were undue amount transferred from any Primary Dealer / Primary Dealer contact person during the Review Period. (Refer Exhibit 11)<sup>51</sup> The data was received for the below mentioned officials:

**Table 18 Details of the bank accounts statements received as on 11 October 2019**

#	Name of PD	Number of accounts
1	S Pathumanapan	7
2	T Udayaseelan	6
3	BHI Saman Kumara	8
4	KLANCN Anuradha	17

- 3.102 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 traced for any undue receipts / deposits or unidentified fund transfers pertaining to any specific dates which may relate to the events occurred with respect to the identified official.

51 Refer Exhibit 11 Mail request sent for bank account details on 3 October 2019

## BANK ACCOUNT REVIEW- PRIMARY DEALERS

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

**Table 19A Details of the bank accounts of Primary Dealer and related companies**

#	Name of PD	Number of accounts	Data 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	-	Not received
12	Perpetual Treasuries Limited	18	2002 - 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

3.104 A list of bank account numbers of the identified CBSL employees was made available by the CBSL. Additionally, during ESI review conducted on the Target Devices 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 Primary Dealer to uncover if any money transfer has been done among the employees.

3.105 During the review / mapping, no transfers noted from any Primary Dealer to the identified CBSL employees, in the above stated period for which the data was available.

## OTHER PROCEDURES

3.106 Reviewed copies of the following investigation and experts' reports pertaining to the Investment / Divestment of Treasury Bonds in the Primary and Secondary Markets:

- A. The 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. Report by the Committee on Public Enterprise (COPE) on the investigation matters related to the EPF Investment and Divestment in the Government Securities;
- C. The Auditor General Reports from the year 2002 to 2015 to identify any adverse observation reported on the transactions related to the Investments and Divestments;
- D. Reports submitted by Mr. Jayalath on the "Examination of phenomenal profits made by Perpetual Treasuries Limited";
- E. Report by a panel of experts by panel of officials in relation to the EPF on the Treasury Bond Auction held on the 27 February 2015;
- F. Investigation report on "Employees Provident Fund (EPF) transactions in Government Securities" by Ms. K. Sarawanamuttu;
- G. Internal inquires reports conducted based on the investigation report "Employees Provident Fund (EPF) transactions in Government Securities";
- H. Assets and Liabilities declaration of target custodians identified for the Review Period for identifying their Bank account numbers. The identified Bank account numbers were traced from the PD Bank account statements to check any fund had been transferred to the target custodians; and
- I. Registration of Companies ("ROC") details for the Primary Dealers and identified Companies.

## INTERVIEWS WITH FORMER AND CURRENT EMPLOYEES OF THE EPF

3.107 Conducted interviews with the identified former and current employees of EPF to gather additional facts around specific transactions and anomalies noted in the EPF's investment / divestment transactions during the Review Period.

3.108 Provided below is the list of interviews pending as on the date of this report (Table 19B):

#	Name	Designation
1	Ajith Nivard Cabral	Former Governor of CBSL
2	Arjuna Mahendran	Former Coverer of CBSL

## 4. PROCESS UNDERSTANDING OF TREASURY BOND INVESTMENTS AND DIVESTMENTS

### BACKGROUND

- 4.1 The Employees' Provident Fund ("EPF" or the "Fund") was established under the Employees' Provident Fund Act No. 15 of 1958 ("EPF Act") and is currently the largest Social Security Scheme in Sri Lanka with an asset base of Rs. 2,289 Billion and Rs. 2.6 Million contributing members at the end of year 2018.
- 4.2 In terms of Section 5 (1)(e) of the EPF Act, the Monetary Board may invest such of the moneys of the Fund, as are not immediately required for the purposes of this Act, in such securities as the Board may consider fit and may sell such securities. Accordingly, on behalf of the Monetary Board, the EPF Department of the CBSL manages the EPF funds.
- 4.3 The EPF was permitted in the year 1997 to invest in the Government Securities in Primary Market<sup>52</sup> subscribing to Treasury Bonds. In the Primary Market, there were two modes of investing in Treasury Bonds, Auction and Direct Placements.
- 4.4 The Operations Manual (2002) which defines the functions of various departments in the EPF and segregation of duties of employees working in the EPF department. This manual was subsequently revised during the year 2007 and 2013. The document was published / translated in English from Sinhala language and was shared with BDO India on 8 July 2019.
- 4.5 An understanding of the process for Investments and Divestments by the EPF, as it existed during the Review Period, was obtained through the review of "Operational Manual versions (2002, 2007 and 2013)" and through discussions with the designated current and former employees of the EPF identified by the CBSL.
- 4.6 There are two major divisions in the EPF department, the FMD and the Operations Division. The Monetary Board has delegated the Investment decision making to the Investment Committee and the management of the Portfolio to the FMD through the Investment Policy Statement ("IPS")<sup>53</sup> and Investment and Trading Guidelines ("ITG")<sup>54</sup> of the EPF.
- 4.7 The EPF is headed by Superintendent of EPF ("SEPF"), who is a senior employee of the CBSL. He is assisted by additional Superintendents ("Additional SEPF") and Deputy Superintendents ("DS"). The powers to execute the transactions lies with SEPF followed by Additional SEPF and DS.

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<sup>52</sup> Primary Market is market where the securities are issued for first time and in the Secondary Market securities and subsequently traded.

<sup>53</sup> Investment Policy Statement of 21 December 2001 revised in December 2011.

<sup>54</sup> Investment and Trading Guidelines for the Securities Portfolio dated 21 March 2007 revised as the Investment and Trading Guidelines in December 2011.

- 4.8 The Investment Committee formed by the Monetary Board consists of the following members:
- A. Deputy Governor (“DG”);
  - B. Assistant Governor (“AG”)
  - C. Superintendent of EPF (“SEPF”);
  - D. Additional SEPF; and
  - E. Deputy Superintendent (“DS”) in charge of FMD.
- 4.9 During the period 2002 to 2007, there were no divisions in the FMD of the EPF. Subsequently, for the period 2008 to 2015, the FMD consisted of three divisions, which are responsible for the execution of the Investments and Divestments:
- A. Front Office (“FO”);
  - B. Middle Office (“MO”); and
  - C. Back Office (“BO”).
- 4.10 As per the recommendation of the Investment Committee on a monthly basis, the FMD prepares an Investment plan and submits it to the Monetary Board for approval. The Investment Policy Statement of 21 December 2001 specifies that the EPF must invest 90% of its total portfolio value in the Government Securities which was revised to 80%-96% in December 2011.
- 4.11 As specified in the Investment Policy Guidelines of 21 March 2007, the EPF portfolio was classified into two categories viz. Investment portfolio<sup>55</sup> and trading portfolio<sup>56</sup> for the period March 2007 to February 2015. However, for the Review Period from the 2002 till 2007, such classification of the portfolios does not exist.
- 4.12 As per understanding with the process owner, prior to July 2009 the Investment Committee meetings were conducted on the daily basis and then frequency of meeting was changed to weekly after the July 2009.
- 4.13 Sign-off was obtained from the EPF employees for the processes followed during the Review Period. (Refer Exhibit 13 for the signed process document)<sup>57</sup>

### **INVESTMENT IN TREASURY BONDS: PRIMARY MARKET - AUCTIONS**

- 4.14 The Investment of the EPF in Treasury Bonds in the Primary Market through Auctions are carried out by the FMD (FO, MO and BO).

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55 Securities acquired with the intention of holding for period more than year are classified under the Investment portfolio.

56 Securities acquired with the intention of holding for period less than year are classified under the trading portfolio.

57 Refer Exhibit 13 for the signed process document of process followed during Review Period.

- 4.15 On an announcement by the Public Debt Department (“PDD”) about the Auction schedule, FO MO<sup>58</sup> requests for the estimated cash availability as on the settlement date<sup>59</sup> of the Auction from the BO.
- 4.16 Based on the estimated cash availability, FO / MO analyses the decision to participate in the Auction or not. Based on the discussions with the former EPF employees, Investment opportunities available with the PDD are discussed in the Investment Committee meetings and documented.
- 4.17 FO / MO evaluates the yield rate and amount to be quoted at the Auction and recommends the same to the SEPF. (Refer Exhibit 14)<sup>60</sup>
- 4.18 For determination of rates, FO / MO considers factors such as coupon rate, tenure, anticipated interest rate, maturity profile of the existing Government Securities, liquidity, weighted average yield rate (“WAYR”) of previous Auctions for same maturity period, Secondary Market rates published by the PDD and Market rates published in the newspaper (Financial Times).
- 4.19 On an approval by the SEPF, for the rates to be quoted, BO enters the bid into the PDD’s “AS/400” system.
- 4.20 Post announcement of the results by the PDD, FO of the EPF creates the entry in the ERP, SAP<sup>61</sup>, for the Investments made along with details of the amount accepted by the PDD in the Auction.
- 4.21 BO verifies the approved rate and amount of the Investment on the settlement date, from the confirmation email sent by PDD and makes the payment for the amount accepted by the PDD and creates settlement of the transaction in the SAP. Post settlement of transaction, posting is made in the General Ledger account by the Accounts Division.
- 4.22 Subsequent to the Investment, in the next Investment Committee meeting, MO presents the details of Investment made for ratification.
- 4.23 On the monthly basis, Investment made through Auctions, with Investment plan for next month prepared by MO is submitted to the Monetary Board.

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<sup>58</sup> As per understanding with process owner ‘FO was handling the Primary Market transactions of Treasury Bonds and MO was engaged with Investments in equity market. After 2013, the role of MO changed and started recommending in the Investment of Government Securities in Primary Market’.

<sup>59</sup> Settlement date is due date for the payment of securities purchased.

<sup>60</sup> Refer Exhibit 14 Para 2.2.1.1 of ITG of 21 March 2007 and Para 4.1.3 ITG, December 2011.

<sup>61</sup> As per process understanding prior to September 2006 records were maintained in excel spreadsheet manually.



## INVESTMENT IN TREASURY BONDS: PRIMARY MARKET - DIRECT PLACEMENTS

- 4.24 The investment of EPF in Treasury Bonds in the Primary Market through Direct Placements are carried out by the FMD (FO, MO and BO).
- 4.25 The PDD communicates, through phone call / verbally, to the Superintendent of EPF or the Head of FMD or the Head of MO for the available options with details such as deal date, settlement date, and maturity date of the bond series to be offered, quantity of Treasury Bonds, and yield rate to be offered of Investments through the Direct Placement.
- 4.26 FO / MO requests for the estimated cash availability on the settlement date, from BO of the EPF. Considering the cash availability, FO / MO analyses the decision to participate in the Direct Placement.
- 4.27 FO / MO evaluates the yield rate and amount to be placed and recommends the same to the SEPF or to the Head of FMD. For determination of rates, FO / MO considers the various factors such as coupon rate, tenure, future interest rate expectation, maturity profile of the existing Government Securities, liquidity, weighted average yield rate ("WAYR") of previous Auctions for same maturity, Secondary Market rates published by the PDD and Market rates published in the newspaper, Financial Times.
- 4.28 SEPF or the Head of FMD or Head of MO negotiates with PDD with an objective to maximize the yield rate.
- 4.29 On agreed rate, the PDD sends the confirmation through the Fax or an email for the rate and amount accepted for the placement. Subsequent to the Investment, in the next Investment Committee meeting, MO presents the details of Investment made for ratification.
- 4.30 FO creates the entry for the Investment made in the corporate finance module of the ERP software, SAP. On the settlement date, BO verifies the approved rate and amount of the Investment, from the confirmation email of the PDD and makes the payment for amount accepted by the PDD in Placement.
- 4.31 After the settlement of transactions, BO settles the transactions in ERP software "SAP". Post creation and settlement of transaction in SAP, posting is made in the General Ledger account by the Accounts Division.
- 4.32 On a monthly basis, Investment made through Auctions during the month, investment plan for next month are prepared by MO and submitted to the Monetary Board.

## PRIMARY MARKET: APPROVAL PROCESS

- 4.33 As per the Investment Policy Statement (“IPS”) 2002, all the Investment transactions should be approved by the Investment Committee / the Monetary Board from time to time.
- 4.34 As per ITG dated 21 March 2007, the delegation of authority (“DOA”), empowers the SEPF and the officer acting at the post of SEPF to approve Investments up to a limit of Rs. 1,000 Million per day with maximum amount of single trade being Rs. 200 Million; and Head of FO up to a limit of Rs. 500 Million per day with maximum amount of single trade being Rs. 100 Million. (Refer Exhibit 15)<sup>62</sup>.
- 4.35 ITG was revised in December 2011 and empowers the Head of FO of the FMD to invest up to Rs. 5 Billion; Deputy Superintendent up to Rs. 10 Billion and the Additional Superintendents up to Rs. 20 Billion, SEPF without any limit (Refer Exhibit 16)<sup>63</sup>.
- 4.36 Subsequent to the Investment, MO present the Investment made to Investment Committee for ratification in the next meetings.
- 4.37 On a monthly basis, all the Investments made are presented to the Monetary Board for approval.

## INVESTMENT TREASURY BONDS - SECONDARY MARKET

- 4.38 Daily, FO requests for information about the market rates from the Primary Dealers and money brokers (“counterparties”) through voice calls and evaluates the yield rates offered by the counterparties.
- 4.39 Considering the opportunities available to enhance the returns FO in consultation with MO recommends the yield Rates for purchase of Treasury Bonds to the SEPF (Refer Exhibit 17)<sup>64</sup>
- 4.40 On the approval of transaction by the SEPF, FO executes the transaction and prepares the Deal Ticket.
- 4.41 In 2014, Internal Risk Management Division (“IRMD”) was established to oversee and perform risk assessment on the recommendations made by MO.
- 4.42 The Counterparty confirmation is obtained for each transaction through fax or an email.
- 4.43 FO maintains “Transaction Register” and enters all the deals executed in the transaction register. Subsequently, FO with the Deal Ticket and Counterparty confirmation forwards the same to BO for the settlement of transactions.

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<sup>62</sup> Refer Exhibit 15 for Para 1.4.2 and for Para 3.2.1.2 of ITG, 21 March 2007.

<sup>63</sup> Refer Exhibit 16 for Para 4.3 of ITG, 2011.

<sup>64</sup> Refer Exhibit 17 Para 2.2.1.2 of ITG, 21 March 2007 and Para 4.1.4 of ITG, December 2011.

- 4.44 FO creates the entry for Investments made in the ERP software, SAP. BO verifies the Deal Ticket, counterparty confirmation along with the approval of SEPF and makes the payment to the counterparty.
- 4.45 After making the payment from the counterparty, BO sends the confirmation of the transaction to counterparty through an email.
- 4.46 Subsequent to the Investment, FO presents the purchases made for the Treasury Bonds to the Investment Committee for ratification in the subsequent meeting.

### **DIVESTMENTS OF TREASURY BONDS - SECONDARY MARKET**

- 4.47 On a daily basis, FO requests for information about the Market rates from the Primary Dealers and counterparties through voice calls and evaluates the sale price offered by the counterparties.
- 4.48 Considering the opportunities available to enhance the return and in case of requests from BO for the urgent liquidity needs if any, FO in consultation with MO recommends the price for sale of Treasury Bonds after comparing the Market rates (Two-way quotes) to the SEPF. (Refer Exhibit 17)<sup>65</sup>.
- 4.49 On the approval of transaction by the SEPF, FO executes the transaction and prepares the Deal Ticket.
- 4.50 In 2014, IRMD was established to oversee and performs risk assessment on the recommendations made by MO.
- 4.51 FO division maintains “Transaction Register” and enters all the deals executed in the transaction register. Thereafter, FO creates the entry for Divestment made in the ERP software.
- 4.52 FO with the Deal Ticket and counterparty confirmation forward the same to BO to verify the settlement of transactions. BO verifies the Deal Ticket, counterparty confirmation with the approval of the SEPF and the amount received from the Divestment.
- 4.53 After receiving the payment from the counterparty, BO sends the confirmation of the transaction to counterparty through an email and settle the transactions in the SAP.
- 4.54 Counterparty confirmation is obtained for each transaction through Fax or an email.
- 4.55 Subsequent to the divestment, FO present the Divestments made for the Treasury Bonds to the Investment Committee for ratification in the subsequent meeting.

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<sup>65</sup> Refer Exhibit 17 Para 2.2.1.2 of ITG, 21 March 2007 and Para 4.1.4 of ITG, December 2011.

## SECONDARY MARKET: APPROVAL PROCESS

- 4.56 As per the Investment Policy Statement (“IPS”) 2002, all the Investment transactions should be approved by the Investment Committee / the Monetary Board from time to time.
- 4.57 As per ITG dated 21 March 2007, the DOA, empowers the SEPF and the officer acting at the post of SEPF to approve Investments up to a limit of Rs. 1,000 Million per day with maximum amount of single trade being Rs. 200 Million; and Head of FO up to a limit of Rs. 500 Million per day with maximum amount of single trade being Rs. 100 Million (Refer Exhibit 18)<sup>66</sup>
- 4.58 ITG was revised in December 2011 and empowers the Head of FO of the FMD up to Rs. 2 Billion, Deputy Superintendent up to Rs. 3 Billion, Additional Superintendent up to Rs. 5 Billion and Superintendent up to Rs. 10 Billion. Transactions above Rs.10 Billion by the Assistant Governor. (Refer Exhibit 19)<sup>67</sup>
- 4.59 As per the process subsequent to the investment / divestment, FO present the sale made for Treasury Bonds to the Investment Committee for ratification in the subsequent meeting.

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<sup>66</sup> Refer Exhibit 18 for Para 3.2.1.2 of ITG, 21 March 2007.

<sup>67</sup> Refer Exhibit 19 for Para 4.4 of ITG, December 2011.

## 5. INVESTMENT IN TREASURY BONDS AUCTIONS

### BACKGROUND

- 5.1 The detailed observations in this Section are based on the understanding of activities performed by the EPF for Investment in the Treasury Bonds from the Primary Market. Refer Section 4 of this Report for a detailed understanding of the process for Investments by the EPF in the Primary Market.
- 5.2 The CBSL has adopted two methods for the issuance of Treasury Bonds. The first method is an Auction system where bids are invited from Auction participants by publication of a notice for the issue of Treasury Bonds. The Auction is conducted through competitive multiple price bidding and bids are accepted at the reasonable interest rates with the aim of fulfilling the cash requirements of the Government. The second method is Direct Placements of Treasury Bonds whereby bond sales are made to a single buyer or a limited number of buyers without a public offering.
- 5.3 In 2002, total amount invested in the Primary Market was Rs. 64.88 Billion through 67 transactions. Details of the break-up of Investments through Auctions and Direct Placements is not available for this year.
- 5.4 During January 2003 to February 2015, the EPF has purchased Treasury Bonds worth Rs. 296.44 Billion through 273 Auctions and approximately worth Rs. 2,334.29 Billion through 645 Direct Placements.
- 5.5 Provided below is the (calendar) year-wise listing of Investments in Treasury Bonds for the period January 2003 to February 2015.

Table 20: Count and value of the EPF transactions in Primary Market transacted by EPF

(Rs. in Billion)

Year	Auction		Direct Placement	
	Number of transactions	Value (Rs. In Billion)	Number of transactions	Value (Rs in Billion)
2003 <sup>68</sup>	18	16.51	44	83.45
2004	21	14.07	52	104.00
2005 <sup>69</sup>	52	20.40	59	71.74
2006	41	14.33	71	108.64

<sup>68</sup> For 2003 and 2004, the details have been taken based on the data provided by the PDD.

<sup>69</sup> For Auctions from 19 October 2004 and for Direct Placement from 1 April 2005, the details has been taken from the AS/400 shared by the DIT.

Year	Auction		Direct Placement	
	Number of transactions	Value (Rs. In Billion)	Number of transactions	Value (Rs in Billion)
2007	8	3.97	44	165.84
2008	17	5.35	65	196.63
2009	17	7.75	55	227.88
2010	24	17.27	49	192.81
2011	24	21.00	57	277.36
2012	21	47.00	62	319.60
2013	22	113.29	44	331.97
2014	9	13.50	37	223.57
2015 <sup>70</sup>	1	2.00	6	30.80
<b>Total</b>	<b>275</b>	<b>296.44</b>	<b>645</b>	<b>2,334.29</b>

- 5.6 The EPF investments through Auctions are analysed based on the following attributes:
- A. Participation patterns; i.e. the instances of bid amount lesser or more than the amount offered by the PDD;
  - B. Bidding patterns of the EPF; bidding with the single price or multiple price in an Auction; and
  - C. Complete and partial rejection due to submission of bids at high yield rate.
- 5.7 For instances where the EPF has not participated in Auctions, identified the cash availability and analysed subsequent investment by the EPF in Primary and Secondary Market which may have resulted in loss to the EPF.

<sup>70</sup> Review period include January and February 2015.

## EPF NOT PARTICIPATED IN AUCTIONS

### Overview

- 5.8 The EPF invests surplus funds in Government Securities issued by the PDD. As per the Investment Guidelines, the EPF can investment in Primary Market through either Auctions or Direct Placements. The EPF being the Captive Source for the PDD and having the requirement to invest over 80% of its surplus funds in Government Securities. During the Review Period, instances were noted wherein the EPF had not participated in the Auctions conducted by the PDD.
- 5.9 As explained, during the periods prior to 2015, the EPF's investment in Primary market were predominantly through Direct Placements. Accordingly, the EPF's non-participation in Auctions was explained to be not unusual. Hence, analysis was conducted in respect of cases where the EPF had not participated in Auctions to identify the existence if any, of indications of non-participation intended to benefit any specific Primary Dealer, whether such non-participation is with the approval of SEPF or the Investment Committee and to examine veracity of subsequent investments of the surplus funds. Provided below are the details of observations on the analysis:

### TRENDS OF EPF NOT PARTICIPATED IN AUCTIONS

- 5.10 The EPF has not participated in 190 Auctions out of 465 successful Auctions<sup>71</sup> (Refer Annexure 13 and 14)<sup>72</sup> conducted by the PDD for the period from 1 January 2003 to 28 February 2015<sup>73</sup>. The yearly break-up of count and value of Auctions conducted by the PDD, and count and value of Auctions not participated by the EPF are provided in the table below:

Table 21: Details of Auctions conducted by PDD and not participated by the EPF (Rs. in Billion)

Description	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Auctions conducted by PDD	Count	50	33	57	54	22	50	66	37	24	24	30	17	1	465
	Offered Value (Rs. In Billion)	80.4	69.01	86	67	32.5	48	56.5	34.5	21	53	186	27	1	761.91
Auctions not participated by the EPF	Count	32	12	5	13	14	33	49	13	-	3	8	8	-	190
	Offered Value (Rs. In Billion)	52.20	24.11	5.5	13.75	22.5	33.5	39	11.5	-	6	64	10.5	-	282.56

<sup>71</sup> Successful Auctions - Auctions that were not cancelled by the PDD.

<sup>72</sup> Refer Annexure 13 and Annexure 14 for the list of 190 Auctions where EPF has not participated and for the list of 465 successful Auctions conducted by the PDD for the period 1 January 2003 to 28 February 2015.

<sup>73</sup> For 2003 and 2004, the EPF participation and non-participation in Auction is mapped based on the data captured manually from the supporting documents and shared with us by the PDD. However, the details of total Auctions conducted for year 2002 was not shared.

% of count of the EPF not participated in Auction	64%	36%	9%	24%	64%	66%	74%	35%	-	12%	27%	47%	-	41%
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5.11 In 2003, 2007, 2008 and 2009, the EPF has not participated in more than 60% of the Auctions conducted by the PDD. In the year 2014, comparison with the previous two years, the count of Auctions where the EPF has not participated was increased to 47%.

5.12 On analysis of winning pattern in 146 instances<sup>74</sup> out of 190 Auctions pertaining in the period from 19 October 2004 to 28 February 2015, where the EPF has not participated, it was noted that Bank of Ceylon (28.97%), NSB Fund Management Company Limited (22.30%), People’s Bank (12.99%) and Seylan Bank Asset Management (9.45%) were among the top four participants who won bids in these Auctions. (Refer Annexure 15)<sup>75</sup>.

#### APPROACH AND METHODOLOGY FOR ANALYSING NON-PARTICIPATION BY THE EPF IN AUCTIONS

5.13 To analyse the instances where the EPF has not participated in the Auctions, the availability of cash on the settlement date of Auctions as compared to offered value was identified from the actual cashflow statements provided by the EPF management.

5.14 As per annual and monthly investment plan submitted by the EPF department to Monetary Board, amount of surplus cash shall be invested in Government Securities, equity and debentures etc. In this respect, Investment Trading Guidelines or Investment Policy Statement also does not specify that any earmarked % of funds available shall be invested.

5.15 The method adopted for the computation of cash availability on the settlement date of Auctions is provided below:

Details	
Opening balance of Bank Accounts <sup>76</sup>	
Additions	Reverse Repo Maturities in the Bank Account
	Reverse Repo Maturities from other banks in RTGS Account
	Maturities from PDD for Treasury Bonds and Treasury Bills RTGS Account
	Interest Income / Dividend Income on the Government Securities and other securities in RTGS Account
Deductions	Refund of contributions to members
	Provision on the unrepresented Cheques / Account Clearing Balance

<sup>81</sup>Winner analysis could not be performed due to non-availability of information in respect to total Auctions conducted by the PDD for 2002 and for 2003 and 2004, details of winner in the Auctions were not made available for review.

<sup>75</sup> Refer Annexure 15 for the details of winners in 146 instances where the EPF has not participated.

<sup>76</sup> As per cashflow statement provided by the EPF department, opening balance of bank accounts includes the amount of contribution received on that day from the members of the EPF.



Details

Amount invested in Primary Market for Treasury Bills

Amount invested in Auction and Direct Placement (Primary Market) for Treasury Bonds

Amount invested in Treasury Bills in the Secondary Market

Amount invested in Equity and Debentures

Not included in the computation Amount invested in the Secondary Market for Treasury Bond

- 5.16 As explained by the EPF, projected future daily cashflow statements were not documented for the Review Period. In the absence of projected cashflow statements, actual cashflow statement on the date of settlement of Auction has been considered for the computation of cash availability.
- 5.17 Compared the available cash on the settlement date of Auction with the cumulative amount offered by the PDD. In respect of instances where available (computed) cash, exceeded more than 30% of cumulative amount offered by the PDD in the Auction, the subsequent utilisation was identified.
- 5.18 In respect of the instances where the available (computed) cash on settlement date of Auction was more than 100% of the cumulative value offered by the PDD in the Auction, subsequent investments were traced to the extent of the cumulative offered amount of the Auctions.
- 5.19 To identify the subsequent utilisation of available cash on the settlement date of Auction, the cash were assumed to be utilised in below sequential order of priority:
- A. Refund of contributions to the EPF members;
  - B. Primary Market Auction - Treasury Bonds;
  - C. Primary Market Private Placement - Treasury Bonds;
  - D. Primary Market Auction or Private Placement- Treasury Bills / CBSL Securities DOD
  - E. Secondary Market - Treasury Bonds;
  - F. Secondary Market - Treasury Bills;
  - G. Investments in Equity and Debentures;
  - H. Other expenses.
- 5.20 For subsequent utilisation, the provision made for unrepresented cheques and account clearing balance are not taken into consideration, as actual outflows are considered.

- 5.21 While identifying the utilisation of available cash, partial amount<sup>77</sup> of transaction is considered to the extent of available cash to complete the subsequent available cash utilisation.
- 5.22 Instances where the available cash utilisation is extended to the next “settlement date” of the Auction where the EPF has not participated; to calculate the availability of cash on next settlement date of Auction, amount considered as “utilised”, on the previous settlement date is excluded<sup>78</sup> from the computation of cash available.
- 5.23 In case where the same ISIN is purchased, the subsequent purchases yield rate was compared with WAYR79 and price of Auction where the EPF has not participated, to identify the loss, if any. Where the purchases are made subsequent to the settlement date of Auction, a comparable price is computed based on the WAYR of Auction and the settlement date of subsequent purchases.
- 5.24 In case where the different ISIN is purchased subsequent to Auction date in which the EPF has not participated, subsequent purchases price and yield rate was compared with ask yield rate and price from the daily report of the PDD (“Two-way quote” / “Secondary Market Rate”), to identify the loss, if any. Instances where the Secondary Market rate information is not available on the date of subsequent purchase, Secondary Market rate is considered two days prior to the subsequent purchase date, if available.
- 5.25 The counterparty analysis was performed in respect of instances, where the EPF has purchased Treasury Bonds in Secondary Market which caused loss to the EPF (i.e. the subsequent Secondary Market purchase price is higher than weighted average price of Auction). Further, it was identified that Secondary Market Investment transactions were entered with counterparties who were issued Treasury Bonds in the Auction where the EPF has not participated. The analysis would assess, if the EPF has not participated in an Auction, to extend benefit to the other participants who were awarded stock in those Auctions. This analysis was not performed due to non-availability of information in respect to total Auctions conducted by the PDD for 2002 and for 2003 and 2004, details of winner of the Auctions were not provided.

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<sup>77</sup> The instances where the partial amount is considered, Refer Column titled Remarks in the Annexure 31.

<sup>78</sup> The instances where on the settlement date of the Auction, the amount was excluded to calculate the cash availability, since the amount was considered in the fund utilisation of previous settlement date of Auction Refer Column “Remarks” in the Annexure 18.

<sup>79</sup> For computation of loss purpose prices are taken after tax without accrued interest basis(clean price after tax).

- 5.26 Instances where cash availability was less than 30% of cumulative offered amount of Auction, analysed the Investment made prior to three to five working days of settlement date of Auction. Transactions entered in these five working days were verified to identify the following:
- A. Reverse-repo transactions entered with the Primary Dealers who was awarded Auctions, to identify, if any, facilitation made by the EPF by providing cash to Primary Dealers before the settlement date of Auction; and
  - B. Investment made in Secondary Market for same ISIN or Different ISIN.

**The EPF NOT PARTICIPATED IN AUCTION WHEN CASH WAS AVAILABLE**

- 5.27 On review of “Daily Cashflow Statements” to analyse availability of cash in 190 instances where the EPF has not participated in Auction, on the settlement date of Auctions, the following anomalies were noted:
- A. The cashflow statements were not available for 19 (Refer Annexure 16 and Exhibit 20)<sup>80</sup> out of 190 auction dates where the EPF has not participated. The cumulative offered amount was Rs. 20,250 Million. Following is the summary of year-wise cumulative value of offered amount where the cashflow statements were not available.

Table 22- Count of instances for cashflow statement not available (Rs. In Million)

#	Year	Count of instances	Cumulative offered amount
1	2005	5	5,500
2	2006	13	13,750
3	2008	1	1,000
	Total	19	20,250

- 5.28 Although the cashflow statement for 18 instances pertaining to 2005 and 2006<sup>81</sup>, to check the availability of cash, verified the purchases made in Secondary Market in subsequent five working days from the settlement date of Auction. It was noted that in two instances, the different ISIN<sup>82</sup> was purchased for amounting to Rs. 150 Million. Refer Section 11 of this Report for the loss to the EPF due to the investment made in Secondary Market in comparison with Two-way quote rate published by the PDD.

<sup>80</sup>Refer Annexure 16 for list of 19 instances of cashflows not available where EPF has not participated and refer Exhibit 20 for the email confirmation from the EPF department for non-availability of Cashflow statements for 2005 and 2006.

<sup>81</sup> The data pertaining to 2005 and 2006 not available for the review. Refer Exhibit 20 for email confirmation from the EPF Department.

<sup>82</sup> Different refers to ISIN different than for which the EPF has not participated in Auction.

5.29 On the analysis of remaining 173 out of 190 instances, where the cashflow statement was available, it was noted that:

- A. In 109 instances (Refer Annexure 17)<sup>83</sup>, that available cash on the settlement date was more than 30% of the offered amount in the Auction. Despite cash was available, the EPF did not participate in the Auctions conducted by the PDD. The aggregate excess cash available for the said Auctions were Rs. 1,52,168.04 Million against the offered amount of Rs. 1,26,310 Million; and
- B. In the remaining 62 instances, the cash available was less than the 30% of cumulative amount offered in Auctions.

#### SUBSEQUENT UTILISATION OF AVAILABLE CASH

5.30 On review of 109 instances (Refer Exhibit 22)<sup>84</sup> where the cash on the settlement date was more than 30% of the cumulative offered amount in Auction, subsequent utilisation (Refer Annexure 18)<sup>85</sup> of available cash is reviewed. Summary of amount verified for the subsequent utilisation is provided in the table below:

Table 23 Percentage range of cash availability

(Rs. in Million)					
#	Range of excess cash availability percentage	Count of instances	Cumulative offered amount	Cumulative excess cash available	Total amount for which subsequent utilization verified*
1	30-50	30	41,200.00	16,396.33	16,396.33
2	50-100	34	43,610.00	32,418.42	32,418.42
3	100-200	24	22,000.00	31,510.01	22,000.00
4	200-400	15	14,500.00	40,192.97	14,500.00
5	400-900	6	5,000.00	31,650.31	5,000.00
		109	1,26,310.00	1,52,168.04	90,314.75

5.31 Summary of subsequent utilisation of cash amounting to Rs. 90,314.75 Million is provided in the table below. Refer next page for the year-wise break-up of subsequent utilisation of 109 instances.

<sup>83</sup>Refer Annexure 17 for the list of 109 instances where the EPF has not participated and cash available was more than 30% of cumulative offered amount.

<sup>84</sup> Refer Exhibit 22 for cashflow statements for 109 instances.

<sup>85</sup> Refer Annexure 18 for details of subsequent utilisation for available cash in 109 instances.

Table 24: Summary of subsequent utilisation of available cash (Rs. In Million)

#	Details	Amount (Rs. In Million)	Percentage
1	Refund of contribution to members	34,115.62	37.77%
2	Invested in Primary Market (Treasury Bills and Treasury Bonds)	31,834.78	35.25%
3	Invested in Secondary Market (Treasury Bills, Treasury Bonds, Equity and Debentures)	24,364.35	26.98%
Total amount of available cash verified		90,314.75	100.00%

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Table 25 Details of available cash utilisation

(Rs. In Million)

Year <sup>86</sup>	Available Cash (A)	Count of instances	Subsequent utilization											
			Refunds of contribution to members and other expenses (B)	% (B/A)	Primary Market					Secondary Market				
					Treasury Bonds-Auction	Treasury Bonds-Direct Placement	Treasury Bill (Auction/Direct Placement)	Total (C)	% of (C/A)	Treasury Bonds	Treasury Bill	Equity and Debentures	Total (D)	% of (D/A)
2003	15,461.88	18	3,346.24	22%	-	405.26	577.49	982.75	6%	11,091.62	-	41.26	11,132.88	72%
2004	5,972.68	5	1,539.99	26%	397.88	1,534.75	877.09	2,809.72	43%	1,893.13	-	167.60	1,622.98	27%
2005 <sup>87</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2006 <sup>70</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2007	2,046.92	5	785.22	38%	-	749.18	128.78	877.96	43%	284.82	92.40	6.52	383.74	19%
2008	22,567.32	30	8,926.53	40%	2,020.89	7,108.60	-	9,129.49	40%	3,467.11	843.97	200.23	4,511.31	20%
2009	10,409.20	24	4,986.58	48%	687.45	4,321.81	-	5,009.26	48%	319.33	-	94.03	413.36	4%
2010	10,819.17	13	3,427.64	32%	2,447.34	2,863.59	-	5,310.93	49%	-	-	2,080.60	2,080.60	19%
2012	6,000.00	3	2,278.44	38%	-	2,500.10	906.77	3,406.87	57%	249.58	-	65.11	314.69	5%
2013	10,537.58	5	5,002.42	47%	1,046.37	-	1,823.64	2,870.01	27%	592.97	-	2,072.18	2,665.15	25%
2014	6,500.00	6	3,822.56	59%	-	1,437.80	-	1,437.80	22%	1,051.58	-	188.06	1,239.64	19%
	90,314.75	109	34,115.62	37.77%	6,599.93	20,921.09	4,313.77	31,834.79	35.24%	18,512.39	936.37	4,915.59	24,364.35	27.09%

<sup>86</sup> For 2011, there were no instances where the cash available was more than 30% of offered amount.

## ANALYSIS OF SUBSEQUENT INVESTMENT IN PRIMARY MARKET

5.32 Amount of Rs. 31,834.78 Million, out of cash available amounting to Rs. 90,314.75 Million was subsequently utilised for the Investments through Primary Market. On review of Investment made in Primary Market, below mentioned were noted:

- A. Except in the years 2003, 2013 and 2014, more than the 40% of available cash was invested through Auctions or Direct Placement; and
- B. Out of Rs. 31,834.78 Million, amount of Rs. 4,313.77 Million (13.55%) was invested for the Treasury Bills and remaining Rs. 27,521.02 Million (85.45%) was invested in the Treasury Bonds; and
- C. Out of total Rs. 27,521.02 Million invested in Treasury Bonds, amount of Rs. 6,599.93 Million (23.98%) was invested in the subsequent Auctions and remaining Rs. 20,921.09 (76.02%) Million was invested in the subsequent Direct Placements.

## LOSS ON SUBSEQUENT INVESTMENT IN TREASURY BONDS THROUGH AUCTIONS

5.33 On review of subsequent Investments through Auctions amounting to Rs. 6,599.93 Million it was identified that:

- A. In Eight instances of the EPF has not participated in Auction, the same ISIN<sup>88</sup> was purchased for value Rs. 2,594.43 Million. In five out of eight instances, the purchases were made in Auction at the yield rate lower than the WAYR of Auction. The total loss due to excess price paid was amounting to Rs. 12.31 Million (purchase amount Rs. 1448.79 Million). Out of 12.31 Million loss, the amount of Rs. 11.42 Million pertains to 2010, Rs. 0.57 Million pertains to 2008 and Rs. 0.32 Million pertains to 2004. The yield rate differences ranging from 3 to 37 basis points.
- B. In 11 instances of the EPF not participated in Auction, the different ISIN<sup>89</sup> was purchased for amounting of Rs. 4,005.50 Million. On comparison of price and yield where the EPF has invested in different ISIN subsequently in Auction, with the Secondary Market price and yield rate (“Two-way quote”), noted that in three instances (four transactions of subsequent purchase), the investment made is at yield rate lower than the Secondary Market Yield Rate. The total loss due to excess price paid was amounting to Rs. 31.78 Million. The yield rate differences ranging from 9 to 37 basis points.

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<sup>88</sup> Same ISIN refers to ISIN for which the EPF has participated not participated in Auction.

<sup>89</sup> Different ISIN refers to ISIN purchased in Secondary Market is different from ISIN that was issued in Auction where EPF has not participated.

C. Year wise amount of subsequent purchases made for same and different ISIN in Auction are provided in table below (Refer Annexure 19)<sup>90</sup>:

Table 26: Subsequent Investment of Treasury Bonds through Auction

(Rs. In Million)

Year <sup>91</sup>	Purchase of same ISIN						Purchase of Different ISIN						
	Count of Instances	Auctions Purchases Value (A)	Count of instances where purchased through Auctions which caused loss	Auctions value which caused loss	Loss <sup>92</sup> (Rs. In Million)	Range of lower yield rate differences (in basis points)	Count of Instances	Auctions Purchases Value (B)	Count of instances where purchased at lower yield as compare to Secondary Market Rate	Amount of purchase where purchased at lower yield as compare to Secondary Market Yield	Loss (Rs. In Million)	Range of lower yield rate differences (in basis points)	Total (C = A+B) (Rs. In Million)
2004	2	397.88	2	397.88	(0.32)	3 to 5	-	-	-	-	-	-	397.88
2008	4	1,554.73	1	409.09	(0.57)	6	5	466.15	-	-	-	-	2,020.88
2009	-	-	-	-	-	-	2	687.45	-	-	-	-	687.45
2010	2	641.82	2	641.82	(11.42)	26 and 37	2	1,805.53	2	1,805.53	(29.03)	30 to 37	2447.35
2013	-	-	-	-	-	-	2	1046.37	1	862.52	(2.75)	9	1,046.37
	8	2,594.43	5	1448.79	(12.31)	-	11	4005.50	5	2,668.05	(31.78)	-	6,599.93

<sup>90</sup> Refer Annexure 19 for the details of subsequent Investment of Treasury Bonds through Auction where the EPF has not participated.

<sup>91</sup> For 2005 and 2006, cashflow statements are not available the review. For 2003, 2007, 2012 and 2014 there were no purchases through Auction subsequent to Auction where the EPF has not participated. For 2011, there were no instances where the cash available was more than 30% of offered amount.

<sup>92</sup> The instances where the purchase price in Auction is more than the weighted average price, the difference is multiplied with the quantity purchased in the Secondary Market to compute the loss.



## LOSS ON SUBSEQUENT INVESTMENT IN TREASURY BONDS IN DIRECT PLACEMENTS

- 5.34 On review of subsequent investments made through Direct Placements for the Treasury Bonds amounting to Rs. 20,921.09 Million it was identified that:
- A. In 15 instances of the EPF not participated in Auction, the same ISIN<sup>93</sup> was purchased for total value Rs. 11,417.14 Million through Direct Placement in 20 transactions. In four out of 15 instances, the purchases were made in Direct Placement at the yield rate lower than the WAYR of Auction. The total loss<sup>94</sup> due to excess price paid was amounting to **Rs. 13.50 Million** (purchase value Rs. 2,488.37 Million). The yield rate differences ranging from 2 to 27 basis points; and
  - B. In 23 instances of the EPF not participated in Auction different ISIN<sup>95</sup> was purchased for amounting of Rs. 9,503.95 Million. On comparison of price and yield where the EPF has invested in Different ISIN subsequently in Direct Placement, with the Secondary Market price and yield rate, noted that in Eight instances<sup>96</sup> (four transactions of subsequent purchases), the investment made is at yield rate lower than the Secondary Market Yield Rate. The total loss due to excess price paid was amounting to **Rs. 22.04 Million** (purchase value Rs. 3,159.59 Million). The yield rate differences ranging from 9 to 22 basis points.
  - C. Year wise amount of subsequent purchase made for same and different ISIN in the subsequent Direct Placement is provided in table below: (Refer Annexure 20)<sup>97</sup>

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<sup>93</sup> Same ISIN refers to ISIN for which the EPF has participated with short bid amount in Auction.

<sup>94</sup> The price of Secondary Market is compared with the weighted average price of the Auction and the instances where the purchase price is more than Secondary Market, the difference due to high price paid is multiplied with the quantity purchased in the Secondary Market to compute the loss.

<sup>95</sup> Different ISIN refers to ISIN purchased in Secondary Market is different from ISIN that was issued in Auction where the EPF has not participated.

<sup>96</sup> For the count of different ISIN purchases an Auctions conducted on a day where the EPF has not participated are mentioned as instances and subsequently count of instances is mentioned hereby as the transactions.

<sup>97</sup> Refer Annexure 20 for subsequent purchase made in the Direct Placement where the EPF has not participated.

Table 27 Subsequent Investment of Treasury Bonds through Direct Placement

(Rs. In Million)

Year <sup>98</sup>	Same ISIN						Different ISIN						
	Count of Instances	Direct Placement-Purchases Value (A)	Count of instances - Direct Placement purchases which caused loss	Direct Placement-purchases value which caused loss	Loss <sup>99</sup> (Rs. In Million)	Range of lower yield rate differences (in basis points)	Count of Instances	Direct Placement-Purchases Value (B)	Count of instances where purchased at lower yield as compare to Secondary Market yield rate	Amount of purchases in Direct Placement purchases with the lower yield rate	Loss (Rs. In Million)	Range of lower yield rate differences (in basis points)	Total (C = A+B) (Rs. In Million)
2003	1	405.26	1	405.26	(0.28)	2	-	-	-	-	-	-	405.26
2004	1	508.92	-	-	-	-	1	1,025.83	-	-	-	-	1,534.75
2007	-	-	-	-	-	-	2	749.18	-	-	-	-	749.18
2008	7	5,886.83	-	-	-	-	7	1,221.77	-	-	-	-	7,108.60
2009	5	3,921.65	2	1,388.63	(10.66)	16 to 27	3	400.15	3	400.16	(2.43)	17	4,321.81
2010	1	694.48	1	694.48	(2.56)	8	5	2,169.12	3	1086.82	(9.5)	22	2,863.59
2012	-	-	-	-	-	-	2	2,500.10	1	1500.06	(9.77)	20	2,500.10
2014	-	-	-	-	-	-	3	1,437.80	1	172.55	(0.34)	9	1,437.80
	15	11,417.14	4	2,488.37	(13.50)		23	9,503.95	8	3,159.59	(22.04)		20,921.09

<sup>98</sup> For 2005 and 2006, cashflow statements are not available the review. For 2011, there were no instances where the cash available was more than 30% of offered amount.

<sup>99</sup> The instances where the purchase price in Direct Placement is more than the weighted average price, the difference is multiplied with the quantity purchased in the Direct Placement to compute the loss.

## ANALYSIS OF SUBSEQUENT INVESTMENT IN SECONDARY MARKET (Refer Table 25)

- 5.35 On a detailed analysis of the subsequent purchases made in the Secondary Market for Treasury Bills, Treasury Bonds, Equity and Debentures amounting to Rs. 24,364.35 Million (26.97%) out of Rs. 90,314.75 Million, it was noted that:
- A. Approximately 72% of cash available in 2003 was utilised for purchase in Secondary Market and in year 2004 and 2008; and 20%-29% of cash available was utilised for purchase in Secondary Market;
  - B. An amount of Rs. 18,512.39 Million (75.98%), out of Rs. 24,826.23 Million was invested in the Treasury Bonds in Secondary Market, across the above periods.
  - C. On detailed analysis of Rs. 18,512.39 Million invested in the Treasury Bonds, it was noted that, amount of Rs. 16,451.86 Million (86.80%) was utilised for purchase of Treasury Bonds in Secondary Market in 2003, 2004 and 2008.

## TRANSACTIONAL REVIEW OF INVESTMENTS IN TREASURY BONDS THROUGH SECONDARY MARKET

- 5.36 On review of subsequent Investments of Treasury Bonds made in the Secondary Market amounting to Rs. 18,512.39 Million, following are the observations:
- A. In 25 instances of the EPF not participated in Auction, same ISIN<sup>100</sup> was purchased for amounting to Rs. 7,642.08 Million for 131 transactions. In 15 out of 25 instances (78 transactions of subsequent purchases) the purchases were made in Secondary Market at the yield rate lower than WAYR of the respective Auction. The total loss<sup>101</sup> due to excess price paid was amounting to Rs. 16.08 Million (purchase value Rs. 4,531.54 Million). The yield rate differences ranging from 0.4 to 32 basis points. Out of Rs. 16.08 Million loss, the amount of Rs 15.57 Million pertains to 2003 and balance Rs. 0.51 Million pertains to 2008;
  - B. In 43 instances, the different ISIN<sup>102</sup> was purchased in Secondary Market for amounting of Rs. 10,870.31 Million for 114 transactions. Refer Section 11 of this Report for the loss to the EPF due to the investment made in Secondary Market in comparison with Two-way quote rate published by the PDD; and
  - C. Analysis of subsequent investment in Secondary Market, does not reflect trend indicating any particular counterparties were benefitted due to non-participation of EPF in Auction.

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<sup>100</sup> Same ISIN refers to ISIN for which the EPF has participated with short bid amount in Auction.

<sup>101</sup> The price of Secondary Market is compared with the weighted average price of the Auction and the instances where the purchase price is more than Secondary Market, the difference due to high price paid is multiplied with the quantity purchased in the Secondary Market to compute the loss.

<sup>102</sup> Different ISIN refers to ISIN purchased in Secondary Market is different from ISIN that was issued in Auction where the EPF has not participated.

D. Year wise amount of subsequent purchase made for same ISIN in the Secondary Market are provided in table below (Refer Annexure 21)<sup>103</sup>.

Table 28- Subsequent Investment for same ISIN in Secondary Market

YEAR <sup>104</sup>	Purchase of same ISIN					
	Count of Instances	Secondary Market Purchases Value (A)	Count of instances where purchased in Secondary Market which caused loss	Secondary Market purchases value which caused loss	Loss <sup>105</sup>	Range of lower yield rate differences (in basis points)
2003 <sup>106</sup>	12	5,870.72	12	3,888.34	(15.57)	0.4 to 32
2004	2	290.11	-	-	-	-
2007	1	105.01	-	-	-	-
2008	9	1,269.64	3	643.20	(0.51)	1 to 10
2009	1	106.60	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
	25	7,642.08	15	4,531.54	(16.08)	

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<sup>103</sup> Refer Annexure 21 for the details of subsequent Investments in Treasury Bonds through Secondary Market where the EPF has not participated.

<sup>104</sup> For 2005 and 2006, cashflow statements are not available review. For 2010, there were no Secondary Market purchases subsequent to Auction where the EPF has not participated. For 2011, there were no instances where the cash available was more than 30% of offered amount.

<sup>105</sup> The instances where the purchase price in Secondary Market is more than the weighted average price of Auction where the EPF has not participated, the difference is multiplied with the quantity purchased in the Secondary Market to compute the loss.

<sup>106</sup> In absence of information of Secondary Market Rates for the Year 2003 and 2004, the comparison could not be made.

## NON-PARTICIPATION OF THE EPF IN THE AUCTION NOT DISCUSSED AT THE INVESTMENT COMMITTEE MEETING

5.37 Refer Section 4 of this Report, for detailed process followed by the EPF in respect of bidding process and approval mechanism. As per the process understanding obtained during the discussions with former employees of the EPF, all the EPF proposals for participation or non-participation in Auctions were discussed in the Investment Committee, along with the rationale for the decision to not participate in an Auction. On review of the Investment Committee minutes to identify the reasons, if any, for not participating in the Auctions, the following anomalies were noted:

- A. On review of 100 out of 190 instances during the period January 2003 to February 2015, where the EPF has not participated (Refer Annexure 22 and Exhibit 21)<sup>107</sup> where the minutes of Investment Committee meetings were available, it was identified that the reason for non-participation in Auctions by the EPF were not recorded. It was noted that when the EPF participated in an Auction, the bid details were discussed in the meetings and the same were recorded in the minutes. However, the decision taken by the Investment Committee not to participate in an Auction cannot be confirmed, due to non-availability of such decisions recorded in the minutes. Although the Investment Committee meetings were conducted on daily basis during the period 1 January 2002 to July 2009, such decisions / reasons were never recorded in the minutes (Refer Annexure 23)<sup>108</sup>. It is not clear if such non-participation was reported and it was deliberated at the committee.
- B. In 90 (Refer Annexure 24)<sup>109</sup> out of 190 instances, minutes of the Investment Committee meetings were not available<sup>110</sup> for review. As per discussion with employees currently working in the EPF, former employees of the EPF currently transferred to other departments of the CBSL, and employees separated from the CBSL the non-participation of the EPF in the Auction was not discussed.

5.38 During an interview of 1 October 2019, with JDS Nanayakkara, the current Additional Superintendent of the EPF (working in the EPF department from 1 April 2011), “...it was informed that, “IC decision on non-participated Auctions, if any, was not lengthy as Direct Placement avenue was the main source for Government Securities Investment for EPF in that period and discussion on Government Securities was very limited in comparison to extensive Market discussion...”.(Refer Exhibit 12)<sup>111</sup>

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<sup>107</sup> Refer Annexure 22 and Exhibit 21 for 100 instances, where the minutes of Investment Committee meeting were made available for Auctions where the EPF has not participated.

<sup>108</sup> Refer Annexure 23 for list of members of the Investment Committee and the FMD.

<sup>109</sup> Refer Annexure 24 for list of 92 instances where the Investment Committee minutes were not made available for review.

<sup>110</sup> For the instances under review, attempted to trace the relevant minutes of Investment Committee meetings from the scanned folder provided by the EPF department, on the Auction date, a day prior or subsequent to Auction date.

<sup>111</sup> Refer Exhibit 12 for statement of fact signed by Mr. JDSJ Nanayakkara,

- 5.39 During an interview, Mr. LY Dharmasena, (SEPF during 1 January 2007 to October 2008,) stated that “...the EPF has followed the practice of Investment through Direct Placements rather than participation in Auctions. On the starting of the year, projected cashflow statement was submitted to the Monetary Board and basis that the EPF on regular basis got the instruction from PDD for the Investment through the Direct Placements...”. (Refer Exhibit 12) <sup>112</sup>
- 5.40 During an interview, Mr. LDDY Perera, (former Additional SEPF (during 13 June 2011 to 03 November 2013, and Deputy Superintendent during 16 July 2008 to 12 June 2011)), stated that “...For the Investment in Government Securities, the EPF has followed the practice of majorly Investment through Direct Placement and small quantity in Auctions. I could not re-collect the reason for EPF not participation in many Auctions during my tenure 2008, 09 and 2010. As per my knowledge, the reason for non-participation of EPF was not discussed...”. (Refer Exhibit 12) <sup>113</sup>
- 5.41 During an interview, Mrs. BMWS Balasooriya<sup>114</sup>, (worked in FO of 21 February 2008 to 6 July 2011), stated that “...During my tenure, as per my memory, non-participation on Auctions was not discussed in IC meetings...” (Refer Exhibit 12)<sup>115</sup>
- 5.42 During an interview, Mr. WGR Harshapriya (worked in the MO during the Period of 21 February 2008 to 1 January 2017), stated that “...No one restricted the EPF for any action as per my knowledge and nowhere it was mentioned that the EPF needs to participate for every Auction”. The EPF may have perceived conflict of interest when participating in Auction as the EPF and Public Debt Department, both are under Central Bank of Sri Lanka...”. (Refer Exhibit 12)<sup>116</sup>

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<sup>112</sup> Refer Exhibit 12 for the statement of fact signed by LY Dharmasena.

<sup>113</sup> Refer Exhibit 12 for the statement of fact statement signed by LDDY Perera.

<sup>114</sup> Refer Exhibit 12 for the statement of fact signed by BMWS Balasooriya.

<sup>115</sup> Refer Exhibit 12 for the statement of fact statement signed by BMWS Balasooriya.

## PERSONS RESPONSIBLE FOR EXECUTING THE TRANSACTIONS RESULTING LOSS TO THE EPF

5.43 On analysis of cash availability of 109 instances where cash was available on the settlement date of Auction was more than 30% of cumulative offered amount, it was identified that the EPF has incurred the loss of Rs. 96.75 Million (Rs. 41.89 on purchase of same ISIN and Rs. 53.82 on purchase of different ISIN) on the purchase amount of Rs. 8,518.09 Million where the same ISIN was purchased subsequent to Auction where the EPF has not participated. On review of underlying supporting documents and HR records provided by the EPF management, below mentioned persons were responsible for the executions and approval of the transactions during that period:

Table 29 Summary of person responsible

Year	Same ISIN		Different ISIN		Name	Responsibility
	Transaction Amount (Rs in Millions)	Loss Amount (Rs in Millions)	Transaction Amount (Rs in Millions)	Loss Amount (Rs in Millions)		
2003	4,293.60	15.85	-	-	W A Wijewardena-DG- IC Member	Approval of Transaction
					N J Perera-SEPF	Approval of Transaction
					S Somapala-Addl SEPF	Approval of Transaction
					J B Sumanabandara-DS	Approval of Transaction
2004	397.88	0.32	-	-	N J Perera-SEPF	Approval of Transaction
					S Somapala-Addl SEPF	Approval of Transaction
					J B Sumanabandara-DS	Approval of Transaction
					M S M Husam-FO Husam	Recommendation and Execution of Transaction
					H S S Fernando-MO	Recommendation for the Transaction
2008	1,052.29	1.08	-	-	W A Wijewardena-DG- IC Member	Approval of Transaction
					P Samarasiri AG (SM)	Approval of Transaction
					L Y Dharmasena-SEPF up to 8 Oct 2008)	Approval of Transaction
					D Wasantha -SEPF (Period (from 21 July 2008)	Approval of Transaction
					K Gunatilake Additional SEPF (3 July 2008)	Approval of Transaction
					M D Somaweera- DS	Approval of Transaction
U H E Silva - DS, until 2 July 2008 and	Approval of Transaction					

Year	Same ISIN		Different ISIN		Name	Responsibility
	Transaction Amount (Rs in Millions)	Loss Amount (Rs in Millions)	Transaction Amount (Rs in Millions)	Loss Amount (Rs in Millions)		
					Additional SEPF from 3 July 2008	
					D A G K Wijetunge- DS (up to 2 July 2008)	Approval of Transaction
					L D D Y Perera (from 16 July 2008)	Approval of Transaction
					M S M Husam- FO- FM	Recommendation and Execution of Transaction
					B M W S Balasooriya- FO	Recommendation and Execution of Transaction
					K Suthakaran- MO- Analyst	Recommendation for the Transaction
2009	1,388.63	10.66	400.16	2.43	W A Wijewardena- IC Member up to 7 July 2009)	Ratification of Transaction
					D S Wijesinghe - DG(W) Chairman- IC Member (from 7 July 2009)	Ratification of Transaction
					P Samarasiri- AG- IC member	Ratification of Transaction
					D Wasantha- SEPF-up to 31 August 2009	Approval of Transaction
					M J S Abeyasinghe -. SEPF	Approval of Transaction
					K Gunatilake- Additional. SEPF	Approval of Transaction
					C M D N K Seneviratne- DS up till 01 September 2009 and Additional. SEPF (from 1 September 2009	Approval of Transaction
					LDDY Perera (from 16 July 2008)	Approval of Transaction
					UHE Silva - Additional. SEPF up till 10 August 2009	Approval of Transaction

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Year	Same ISIN		Different ISIN		Name	Responsibility
	Transaction Amount (Rs in Millions)	Loss Amount (Rs in Millions)	Transaction Amount (Rs in Millions)	Loss Amount (Rs in Millions)		
2010	1,336.30	13.98	2,892.35	38.53	BDWA Silva- AG(S) from 15 June 2010	Ratification of Transaction
					KGDD Dheerasinghe - DG(D) Chairman	Ratification of Transaction
					R Dheerasinghe - SEPF (from 21 June 2010)	Approval of Transaction
					K Gunatilake- Additional. SEPF	Approval of Transaction
					CMDNK Seneviratne- Additional. SEPF	Approval of Transaction
					LDDY Perera-DS	Approval of Transaction
					V Bhaskeran - DS(B)	Approval of Transaction
					BHISKumara - MO-FM	Recommendation and Execution of Transaction
					T Udayaseelan- FO	Recommendation and Execution of Transaction
2012	-	-	1,500.06	9.77	BMWS Balasooriya-FO	Recommendation and Execution of Transaction
					K Gunatilake- Additional. SEPF	Approval of Transaction
					CMDNK Seneviratne- Additional. SEPF	Approval of Transaction
					LDDY Perera-DS	Approval of Transaction
					JDSJ Nanayakkara Senior Assistant Superintendent	Recommendation of Transaction
					GACN Ganepola Assistant Superintendent	Recommendation of Transaction
					GBMP Dissanayake Assistant Superintendent	Recommendation of Transaction
WGR Harshapriya- Senior Assistant Superintendent	Approval of Transaction					
2013	-	-	862.52	2.75	PWDNR Rodrigo SEPF	Approval of Transaction
					K Gunathilake SEPF	Approval of Transaction
					CMDNK Seneviratne- Additional. SEPF	Approval of Transaction
					LDDY Perra Additional. SEPF	Approval of Transaction
					JDSJ Nanayakkara Acting Superintendent Deputy	Approval of Transaction
					T Udayaseelan	Approval of Transaction

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					Senior Superintendent	Assistant	
2014	-	-	172.55	0.34	PWDNR Rodrigo	SEPF	Approval of Transaction
					TDH	Karunaratne	Approval of Transaction
					Additional SEPF		
					MSK Dharmawardena		Approval of Transaction
					Additional SEPF		
					AGU Thilkarathna		Approval of Transaction
					Additional SEPF		
					JDSJ Nanayakkara		Approval of Transaction
					DS		
					T Udayaseelan		Execution of Transaction
					Senior Superintendent	Assistant	

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<sup>117</sup> Total loss on the subsequent Investment in Auction, Direct Placement and Secondary Market.

## REVIEW OF VOICE RECORDINGS

- 5.44 Voice records pertaining to 167 dates<sup>118</sup> were requested from the 11 Primary Dealers. However, voice records pertaining to 4 (four) dates from three Primary Dealers were only provided. On review of voice records to the extent of the data made available, there is no conversation noted that pertained to Auctions or Secondary Market transaction with the EPF. (Refer Annexure 25)<sup>119</sup>.
- 5.45 There are no voice records facility installed at the FMD of the EPF. Also, use of mobile phones by employees was allowed during work hours in the FMD.

## CONCLUSION

- 5.46 During the period of January 2003 to February 2015, the EPF has participated in 275 Auctions (offered value of Rs. 4,72,350 Million) and won 246 Auctions (awarded value Rs. 2,92,880 Million, 62%). The EPF also has a target to invest 80-96% (Refer Exhibit 23)<sup>120</sup> of the funds in the Government Securities. The EPF being the major participant in the Auctions; non-participation of the EPF in the Auctions could give an opportunity to other Primary Dealers to get better yield rates in the Auctions.
- 5.47 From discussion with the Fund Managers and the EPF management, it appears that at times the PDD requests<sup>121</sup> the EPF not to participate in Auction and invest the EPF's funds through Direct Placement. Further, on review of subsequent utilisation of available cash, it indicates that 23% (Rs. 20,921.09 Million) of available cash was invested in the Treasury Bonds through Direct Placements. The proportion of Direct Placement was higher than any other Investments made by the EPF. (Refer Section 8, for the findings relating to Investment made through Direct Placement).

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<sup>118</sup> Refer Section 3 for rationale of selection of dates for the voice recording requested.

<sup>119</sup> Refer Annexure 25 for list of dates for voice records requested and response from Primary Dealers where the EPF has not participated.

<sup>120</sup> Refer Exhibit 23, Extract of Section 3, "Asset Allocation" of Investment Policy Statement, December 2011.

<sup>121</sup> Refer the statement of fact by the Mr. LY Dharmasena and Mr. LDDY Perera.

5.48 On review of subsequent Investments (available cash Rs. 90,314.75 Million) in Treasury Bonds through Auctions, Direct Placements and Secondary Market purchases, it was noted that subsequent Investment for purchase of same ISIN and different ISIN has caused loss to the EPF amounting Rs. 41.89 Million and Rs. 53.82 Million respectively. Summary of loss due to purchase in Auctions, Direct Placements and Secondary Market is provided in table below:

Table 30 Details of Loss on subsequent Investment (Rs. In Million)

#	Subsequent Investment	Same ISIN		Different ISIN	
		Amount of Purchase	Loss	Amount of Purchase	Loss
1	Auctions	1,448.79	12.31	2,668.05	31.78
2	Direct Placements	2,488.37	13.50	3,159.59	22.04
3	Secondary Market	4,531.54	16.08	-	-
	<b>Total</b>	<b>8,468.70</b>	<b>41.89</b>	<b>5,827.64</b>	<b>53.82</b>

5.49 In the absence of corroborative evidences viz. voice records and documented reasons for non-participation in Auctions; any benefit to the officials or any Primary Dealers could not be commented upon.

5.50 The reason for DP chosen as preferred route while ITG provides both the investment option, is not explained and is considered of questionable and unusual.

5.51 Non record of Investment Committee deliberations, if any, on non-participation in Auction while the Auction participation is discussed, is unusual and indicates possible tacit approvals of IC whereby only the reported details are discussed. This also indicates absence of proactive supervision and control by Investment Committee on investments throughout the period.

## 6. PARTIAL PARTICIPATION IN AUCTIONS BY THE EPF IN TREASURY BONDS AUCTIONS

### Overview

- 6.1 The EPF being the Captive Source for the PDD and having the requirement to invest over 80% of its surplus funds in Government Securities and maximise returns for its investors, is expected to participate actively in Auctions as a preferred source over Secondary Market investments. During the Review Period, instances were noted wherein the EPF had participated in the Auctions conducted by the PDD, however did not submit bids for the full value of the offered amount in the Auction. In these instances, it was noted that the EPF has surplus funds exceeding the value offered by the PDD for the Auction. Analysis was conducted in respect of cases of such investments of lower value offered in Auctions to identify the existence, if any, of indications of non-participation intended to benefit any specific Primary Dealer, whether such non-participation is with the approval of SEPF or the Investment Committee and to examine the veracity of subsequent investments of the surplus funds. Provided below are the details of observations on the analysis:
- 6.2 During the periods prior to 2015, the EPF's investment in Primary Market were predominantly through Direct Placements. Accordingly, the EPF's partial participation in Auctions is explained as not unusual.
- 6.3 For the period 28 October 2004 to 28 February 2015, the EPF participated in 240 Auctions out of 386 Auctions (62%) for offered value of Rs. 414.75 Billion. (Refer Annexure 26)<sup>122</sup>.

Table 31- Detail of Auctions participated by the EPF

Description	(Rs. In Billion)												Total
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	
Count of Auctions Participated by EPF	4	52	41	8	17	17	24	24	21	22	9	1	240
Offered Value (Rs. In Billion)	8.50	80.50	53.25	10.00	14.50	17.50	23.00	21.00	47.00	122.00	16.50	1.00	414.75
Total Value Participated by the EPF (Rs. In Billion)	5.00	25.25	17.88	6.30	5.50	9.20	17.75	21.00	47.00	120.50	15.50	2.00	292.88

<sup>122</sup> Refer Annexure 26 for the list of 240 Auctions participated by the EPF.

6.4 On comparison of offered value against the bid value by the EPF in the Auctions, it was noted that the EPF had bid less than offered amount in 137 out of 240 Auctions (57%). The cumulative value of 137 bids submitted by the EPF amounted to Rs. 62.63 Billion against the offered value of Rs.186.50 Billion (34%). Summary of year wise short bid value by the EPF is as follows:

Table 32 - Detail of short bid value by the EPF

(Rs. In Billion)

Description	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Total
Auctions bid by EPF with less than offered amount	Auction Count	4	51	38	5	16	11	9	-	-	2	1	-	137
	Offered Value (a)	8.50	79.50	50.50	6.00	14.00	13.50	8.50	-	-	4.00	2.00	-	186.50
	Bid Value (b)	5.00	24.25	15.13	2.30	5.00	4.70	3.25	-	-	2.00	1.00	-	62.63
	Short Bid Value (c=a-b)	3.50	55.25	35.37	3.70	9.00	8.80	5.25	-	-	2.00	1.00	-	123.87
% of Short Bid		41%	69%	70%	62%	64%	65%	62%	-	-	50%	50%	-	34%

\*Review Period include January and February 2015

Short bid percentage more than 60%

### Approach and methodology for analysing the EPF partial participation in Auctions

- 6.5 To analyse the instances where the EPF has participated with less value in the Auctions as compared to offered value, the availability of cash on the settlement date of Auctions was identified from the actual cashflow statements provided by the EPF management.
- 6.6 As per annual and monthly investment plan submitted by the EPF department to the Monetary Board, amount of surplus cash shall be invested in Government Securities, equity and debentures etc. In this respect, the Investment Trading Guidelines or the Investment Policy Statement also does not specify that any defined % of funds available shall be invested.

6.7 The method adopted for the computation of cash availability on the settlement date of Auctions is provided below:

Details	
	Opening balance of Bank Accounts <sup>123</sup>
Additions	Reverse Repo Maturities in the Bank Account
	Reverse Repo Maturities from other banks in RTGS Account
	Maturities from PDD for Treasury Bonds and Treasury Bills RTGS Account
	Interest Income / Dividend Income on the Government Securities and other securities in RTGS Account
Deductions	Refund of contributions
	Provision on the unrepresented Cheques / Account Clearing Balance
	Amount invested in Primary Market for Treasury Bills
	Amount invested in Direct Placement (Primary Market) for Treasury Bonds
	Amount invested in Treasury Bills in the Secondary Market
	Amount invested in Equity and Debentures in the Secondary Market
	Face value <sup>124</sup> of amount bid by the EPF in Auction for the investment in Treasury Bonds
Not included in the computation	Amount invested in the Secondary Market for Treasury Bond

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<sup>123</sup> As per cashflow statement provided by the EPF department, opening balance of bank accounts includes the amount of contribution received on that day from the members of the EPF.

- 6.8 As discussed with the EPF, projected future daily cashflow statements were not documented for the Review Period. In the absence of the same, actual cashflow statement on the date of settlement of Auction has been considered for the computation of cash availability.
- 6.9 Compared the available cash on the settlement date of Auction with the cumulative<sup>125</sup> amount of short bid by the EPF. Instances where available cash exceeds more than 30% of cumulative short amount bid by the EPF, for said instances the subsequent utilisation was identified.
- 6.10 The instances where the available cash is more than 100% of short amount bid by the EPF, the subsequent utilisation is identified to the extent of cumulative offered amount short bid by the EPF.
- 6.11 To identify the subsequent utilisation of the funds available on the settlement date of Auction, the funds were assumed to be utilised in below sequential order of priority based on the analysis and requirement:
- A. Refund of contribution;
  - B. Primary Market Auction - Treasury Bonds;
  - C. Primary Market Private Placement - Treasury Bonds;
  - D. Primary Market Auction or Private Placement- Treasury Bills/CBSL Securities DOD;
  - E. Secondary Market - Treasury Bonds;
  - F. Secondary Market - Treasury Bills;
  - G. Investments in Equity and Corporate Debentures; and
- 6.12 For subsequent utilisation, the provision made for unrepresented cheques and account clearing balance are not taken into consideration, as actual outflows are considered.
- 6.13 While identifying the utilisation of available cash, partial amount of transaction is considered to the extent of available cash to complete the subsequent fund utilisation. Illustration: On settlement date, if the available cash is Rs. 500 Million, amount invested on next day in Direct Placement: Rs. 600 Million; Investment transaction amount required to extent to complete the available cash i.e. Rs. 500 Million will be considered. (Refer Annexure 18)<sup>126</sup>
- 6.14 Instances where the same ISIN is purchased subsequent to the Auction date in which the EPF has bid short amount in Auction, compared the subsequent purchase yield rate and price with WAYR and weighted average price<sup>127</sup> in the respective Auction, to identify the loss, if any. Where the

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<sup>125</sup> Cumulative short bid amount refers to total amount short bid by the EPF in the multiple Auctions conducted by the PDD on a single day.

<sup>126</sup> The instances where the partial amount is considered, refer Column, "Remarks" in the Annexure 18.

<sup>127</sup> For loss computation, prices of Treasury Bonds purchased is considered price after tax without accrued interest (clean price after tax)



purchases are made subsequent to the settlement date of Auction, a comparable price is computed based on the WAYR of Auction and the settlement date of subsequent purchases.

- 6.15 In case where the different ISIN is purchased subsequent to Auction date in which the EPF has bid less than the offered amount in Auction, subsequent purchases price and yield rate was compared with ask yield rate and price from the daily report of the PDD (“Two-way quote” / “Secondary Market Rate”), to identify the loss, if any. Instances where the Secondary Market rate information is not available on the date of subsequent purchase, Secondary Market rate is taken two days prior to the subsequent purchase date, if available.
- 6.16 The counterparty wise analysis is used to identify the loss to the EPF in the Secondary Market transaction (i.e. the subsequent Secondary Market purchase price is higher than weighted average price of Auction). Further, it was identified that the transactions if any, were entered with counterparty who was awarded in Auction where the EPF has partially bid in the Auctions. The analysis would reflect, if the EPF has bid short amount to provide benefit to the other participants who was awarded in Auction.
- 6.17 Instances where the available cash was less than 30% of cumulative amount short bid by the EPF, verified the investment made prior to three to five working days of settlement date of Auction, to identify the following:
- A. Reverse-repo transactions entered with other Primary Dealers who was awarded in Auctions where the short amount was bid by the EPF to identify, if any, facilitation made by the EPF by providing funds to Primary dealers before the settlement date of Auction; and
  - B. Investment made in Secondary Market for same ISIN or Different ISIN.

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## Partial participation in Auction while sufficient cash is available

6.18 Review of “Daily Cashflow Statements” to analyse the availability of funds in 137 instances where the short amount was bid by the EPF in the Auction, on a settlement date of the Auctions, the following anomalies were noted:

A. The cashflow statements were not available for 91 out of 137 instances to identify the availability of cash on the settlement date of Auctions. Following is a summary of year wise cumulative value of offered amount where the cashflow statements were not available: (Refer Annexure 27)<sup>128</sup>

Table 33 - Cashflow statement not available

(Rs. In Million)

#	Year <sup>129</sup>	Count of instances	Cumulative offered amount (A)	Cumulative bid amount by the EPF (B)	% of amount bid by the EPF (C=B/A)	Cumulative amount short bid by the EPF	% of short bid by the EPF
1	2004 <sup>130</sup>	2	5,000	3,000	60.00%	2,000	40.00%
2	2005	51	79,500	24,250	30.50%	55,250	69.50%
3	2006	38	50,500	15,125	29.95%	35,375	70.00%
Total		91	135,000	42,375	31.39%	92,625	68.61%

B. Although the cashflow statement was not available in 89 instances pertaining to 2005 and 2006 and 2 (two) instances pertaining to 2004, to check the availability of cash, verified the purchases made in the Secondary Market in subsequent Five working days from the settlement date of Auction, it was noted that:

1. In 13 instances, the same ISIN<sup>131</sup> was purchased for amounting to Rs. 1,620 Million; the purchases made in Secondary Market were at the yield equal or higher than the WAYR of Auction; i.e. the investments were beneficial to the EPF (Refer Annexure 28)<sup>132</sup>

<sup>128</sup> Refer Annexure 27 for 91 instances where the cashflow statement were not available.

<sup>129</sup> The data pertaining to 2005 and 2006 has not been made available for review. Refer Exhibit 20 for email confirmation from the EPF for non-availability of cashflow statements for 2005 and 2006.

<sup>130</sup> For two instances of 2004 dated 31 December 2004, the settlement date falls in the year 2005.

<sup>131</sup> Same ISIN refers to ISIN where the EPF has participated with short bid amount in Auction.

<sup>132</sup> Refer Annexure 28 for details of same ISIN purchased in the Secondary market within Five working days of settlement date of Auction.

2. In 10 instances, a different ISIN133 was purchased for amounting of Rs. 2000 Million; In two (purchase value amounting to Rs. 300 Million) out of 10 instances. Refer Section 11 of this Report for loss computation to the EPF due to the investment made in Secondary Market in comparison with Two-way quote rate published by the PDD.
3. On the analysis of 46 instances<sup>134</sup>, where the cashflow statement was available, in 22 instances available cash on the settlement date of Auction was more than 30% of cumulative amount short bid by the EPF. The cumulative excess cash available for such 22 instances was Rs. 30,961.32 Million and cumulative short amount bid by the EPF was Rs. 14,650 Million. (Refer Annexure 29)<sup>135</sup>.

### Subsequent utilisation of available cash

- 6.19 On review of 22 instances where the cash on the settlement date was more than 30% of short amount bid by the EPF. Summary of amount to be verified for the subsequent utilisation is provided in the table below:

Table 34 - Range of cash availability (Rs. In Million)

#	Range of cash availability percentage	Count of instances	Cumulative amount short bid by the EPF (A)	Cumulative excess cash available (B)	Total amount for which subsequent utilization verified (Least value of A and B)
1	30-100	3	5,500	4,111.69	4,111.69
2	100-200	9	5,900	10,914.25	5,900.00
3	200-400	5	2,100	7,167.83	2,100.00
4	400-700	2	300	1,321.34	300.00
5	700-1030	3	850	7,446.21	850.00
	<b>Total</b>	<b>22</b>	<b>14,650</b>	<b>30,961.32</b>	<b>13,261.69</b>

- 6.20 Summary of subsequent utilisation of cash amounting to Rs. 13,261.69 Million is provided in the table below:

Table 35 - Summary of subsequent utilisation (Rs. In Million)

#	Details	Amount	Percentage
1	Refund of PF contributions	4,430.33	33.41%
2	Invested in Primary Market (Treasury Bonds and Treasury Bills)	3,739.73	28.20%

<sup>133</sup> Different ISIN refers to ISIN other than ISIN issued in Auction, where the EPF has participated with short bid amount in Auction.

<sup>134</sup> 16 out of 46 instances has been covered in Section 5, instances where the EPF has not participated in respective Auctions when the multiple Auctions were conducted on single date by the PDD, Refer Section 5 of this Report for details, hence the same is excluded from this Section coverage perspective.

<sup>135</sup> Refer Annexure 29 for 22 instances where the available cash is more than 30% cumulative amount short bid by the EPF.

#	Details	Amount	Percentage
3	Invested in Secondary Market (Treasury Bonds, Treasury Bills, Equity and Debentures)	5,091.63	38.39%
Total amount of available cash utilized		13,261.69	100.00%

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6.21 Year wise summary of subsequent utilisation in 22 instances amounting to Rs. 13,261.69 Million<sup>136</sup> is provided in table below (Refer Annexure 30 and Exhibit 25)<sup>137</sup>:

Table 36 - Details of funds utilisation

(Rs. In Million)

Year <sup>7</sup>	Funds available (A)	Number of instances	Subsequent utilization											
			Refunds payments to members and other expenses	% (B/A)	Primary Market					Secondary Market				
					Treasury Bonds-Auction	Treasury Bonds-Direct Placement	Treasury Bill (Auction/Direct Placement)	Subtotal (C)	% of (C/A)	Treasury Bonds (E)	Treasury Bill	Equity and Debentures	Subtotal (D)	% of (D/A)
2007	5,311.69	5	1,306.04	25%	-	438.87	2,279.96	2,718.83	51%	125.10	98.28	1,063.44	1286.82	24%
2008	1,900.00	6	461.96	24%	-	-	1,020.90	1,020.90	54%	411.85	-	5.29	417.14	22%
2009	550.00	3	145.71	26%	-	-	-	-	-	404.29	-	-	404.29	74%
2010	3,000.00	6	1,200.79	40%	-	-	-	-	-	415.37	-	1,383.84	1,799.21	60%
2013	1,500.00	1	601.94	40%	-	-	-	-	-	882.74	-	15.32	898.06	60%
2014	1,000.00	1	713.89	71%	-	-	-	-	-	223.70	-	62.41	286.11	29%
<b>Total</b>	<b>13,261.69</b>	<b>22</b>	<b>4,430.33</b>	<b>34%</b>	<b>-</b>	<b>438.87</b>	<b>3,300.86</b>	<b>3,739.73</b>	<b>28%</b>	<b>2,463.05</b>	<b>98.28</b>	<b>2,530.30</b>	<b>5,091.63</b>	<b>38%</b>

<sup>136</sup> The above utilization of the funds in 15 instances is ended up to the next 4 (four) days and in balance 7 (seven) instances it was in the range of 5-8 days from the settlement date of Auction. Refer Annexure 33 Column 'O' for details.

<sup>137</sup> Refer Annexure 30 for details of subsequent utilization in 22 instances and Exhibit 25 for the cashflow statements.

- 6.22 Out of Rs. 3,739.73 Million invested in the Primary Market, an amount of Rs. 3,300.86 Million was invested in Treasury Bills and the balance of Rs. 438.87 Million was subsequently utilised for purchase of Treasury Bonds in the Direct Placement. It may be noted that the purchase of Treasury Bonds was at the equal or higher than the Auction WAYR. (Refer Annexure 31)<sup>138</sup>
- 6.23 On analysis of the funds invested in the Secondary Market amounting to Rs. 5,091.63 Million out of cash available Rs 13,261.69 Million, it was noted that Rs. 2,463.05 Million, was invested in Treasury Bonds. On review of subsequent investment in Treasury Bonds made in the Secondary Market amounting to 2,463.05 Million: (Refer Annexure 35)<sup>139</sup> it was noted that:
- A. In five instances, the same ISIN<sup>140</sup> was purchased for amounting to Rs. 1,337.53 Million; the purchases made in the Secondary Market were at the yield equal or higher than the WAYR of Auction; and
  - B. In eight instances, the different ISIN was purchased for amounting to Rs. 1,125.52 Million. Refer Section 11 of this Report for the loss to the EPF due to the investment made in Secondary Market in comparison with two-way quote rate published by the PDD; and
  - C. Analysis of subsequent investment in Secondary Market, does not reflect trend indicating any particular counterparties were benefitted due to partial participation of EPF in Auction;

### **Non-compliance to Investment policy statement and Investment trading guidelines**

- 6.24 Refer Section 4 of this Report for detailed process followed by the EPF with respect to bidding process and approval mechanism. On review of approval documents as per the Investment policy Statement 2002 (“IPS 2002”), Investment Trading Guidelines (“ITG”) 2007 and ITG 2011 (Refer Exhibit 24 and Annexure 38)<sup>141</sup>, the following anomalies were noted in 46 transactions:
- A. As per the IPS 2002, the investments made by the EPF should be approved by the Monetary Board / the Investment Committee from time to time. In 4 (four) instances pertaining to the period from 19 October 2004 till 21 March 2007, the following anomalies were noted:

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<sup>138</sup> Refer Annexure 31 for details of subsequent purchases made through Direct Placement.

<sup>139</sup> Refer Annexure 32 for details of subsequent purchases made through Secondary Market.

<sup>140</sup> Same ISIN refers to ISIN for which the EPF has participated with short bid amount in Auction.

<sup>141</sup> Refer Exhibit 24 for Extract of approval required for Primary Market Transaction as per IPS 2002 and ITG 2007 and 2011 and Annexure 33 for details of persons worked in FMD of the EPF.

Table 37- Violation of approvals as per the Investment Policy Statement, 2002

#	Auction Date	ISIN	EPF Bid value (Rs. in Million)	Description of Anomalies
1	30-11-2004	LKB00306I019	1,000	In two instances, the minutes of the Investment Committee meetings were not available for review. In the absence of minutes, the required approval for the investments made could not be confirmed.
2	13-12-2004	LKB00306I019	1,000	
3	23-01-2007	LKB00609K012	300	In an instance, the transaction was recorded in the minutes of the Investment Committee meeting without recording the reason for the EPF bid amount was less than the offered amount. (Refer Exhibit 26) <sup>142</sup>
4	12-Feb-2007	LKB00410K015	800	In an instance, the transaction was not recorded in the minutes of the Investment Committee meeting conducted on the date of Auction. Therefore, it cannot be confirmed that whether the adequate approval was obtained from the Investment Committee. (Refer Exhibit 26) <sup>143</sup> .

6.25 As per ITG 2007, on review of supporting documents in respect of 39 for the period 22 March 2007 to 30 November 2011, the following anomalies were noted:

A. In 8 (eight) instances of bid value Rs. 950 Million where the transaction was required to be approved by HFMD or SEPF subject to ratification by the Investment Committee, it was noted that (Refer Annexure 34)<sup>144</sup>:

1. In 5 (five) instances of bid value Rs. 600 Million, the FMD recommendation sheet was not available. In the absence of the FMD recommendation sheet, it cannot be confirmed that these transactions were approved by the HFMD or SEPF;

<sup>142</sup> Refer Exhibit 26 for a copy of the minutes of Investment Committee minutes of 23 January 2007 and 12 February 2007.

<sup>143</sup> Refer Exhibit 26 for the copy of the minutes of Investment Committee minutes dated 23 January 2007 and 12 February 2007.

<sup>144</sup> Refer Annexure 34 for anomalies noted on review of 8 (eight) instances pertaining to the period 21 March 2007 to 30 November 2011.

2. In 5 (five) instances of bid value Rs. 600 Million (Refer Exhibit 28)<sup>145</sup>, the approval of transaction was not recorded in the immediate subsequent Investment Committee meetings. Therefore, it could not be confirmed that the transactions mentioned above was discussed in the Investment Committee meeting and ratified; and
  3. In 2 (two) instances of bid value Rs. 200 Million, where the FMD recommendation sheet was available, decision and justification to quote the bid amount less than the offered was not recorded. (Refer Exhibit 27)<sup>146</sup>
- B. In 31 instances of bid value Rs. 13,200 Million where the transaction was required to be approved by the Investment Committee due to transaction value exceeding per day / per trade limit specified. In all these instances, the approval of transaction was not recorded in the minutes of Investment Committee meetings. Therefore, it cannot be confirmed that these transactions were approved by the Investment Committee. (Refer Annexure 35 and Exhibit 29)<sup>147</sup>
- 6.26 As per ITG 2011, anomalies were noted on review of supporting documents in respect of 3 (three) out of 46 instances for the period 1 December 2011 till 28 February 2015:
- A. As per ITG, the FMD evaluates the offers of Treasury Bond issued by the PDD and make investment recommendation to the SEPF. However, there is no such evaluation report in all 3 instances made available for the review, confirming whether the FMD had prepared and submitted to the SEPF.
  - B. In 2 (two) (bid value Rs. 1,500 Million) out of 3 (three) instances pertaining to 1 December 2011 to 28 February 2015, the FMD recommendation sheet was not available where the approving authority signs the document. In the absence of FMD recommendation sheet, it could not be confirmed that these transactions were approved by the HFMD, DS, Additional. SEPF or SEPF. (Refer Annexure 36)<sup>148</sup>
- 6.27 On monthly basis, all the transactions of previous month are reported to the Monetary Board for approval along with an investment plan. In 2 (two) instances of bid value Rs. 800 Million out of 46 instances, it was noted that transaction was not reported to the Monetary Board. (Refer Annexure 37 and Exhibit 30)<sup>149</sup>

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<sup>145</sup> Refer Exhibit 28 for 5 (five) instances where the transaction was not ratified in the minutes of immediate Investment Committee meeting.

<sup>146</sup> Refer Exhibit 27 for 2 (two) instances where the reason to quote bid amount less than offered amount in Auction was not specified.

<sup>147</sup> Refer Annexure 35 and Exhibit 29 for the instances where the transaction was not approved by the Investment Committee.

<sup>148</sup> Refer Annexure 36 for two instances where FMD recommendation sheet not available.

<sup>149</sup> Refer Annexure 37 and Exhibit 30 for two instances transactions were not reported to the Monetary Board.



6.28 During an interview of 2 October 2019, with Mr. Thurasingam Udayaseelan, the former Senior Assistant Superintendent (dealer worked in MO division in the EPF during 2008 to 2013), stated that, “...As per practice, MO of the FMD evaluates the rate to be bided in Auction, based on the various economic factors and market scenario. The bid rate is communicated to the Higher management of the EPF through recommendation sheet. Based on the recommendation sheet signed by the Higher management of the EPF, BO of FMD submits the bids in the AS/400 System. There was no practice of preparing / documenting the MO evaluation Report (Consist of Maturity profile, Inflation, Liquidity, Future expected interest rate which is attached to the MO Recommendation sheet...”. (Refer Exhibit 12)<sup>150</sup>

### Unavailability of voice records

- 6.29 Voice records pertaining to 43 Auction dates, where the EPF has bid short amount, were requested from 8 (eight) Primary Dealers. However, the records were not provided for review. (Refer Annexure 38)<sup>151</sup>
- 6.30 There is no voice records facility installed in the FMD and the mobile phones are being allowed to use by the employees of the FMD.

### Conclusion

- 6.31 In 2005 and 2006, cashflow statements were not available to identify the reasons for the EPF bid amount less than the offered (Rs. 90,625 Million). In the absence of cashflow statements, the subsequent utilisation could not be performed to identify, if the short bid amount was utilised at the lesser return on investment.
- 6.32 There was no trend in counterparties in the cases where the EPF purchased securities in the Secondary Market without bidding for the complete offered amount in the Auctions.
- 6.33 The decision taken by the management of the EPF with respect to bid amount less than offered in Auction for instances where enough cash was available, were not documented in the minutes of the Investment Committee meetings and in the MO recommendation.

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<sup>150</sup> Refer Exhibit 12 for statement of fact signed by Mr. Thurasingam Udayaseelan.

<sup>151</sup> Refer Annexure 38 for the details of voice record requested and response from the Primary Dealers.

6.34 Due to the below mentioned limitations in gathering the corroborative evidences, the nexus between the CBSL officials or officers from the Primary dealers or any other party benefited at the expenses of the EPF, cannot be established:

- A. Unavailability of emails of FMD officials for the period prior to 2012<sup>152</sup>; refer Section 16 of Report for details of unavailability of emails;
- B. Non-implementation of voice recording system in the FMD of EPF; and
- C. Unavailability of voice records from the Primary Dealers<sup>153</sup>; refer Section 14 of this Report for details.

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<sup>152</sup> CBSL changed the email platform from Lotus Notes to MS Outlook during 2012. Back-up of email communications related to the periods prior to 2012 are not retained by IDT.

<sup>153</sup> Refer Annexure 38 for details of voice records requested and received.

## 7. EPF BIDS REJECTED COMPLETELY / PARTIALLY IN THE TREASURY BOND AUCTIONS

### Overview

- 7.1 The EPF having the requirement to invest over 80% of its surplus funds in Government Securities and maximize returns for its investors, is expected to actively participate in Auctions and be competitive in the bidding and achieve maximum success ratio. During the review, Auctions were noted wherein the PDD rejected the bids submitted by the EPF either fully or partially. In certain Auctions, EPF's bid rate was significantly lower than the weighted average yield rates of the previous Auction. Further, in certain instances, the bids submitted by the EPF were substantially near to the bid rates of other Primary Dealers. Analysis of the EPF's bidding pattern was performed to examine the bids' veracity of the EPF's determination of the bid rate, whether such higher bid rates were approved by the Investment Committee and if there is evidence that indicates potential divulgence of irregularities, if any, in terms of price sensitive information about EPF's bids with external entities. Provided below are the details of the observations on the analysis performed:
- 7.2 During 19 October 2004 to 28 February 2015, the PDD conducted 386 Auctions out of which, the EPF participated in 240 Auctions.
- 7.3 On analysis of 240<sup>154</sup> Auctions participated by the EPF where the EPF had submitted bids, in 25 out of 240 instances where the bids in Auctions were completely rejected and in 23 instances where the bids were rejected partially.
- 7.4 An analysis of the bid rejection (full / partial) could not be performed for the period from January 2002 till 19 October 2004, as AS/400 data is not available.
- 7.5 Summary of year wise value of bids submitted by the EPF and the amount accepted by the PDD is as follows:

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<sup>154</sup> 240 Auctions represent Auction participation by the EPF during 19 October 2004 to 28 February 2015. The rejection analysis is not performed, in respect of Auctions participated by the EPF during the period January 2002 to 19 October 2004, due to non-availability of information at the EPF and the PDD.

Table 38- Details of bids submitted by EPF and accepted by the PDD

(Rs. In Billion)

Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Value of bid submitted by the EPF (a)	5.00	25.25	17.87	6.30	5.50	9.20	17.75	21.00	47.00	120.5	15.50	2.00	292.88
Value of Bid accepted by the PDD (b)	3.00	20.40	14.33	3.97	5.35	7.75	17.27	21.00	47.00	113.29	13.50	2.00	268.86
Value of Bid rejected c= (a- B)	2.00	4.85	3.54	2.33	0.15	1.45	0.48	0	0	7.21	2.00	0	24.02
% of Acceptance	60%	81%	80%	63%	97%	84%	97%	100%	100%	94%	87%	100%	92%

7.6 The success ratio of bids submitted by the EPF through Auctions was less than 85% during 2004 till 2009.

7.7 Further, NSB Fund Management (40%), Bank of Ceylon (14%) and People's Bank (14%) were among the top three Primary Dealer who won those bids where EPF's bid was rejected completely and /or partially during the period 28 October 2004 to 28 February 2015. (Refer Annexure 39)<sup>155</sup>

### Approach and methodology for analysing EPF rejection in Auctions

7.8 As per practice, weighted average yield rate / cut-off yield rate of previous Auction and ask yield rate published by the PDD ("two-way quotes / Secondary Market Rate") are taken as basis to evaluate the yield rate to be quoted in Auction.

7.9 Analysed the instances of the EPF bids where rejections were there either partially / fully in respective Auctions. Comparison was made with the yield rate quoted by the EPF with cut-off yield rate of the Auction and identified the instances where the EPF yield rate was higher than 10 basis points from the cut-off yield rate in the respective Auction where the EPF bids were rejected.

<sup>155</sup> Refer Annexure 39 for the details of winner of Auction with % based on value in Auctions where the EPF bids were rejected completely and partially

- 7.10 The instances where the EPF quoted yield rate was higher than the cut-off yield rate by more than 10 basis points, comparison of yield rate of the EPF was made with below mentioned to identify if EPF quoted yield rate was off market:
- A. Weighted average yield rate of Auction prior to two weeks (“Previous Auction”);
  - B. Ask yield rate from the daily report of the PDD (“Two-way quote”) i.e. Secondary Market yield rate on the Auction date of same ISIN or a day / two day prior to Auction date; if rate is not available on the Auction date.
- 7.11 Subsequent purchases from Secondary Market: Identified purchases made by the EPF in Secondary Market, within five working days<sup>156</sup> of settlement date, for the same ISIN for which the EPF bids were rejected in Auction and identified the instances where the yield rate of subsequent purchases was lower than the cut-off yield rate of Auction where the EPF bids were rejected.
- 7.12 The counterparty from whom the purchase of Treasury Bonds in the Secondary Market was made, mapped with the winner of the Auction where the EPF bids were rejected, to identify the purchases, if any, made from the winner of the Auction.

### Yield rate comparison

- 7.13 On comparison of the EPF bid rate with the cut-off yield rate, it was noted that in 19 instances (14 out of 25 completely rejected; 5 out of 23 partially rejected) the EPF bid rate was higher than the cut-off yield rate by 10 basis points. (Refer Column E of below table)
- 7.14 On comparison of 19 instances<sup>157</sup>, the EPF quoted bid rate with the weighted average yield rate of previous Auction, cut-off yield rate of previous Auction<sup>158</sup>, two-way quotes yield rate<sup>159</sup>; below mentioned were noted:
- A. In 8 (eight) instances, the EPF bid rate was higher than the weighted average yield and cut-off yield rate of previous Auction by more than 30 basis points; and (Refer Column F)
  - B. In 4 (four) instances, the EPF bid rate was higher than the two-way quote yield rate by more than 30 basis points. (Refer Column G of below table).

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<sup>156</sup> Five working days was determined based on discussion with the CBSL officials.

<sup>157</sup> In six instances, there was no previous Auction conducted for the ISIN; two weeks prior to Auction where the EPF bids were rejected. Therefore, the comparison could not be performed; (Refer remark NA in column C of below table) and in four instances, two-way quote rate information was not available for specified ISIN on Auction date or two days prior to Auction date; (Refer remark NA in column E of below table).

<sup>158</sup> Previous Auction refers to the Auction conducted for same ISIN in two-weeks prior to the Auction where the EPF bids were rejected.

<sup>159</sup> Instances where the information in respect of two-way quote is not available on the Auction date, the rates published two days prior to Auction date were considered for analysis.

Table 39: Summary of difference between the and the EPF yield rate and previous auction weighted average yield rate: (Rs in Million)

#	Auction Date	Single vs. Multiple Bid	Complete vs partially rejected	ISIN	Offered Amount (Rs. In Million)	Rejected Bid amount (Rs. In Million)	EPF Bid rate (A)	Cut- Off yield rate of Auction (B)	Date of previous Auction for same ISIN	WAYR <sup>160</sup> of previous Auction (C)	Two-way quote Rate (D)	Differences of the EPF bid rate from		
												Cut - off yield rate (E=A-B)	WAYR of previous Auction (F=A-C)	Secondary market yield rate (G=A-D)
1	30-Nov-04	Single	Complete	LKB00306I019	1,500	1,000	8.51%	8.27%	16-Nov-04	8.33%	NA <sup>161</sup>	0.24%	0.18%	-
2	29-Mar-05	Multiple	Complete	LKB00508A017	1,000	150	8.61%	8.36%	11-Mar-05	NA	8.53%	0.25%	-	0.08%
3	29-Mar-05	Multiple	Complete	LKB00609A153	1,000	100	8.81%	8.46%	11-Feb-05	8.26%	8.80%	0.35%	<b>0.55%</b>	0.01%
					2,000	150	8.86%	8.46%	11-Feb-05	8.26%	8.80%	0.40%	<b>0.60%</b>	0.06%
4	5-Apr-05	Single	Complete	LKB00508A017	1,000	100	8.91%	8.76%	29-Mar-05	8.35%	8.57%	0.15%	<b>0.56%</b>	<b>0.35%</b>
5	12-May-05	Single	Complete	LKB00507G016	1,000	50	9.64%	9.31%	26-Apr-05	9.25%	9.52%	0.33%	<b>0.39%</b>	0.12%
6	12-Jul-05	Multiple	Complete	LKB00507J010	1,000	100	10.52%	10.36%	28-Jun-05	10.32%	9.98%	0.16%	0.20%	<b>0.54%</b>
					1,500	150	10.57%	10.36%	28-Jun-05	10.32%	9.98%	0.21%	0.25%	<b>0.59%</b>

<sup>160</sup>WAYR- weighted average yield rate

<sup>161</sup>NA- indicate where the information for two-way quote rate was not available or there was no Auction within two weeks prior to the Auction where the EPF bids were rejected.

Details of the EPF complete/partially rejection in Auction								Cut- Off yield rate of Auction (B)	Date of previous Auction for same ISIN	WAYR <sup>160</sup> of previous Auction (C)	Two-way quote Rate (D)	Differences of the EPF bid rate from		
#	Auction Date	Single vs. Multiple Bid	Complete vs partially rejected	ISIN	Offered Amount (Rs. In Million)	Rejected Bid amount (Rs. In Million)	EPF Bid rate (A)					Cut - off yield rate (E=A-B)	WAYR of previous Auction (F=A-C)	Secondary market yield rate (G=A-D)
7	28-Jul-05	Multiple	Complete	LKB00507G016	500	100	10.51%	10.40%	12-May-05	9.30%	10.40%	0.11%	1.22%	0.11%
					500	100	10.52%	10.40%	12-May-05	9.30%	10.40%	0.12%	1.23%	0.12%
					2,000	100	10.54%	10.40%	12-May-05	9.30%	10.40%	0.14%	1.25%	0.14%
8	15-Sep-05	Multiple	Partially	LKB00608J016	1,000	100	11.20%	11.05%	30-Aug-05	10.83%	10.92%	0.15%	0.37%	0.28%
					1,000	200	11.10%	10.92%	30-Aug-05	10.83%	10.92%	0.18%	0.27%	0.18%
9	15-Sep-05	Multiple	Partially	LKB00610D015	1,500	50	11.24%	11.09%	30-Aug-05	10.65%	10.86%	0.15%	0.60%	0.38%
10	12-Dec-05	Multiple	Complete	LKB00608K014	1,000	200	11.25%	11.13%	29-Nov-05	11.12%	10.98%	0.12%	0.14%	0.28%
					1,000	50	11.26%	11.13%	29-Nov-05	11.12%	10.98%	0.13%	0.15%	0.29%
11	28-Jul-06	Multiple	Complete	LKB00610D015	2,000	500	11.23%	11.11%	29-Dec-05	11.10%	11.26%	0.13%	0.13%	0.03%
12	28-Jul-06	Multiple	Complete	LKB00511H016	1,000	500	11.32%	11.20%	13-Jul-06	NA	NA	0.12%	-	-
13	23-Jan-07	Multiple	Complete	LKB00609K012	1,000	150	13.86%	13.11%	30-Oct-06	12.16%	13.65%	0.75%	1.70%	0.21%
					1,000	150	13.90%	13.11%	30-Oct-06	12.16%	13.65%	0.80%	1.74%	0.25%
14	29-Jan-07	Multiple	Partially	LKB00410K015	1,500	500	13.74%	13.64%	NA	NA	NA	0.10%	-	-

Details of the EPF complete/partially rejection in Auction								Cut- Off yield rate of Auction (B)	Date of previous Auction for same ISIN	WAYR <sup>160</sup> of previous Auction (C)	Two-way quote Rate (D)	Differences of the EPF bid rate from		
#	Auction Date	Single vs. Multiple Bid	Complete vs partially rejected	ISIN	Offered Amount (Rs. In Million)	Rejected Bid amount (Rs. In Million)	EPF Bid rate (A)					Cut - off yield rate (E=A-B)	WAYR of previous Auction (F=A-C)	Secondary market yield rate (G=A-D)
15	20-Jan-09	Single	Complete	LKB00613 D019	500	400	18.22%	18.12%	01-Aug-08	NA	17.71%	0.10%	-	<b>0.51%</b>
16	13-Aug-09	Multiple	Partially	LKB00615 H015	500	500	13.10%	13.00%	NA	NA	NA	0.10%	-	-
17	21-Jan-13	Multiple	Partially	LKB00921 E014	2,000	500	11.75%	11.64%	10-Jan-13	11.65%	11.75%	0.11%	0.11%	0.00%
18	26-Feb-14	Multiple	Complete	LKB01024 A014	1,000	1,000	10.31%	10.01%	24-Jan-14	NA	10.29%	0.30%	-	0.02%
19	26-Feb-14	Multiple	Complete	LKB01529 A012	1,000	1,000	10.87%	10.77%	10-Jan-14	10.61%	10.75%	0.10%	0.25%	0.12%

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## SUBSEQUENT PURCHASE IN THE SECONDARY MARKET

- 7.15 On analysis of purchases made in the Secondary Market within the 5 (five) working days from the settlement date of Auction where the EPF bids were rejected, it was noted that the EPF has purchased the same ISIN for value amounting to Rs. 600 Million (Rs. 450 Million in April and May 2005; and Rs. 150 Million in March and April 2006). However, subsequent investments in the specified ISIN was beneficial, as the purchases were made at high yield rate, in comparison with WAYR yield rate of Auction where the EPF bids were rejected. (Refer Annexure 40)<sup>162</sup>
- 7.16 In 6 out of 25 cases of EPF's bids were rejected, secondary market investments were noted wherein, EPF had benefited from these investments. Accordingly, no further analysis was performed in these instances, on the benefit to any other primary dealer in the Auction where EPF's bids were rejected.
- 7.17 In respect of 19 cases where there were no subsequent investments by EPF in secondary market, due to the below mentioned limitations in gathering the corroborative evidences, the nexus between the CBSL officials or officers from the Primary Dealers or any other party benefited at the expenses of the EPF, cannot be established:
- A. Unavailability of emails of officials of FMD division for the period prior to 2013 (refer section 16 of this Report for details of unavailability of emails; (Refer Exhibit 36)<sup>163</sup>;
  - B. Non-implementation of voice recording system in the FMD division of the EPF department; and
  - C. Unavailability of requested voice records from the Primary Dealers; refer section 14 of this Report for details of unavailability of Voice Records.
- 7.18 Voice records pertaining to 23 Auction dates where the EPF bids were rejected, requested from 8 Primary Dealers. However, voice records pertaining to a particular date (one Primary Dealer) was provided. (Refer Annexure 47)<sup>164</sup>. On review of one Voice Recording, it was identified that on that day there was no conversation related to Auction where the EPF bids were rejected.
- 7.19 There is no voice records facility installed in the FMD by the EPF department to examine the conversations, if any between the FMD staff and Primary Dealer staff.

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<sup>162</sup>Refer Annexure 40 for details of Secondary Market purchases within 5 (five) working days of settlement date of Auction where the EPF bids were rejected.

<sup>163</sup>Refer Exhibit 36 for confirmation from IT department in respect of unavailability of emails.

<sup>164</sup>Refer Annexure 47 for details of voice records requested and received.

## Non-compliance to Investment policy statement and Investment trading guidelines

7.20 Refer Section 4 “the EPF Investment in Auctions”, for detailed process followed by the EPF with respect to bid process and related approval mechanism. On review of supporting documents related to 48 bids submitted by the EPF (25 instances of complete rejection and 23 instances of partial rejection by the PDD), the following anomalies were noted with respect to the approval process followed:

A. As per the IPS 2002, in 35 out of 48 instances pertaining to the period from 28 October 2004 to 21 March 2007, where an approval from the Investment Committee was required the following anomalies were noted:

1. In 14 instances, the minutes of the Investment Committee meetings were not available for review. In the absence of minutes, the required approvals for the investments, cannot be confirmed; (Refer Annexure 41)<sup>165</sup>
2. In 15 instances, the transaction was not recorded in minutes of the Investment Committee meeting conducted on the date of Auction; and (Refer Annexure 42 and Exhibit 31)<sup>166</sup>
3. In two instances, bid rate at Auction was approved and bid amount at Auction was not approved, therefore the adequate approvals were not obtained. (Refer Annexure 43 and Exhibit 32)<sup>167</sup>

7.21 Anomalies were noted on review of underlying supporting documents in case of 8 (eight) out of 48 instances for the period 22 March 2007 to November 2011 are as explained below:

A. In 2 (two) instances where the transactions were required to be approved by HFMD or SEPF, the MO recommendation sheet was not available where the approving authority signs. In the absence of MO recommendation sheet, it cannot be commented that these transactions were approved by the Higher Management of the EPF. (Refer Annexure 44)<sup>168</sup>. Further, in one out of two instances the transaction was not recorded in the immediate Investment Committee meeting. Therefore, it cannot be confirmed that the transaction mentioned above was discussed in the Investment Committee meeting and ratified. (Refer Exhibit 33)<sup>169</sup>;and

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<sup>165</sup>Refer Annexure 41 for the list of 14 instances where minutes of the Investment Committee meetings were not available.

<sup>166</sup>Refer Annexure 42 and Exhibit 31 for list of 15 instances and minutes of the Investment Committee meetings where the transaction was recorded in minutes of the Investment Committee meetings.

<sup>167</sup> Refer Annexure 43 and Exhibit 32 for the Investment committee minutes for 2 (two) instances where the bid amount was not approved in the Investment Committee Minutes.

<sup>168</sup>Refer Annexure 44 for 2 (two) instances where the MO recommendation sheet was not available.

<sup>169</sup>Refer Exhibit 33 for 2 (two) instances where the minutes of the Investment Committee meeting where, the transaction was not ratified.

B. The Investment Committee approval was required in 6 (six) instances where per transaction amount was more than Rs. 200 Million. However, these transactions were not recorded in the minutes of the Investment Committee meetings. Therefore, it is concluded that transactions were not approved by the Investment Committee. Further, in 4 (four) out of 6 (six) instances, the MO recommendation sheet was not available to verify the required approvals by the Higher Management of the EPF. (Refer Annexure 45 and Exhibit 34)<sup>170</sup>

7.22 Anomalies were noted on review of supporting documents in case of 5 (five) out of 48 instances for the period from December 2011 till 28 February 2015 are as explained below:

A. In 3 (three) instances, the transactions were not approved by the SEPF or DS or HFMD, as required by the Investment Guidelines. Details of three instances are provided in the table below: (Refer Annexure 46 and Exhibit 35)<sup>171</sup>

Table 40- Details of transactions for violation of approval limit

#	Auction Dates	Bid value (Rs. In Million)	Cumulative Bid value (Rs. In Million)	As per ITG 2011, Approval Required from				Approved by			Remarks
				IC	SEPF	DS	HFMD	SEPF	Additi onal SEPF	DS	
1	10-Jan-13	10,000	25,000	-	✓	-	-	-	✓	✓	Violation of per day limit-SEPF not approved.
2	21-Jan-13	1,500	6,000	-	-	-	✓	-	-	-	Violation of per transaction and per day limit- MO Recommendation sheet was not signed by HFMD
3	29-Jan-13	10,000	10,000	-	-	✓	-	-	-	-	Violation of per transaction and per day limit- MO recommendation document was not signed by DS

Legend: ✓ Violation - Not Applicable

<sup>170</sup>Refer Annexure 45 and Exhibit 34 for list of the Investment Committee minutes for 6 (six) instances where the transactions were not approved.

<sup>171</sup> Refer Annexure 46 and Exhibit 35 for list of 3 (three) instances and recommendation sheet where the transaction was not approved by the SEPF or DS or HFMD.

- 7.23 As per Investment Trading Guidelines (ITG)<sup>172</sup>, the FMD evaluates the offers of Treasury Bond issued by the PDD and make investment recommendation to the SEPF. However, there is no such evaluation report in all 5 (five) instances made available for the review, to comment whether the FMD had prepared and submitted to the SEPF.
- 7.24 In the absence of MO evaluation reports, the rationale for quoting at high yield rate in the Auction cannot be commented upon.

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<sup>172</sup>Refer Section 4.1 for copy of Guidelines.

## 8. EPF NOT INVESTED THROUGH DIRECT PLACEMENTS

### Background

- 8.1 During January 2003 to February 2015, the EPF purchased Treasury Bonds worth of Rs. 2,334.34 Billion through 645 Direct Placements.
- 8.2 In 2002, total amount invested by the EPF in the Primary Market was Rs. 64.88 Billion through 67 transactions. The details of transactions in Auctions and Direct Placements is not available for the year.
- 8.3 Provided below is the (calendar) year-wise listing of investments in Treasury Bonds for the period January 2003 to February 2015:

Table 41 - Count and value of the transactions in Primary Market transacted by the EPF

Year	Transaction count	(Rs. In Billion)
		Value
2003 <sup>173</sup>	44	83.45
2004	52	104.00
2005 <sup>174</sup>	59	71.79
2006	71	108.64
2007	44	165.84
2008	65	196.63
2009	55	227.88
2010	49	192.81
2011	57	277.36
2012	62	319.60
2013	44	331.97
2014	37	223.57
2015	6	30.80
<b>Total</b>	<b>645</b>	<b>2,334.34</b>

<sup>173</sup> For 2003 and 2004, the details have been taken based on the data provided by the PDD.

<sup>174</sup> For Auction from 19 October 2004 and for Direct Placement from 1 April 2005, the details have been taken from the AS/400 shared by the DIT.

8.4 EPF's investment through Direct Placements are analysed based on the following parameters:

- A. Loss to the EPF, due to lower yield rate as compared to the weighted average yield rate of Auction conducted within two weeks prior<sup>175</sup> to the placement arrangement date;
- B. Loss to the EPF, due to lower yield rate as compared to ask yield rate published by the PDD through two-way quotes ("market yield") of placement conducted two weeks prior to the placement arrangement date; and
- C. The instances where the EPF has not invested through Direct Placements, identified the availability of cash on the settlement date of placement. Further, subsequent investments made with available cash on settlement date were analysed.

8.5 On analysis of 2,673 Direct Placement offered by the PDD with tender value Rs. 5,888 Billion (Refer Annexure 48)<sup>176</sup> during the period from 1 January 2003 to 28 February 2015<sup>177</sup>, it was noted that the EPF has invested in 645 Direct Placements with tender value of Rs. 2,334.34 Billion. (Refer Annexure 48)<sup>178</sup>

8.6 The percentage of placements offered to the EPF was 27% to 6% of the total offered amount. Year wise summary on offered value of the EPF invested in Treasury Bonds is provided in the following table:

Table 42- Direct Placement offered value Vs EPF invested value (Rs. In Billion)

Description	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Count of DP offered by PDD	62	86	117	175	250	201	217	266	298	498	244	237	22	2,673
Count of EPF Investment through DP	44	52	59	71	44	65	55	49	57	62	44	37	6	645
Offered Value by PDD	131	163	154	261	377	456	649	465	576	914	816	833	93	5,888
EPF Invested Value through DP	83	104	72	108	166	197	228	193	277	320	332	223	31	2,334
% of value of EPF participated in Direct Placement	63%	64%	47%	41%	44%	43%	35%	42%	48%	35%	41%	27%	33%	40%

<sup>175</sup> The assumption of comparing with the rate of Auction conducted within two weeks prior to placement arranged on date as per Memo dated 20 September 2012 issued by Mr. Dhammikka Nanayakkara. (Assistant Governor, PDD)

<sup>176</sup> Refer Annexure 48 for 2,673 Direct Placements offered by the PDD.

<sup>177</sup> For 2002 details of Direct Placement conducted by the PDD is not available.

<sup>178</sup> Refer Annexure 49 for 645 Direct Placements where the EPF has made the Investments.

8.7 During the period from 1 April 2005 and 28 February 2015, the EPF's investment on an average was 40% of the offered value of the Treasury Bonds issued by the PDD through Direct Placement. In 2009, 2012 and 2014, the percentage of investment was ranging from 27% to 35% which was lower than the average percentage in the Review Period.

### Approach and methodology for analysing non-participation by the EPF in Direct Placements

8.8 Analysed the 1,958 instances<sup>179</sup>, where the EPF has not invested through the Direct Placement for the period from 01 April 2005 till 28 February 2015, identified the subsequent purchases in Auctions, Direct Placement and Secondary Market within 5 (five) working days considered from the settlement date of Direct Placement.

8.9 In instances where the same ISIN was purchased subsequent to settlement date of Direct Placement, compared the subsequent purchase price and yield rate with the price<sup>180</sup> and yield rate offered by the PDD in Direct Placement where the EPF has not invested, to identify the loss, if any. Where the purchases are made subsequent to the settlement date of Direct Placement, a comparable price is computed based on the WAYR of Direct Placement and the settlement date of subsequent purchases.

8.10 In instances where a different ISIN was purchased subsequent to the Direct Placement in which EPF has not invested, loss / gain not computed due to the different maturity period. However, subsequent purchase yield rate and the Direct Placement yield rate offered by the PDD in Direct Placement are compared and reported.

8.11 Summary of subsequent investment made in Treasury Bonds for the same ISIN and Different ISIN within the 5 (five) working days from the settlement date of placement is provided in table below:

Table 43- Summary of subsequent investment (Rs. In Billion)

Particulars	Count of Instances	Cumulative Offered amount	Amount Invested	Count of instances where there is loss	Amount of Purchases with Loss	Loss amount	
Purchase of Same ISIN	Auction	84	161.18	113.20	37.00	27.66	(0.66)
	Direct Placement	115	190.67	399.65	74.00	251.06	(2.27)
	Secondary Market	57	142.08	21.19	25	6.60	(0.10)
Different ISIN	Auction	60	147.89	125.75			

<sup>179</sup> This analysis has been performed for the period where the AS/400 is available i.e. 1 April 2005 to 28 February 2015. Pre-AS/400 period i.e. 1 January 2002 to 31 March 2005 for all the instances the cashflow statement has been reviewed.

<sup>180</sup> For loss computation purpose the Treasury Bond price was considered after tax without accrued interest (clean price after tax).

Particulars	Count of Instances	Cumulative Offered amount	Amount Invested	Count of instances where there is loss	Amount of Purchases with Loss	Loss amount
Direct Placement	265	512.02	20.05			
Secondary Market	59	98.56	55.46			

8.12 On analysis of subsequent investments in Auctions within 5 (five) working days of settlement date it was noted that:

- A. In 84 instances, the same ISIN<sup>181</sup> was purchased totalling to Rs. 113.20 Billion. In 37 out of 84 instances the purchases made in Auction were at the yield rate lower than the yield rate offered by the PDD on the settlement date of Direct Placement. The total loss due to excess price paid was amounting to Rs. 0.66 Billion (purchase amount Rs. 27.66 Billion); and
- B. In 60 instances, the different ISINs<sup>182</sup> were purchased for total value of Rs. 125.75 Billion.

8.13 On analysis of subsequent investments in Direct Placement within 5 (five) working days of settlement date it was noted that:

- A. In 115 instances, the same ISIN was purchased for total value Rs. 399.65 Billion. In 74 out of 115 instances where the purchases made in Direct Placement were at the yield rate lower than the yield rate offered by the PDD. The total loss due to excess price paid amounted to Rs. 2.27 Billion (purchase amount Rs. 251.06 Billion); and
- B. In 265 instances, a different ISIN was purchased for total value of Rs. 20.05 Billion. The loss due to these purchases cannot be ascertained due to different maturity periods.

8.14 On the analysis of subsequent investments in Secondary Market within 5 (five) working days of settlement date of identified placement where the EPF has not made the investments, it was noted that:

- A. In 57 instances, the same ISIN was purchased for total value to Rs. 21.19 Billion. In 25 out of 57 instances, the purchases made in Secondary Market were at the yield rate lower than the yield rate offered by the PDD. The total loss due to excess price paid amounted to Rs. 100 Million (purchase amount Rs. 6.60 Billion); and
- B. In 59 instances, a different ISIN was purchased for total value of Rs. 55.46 Billion.

<sup>181</sup> Same ISIN refers to ISIN for which the EPF has not made the investment in the Direct Placement.

<sup>182</sup> Different ISIN - ISIN other than the ISIN which was offered by the PDD in the Direct Placement.



- 8.15 Based on the above analysis and the purchases during 2003 and 2004 (here after referring as “identified Direct Placements”) where the EPF has not invested in the Direct Placement, 200 out of 2028 instances were selected for further review. Availability of cash on the settlement date of Direct Placement is assessed. Details of the transactions selected are as following:
- A. In 115 instances, where the same ISIN was purchased subsequently in the Direct Placement for amounting to Rs. 399.65 Billion; and
  - B. In 59 instances, where the different ISIN was purchased subsequently in the Secondary Market for amounting to Rs. 55.46 Billion.
- 8.16 The subsequent utilisation of funds available on the settlement date of placement, is traced for the cash available after investment on settlement date. The instances which has already been covered in analysis (covered in Section 5 of this Report) where the EPF has not participated or where EPF submitted bids for less than the offered value have been excluded for this analysis.<sup>183</sup>
- 8.17 As per annual and monthly investment plan submitted by the EPF department to Monetary Board, amount of surplus cash shall be invested in Government Securities, equity and debentures etc. In this respect, Investment Trading Guidelines or Investment Policy Statement also does not specify that any earmarked % of funds available shall be invested.
- 8.18 As per process understanding obtained, projected cashflow statements were not prepared to evaluate the future cash availability on the date of settlement of Direct Placement. The method adopted for the computation of cash availability is provided in the table below:

Table 44 - Computation of cash available

Details	
	Opening balance of bank accounts on the settlement date of Direct Placement <sup>184</sup>
Additions	Reverse Repo maturities in the bank accounts
	Reverse Repo maturities from other banks in RTGS accounts
	Maturities from the PDD for Treasury Bonds and Treasury Bills RTGS accounts
	Interest/dividend income on the Government Securities and other securities in RTGS accounts
Deductions	Refund of contributions
	Provision on the unrepresented cheques/ account clearing balance
	Amount invested in the Government Securities in Primary market for Treasury Bills
	Amount invested in Auction and Direct Placement (Primary Market) for Treasury Bonds
	Amount invested in Treasury Bills in the Secondary market

<sup>184</sup> As per cashflow statement provided by the EPF department, opening balance of bank accounts includes the amount of contribution received on that day from the members of the EPF.

## Details

### Amount invested in Equity and Debentures

- 8.19 As discussed with the EPF department, projected future daily cashflow statements were not documented during the entire Review Period. In the absence of projected cashflow statements, actual cashflow statement on the date of settlement of Auction has been considered for the computation of cash availability.
- 8.20 Cash availability on the settlement date of the identified Direct Placement is computed excluding, the amount invested in the Treasury Bonds that were purchased in the Secondary Market on the same day.
- 8.21 Compared the available cash on the settlement date of Direct Placement with the cumulative amount offered by the PDD for identified Direct Placements. In respect of instances where available (computed) cash, exceeded more than 30% of cumulative amount offered by the PDD and its subsequent utilisation was identified.
- 8.22 To identify the subsequent utilisation of available cash on settlement date of Auction, the cash was assumed to be utilised in below sequential order of priority:
- A. Refund of contributions;
  - B. Primary Market Auction - Treasury Bonds;
  - C. Primary Market Private Placement - Treasury Bonds;
  - D. Primary Market Auction or Private Placement- Treasury Bills / CBSL Securities DOD;
  - E. Secondary Market - Treasury Bonds;
  - F. Secondary Market - Treasury Bills; and
  - G. Investments in Equity and Debentures.
- 8.23 The instances where the available cash is more than 100% of cumulative value offered by the PDD for identified placements, the subsequent utilisation is identified to the extent of the cumulative offered amount.
- 8.24 For subsequent utilisation, the provision made for unrepresented cheques and account clearing balance are not taken into consideration, as actual outflows are considered.
- 8.25 While identifying the utilisation of available cash, partial amount<sup>185</sup> of transaction is considered to the extent of available cash to complete the subsequent available cash utilisation.

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<sup>185</sup> The instances where the partial amount is considered, details are given in the Annexure-56, column titled as "Remarks" in respect of each transaction.

- 8.26 Instances where the available cash utilisation is extended to the next “settlement date” of the identified Direct Placement; to calculate the availability of cash on next settlement date of Direct Placement, amount considered as “utilised”, on the previous settlement date is excluded<sup>186</sup> from the computation of cash available.
- 8.27 The subsequent purchase of Treasury Bonds in Primary Market and Secondary Market is further analysed to identify the same ISIN or different ISIN was purchased.
- 8.28 In case where the same ISIN was purchased, compared the purchase price and yield rate with price and yield rate of Direct Placement where the EPF has not invested, to identify the loss, if any.
- 8.29 In case where the different ISIN is purchased subsequent to direct placement date in which the EPF has not invested through the direct placement, subsequent purchases price and yield rate was compared with ask yield rate and price from the daily report of the PDD (“Two-way quote” / “Secondary Market Rate”), to identify the loss, if any. Instances where the Secondary Market rate information is not available on the date of subsequent purchase, Secondary Market rate is taken two days prior to the subsequent purchase date, if available.

### Cash available even though the EPF not invested through direct placement

- 8.30 On review of “Daily Cashflow Statements” to analyse availability of cash in 230 instances where the EPF has not invested through Direct Placements, the following anomalies were noted:
- 8.31 The cashflow statements were not available for 49 instances where the EPF has not invested through Direct Placements. The cumulative offered amount was Rs 64,158 Million. Following is the summary of year wise cumulative value of offered amount where the cashflow statements were not available. (Refer Annexure 50)<sup>187</sup>

Table 45 -Details of cashflow statement not available

(Rs. in Million)			
#	Year	Count of instances	Cumulative offered amount
1	2005	24	26,596
2	2006	23	37,562
Total		49	64,158

<sup>186</sup> The instances where on the settlement date of the Direct Placement, the amount was excluded to calculate the cash availability, since the amount was considered in the fund utilisation of previous settlement date of Direct Placement is given in Annexure 53, column titled as “Remarks” in respect of each transaction.

<sup>187</sup>Refer Annexure 50 for list of 49 instances of cashflows statements were not available.

8.32 On analysis of 171 out of 230 instances<sup>188</sup>(Annexure 51), where the cashflow statement was available, it was noted that in 96 instances available cash on the settlement date of Direct Placement was more than 30% of cumulative tender amount of identified Direct Placements. The cumulative excess cash available for such 96 instances was Rs. 262,600.59 Million and cumulative tender amount for identified Direct Placements by the EPF was Rs. 72,692.1 Million. (Refer Annexure 52)<sup>189</sup>

### Subsequent utilization of available cash

8.33 On review of 96 instances where the cash on the settlement date was more than 30% of the cumulative tender amount of identified Direct Placements, subsequent utilisation of available cash is reviewed. Summary of amount verified for the subsequent utilisation is provided in the table below:

Table 46 - Percentage Range of cash availability (Rs. in Million)

#	Range of Cash Availability Percentage	Count of Instances	Cumulative Offered Amount (Rs. in Billion)	Cumulative Excess Cash Available (Rs. in Billion)	Total amount for which subsequent utilization verified*
1	30-50	7	10,110.00	3,967.72	3,967.72
2	>50-100	16	20,087.86	15,774.56	15,774.56
3	More than 100	73	42,494.24	242,858.31	42,494.24
	Total	96	72,692.10	2,62,600.59	62,236.52

8.34 Summary of subsequent utilisation of cash amounting to Rs. 62,236.52 Million is provided in the table below:

<sup>188</sup>30 out of 171 instances (Refer Annexure 51) has been covered in Section 5 where the EPF has not participated in Auctions and Section 5 where the EPF has bid less than the offered amount in Auctions. The cashflow statements were reviewed for remaining 141 out of 171 instances.

<sup>189</sup> Refer Annexure 52 for 96 instances where the available cash is more than 30% cumulative amount short bid by the EPF.

Table 47 - Summary of subsequent utilisation (Rs. In Million)

#	Details	Amount	Percentage
1	Refund of contribution to members	20,160.63	32.39%
2	Invested in Primary Market (Treasury Bills and Treasury Bonds)	15,860.09	25.48%
3	Invested in Secondary Market (Treasury Bills, Treasury Bonds, Equity and Debentures)	26,215.80	42.12%
Total amount of cash available		62,236.52	100.00%

8.35 Year wise summary of subsequent utilisation in 96 instances (Refer Annexure 53 and Exhibit 37)<sup>190</sup> amounting to Rs. 62,236.52 Million<sup>191</sup> is provided in table below:

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<sup>190</sup> Refer Annexure 53 for details of subsequent utilization for 96 instances and Refer Exhibit 37 for cashflow statements.

<sup>191</sup> In 92 instances utilization of the available cash in major instances is completed in the next 4-5 days and in remaining 4 (four) instances it was for more than 5 (five) days, maximum days taken into consideration was 14 days (3 instances).

Table - 48 Year wise summary of subsequent utilisation of funds

(Rs. In Million)

Year <sup>192</sup>	Funds available (A)	Number of instances	Subsequent utilization											
			Refunds payments to members and other expenses (B)	% (B/A)	Primary Market investment					Secondary Market				
					Treasury Bonds-Auction	Treasury Bonds-Direct Placement	Treasury Bill (Auction/Direct Placement)	Total (C)	% of (C/A)	Treasury Bonds (E)	Treasury Bill	Equity and Debentures	Total (D)	% of (D/A)
2003	1,279.31	4	337.77	26%	-	253.89	-	253.89	20%	687.65	-	-	687.64	54%
2004	4,784.38	10	1,826.68	38%	53.31	766.76	147.12	967.19	20%	1960.6	-	29.91	1,990.51	42%
2007	5,832.64	9	1,978.91	34%	-	1,255.33	1511.01	2,766.34	47%	969.14	-	118.25	1,087.39	19%
2008	7,630.99	8	2,245.25	29%	-	1,241.65	1603.58	2,845.23	35%	779.29	1,727.03	34.19	2,540.51	35%
2009	5,371.55	11	1,296.77	24%	1,228.92	2,648.16	-	3,877.08	114%	168.68	-	29.02	197.7	4%
2010	3,489.70	7	1,567.03	45%	131.8	10.88	-	142.68	4%	325.17	-	1,454.82	1,779.99	51%
2011	3,857.65	9	800.86	21%	1,444.86	1,455.74	-	2,900.6	75%	-	-	156.19	156.19	4%
2012	275.10	3	214.19	78%	60.91	-	-	60.91	22%	-	-	-	-	0%
2013	9,608.9	18	3,532.91	37%	-	503.53	-	503.53	5%	1,960.34	-	3,612.12	5,572.46	58%
2014	20,106.3	17	6,360.26	32%	-	1,542.64	-	1,542.64	8%	11,578.65	-	624.75	12,203.4	60%
	62,236.52	96	20,160.63	32%	2,919.80	9,678.58	3,261.71	15,860.09	30%	18,429.52	1,727.03	6,059.25	26,215.79	42%

## Analysis of subsequent Investment in the Secondary Market

- 8.36 On analysis of the subsequent purchases made in the Secondary Market for Treasury Bills, Treasury Bonds, Equity and Debentures amounting to Rs. 26,215.79 Million out of Rs. 62,236.52 Million, it was noted that:
- A. More than 40% of available cash for the instances under review for 2004, 2010, 2013 and 2014 was utilised for purchase in Secondary Market;
  - B. The amount of Rs. 18,429.52 Million, out of Rs. 26,215.79 Million was invested in the Treasury Bonds in Secondary Market.
- 8.37 On the analysis of Rs. 18,429.52 Million invested in the Treasury Bonds, it was noted that:
- A. Out of total purchase amount of Rs. 18,429.52 Million, Rs. 13,538.99 (73%) was purchased in the Year 2013 and 2014; In 7 (seven) instances (13 transactions of subsequent investment), the same ISIN was purchased for total value to Rs. 1,655.75 Million. In 4 (four) out of 7 (seven) instances, the purchases were made in Secondary Market at the yield rate lower than the yield rate offered by the PDD on settlement date of respective Direct Placement. The total loss<sup>193</sup> due to excess price paid was amounting to Rs 0.99 Million (purchase value Rs. 1325.89 Million);
  - B. In 35 instances (84 transactions), the different ISIN was purchased for total value of Rs. 16,773.77 Million. Refer Section 11 of this Report for the loss to the EPF due to the investment made in Secondary Market in comparison with Two-way quote rate published by the PDD.
  - C. Year wise amount of subsequent purchase made for same and different ISIN in Secondary Market are provided in table on the next page: (Refer Annexure 54)<sup>194</sup>

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<sup>193</sup> Computed the loss, if any, multiply the quantity purchased by the EPF with the differences of higher price paid as compare to price on the settlement date of identified Direct Placement for the Same ISIN.

<sup>194</sup> Refer Annexure 54 for the details of subsequent purchase made for same and different ISIN in Secondary Market

Table 49 - Details of subsequent Investment in Secondary Market

(Rs. In Million)

Year <sup>195</sup>	Purchase of same ISIN					
	Count of Instances	Secondary Market Purchases Value (A)	Count of instances where purchased in Secondary Market which caused loss	Secondary Market purchases value which caused loss	Loss <sup>196</sup>	Range of lower yield rate differences (in basis points)
2003 <sup>197</sup>	2	374.65	1	100.04	0.02	3
2004	3	1,178.43	2	1,127.68	0.94	4 and 12
2007	-	-	-	-	-	-
2008	1	98.17	1	98.172	0.03	4
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2013	-	4.50	-	-	-	-
2014	1	-	-	-	-	-
	7	1,655.75	4	1,325.89	(0.99)	

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<sup>195</sup> For 2005 and 2006, cashflow statements are not available for review. For 2010, there were no Secondary Market purchases subsequent to 2011 and 2012 and 2015 (January and February 2015).

<sup>196</sup> The instances where the price at which Secondary Market purchases is more than the price offered by the PDD for Direct Placement, the difference is multiplied with the quantity purchased in the Secondary Market to compute the loss.



## Analysis of subsequent investment in the Primary Market

- 8.38 Amount of Rs. 15,860.09 Million, out of cash available amounting to Rs. 62,236.52 Million was subsequently utilised for the investments in Primary Market. On review of investment made in Primary Market, it was noted that:
- A. Out of Rs. 15,860.09 Million, amount of Rs. 3,261.71 Million (20.57%) was invested in the Treasury Bills and Rs. 12,598.38 Million (85.52%) was invested in the Treasury Bonds; and
  - B. Out of total Rs. 12,598.38 Million invested in Treasury Bonds, amount of Rs. 2,919.80 Million (23.18%) was invested in the subsequent Auctions and Rs. 9,678.58 (76.82%) Million was invested in the subsequent Direct Placements.

## Loss on subsequent investment in Treasury Bonds in Auctions

- 8.39 On review of subsequent investments in Auctions amounting to Rs. 2,919.80 Million (Refer Annexure 55)<sup>198</sup> it was identified that:
- A. In four instances, the same ISIN was purchased for value Rs. 1,421.63 Million. In one out of four instances, the purchases were made in Auction at the yield rate lower than the yield rate of Direct Placement where the EPF has not invested. The total loss due to excess price paid was amounting to Rs. 15,027.59 (purchase value Rs. 131.8 Million; and
  - B. In two instances, the different ISIN was purchased for amounting of Rs. 1,498.18 Million. On comparison of price and yield where the EPF has invested in Different ISIN subsequently in Auctions, with the Secondary Market price<sup>199</sup> and yield rate, noted that in 2 instances (3 transactions of subsequent investment), the investment made is at yield rate lower than the Secondary Market Yield Rate. The total loss due to excess price paid was amounting to Rs. 8.68 Million (purchase value Rs. 744.84 Million). The yield rate differences were 45 basis points.

## Loss on subsequent investments in treasury bonds in Direct Placements

- 8.40 On review of subsequent investments made in Direct Placements for the Treasury Bonds amounting to Rs. 9,678.59 Million (Refer Annexure 56)<sup>200</sup> it was identified that:

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<sup>198</sup> Refer Annexure 55 for subsequent purchase made for same and different ISIN in Auction.

<sup>199</sup> Secondary Market price-Price published by the PDD in daily Two-way quote Report.

<sup>200</sup> Refer Annexure 56 for Subsequent purchase made for same and different ISIN in Direct Placement.

- A. In 11 instances, the same ISIN<sup>201</sup> was purchased for total value Rs. 6,476.76 Million. In 5 (five) out of 11 instances, the purchases were made in Direct Placement at the yield rate lower than the yield rate offered by the PDD on the settlement date of identified Direct Placement. The total loss<sup>202</sup> due to excess price paid was amounting to Rs 4.53 Million (purchase value Rs. 1,836.04 Million). The yield rate difference ranging from 2 to 27 basis points; and
- B. In six instances a different ISIN was purchased for total value Rs. 3,201.83 Million. On comparison of price and yield where the EPF has invested in different ISIN subsequently in Direct Placement, with the Secondary Market price and yield rate, noted that in 1 instance, the investment made is at yield rate lower than the Secondary Market Yield Rate. The total loss due to excess price paid was amounting to Rs. 8.63 Million (purchase value Rs. 503.53). The yield rate differences ranging from 22 basis points.

### Interviews with current and former employees of CBSL

8.41 During an interview of 1 October 2019, with Mr. JDSJ Nanayakkara, the current Additional Superintendent of the EPF (working in the EPF department from 01 April 2011) stated that, “...IC discussion on non-participated Auctions if any, was not lengthy as Direct Placement avenue was the main source for Government Securities investment for EPF in that period and discussion on Government Securities was very limited in comparison to the extensive equity market discussion. However, time to time MO of the EPF has presented market situations in detail to IC. Several recommendations proposed by MO w.r.t upcoming large Auction / Direct Placement were approved by IC subject to negotiation with PDD. Subsequently, IC ratified actual investment with different size and rate...”. (Refer Exhibit 12)<sup>203</sup>

“...PDD used Auctions to raise money at a rate low level compared to Direct Placement. Auctions were not competitive as PDD had control over the participant’s investment allocation at the Direct Placement. Prior to 2015, the major volume of issuance of treasury bonds was issued through Direct Placement. The PDD requested/informed of the requirement of EPF participation to a particular Auction. Also, at times the Auction and Direct Placement were offered as a package of investment. We knew if we did not participate in Auction, the EPF can purchase the securities through Direct Placement. However, EPF was not aggressive in rejections participation in the Auction having understood the impact of interest rate to the economy. PDD also offered long term high yield bonds to EPF as the Direct Placement offers. Accordingly, during Direct Placement period, EPF extend its maturity profile with high ATM and WAY on Government Securities ensuring

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<sup>201</sup> Same ISIN refer to ISIN for which the EPF has participated with has not invested in the identified Direct Placement.

<sup>202</sup> Computed the loss, if any, multiply the quantity purchased by the EPF with the differences of higher price paid as compare to price on the settlement date of identified Direct Placement for the Same ISIN.

<sup>203</sup> Refer Exhibit 12 for statement of fact signed by Mr. Mr. J D S J Nanayakkara.

high and stable returns to investors. This encouraged EPF to earn higher rate of return than its peer Employees Trust Fund during the period...”.

- 8.42 During an interview, Mr. LY Dharmasena<sup>204</sup>, (SEPF during 1 January 2007 to October 2008,) stated that “...the EPF has followed the practice of investment through Direct Placements rather than participation in Auctions. On the starting of the year, projected cashflow statement was submitted to the Monetary Board and basis that the EPF on regular basis got the instruction from PDD for the investment through the Direct Placements...”. (Refer Exhibit 12)<sup>227</sup>
- 8.43 During an interview, Mr. LDDY Perera, (former Additional SEPF (during 13 June 2011 to 3 November 2013, and Deputy Superintendent during 16 July 2008 to 12 June 2011), stated that “...For the investment in Government Securities, the EPF has followed the practice of majorly investment through Direct Placement and small quantity in Auctions. I could not re-collect the reason for EPF not participation in many Auctions during my tenure 2008, 09 and 2010. As per my knowledge, the reason for non-participation of EPF was not discussed. (Refer Exhibit 12) <sup>205</sup>

## Conclusion

- 8.44 On review of 96 instances (available cash Rs. 62,236.52 Million) to identify the subsequent investment in Treasury Bonds through Auctions, Direct Placements and Secondary Market purchases, it was noted that subsequent investment of same ISIN and different ISIN purchases has caused loss to the EPF amounting Rs. 5.53 Million and Rs. 17.31 Million. Summary of loss due to purchase in Auctions, Direct Placements and Secondary Market is provided in table 50 below:

Table 50- Details of Loss on subsequent investment (Rs. In Million)

#	Subsequent Investment	Same ISIN		Different ISIN	
		Amount of Purchase	Loss	Amount of Purchase	Loss
1	Auctions	131.8	0.01	744.84	8.68
2	Direct Placements	1,836.04	4.53	503.53	8.63
3	Secondary Market	1,325.89	0.99	-	-

<sup>204</sup> Refer Exhibit 12 for statement of fact signed by Mr. LY Dharmasena.

<sup>205</sup> Refer Exhibit 12 for statement of fact signed by Mr. LDDY Perera.

#	Subsequent Investment	Same ISIN		Different ISIN	
		Amount of Purchase	Loss	Amount of Purchase	Loss
Total		3,293.72	5.53	1,248.37	17.31

- 8.45 During the period, January 2003 to February 2015, the EPF has invested in Treasury Bonds through 645 Direct Placements (tender value of Rs. 2,334 Billion) (40.91%) out of 2,673 Direct Placements offered by the PDD (Tender Value Rs. 5,888 Billion).
- 8.46 As per process, the PDD and the EPF negotiates offer for Direct Placement based the bond series, quantity and yield rates via telephone calls. There is no formal documentation such as an email correspondence, internal memos available in respect of negotiations. In the absence of documented evidence, it cannot be commented that whether the PDD informed the EPF about Direct Placements to the EPF in all instances. (Refer Exhibit 40)<sup>206</sup>
- 8.47 As per Investment Trading Guidelines (ITG 2011)<sup>207</sup>, the MO of the FMD evaluates the offers of Treasury Bonds issued by the PDD and make investment recommendation to the SEPF. However, there is no such evaluation or recommendation report were identified for the instances where the EPF has not invested in the Direct Placement.

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<sup>206</sup> Refer Exhibit 40 for the Summary of discussion of meeting conducted with the Dr. MZM Azim, Superintendent of PDD.  
<sup>207</sup> Refer Section 4.1 for detail of Guidelines.

## 9. LOWER YIELD RATE OFFERED TO THE EPF IN DIRECT PLACEMENTS

### Overview

- 9.1 As explained by the former employees of the EPF, the EPF's primary source of investment in Government Securities is Direct Placements with the PDD. The EPF reaches-out to the PDD to identify the Direct Placement opportunities and the offered rates are negotiated with the PDD officials verbally over telephone. The PDD offers Government Securities through Direct Placement channel, to other Primary Dealers as well. However, in the usual scenario, the offered value and rate at which the placement was offered by PDD to each of the investors, is not known to other investors. Direct Placement transactions were reviewed to examine the effectiveness of the EPF's assessment of the bid rate and the effectiveness of the EPF's negotiations with the PDD. Provided below are the observations on the review of transactions.

### Approach and methodology to analyse the loss to the EPF due to lower yield rate offered by the PDD

- 9.2 Analysed the EPF decisions on investments made through Direct Placement in 549 instances<sup>208</sup>, during the period 1 January 2005 to 28 February 2015. Identified the count of instances where an Auction was conducted by the PDD, for the same ISIN, within two weeks prior to date of "placement arranged on date"<sup>209</sup>
- A. For identified instances , compared price and yield rate offered to the EPF with the weighted average yield rate of latest Auction (herein after referred as "previous Auction") conducted within two weeks prior to "placement arranged on date"; and
  - B. For instances, wherein the Auction was not conducted by the PDD within two-weeks prior to placement arranged on date, compared price and yield rate offered to the EPF with the Ask-yield rate published by the PDD in daily report ("Secondary Market yield rate") on the placement arranged on date<sup>210</sup>
- 9.3 Identified the instances where the EPF has invested through Direct Placement at a yield rate lower than the weighted average yield rate and Secondary Market yield rate.

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<sup>208</sup> The analysis has been performed for the period where the AS/400 data is available. i.e. 1 April 2005 to 28 February 2015. Pre-AS/400 Period i.e. 1 January 2002 to 31 December 2004 as the information of placement arrangement date is not provided by the PDD.

<sup>209</sup> The date on which the details are entered in the computer system from the Direct Placement list to generate the issuance ticket and is displayed at the bottom of the issuance ticket as "placement arranged on date". Placement arranged date is considered as transaction date on which placement is arranged between the PDD and participants for a transaction to be settled on the settlement date.

<sup>210</sup> If the market rate information is not available on the placement arranged on date, the rate is considered on day / two day prior to placement arranged on date.

- 9.4 Computed the loss, if any, for the quantity purchased considering the difference between the price paid and the weighted average price of previous Auction and Secondary Market price.
- 9.5 During the process discussion<sup>211</sup> with Mr. WGR Harshapriya (“worked in the MO during the Period of 21 February 2008 to 1 January 2017), stated that “...*For the investment in Primary Market, MO / FO gives the recommendation based on the previous Auction rates, benchmark rates etc. for a particular security and based on yield curve*”. *Depending on the coupon rate and market interest rate (yield), securities may be transacted/issued at premium price...*”.
- 9.6 During an interview of 2 October 2019, Mr. JDSJ Nanayakkara, the current Additional Superintendent of the EPF (working in the EPF department from 1 April 2011) stated that “...*for the investment in Direct Placement, rate of previous Auction conducted two-weeks prior are taken as basis and EPF tried to get the rate equal or higher than the weighted average/ cut off rate of previous Auction. EPF did not have the visibility of rate offered to other Primary Dealer by the Public Debt Department...*”. (Refer Exhibit 12)<sup>212</sup>
- 9.7 Also, as per the witness statement of Mr. Dhammikka Nanayakkara before Presidential Commission of Inquiry (Page No 440, Chapter 11) confirmed that, a “...*Treasury Bonds Direct Placements shall be conducted at the latest Primary Auction for the particular maturity. If the latest Primary Auction yield rate is older than two weeks, yield rate of the Direct Placement shall be decided in consideration of the development in the macroeconomic movement in yield rates at subsequent T-bill Auctions and Secondary Market yield rates...*”.
- 9.8 As per PDD manual (Refer Exhibit 39)<sup>213</sup>, in case of T-Bill and T-Bonds, placements are arranged at weighted average yield rate (WAYR) / below or at a rate between WAYR and the cut-off yield rate of respective previous Auction rate or a rate decided by relevant authorities” (General Treasury, Governor or SPD).

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<sup>212</sup> Refer Exhibit 12 for statement of fact signed by Mr. J D S J Nanayakkara

<sup>213</sup> Refer Exhibit 39 for extract of the PDD manual.

## Comparison of yield rate offered with weighted average yield rate of previous Auction

- 9.9 On review of 549 Investment transactions through the Direct Placement during the period 1 January 2005 to 28 February 2015, it was noted that in 203 instances, latest Auction (“previous Auction”) was conducted within two-weeks prior to placement arranged on date and in remaining 346 instances there was no previous Auction conducted by the PDD.
- 9.10 The analysis has been performed for the period 1 January 2005 to 28 February 2015, as the information of placement arrangement date is not made available by the PDD for period prior to 01 January 2005. Also, the Secondary Market price information is not available with the PDD department for the year 2002-2004.
- 9.11 On review of 203 instances, it was noted that in 46 instances (Refer Annexure 57)<sup>214</sup>, the investment made through Direct Placement was at a yield rate lower than the weighted average yield rate of previous Auction; the total loss due to excess price paid was amounting to Rs. 256.37 Million; Out of total loss of Rs. 256.37 Million, amount of Rs. 70.47 Million (27.48%), pertains to 21 instances when the difference between Direct Placement arranged on date and previous Auction was in the range of 0-2 days; and
- 9.12 Although there was an Auction conducted on same day or within two days prior to the “placement arranged on date”, the EPF investment yield rate was lower than the previous Auction rate. Summary of 46 instances with the range of days in difference between previous Auction date and placement arranged on date<sup>215</sup> is provided in the table below:

**Table 51- Summary of range of days between previous Auction and Placement arranged on date and loss amount**

(Rs. In Million)

#	Range of days difference between Auction and DP	Comparison with weighted avg. yield rate	
		Number of Instances	Loss (Rs. in Million)
1	0-2	21	70.47
2	3-5	11	11.25
3	6-10	9	135.37
4	11-15	5	39.28
	<b>Total</b>	<b>46</b>	<b>256.37</b>

<sup>214</sup> Refer Annexure 57 for 46 instances of loss to the EPF due to yield rate lower than the weighted average yield Rate of previous Auction.

<sup>215</sup> The date on which the details are entered in the computer system from the Direct Placement list to generate the issuance ticket and is displayed at the bottom of the issuance ticket as “placement arranged on date”. Placement arranged on date is considered as transaction date on which placement us arranged between the PDD and the EPF for a transaction to be performed on the settlement date.

9.13 On analysis of 46 instances, where the loss was amounting to Rs. 256.37 Million caused to the EPF due to Investment in lower yield rate as compared to the weighted average yield rate of previous Auction, it was noted that:

- A. Rs. 224.74 Million (87.66%), out of total loss of Rs. 256.37 Million was incurred during the 2009 and 2010; and
- B. In 6 out of 46 instances, the EPF lower yield rate was more than 10 basis points in comparison to the weighted average yield rate of previous Auction; the total loss for such instances was Rs. 197.05 Million (76.86%). Summary of year wise range of difference for 46 instances between the EPF yield rate and weighted average yield rate with the loss amount is provided in the table below:

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Table 52- Summary of loss due to EPF yield lower as compared to weighted average yield rate of previous Auction

(Rs. In Million)

Range of yield difference (In basis points)	1-10			11-20			21-50			Total				
	Year	Count of Instances	Purchase Amount	Loss Amount	Count of Instances	Purchase Amount	Loss Amount	Count of Instances	Purchase Amount	Loss Amount	Count of Instances	Purchase Amount	Loss Amount	% of total Loss
2005	3	2,610	(1.13)	-	-	-	-	-	-	-	3	2,610	(1.13)	0.44%
2006	9	16,945	(7.42)	-	-	-	-	-	-	-	9	16,945	(7.42)	2.89%
2007	2	14,135	(2.52)	-	-	-	-	-	-	-	2	14,135	(2.52)	0.98%
2008	1	1,590	(3.07)	-	-	-	-	-	-	-	1	1,590	(3.07)	1.20%
2009	3	5,672	(1.76)	2	7,711	(50.63)	3	11,083	(111.83)	7	20,294	(164.22)	64.06%	
2010	10	34,432	(25.93)	-	-	-	1	2,305	(34.59)	12	40,909	(60.52)	23.61%	
2011	5	43,180	(6.68)	-	-	-	-	-	-	-	5	43,180	(6.68)	2.61%
2012	1	7,564	(0.28)	-	-	-	-	-	-	-	1	7,564	(0.28)	0.11%
2013	4	35,025	(3.93)	-	-	-	-	-	-	-	4	35,025	(3.93)	1.53%
2014	2	19,768	(6.59)	-	-	-	-	-	-	-	2	19,768	(6.59)	2.57%
<b>Total</b>	<b>40</b>	<b>180,921</b>	<b>(59.31)</b>	<b>2</b>	<b>7,711</b>	<b>(50.63)</b>	<b>4</b>	<b>13,388</b>	<b>(146.42)</b>	<b>46</b>	<b>202,020</b>	<b>(256.37)</b>	<b>100.00%</b>	

## COMPARISON OF THE EPF YIELD RATE WITH THE SECONDARY MARKET YIELD RATE

9.14 On comparison of the EPF yield rate with the Secondary Market yield rate in 346 instances wherein there was no auction was conducted within two-weeks prior to placement arranged on date, following anomalies were noted in 94 (Refer Annexure 58)<sup>216</sup> out of 346 instances<sup>217</sup>;

- A. Investment at lower yield rate caused loss to the EPF amounting to Rs. 8,716.48 Million;
- B. Amount of Rs. 6,752 Million (77%), out of total loss of Rs. 8,716.48 Million pertains to year 2008 to 2011; and
- C. In 69 out of 94 instances, the EPF lower yield rate was more than 10 basis points in comparison with Secondary Market yield rate; the total loss for such instances was Rs. 8,491.67 Million (97.42%). Summary of Range of difference in yield with the loss amount is provided in Table below:

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<sup>216</sup> Refer Annexure 58 for 94 instances where the EPF yield rate in Direct Placement is lower than the Market Yield Rate.

<sup>217</sup> 346 instances, includes 49 instances pertaining to year 2005 and 2006, for which the EPF yield rate comparison was not made with the Secondary Market yield rate. As the Secondary Market rate information provided by the PDD were not appears to be in line with the actual Secondary Market rates. Also, it includes 52 instances where the Secondary Market rate is not available on the Placement arranged on date or two day prior to date, in the Two-way quotes published by the PDD.

Table 53- Summary of loss due to the EPF yield rate lower as compared to Secondary Market yield rate

(Rs.in Million)

Range of yield difference (In basis points)	0-20			21-60			61-420			TOTAL			
	Years	Count of Instances	Purchase Amount	Loss Amount	Count of Instances	Purchase Amount	Loss Amount	Count of Instances	Purchase Amount	Loss Amount	Count of Instances	Purchase Amount	Loss Amount
	2007	1	2,390.00	(12.54)	-	-	-	1	9,000.00	(223.84)	2	11,390.00	(236.38)
	2008	3	2,178.00	(2.48)	3	19,422.00	(165.16)	7	33,555.00	(3,520.08)	13	55,155.00	(3,687.72)
	2009	2	9,869.00	(17.39)	2	1,205.00	(9.72)	3	5,136.00	(199.53)	7	16,210.00	(226.64)
	2010	8	26,708.00	(105.34)	5	32,535.00	(255.06)	0	34,822.20	(1,443.41)	23	94,065.20	(1,803.81)
	2011	12	63,344.00	(389.70)	12	53,932.80	(644.12)	-	-	-	24	1,17,276.80	(1,033.83)
	2012	6	33,979.70	(192.67)	1	11,056.60	(131.52)	-	-	-	7	45,036.30	(324.19)
	2013	1	1,875.01	(17.08)	1	1,748.10	(20.06)	-	-	-	2	3,623.11	(37.14)
	2014	7	32,065.47	(135.58)	3	13,600.00	(687.39)	2	2,850.00	(235.43)	12	48,515.47	(1,058.40)
	2015	3	7,606.98	(39.34)	-	-	-	1	3,977.00	(269.04)	4	11,583.98	(308.37)
	<b>Total</b>	<b>43</b>	<b>1,80,016.16</b>	<b>(912.12)</b>	<b>27.00</b>	<b>1,33,499.50</b>	<b>(1,913.04)</b>	<b>24.00</b>	<b>89,340.20</b>	<b>(5,891.32)</b>	<b>94.00</b>	<b>4,02,855.86</b>	<b>(8,716.48)</b>

## Non-compliance to Investment policy statement and Investment trading guidelines

- 9.15 As per process, the PDD and the EPF negotiates the offer for Direct Placement based on the bond series, quantity and yield rate via verbally and there was no process of maintaining record of the negotiations either through email correspondences or internal memos. It was informed that the information exchange / negotiations are conducted by the PDD and employees of the FMD / the EPF Management. (Refer Exhibit 40)<sup>218</sup>
- 9.16 On review of supporting documents relating to Direct Placement transactions (203 instances), it was noted that the details of negotiation and communication with the PDD was not recorded / documented in respect of any transaction.
- 9.17 As per the IPS 2002, the Investments made by the EPF should be approved by the Monetary Board / the Investment Committee from time-to-time. As per ITG 2007 and 2011, the DOA, empowers the management of the EPF, as per approval limits specified to execute transactions, without obtaining prior approval, subject to the ratification at the immediate Investment Committee meeting. To obtain the approval from the management the FMD prepares the recommendation sheet capturing yield and quantity to bid at the Treasury Bond Auctions: (Refer Exhibit 24)<sup>219</sup>
- A. In 23 out of 203 instances where the transaction was required to be approved by the EPF management<sup>220</sup> (tender amount Rs. 96,650 Million), the following anomalies were noted:
1. In all the instances, the FMD recommendation sheet was not available. In the absence of FMD recommendation sheet, it cannot be confirmed that these transactions were approved by the EPF management. (Refer Annexure 59)<sup>221</sup>
  2. In 1 out of 23 instances, the transaction was not ratified by the Investment Committee. (Refer Exhibit 42)<sup>222</sup>
- B. In 180 out of 203 instances where the transaction was required to be approved by the Investment Committee, the following were noted:
1. In 116 instances (tender amount Rs. 2,74,513 Million) where minutes of the Investment Committee meetings were available; the transaction was not approved in the minutes conducted on the “placement arranged on date”. (Refer Annexure 60 and Exhibit 43)<sup>223</sup>

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<sup>218</sup> Refer Exhibit 40 for the summary of discussion of meeting conducted with the Mr. MZM Azim, Superintendent of PDD.

<sup>219</sup> Refer Exhibit 24 for approval required for Primary Market Transaction as per IPS 2002 and ITG 2007 and 2011.

<sup>220</sup> Higher Management of the EPF hereby refers as SEPF, Additional SEPF, DS and Head of FMD division of the EPF.

<sup>221</sup> Refer Annexure 59 for list of 23 instances where the FMD recommendation sheet is not available.

<sup>222</sup> Refer Exhibit 42 where the transaction was not ratified by the Investment Committee.

<sup>223</sup> Refer Annexure 60 and Exhibit 43 for 116 instances where the transaction was not approved by the Investment Committee.

2. In 64 instances (tender amount of Rs. 125,151 Million) minutes of the Investment Committee meetings were not available for review. In the absence of minutes, the required approval was obtained for Investments made were approved or not, cannot be verified. (Refer Annexure 61)<sup>224</sup>

9.18 Summary of computation of loss on comparison with weighted average yield rate and Secondary Market yield rate is provided in table below:

Table 54- Summary of loss on comparison of yield rates

(Rs. In Million)

	Weighted average Yield rate of previous Auction			Secondary Market yield rate		
	Number of Instances	Loss Amount	Percentage	Number of Instances	Loss Amount	Percentage
2005	3	(1.13)	0.44%	-	-	-
2006	9	(7.42)	2.89%	-	-	-
2007	2	(2.52)	0.98%	2	(236.38)	2.71%
2008	1	(3.07)	1.20%	12	(3,687.72)	42.31%
2009	8	(164.22)	64.06%	7	(226.64)	2.60%
2010	11	(60.52)	23.61%	23	(1,803.81)	20.69%
2011	5	(6.68)	2.61%	24	(1,033.83)	11.86%
2012	1	(0.28)	0.11%	7	(324.19)	3.72%
2013	4	(3.93)	1.53%	2	(37.14)	0.43%
2014	2	(6.59)	2.57%	12	(1,058.40)	12.14%
2014	-	-	-	4	(308.37)	3.54%
<b>Total</b>	<b>46</b>	<b>(256.37)</b>		<b>94</b>	<b>(8,716.48)</b>	

<sup>224</sup> Refer Annexure 61 for the list of 64 instances where the minutes of Investment Committee meeting is not available.

9.19 On the above analysis during the years 2009, 2010 and 2011, count of instances of investment at lower yield rate in Direct Placement which caused the loss to the EPF were more as compare to other year under review. The officers of the EPF who were responsible for executions and approval of the transactions during that respective period are as follows:

**Table 55 - Summary of approving authority**

Year	Name	Responsibility
2009	WA Wijewardena- IC Member up to 07 July 2009)	Ratification of Transaction
	DS Wijesinghe - DG(W) Chairman- IC Member (from 07 July 2009)	Ratification of Transaction
	P Samarasiri- AG- IC member	Ratification of Transaction
	D Wasantha- SEPF-up to 31 August 2009	Approval of Transaction
	MJS Abeysinghe -. SEPF	Approval of Transaction
	K Gunatilake- Additional. SEPF	Approval of Transaction
	CMDNK Seneviratne- DS up till 01 September 2009 and Additional. SEPF (from 01 September 2009	Approval of Transaction
	LDDY Perera (from 16 July 2008)	Approval of Transaction
	U H E Silva - Additional. SEPF up till 10 August 2009	Approval of Transaction
	T Udayaseelan- FO	Recommendation and Execution of Transaction
	K Suthakaran- MO Analyst	Recommendation for the Transaction
2010	PDJ Fernando- DG	Ratification of Transaction
	KGDD Dheerasinghe - DG(D) Chairman	Ratification of Transaction
	BDWA Silva- AG(S) from 15 June 2010	Ratification of Transaction
	R Dheerasinghe - SEPF (from 21 June 2010)	Approval of Transaction
	K Gunatilake- Additional. SEPF	Approval of Transaction
	CMDNK Seneviratne- Additional. SEPF	Approval of Transaction
	LDDY Perera-DS	Approval of Transaction
	AGU Thilakarathne - DS(T)	Approval of Transaction
	V Bhaskeran - DS(B)	Approval of Transaction
	BHIS Kumara - MO-FM	Recommendation and Execution of Transaction
	T Udayaseelan- FO	Recommendation and Execution of Transaction
	BMWS Balasooriya-FO	Recommendation and Execution of Transaction
2011	PDJ Fernando- DG	Ratification of Transaction
	KGDD Dheerasinghe - DG(D) Chairman	Ratification of Transaction
	BDW A Silva- AG(S) up till 28th September 2011 and DG from 28th September 2011	Ratification of Transaction
	J P Mampitiya -AG	Ratification of Transaction
	R Dheerasinghe - SEPF	Approval of Transaction
	K Gunatilake- Additional. SEPF	Approval of Transaction
	CMDK Seneviratne- Additional. SEPF	Approval of Transaction

Year	Name	Responsibility
	LDDY Perera- DS until 12 June 2011 and Addl SEPF from 12 June 2011)	Approval of Transaction
	AGU Thilakarathne - DS(T)	Approval of Transaction
	V Bhaskeran - DS(B)	Approval of Transaction
	SAL Muthukumara- DS	Approval of Transaction
	JDSJ Nanayakara-SAS	Recommendation and Execution of Transaction
	WAVKW Renaweera- SAS	Recommendation and Execution of Transaction
	WGR Harshapriya- AS	Recommendation and Execution of Transaction
	T Udayaseelan- FO	Recommendation and Execution of Transaction
	BMW Balasooriya-FO	Recommendation and Execution of Transaction
	DP Udugamakorala	Recommendation and Execution of Transaction
	S Pathumanapan	Recommendation and Execution of Transaction
	GACN Ganepola	Recommendation and Execution of Transaction
	KLACN Anuradha	Recommendation and Execution of Transaction

### Interviews with current and former CBSL employees

9.20 During an interview of 2 October 2019, with Mr. JDSJ Nanayakkara, the current Additional Superintendent of the EPF (working in the EPF department from 1 April 2011), stated that,

*“...In the Direct Placement period, PDD used to communicate the desired level of interest rates, as well as expected participation of Bond Auction to captive sources including EPF. Apart from that, EPF takes into consideration the weighted average rate of previous Auctions, other publicly available rates and the yield rate published by the PDD (“Two-way quote”) and other economic factors to evaluate the rate to be quoted in the Auction...”.*

*“According to my experience, as the sole issuer of Government Securities PDD had upper hand in the interest rates negotiation with the EPF, which has only limited investment avenues other than Government Securities. EPF tried to convince PDD to get the maximum benefitted rate, if the same did not happen, EPF considered investment in Secondary market if any. As long-term bond market was high, naturally EPF had to accept the PDD final rates and make investment. Always, EPF tried to obtain the best rate possible from PDD but the same was not possible as PDD as another department of CBSL had their own internal approvals, policy and procedures and limits...”.*

*“...As explained above PDD played a major role in deciding EPF is to bid at specified rates at the Direct Placements and Auctions...”.*

“...For the investment in Direct Placement, rate of previous Auction conducted two-weeks prior are taken as basis and EPF tried to get the rate equal or higher than the weighted average/cut off rate of previous Auction. EPF did not have the visibility of rate offered to other Primary Dealer by the Public Debt Department...”. (Refer Exhibit 12)<sup>225</sup>

- 9.21 During an interview of 1 October 2019, with Mr. LDDY Perera, the current Additional Superintendent of the EPF (working in the EPF department from 1 April 2011), it was stated that “...As per the practice the EPF negotiates the rates with the PDD when it comes to the Direct Placement. There were many instances where the PDD rejected the EPF requested rate...”.(Refer Exhibit 12)<sup>226</sup>

### Unavailability of voice records

- 9.22 There is no Voice Records facility installed in the FMD by the EPF department. In the absence of voice record facility, it could not be confirmed that the EPF Management had negotiated with the PDD for better rate of return on investment in Treasury Bonds.

### Conclusion

- 9.23 The maximum loss was incurred during 2009, 2010 and 2011.

Table 56 -Summary of loss

(Rs. In Million)

#	Basis of comparisons	Total amount of loss) (A)	Loss for 2008, 2009 and 2010 (B)	% (B/A)
1	Weighted Average Yield Rate of previous Auction	256.37	227.81	88.86%
3	Secondary Market Yield Rate when reference rate of previous Auction was not available	8,716.48	5,718.18	65.60%

- 9.24 On review of minutes of the Monetary Board meeting of 7 October 2008, stated that “... Issuing Treasury Bonds to EPF and other captive sources at an interest rate 5 basis points above the Secondary Market rates through private placements ...” (Refer Exhibit 44)<sup>227</sup>

<sup>225</sup> Refer Exhibit 12 for statement of fact signed by Mr. JDSJ Nanayakkara.

<sup>226</sup> Refer Exhibit 12 for statement of fact signed by Mr. LDYY Perera.

<sup>227</sup> Refer Exhibit 44 for minutes of the Monetary Board of 07 October 2007.



- 9.25 Further on review of minutes of the Investment Committee of 9 October 2008, it states that “...IC was informed of proposal made by the Public Debt Department (PDD) regarding offer rates on Government Securities. According to the proposal PDD will offer 5 basis points higher than the Secondary Market rates on Government Securities...” (Refer Exhibit 45)<sup>228</sup>
- 9.26 Proposal to provide the yield rate to the EPF more than the Secondary Market rates was approved by the Monetary Board and the Investment Committee, it is evident that the EPF yield rates were significantly lesser than the Secondary Market yield rates even though the Monetary Board has approved that the EPF and other captive sources to issue the Treasury Bonds at an interest rate 5 basis point above then the Secondary Market Rates.
- 9.27 Further, due to unavailability of emails of the employees worked in the FMD prior to 2011, negotiation, if any, made by the FMD officials or by the EPF could not be confirmed.

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<sup>228</sup> Refer Exhibit 45 for Minutes of the Investment Committee of 9 October 2008.

## 10. DEVIATIONS FROM INVESTMENT POLICY STATEMENT AND INVESTMENT AND TRADING GUIDELINES

### INTRODUCTION - EXTRACT OF POLICY

- 10.1 The objective of the Investment and Trading Guidelines (“ITG”)<sup>229</sup> 2007 and 2011 is to streamline the investment decision process at the EPF and maximize the return on the portfolio, while managing the risk at acceptable levels.
- 10.2 The Investment Policy Statement, 2002 requires all the Investments to be approved by the Investment Committee. It does not specify any limits for DOA for execution of the transactions (Investments and Divestments) by FO. The authority for approving the execution of transactions was delegated and the limits for DOA were specified post implementation of ITG on 21 March 2007.
- 10.3 ITG, 2007 was revised and implemented with effect from 1 January 2012 as stated in the minutes of the Monetary Board of 31 December 2011.
- 10.4 As per ITG, 2007 read with ITG, 2011, the DOA to execute Secondary Market transactions (investment and trading portfolio) is assigned to SEPF and FMD, subject to the ratification of the Investment Committee, as per the limits (Refer Exhibit 47)<sup>230</sup> specified below:

Table 57 - Limits specified in the ITG, 2007 and ITG, 2011 for HTM portfolio

#	DOA for HTM portfolio Designation	Per day limit specified for ITG, 2007	Per day limit specified for ITG, 2011
1	Assistant Governor (“AG”) in-charge of the EPF	-	No Limit
2	Superintendent (or person acting for the post of Superintendent)	Up to 1 Billion (Maximum single trade limit Rs. 200 Million)	Up to 10 Billion
3	Additional Superintendent	-	Up to 5 Billion
4	Deputy Superintendent	-	Up to 3 Billion
5	FO* / Head of FMD (“HFMD”)	Up to 0.50 Billion (Maximum single trade limit Rs. 100 Million)	Up to 2 Billion

<sup>229</sup> Reference: Section 1.1 (Objective) of the Investment and Trading Guidelines for the EPF Securities Portfolio dated 21 March 2007.

<sup>230</sup> Exhibit - 47 Extract of DOA specified in ITG, 2007 and ITG, 2011.

*\*Note: As per ITG, 2007, FO should obtain prior approvals from the Investment Committee daily, for both range in yield and quantity of Treasury Bond to be traded in the Secondary Market.\**

**Table 58 - Limits specified in the ITG, 2011 for trading portfolio**

#	DOA for Trading Portfolio Designation	Per day limit specified for ITG, 2011
1	Superintendent/ Acting Superintendent	Up to 10 Billion
2	Additional Superintendent	Up to 5 Billion
3	Deputy Superintendent	Up to 3 Billion
4	Staff officer attached to FO	Up to 0.5 Billion

*\*Note: ITG, 2011 does not specify if the stipulated limits for trading portfolio are for purchases or sales or both. Hence, the transaction limit has been considered cumulatively for both purchases and sales per day.*

- 10.5 On comparison of the limits specified in the above **Table 57** and **Table 58**, it was noted that the specified limit for approval of investment in HTM portfolio<sup>231</sup> had increased from Rs. 1 Billion to Rs. 10 Billion (10 times) for the Superintendent and similarly for officer of FO, the approved limit increased from Rs. 500 Million to Rs. 2 Billion (4 times).
- 10.6 As per the minutes of the Monetary Board meeting No.30/2011 on 30 December 2011 (Refer Exhibit 25 for an Extract of minutes of Monetary Board)<sup>232</sup>, the rationale for revision of the IPS and ITG were described as follows: “...Due to the recent economic and financial market developments in Sri Lanka, EPF has recognized the need for revising IPS and ITG by streamlining its investment management process and procedures to maximum the return whilst managing the risk of the Fund at an acceptable level. The revised IPS and ITG provide diversification of opportunities to the Fund while improving the risk management procedures in line with the modern fund management practices...”.
- 10.7 On revision of the limits, it stated that, “...Treasury Bonds and Treasury Bills - with the view to improve the operational efficiency, limits on execution of Treasury Bonds and Bills transactions for both investment and trading portfolio are reset. The limits are subject to the ratification of Investment Committee and Monetary Board...”.
- 10.8 On review of the Investment / Divestments subsequent to the above, it was noted that the average face value of Investment / Divestment transactions of the EPF per day ranged approximately between Rs. 153 Million to Rs.254 Million during the period April 2007 to December 2011. The year-on-year average transaction value of Investment and Divestment for the period from April 2007 till December 2011 are as follows:

<sup>231</sup> Refer Section “Terms of Reference” for the definition of Held to Maturity (“HTM”).

<sup>232</sup> Refer Exhibit 48 for an extract of Minutes of the Monetary Board dated 30 December 2011.

Table 59 - Summary of year wise average transaction value (Rs. In Million)

#	Year	Investment- Average Transaction Value per day (Rs. in Million)	Divestment- Average Transaction Value per day (Rs. in Million)
1	2007	291	-
2	2008	220	153
3	2009	182	288
4	2010	212	265
5	2011	254	225
6	2012	225	1,750
7	2013	733	1,203
8	2014	829	815
9	2015 <sup>233</sup>	-	538

10.9 It was noted that, there was no substantial increase in the value of transactions per day to justify the decision of increasing in approval limit up to 10 (ten) times for SEPF and 4 (four) times for FO.

10.10 During an interview of 19 September 2019 with Mrs. K Gunatilake, SEPF during July 2008 to June 2013 (Refer Exhibit 12)<sup>234</sup>, stated that, “...as per the investment policy statement in the year 2007 to 2011, the limit of the threshold for Government Securities had been increased expecting there would be boom in the market after the civil war end of the year 2009 enhancement in the approval limit was to facilitate quicker decision making...”

10.11 Further, the EPF management had not analysed the actual investment made in the year 2012 and 2013 and taken steps to revisit the DOA limit in line with market conditions.

#### VIOLATION OF DELEGATED AUTHORITY LIMIT - VERIFICATION OF TRANSACTIONS FOR THE PERIOD 2002 TO 2006

10.12 The IPS specifies the roles and responsibilities of the Monetary Board, the Investment Committee and the FMD. The limits for DOA were specified only after implementation of ITG as on 21 March 2007.

10.13 As there was no limit specified for approving authority in the IPS applicable for the period between 2002 and 2006. The Deal Tickets were reviewed to verify whether the transactions were approved by the top management of EPF (SEPF, Additional. SEPF, DS and staff officer of FO).

<sup>233</sup> No Investments were made during January and February 2015

<sup>234</sup> Refer Exhibit- 12 for the witness statement provided by Mrs. K Gunathilake on 19 September 2019.

10.14 For verifying the approving authority, the sample transactions (Investments and Divestments) were selected on basis of the following criteria:

- A. Transaction value greater than Rs.100 Million per trade (Investments / Divestments); and
- B. Multiple purchase price paid to different Primary Dealers on the same day for the purchase of the same ISIN.

Table 60 - Summary of documents reviewed for verification of DOA for the period from 2002 till 2006

Particulars	Transaction count	Amount (Rs. in Billion)	Transactions Reviewed	Amount (Rs. in Billion)
Investments	1,044	69.1	526	34.30
Divestments	752	98.1	258	54.99
<b>Total</b>	<b>1,796</b>	<b>167.2</b>	<b>784</b>	<b>89.29</b>

10.15 The approval of following transactions could not be verified due to the **absence of documents such as (Deal Tickets<sup>235</sup>**, counterparty confirmation and minutes of the Investment Committee) relating to Investments and Divestments. Out of 526 (Annexure 62)<sup>236</sup> Investment transactions reviewed, Deal Tickets in respect of 244 transactions (approximately 46% of the total sample reviewed); and counterparty confirmation in respect of 431 transactions (approximately 82% of the total sample reviewed) and minutes of the Investment Committee meeting in respect of 476 transactions (approximately 90% of the total sample reviewed) were not available for review<sup>237</sup>

Table 61a - Summary of Investment documents not made available for review

#	Year	Sample selected for review		Transactions for which Documents were provided			Transactions for which Documents were not provided <sup>238</sup>		
		Count	Rs. In Billion	Deal Ticket	Counterparty Confirmation	Minutes of Investment Committee	Deal Ticket	Counterparty Confirmation	Minutes of Investment Committee
1	2002	213	9.26	165	58	10	48	155	203
2	2003	227	16.42	103	31	-	124	196	227
3	2004	45	5.47	14	6	14	31	39	31
4	2005	24	1.80	-	-	23	24	24	1
5	2006	17	1.35	-	-	3	17	17	14
<b>Total</b>		<b>526</b>	<b>34.30</b>	<b>282</b>	<b>95</b>	<b>50</b>	<b>244</b>	<b>431</b>	<b>476</b>

<sup>235</sup> Refer Section "Terms of Reference" for the definition of Deal Ticket.

<sup>236</sup> Refer Annexure - 62 for the list of 526 Investment transactions.

<sup>237</sup> Refer Exhibit 49 for the CBSL employee's confirmation on non-availability of documents.

<sup>238</sup> Refer Annexure - 63 for the list of documents not traceable related to Investments.

10.16 Out of 258 (Annexure 64)<sup>239</sup> sample Divestment transactions reviewed, Deal Tickets in respect of 171 transactions (approximately 66% of the total sample reviewed), in 256 transactions counterparty confirmations (approximately 99% of the total sample reviewed) and in 191 transaction minutes of the Investment Committee (approximately 76% of the total sample reviewed) were not available for review.

Table 61b - Summary of divestment documents not made available for review

Sample selected for review				Transactions for which documents were provided			Transactions for which documents were not provided <sup>240</sup>		
#	Year	Count	Rs. in Billion	Deal Ticket	Counterparty Confirmation	Minutes of Investment Committee	Deal Ticket	Counterparty Confirmation	Minutes of Investment Committee
1	2002	63	16.15	29	-	1	34	63	62
2	2003	55	18.24	36	-	-	19	55	55
3	2004	28	8.00	22	2	-	6	26	28
4	2005	73	7.70	-	-	46	73	73	27
5	2006	39	4.90	-	-	20	39	39	19
Total		258	54.99	87	2	67	171	256	191

10.17 On review of available Deal Tickets of 282 transactions (Annexure 66)<sup>241</sup> relating to Investments and 87 transactions (Annexure 67)<sup>242</sup> relating to Divestments to verify the approving authority of the transactions in the Deal Ticket<sup>243</sup>, the summary of observations is provided below:

- 1) In 189 out of 282 transactions, the Deal Tickets were not signed by the officer of FO;
- 2) In 7 transactions, the Deal Tickets were not approved by the Deputy Superintendent; and
- 3) In 205 transactions, the Deal Tickets were not approved by the Superintendent of the EPF.

Table 62 - Summary of observations on verification of Deal Tickets for Investments

Year	Deal Ticket not signed by dealer (Officer of FO)	Deal Ticket not approved by Deputy Superintendent	Deal Ticket not approved by Superintendent
2002	104	-	107
2003	79	7	84
2004	6	0	14
Total	189	7	205

<sup>239</sup> Refer Annexure - 64 for the list of 258 Divestment transactions.

<sup>240</sup> Refer Annexure - 65 for list of documents not traceable in Divestments.

<sup>241</sup> Refer Annexure- 66 for the list of Investment transactions containing the approval authority.

<sup>242</sup> Refer Annexure- 67 for the list of Divestment transactions containing the approval authority.

<sup>243</sup> Refer Exhibit - 50 for the exhibit of Deal Tickets relating to Investments.

B. On review of 87<sup>244</sup> (Refer Exhibit 51) transactions relating to Divestments, it was noted that:

- 1) In 74 transactions, the Deal Tickets were not signed by the officer of FO;
- 2) In 11 transactions, the Deal Tickets were not approved by the Deputy Superintendent; and
- 3) In 69 transactions, the Deal Tickets were not approved by the SEPF.

Table 63 - Summary of observations on verification of Deal Tickets for Divestments

Year	Deal Ticket not signed by Dealer (Officer of FO)	Deal Ticket not approved by Deputy Superintendent	Deal Ticket not approved by Superintendent
2002	29	6	17
2003	35	4	30
2004	10	1	22
<b>Total</b>	<b>74</b>	<b>11</b>	<b>69</b>

*Note: For 2005 and 2006, Deal Tickets were not available for review for both Investments and Divestments.*

10.18 The Deal Tickets consist of only the face value of the transactions and not the actual settlement amount. Hence, the settlement amount cannot be validated from the transactions ratified in the Monetary Board meeting for the 282 investment transactions and 87 Divestment transactions.

10.19 The date of approval was not mentioned along with the signatures of the approving authority. Accordingly, whether the transaction was pre-approved or subsequently ratified could not be determined. (Refer Exhibit - 52)<sup>245</sup>.

10.20 In 50 transactions<sup>246</sup> (Refer Annexure 68) where the Investment Committee minutes were available on the dates of those investment, the detail of transactions were not recorded in the minutes. Accordingly, the prior approval of the transactions cannot be confirmed.

<sup>244</sup> Refer Exhibit 51 for the exhibit for Deal Tickets relating to Divestments.

<sup>245</sup> Refer Exhibit 52 for a sample to illustrate the absence of date of approval in the Deal Ticket.

<sup>246</sup> Refer Annexure 68 for the list of transactions where minutes of the Investment Committee meetings were available, however, the transactions were not recorded in the minutes of Investment Committee Meetings.

10.21 On review of supporting documents and HR records provided by the EPF management, below mentioned CBSL employees were identified as responsible for the approval of above transactions:

Table 64 - Summary of approving Authority for the period from 2002 till 2006

Year	Name	Designation
2002-2003	NJ Perera	SEPF
	S Somapala	Additional SEPF
	JB Sumanabandara	DS
	MSM Husam	Fund Manager
	HS Fernando	MO
2004	NJ Perera	SEPF
	S Somapala	Additional SEPF
	JB Sumanabandara	DS
	PKM. Sudharshanie	Fund Manager
	Nishanthi Gunarathne	Fund Manager
	HSS Fernando	Fund Manager
	Rohana Haliyedda	Fund Manager
	WMS Karunarathne	Fund Manager
	BHIS Kumara	Fund Manager
	CPB Disanayake	Fund Manager
MLK Somaratne	Fund Manager	
2005	NJ Perera	SEPF
	S. Somapala	Additional SEPF
	UHE De Silva	DS
	HSS. Fernando	Fund Manager
	WMS. Karunarathne	Fund Manager
	PKM. Sudharshanie	Fund Manager
	JB Sumanabandara	Fund Manager
	BHIS. Kumara	Fund Manager
	MLB Ekanayake	Fund Manager
	ML Cooray	Fund Manager
UD Liyanagamage	Fund Manager	
AA. Carder	Fund Manager	
Nishanthi Gimarathne	Fund Manager	
Prabath Susantha	Fund Manager	
GHPP Shyamalie	Fund Manager	
2006	NJ Perera	SEPF
	S Somapala	Additional SEPF



Year	Name	Designation
2006	UHE De Silva	DS
	MSM Husam	Fund Manager
	WMS Karunaratna	Fund Manager
	PKM Sudarshani	Fund Manager
	ML Cooray	Fund Manager
	BHIS Kumara	Fund Manager

## CONCLUSION

- 10.22 Documented guidelines and procedures along with the DoA limits for the Investments and Divestments transactions were not available during the period January 2002 to 21 March 2007.
- 10.23 These deficiencies indicate internal control weaknesses such as, missing documentation of the decisions, missing approvals of transactions and absence of supervision over transactions executed by Fund Managers exceeding their authorities that were not detected by the senior management of EPF.
- 10.24 In the absence of the Deal Tickets, counterparty confirmations and the date of approval and signature of the approving authority, it cannot be established, if the transactions were adequately approved or ratified as per the ITG.
- 10.25 The frequency of the Investment Committee meetings was “daily”, and the minutes of the Investment Committee were required to capture the decision regarding the Investments to be made along with the investment strategy. In the absence of transactions details in the minutes of Investment Committee meetings, the approval of the transactions cannot be confirmed.
- 10.26 The EPF department confirmed that all available documents were provided for review and in the absence of the above documentation, it is to be inferred that the transactions were not approved.

## VERIFICATION OF TRANSACTIONS AS PER ITG 2007

- 10.27 The ITG, 2007, implemented on 21 March 2007, specifies the DOA limits for purchase and sale of the Government Securities in the Secondary Market. Refer paragraph 10.4 of this section for the DOA limits specified in ITG, 2007 which is applicable for the period from 21 March 2007 to 31 December 2011.

10.28 For review of compliance with the prescribed DOA limits, the transactions (Investments and Divestments) were selected on basis of the following criteria:

- A. Transaction value greater than Rs.100 Million per trade;
- B. Higher purchase price was paid by the EPF compared to the Secondary Market price (“Two-way” quotes); and
- C. Multiple purchase price paid to different Primary Dealers on the same day for the purchase of the same ISIN.

10.29 Based on the above-mentioned exceptions, the following transactions were selected to verify the compliance of delegation of authority limit as specified in the ITG, 2007:

- A. The total transaction count for Investments during 2007 to 2011 was 97 transactions<sup>247</sup> (Refer Annexure 69) (approximately 30% of the total 213 transactions). On the total selected sample, the count of HTM portfolio was 66 transactions and trading portfolios was 31 transactions;
- B. The total transaction count for divestment during the year 2007 to 2011 was 155 transactions<sup>248</sup> (Refer Annexure 70) (approximately 40% of the total 226 transactions). On the total selected sample, the count of HTM portfolio was 2 (two) transactions and trading portfolios was 153 transactions.
- C. ITG, 2007 does not specify the DOA separately for purchase and sale, hence, the delegation limit of Rs. 500 million per day for FO was considered for both sale and purchase together.

10.30 On review of Deal Tickets to verify the compliance with or adherence to the DOA in respect of 252 transactions (97 Investment transactions and 155 Divestment transactions) for the period 2007 to 2011, the following were the observations:

- A. In 18 out of 100 (instances where Deal Ticket was available), the DOA limit was exceeded by the officer of FO. Transaction details are provided in the table below and (Refer Annexure 71)<sup>249</sup>:
  - i. 16 transactions (aggregate transaction value Rs. 2.96 Billion) were approved by the Deputy Superintendent rather than SEPF as stipulated in the ITG.<sup>250</sup> (Refer Exhibit - 53)

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<sup>247</sup> Refer Annexure 69 for the list of Investment transactions selected for the period January 2007 to December 2011.

<sup>248</sup> Refer Annexure 70 for the list of Divestment transactions selected for the period January 2007 to December 2011.

<sup>249</sup> Refer Annexure 71 for the list of the transactions where delegation of authority limits had been exceeded by officer of FO.

<sup>250</sup> Refer Exhibit 53 for the extract of Deal Ticket where the transactions have not been approved by Superintendent.

- ii. Two transactions (aggregate transaction value Rs.0.30 Billion) were not approved by the Deputy Superintendent but the Deal Tickets were signed by the Chief Dealer<sup>251</sup> alone; and
- iii. Six transactions (aggregate transaction value Rs. 1.56 Billion) were exceeding the single trade limit of Rs. 200 Million, no prior approval, as stipulated by the ITG, from the Investment Committee was obtained.<sup>252</sup> (Refer Exhibit 56)

Table 65 - Summary of transactions by the FMD officers exceeding the DOA limit of per limit of Rs.100 Million per trade

Year	Counterparty	Transaction Date	Count of transactions	Amount (Rs. In Million)
			1	217.75
	Hongkong and Shanghai Banking Corp.	02-Aug-07	1	109.06
		15-Aug-07	1	106.66
2007	People's Bank	28-May-07	1	148.66
		30-May-07	1	147.75
	Deutsche Bank	03-Oct-07	1	360
	Capital Alliance Limited.	17-May-07	1	110.85
	Ceylinco Shriram Securities Limited.	22-May-07	1	111.14
<b>2007</b>			<b>8</b>	<b>1,311.87</b>
2008	Standard Chartered Bank PLC	08-Oct-08	1	139.17
<b>2008</b>			<b>1</b>	<b>139.17</b>
		17-Mar-09	1	197.89
	Seylan Bank PLC	08-Jun-09	1	140.51
		13-Jul-09	1	106.75
2009	National Trust Bank	22-Apr-09	1	281.08
		21-Apr-09	1	200.02
	Deutsche Bank	03-Mar-09	1	171.62
	First Capital Treasuries Limited.	23-Jan-09	1	194.42
	NSB Fund Management Company	18-Nov-09	1	203.89
	National Development Bank	17-Mar-09	1	296.84
<b>2009</b>			<b>9</b>	<b>1,793.03</b>
<b>Total</b>			<b>18</b>	<b>3,243.55</b>

<sup>251</sup> Refer Exhibit 54 for the extract of Deal Ticket for 2 Transactions not approved by the Deputy Superintendent.

<sup>252</sup> Refer Exhibit 55 for the extract of Minutes of Investment Committee Meeting for the corresponding deal ticket.

10.31 In 153 out of 252 transactions amounting to Rs. 28.04 Billion, the details of approval of the transactions could not be ascertained due to the non-availability of the Deal Tickets. (Refer Annexure 72 for the detailed list of documents not traceable)<sup>253</sup>

Table 66 - Summary of Deal Tickets not available for review during 2007 to 2011

#	Year	Transaction count	Transaction Value (Rs. in Billion)
1	2007	3	0.90
2	2008	24	4.86
3	2009	10	2.97
4	2010	100	16.52
5	2011	16	2.79
	<b>Total</b>	<b>153</b>	<b>28.04</b>

10.32 On review of supporting documents and HR records provided by the EPF management, below mentioned persons were found responsible for the executions and approval of the transactions during that period:

TABLE 67 - Summary of Deal Tickets not available for review during 2007 to 2011

Year	Name	Designation
2007	LY Dharmasena	SEPF
	SN Perera	SEPF
	DAG Wijetunga	DS
	CMDNK Senevirathne	DS
	S Somaweera	DS
	K Suthakaran	Fund Manager
	BHIS Kumara	Fund Manager
	MLBE kanayake	Fund Manager
	WMSK arunaratne	Fund Manager
	MLKSomarathne	Fund Manager
	Miss ManoriCooray	Fund Manager
	MonicaWanigasekara	Fund Manager
	RH Jayasinghe	Fund Manager
	MSM Husam	Fund Manager
PKM Sudharshanie	Fund Manager	
2008	R Dheerasinghe	SEPF
	MJS Abeysinghe	SEPF

<sup>253</sup> Refer Annexure 72 for the list of the transactions where the Deal Tickets were not traceable during the period 2007 to January 2011.

Year	Name	Designation
	K Gunatilake	Additional.SEPF
	CMDNK Seneviratne	DS
	LDDY Perera (from16July2008)	DS
	UHE Silva	Additional.SEPF
	T Udayaseelan	MO
	K Suthakaran	MO
	BMWS Balasooriya	FO
2009	K Gunatilake	SEPF
	CMDNK Seneviratne	Additional.SEPF
	LDDY Perera	DS
	AGU Tillakaratne	DS
	V Bhaskeran	DS
	BHIS Kumara	MO
	UHE Silva	Fund Manager
	T Udayaseelan	Fund Manager
	K Suthakaran	FO
	BMWS Balasooriya	FO

10.33 During an interview of 16 September 2019 with Mr. WGR Harshapriya (former FO Manager (Refer Exhibit-12)<sup>254</sup>, stated that “*Transactions related to the Government Securities in Secondary market, transactions were done usually with the verbal approval of SEPF, Additional SEPF and Deputy SEPF. Then the approving authority signed the deal ticket, during my tenure in the EPF*”.

<sup>254</sup> Refer Exhibit - 12 for the fact statement of Mr. W G R Harshapriya dated 16 September 2019.

## Conclusion

- A. In the absence of the Deal Tickets, counterparty confirmations and the date of approval and signature of the approving authority, it cannot be established, if the transactions were adequately approved or ratified as per the ITG.
- B. In the absence of the minutes of the Investment Committee meeting, whether the investment / divestment transactions were ratified / approved by the Investment Committee cannot be determined.
- C. **The execution of transactions without written approval indicates deficiencies in the oversight function at the EPF department,** since it cannot be ascertained as to if EPF management was aware of the execution of such transactions.
- D. During the interviews, the **senior officials of the EPF indicated** that they believed that **all transactions were executed** by the Fund Managers, **post discussion with them.** However, it is not clear as to why the approvals were subsequently not documented consistently by the EPF management, had such discussion and verbal approval were ever obtained.
- E. Given the existence of such missing (insistence on) documented approval, the **procedures or practices** adopted by EPF management, to ensure that all investment / divestment transactions were indeed executed post approval, are questionable.
- F. Further, missing approvals on the documents also indicate gaps in the periodic oversight functions such as internal audits, where execution of transactions with such deviations was not highlighted.

## VERIFICATION OF TRANSACTIONS AS PER ITG 2011

10.34 The ITG, 2011 revised on 31 December 2011, specifies the DOA limits for purchase and sale of Government Securities in the Secondary Market. Refer paragraph 10.4 of this Section for the DOA limits specified in ITG, 2011 which is applicable for the transactions for the period from 1 January 2012 to 28 February 2015.

10.35 For the review of adherence to the prescribed DOA Limits as specified as per ITG 2011, the following transactions for the period 01 January 2012 to 28 February 2015 were considered for verification:

- A. Total Investment Count was 257 transactions (HTM portfolio - 143 and Trading Portfolio -114) amounting to Rs. 78.11 Billion; and
- B. Total Divestment count was 223 transactions (HTM Portfolio - 133 and Trading Portfolio - 90) amounting to Rs. 104 Billion.

10.36 In 50 out of 143 transactions (in 4 transaction dates) the Investment value in the HTM Portfolio was more than Rs. 2 Billion the limit specified for the Head of Fund Management Division to approve. Instances of 50 transactions was considered for review to verify the compliance to the ITG, 2011.

10.37 Transactions with face value more than Rs. 500 Million per day was considered for verification of Trading Portfolio (Investments and Divestments) and HTM Portfolio (Divestments).

#	Portfolio	Transaction count	Face Value Amount (Rs. in Billion)	Count of Investment transactions	Amount (Rs. In Billion)	Count of divestment transactions	Amount (Rs. in Billion)
1	Trading Portfolio <sup>255</sup>	128	38.82	76	21.83	52	16.99
2	HTM Portfolio <sup>256</sup>	102	70.47	-	-	102	70.47

Table 68 - Summary of transactions with face value more than Rs.500 Million

*Note: ITG, 2011 does not specify the DOA for Divestments in HTM Portfolio separately, hence the DOA limit of Rs.500 million per day for the FO was considered for identifying the violation in DOA for HTM Portfolio.*

#### VIOLETION OF THE LIMITS APPLICABLE FOR EXECUTING INVESTMENT TRANSACTIONS OF HTM PORTFOLIO

10.38 On review of Deal Tickets for 50 transactions<sup>257</sup> (in 4 transaction dates) (Refer Exhibit 56 for the Deal Tickets of transactions above the limit Rs 2 Billion)<sup>258</sup>, it was noted that Deal Ticket signed date was subsequent to the transaction date. Hence, it is evident that no process of obtaining prior approval from the approving authority (DS / Additional SEPF / SEPF) before the execution of the transaction and the transactions were only ratified.

<sup>255</sup> Refer Annexure 73 for the list of 128 transactions of trading portfolio.

<sup>256</sup> Refer Annexure 74 for the list of 102 transactions of HTM portfolio.

<sup>257</sup> Refer Annexure 75 for the counterparty wise break up of 50 Transactions.

<sup>258</sup> Exhibit - 56 and Exhibit - 56a Copy of the Deal Tickets for the transactions only ratified by the approving authority instead of prior approval as required per ITG.

Table 69 - Summary of date of approval of the transactions

(Rs. In Million)

#	Transaction Date	Transaction Count	As per ITG, Approval Required from					Ratified By					Prior Approval of transactions (Yes /No)	
			Total Transaction Value	AG	SEPF	Additional EPF	DS	HFMD	AG	SEPF	Additional EPF	DS		FO
1	28-Aug-14	4	2,193				✓				✓		✓	No
2	30-Oct-14	9	2,311				✓				✓	✓		No
3	31-Oct-14	19	10,144	✓							✓	✓		No
4	23-Dec-14	18	6,548		✓								✓	No
Total		50	21,195											

Table 70 -Summary containing details of approval by the approving authority

(Rs. In Million)

#	Transaction Date	Total Transaction Value	Date of approval by SEPF	Date of approval by Additional SEPF	Date of approval by DS	Remarks
1	28-Aug-14	2,193	-	29-Aug-14	Not signed*	The approval was obtained after the transaction date
2	30-Oct-14	2,311	03-Nov-2014	31-Oct-2014	Not signed*	
3	31-Oct-14	10,144	04-Nov-2014	04-Nov-2014	Not signed*	
4	23-Dec-14	6,548	26-Dec-2014	Not signed*	On leave	

\*Additional SEPF / DS were available (Refer Exhibit 27 for extract of attendance record) on the transaction date / settlement date / in between these dates, however, the deal ticket was not approved by them.



- A. During an interview of 1 October 2019, Mr. LDDY Perera (Deputy Superintendent / Additional Superintendent), stated that, *“Approval for the Secondary market transactions was provided after the execution of transactions by the Fund Manager in the FO.”*
- B. During an interview of 16 September 2019 Mr. WGR Harshapriya (the former FO Manager (Refer Exhibit-12)<sup>259</sup> stated that *“Transactions related to the Government Securities in Secondary market, transactions were done usually with the verbal approval of SEPF, Additional SEPF and Deputy SEPF. Then the approving authority signed the deal ticket, during my tenure in the EPF”*.
- C. This practice is a deviation from the DOA specified in ITG which requires a prior approval as per Section 4.4 and 5.4 of the ITG, 2011.<sup>260</sup> (Refer Exhibit - 57 for the extract of ITG)
- D. Further, the transaction dated 31 October 2014 exceeds the approval limit of Rs. 10 Billion assigned to the SEPF and requires the approval from the AG. However, it was noted that no approval from the AG was obtained in the deal ticket. Out of the Rs. 10 Billion - transactions with PTL and PABC amounted to Rs. 7.02 Billion (Refer Section 11 of this Report for analysis of transactions with PTL). (Refer Annexure 76)<sup>261</sup>
- E. The above reported transactions resulted in loss amounting to Rs. 205 Million out of Rs. 565 Million in the year 2014 as detailed in the Section 11 of this Report.

## **VIOLATION OF LIMITS APPLICABLE FOR EXECUTING DIVESTMENTS TRANSACTIONS OF TRADING PORTFOLIO AND HTM PORTFOLIO**

10.39 In 61 transactions with value of Rs. 26.96 Billion (28 transaction dates) out of 128 transactions during the period from 2012 to 2015 relating to the Trading Portfolio, it was noted that the staff of FO had executed the transactions exceeding the authorised limit of Rs. 500 Million per day. (Refer Annexure 77 & Exhibit 56 A)<sup>262</sup>

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<sup>259</sup> Refer Exhibit- 12 for the witness statement of Mr. W G R Harshapriya.

<sup>260</sup> Exhibit - 57 for the extract of ITG section 4.4 and 4.5.

<sup>261</sup> Refer Annexure 76 for the breakup of PTL And PABC transactions.

<sup>262</sup> Refer Annexure 77 & Exhibit 56A for details of 61 transactions violating the approving limit of Rs.500 Million as per ITG, 2011.

10.40 In 82 transactions totalling of approximately Rs. 41.11 Billion (35 Transaction Dates) out of 102 instances of Divestments of HTM Portfolio, it was noted that the staff of FO had exceeded the authorised limit of executing transaction amounting to Rs.500 Million per day. (Refer Annexure - 78 & Exhibit 58 A)<sup>263</sup>.

## DEVIATIONS FOR THE SALE OF HTM PORTFOLIO

10.41 As per the Section 4.5 of the ITG, 2011, prior approval of the Investment Committee is required for sale or to sell Treasury Bonds before the maturity.

10.42 The total HTM sales during the period from 1 January 2012 till 28 February 2015, there were 133 transactions with total value of Rs. 81 Billion.

10.43 In 102 of 133 transactions, the limit of Rs. 500 Million per day had been exceeded by the staff officer of FO.

10.44 In 98 instances amounting to Rs. 46.95 Billion of the above 102 transactions (Refer Annexure 79)<sup>264</sup>, prior approval from the Investment Committee was not available for sale of the HTM Treasury Bonds as per Section 4.5 of the ITG, 2011.

Table 71 - Summary of HTM transactions where prior approval from the Investment Committee was not obtained

#	Year	Number of Transactions where the DOA limit was exceeded	Total Value of Transactions (Rs. in Billion)
1	2013	1	1.93
2	2014	85	42.79
3	2015	12	2.23
Total		98	46.95

<sup>263</sup> Refer Annexure 78 & Exhibit 58A for details of transactions violating the approving limit of Rs.500 Million as per ITG, 2011.

<sup>264</sup> Refer Annexure 79 & Exhibit 58B for the details of transaction of 98 instances of DOA violation in HTM portfolio as per ITG, 2011.

10.45 Further, as per minutes of the Investment Committee meeting of 22 August 2013<sup>265</sup>, “the MO recommended to increase the limit of 1% to 5% or below of Total Government Securities portfolio as the relevant insignificant level for the sale or reclassification from the held to maturity portfolio and when monitoring above limit all transactions carried out during 12-month period should be taken into account”. The IC approved the suggestion of the MO. However, there were no recommendation by the Investment Committee to revise the requirement of the prior approval of Investment Committee in ITG, 2011. In the absence of clarification in the minutes of Investment Committee meeting, the applicability and the validity of this specific requirement of prior approval of IC cannot be commented upon. During an interview with Mr. T Udayaseelan on 2 October 2019, Senior Assistant Superintendent the interdicted CBSL employee (Refer Exhibit - 12)<sup>266</sup>, it was informed that “This decision was made to overrule the prior approval required by Investment Committee for the sale of HTM Portfolio.”

#### LAPSES IN PROCEDURES AS STATED IN THE ITG, 2011

10.46 As per the ITG, 2011, the following procedures are required to be followed by MO:

- i. “MO shall determine the required yields and evaluate the offers for Treasury Bonds and Bills and make investment recommendation thereon to SEPF by way of a report.
- ii. FO, in consultation with MO, shall recommend to IC, the yield and the amount of Government Securities to be purchased from the Secondary market.
- iii. MO shall recommend to SEPF, the yield and the amount of the Treasury Bonds/Bills to be sold in the Secondary market under conditions stated in the ITG.
- iv. MO, at the time of seeking the approval for the purchase of Treasury Bonds and Bills shall specify whether those Treasury Bonds and Bills are to be purchased for the investment portfolio and trading portfolio.”

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<sup>265</sup> Refer Exhibit - 59 for the extract of minutes of Investment dated 22 August 2013.

<sup>266</sup> Refer Exhibit -12 for the witness statement of Mr. T Udayaseelan of 2 October 2019.

10.47 During the review, no such recommendations were noted in the Deal Ticket nor such report were made available for review. Further, during an interview of 16 September 2019 with Mr. WGR Harshapriya the former FO Manager, (Refer Exhibit-12)<sup>267</sup>, stated that “As per the Investment and Trading Guideline of 2011, the Front Office (FO) had used the option of ratification by the Investment Committee (IC) instead of getting consultation from MO by FO and recommending to IC. MO was not consulted for the Secondary market transactions. MO never questioned FO on why second option (ratification by IC) was chosen. I also not questioned from FO why this ratification method was used during my tenure at FO”.

10.48 The above reported transactions resulted in the loss amounting to Rs. 14.38 Million in the year 2014 and 2015 as detailed in the Section 12 of this Report.

## PERSONS RESPONSIBLE FOR EXECUTION OF THE TRANSACTIONS

10.49 On review of the supporting documents and HR records provided by the EPF management, the approving authority responsible for execution and approving the transactions during the period are detailed below:

Table 72 - Summary of approving authority

Year	Name	Designation
2012	K Gunathilake	SEPF
	C M D N K Seneviratne	Additional SEPF
	L D D Y Perra	Additional SEPF
	J D S J Nanayakkara	Senior Assistant Superintendent
	G A C N Ganepola	Assistant Superintendent
	G B M P Dissanayake	Assistant Superintendent
	W G R Harshapriya	Senior Assistant Superintendent
2013	P W D N R Rodrigo	SEPF
	K Gunathilake	SEPF
	C M D N K Seneviratne	Additional SEPF
	L D D Y Perra	Additional SEPF
	J D S J Nanayakkara	Acting Deputy Superintendent
	T Udayaseelan	Senior Assistant Superintendent
2014	P W D N R Rodrigo	SEPF

<sup>267</sup> Refer Exhibit - 12 for the witness statement of Mr. W G R Harshapriya of 16 September 2019.

Year	Name	Designation
	T D H Karunaratne	Additional SEPF
	M S K Dharmawardena	Additional SEPF
	A G U Thilkarathna	Additional SEPF
	JDSJ Nanayakkara	DS
	T Udayaseelan	SAS
2015	RAA Jayalath	SEPF
	S Somapala	Acting SEPF
	TDH Karunratne	Additional SEPF
	AGU Thilkarathna	Actg Additional SEPF
	JDSJ Nanayakkara	DS
	T Udayaseelan	SAS

#### RATIFICATION BY THE INVESTMENT COMMITTEE AND THE MONETARY BOARD

10.50 On review of minutes of the Investment Committee meetings for the Review Period 1 January 2002 till February 2015, as a practice, it appears that only the details of transactions such as the settlement date, bond series, purchase cost and yield rate were recorded in the Investment Committee minutes.

10.51 The following details of transactions executed were not captured in minutes of the Investment Committee meetings dated June 2014 and subsequently:

- A. Counterparty Name;
- B. Prevailing Market yield and price;
- C. Movement of the ISIN in the Secondary Market;
- D. Availability and price of the ISIN offered in the Primary market;
- E. Price offered by another Primary Dealer; and
- F. Basis of selection of the counterparty for the executed transaction.

10.52 Similarly, the documents submitted to the Monetary Board<sup>268</sup> (Refer Exhibit 60) consisted of the following:

- A. Transaction listing of the Investments made in the Secondary Market in the previous month; and
- B. Comparison of the total investment made in the treasury bonds versus the approved investment plan along with the reasons for deviations, if any.

10.53 It is evident from the above that key information was not provided to the Investment Committee and the Monetary Board to analyse the performance of the Treasury Bonds and provide guidance on the Investments to be made in the Secondary Market. Further, the information was also not called for by the members of the Investment Committee and the Monetary Board.

10.54 During an interview of 2 October 2019, Mr. T Udayaseelan<sup>269</sup>, (Senior Assistant Superintendent, FO), stated that “I do not recall the decision of removing counterparty names in Investment committee minutes 2014. I remember none of the investment committee members raised questions about the absence the counterpart details.”

10.55 During an interview of 19 September 2019, Mrs. K Gunathilake (Additional SEPF and SEPF for the period July 2008 to June 2013<sup>270</sup>) (Refer Exhibit 12), she stated that “The investment committee discussed mainly into the asset and liability management, future investment strategy, weekly Investments etc. of the EPF Department and during the meetings there was no discussions on the counterparty concentration. The concentration of few parties could be because those Primary Dealer would have been active in the Secondary Market.”

The list of Investment Committee members during the period are:

**Table - 73 Summary of Investment Committee members**

Year	Name	Designation
2002	WA Wijewardhana	Assistant Governor
	R Jayamaha	Assistant Governor
2004	WA Wijewardana	Deputy Governor
	KGD Dheerasinghe	Assistant Governor
	PDJ Fernando	Assistant Governor
2005	WA Wijewardana	Deputy Governor
	PDJ Fernando	Assistant Governor
2006	WA Wijewardana	Deputy Governor

<sup>268</sup> Refer Exhibit - 60 for the sample of minutes of the Monetary Board meeting.

<sup>269</sup> Refer Exhibit -12 for the fact statement of Mr. T Udayaseelan on 2 October 2019.

<sup>270</sup> Refer Exhibit- 12 for the fact statement of Mrs. K Gunathilake on 19 September 2019.

Year	Name	Designation
	PDJ Fernando	Assistant Governor
2007	WA Wijewardana	Deputy Governor
	PDJ Fernando	Assistant Governor
	MARC Cooray	Assistant Governor
	A Bandaranaike	Assistant Governor
2008	WA Wijewardana	Deputy Governor
	P Samarasiri	Assistant Governor
2009	WA Wijewardana	Deputy Governor
	P Samarasiri	Assistant Governor
2010	PDJ Fernando	Deputy Governor
	KGDD Dheerasinghe	Deputy Governor
	BDWA Silva	Deputy Governor
2012	BDWA Silva	Deputy Governor
	C Premarathne	Deputy Governor
	R Dheerasinghe	Assistant Governor
2013	C Premarathne	Deputy Governor
	PN Weerasinghe	Deputy Governor
	R Dheerasinghe	Assistant Governor
2014	PN Weerasinghe	Deputy Governor
	BDWA Silva	Deputy Governor
	R Dheerasinghe	Assistant Governor
	CPA Karunathilake	Assistant Governor
2015	BDWA Silva	Deputy Governor
	J P Mampitiya	Assistant Governor

## CONCLUSION

10.56 It is evident that due to the abnormal increase in the specified limit of DOA along with only ratification from the approving authority and the Investment Committee, **more authority was given to the FO of the EPF for execution and decision making of Investment and Divestments in Secondary Market. This resulted in the non-compliance to the ITG and loss** as detailed in the Section 11 and Section 12. However, there were no transactions evidencing the exercise of the extended authority.

10.57 During an interview with the former and current top management of the EPF, the following were noted:

- A. Mrs. K Gunathilake on 19 September 2019 (Additional SEPF and SEPF for the period July 2008 to June 2013), stated that, *“...The top management of the EPF Department had relied upon the fund managers working in the Fund Management Division for the investment decisions of the EPF Department. The practice of obtaining prior approval was not followed, as market information was not available to analyse the transactions and the Secondary market rates...”* (Refer Exhibit-12)<sup>271</sup>
- B. Mr. M S K Dharmawardane on the 30 September 2019 (Additional. SEPF), stated that, *“...I reached out through verbal communication, to the senior management with regards to my transfer back to RDD, as I had no sufficient knowledge on the EPF Department and its functions. My request was not considered due to the reason that shortage of staff prevailing in the EPF Department. Further, I confirm that I had to sign on the Deal Tickets and IC minutes, and to approve transactions without any background / knowledge on the Fund Management, Primary Market and Secondary Market operations. I also confirm that these activities had been performed during my short tenure as a routing function assigned to the Additional Superintendent in the EPF Department. The sole intention was getting transactions processed and ensure the documents are pushed forward to the Superintendent of EPF for approval...”* (Refer Exhibit-12)<sup>272</sup>
- C. Mr. R A A Jayalath on 18 September 2019 (SEPF), stated that, *“...The top management of the EPF Department had relied upon the fund managers working in the Fund Management Division for the investment decisions of the EPF Department. The practice of obtaining prior approval was not followed, as real time independent market information was not available to analyse the Government Securities transactions and the Secondary market rates...”* (Refer Exhibit-12)<sup>273</sup>
- D. The review of supporting documentation related to the transactions confirms the statements made by the above CBSL officers.

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<sup>271</sup> Refer Exhibit- 12 for the fact statement provided by Mrs. K Gunathilake on 19 September 2019

<sup>272</sup> Refer Exhibit- 12 for the fact statement provided by Mr. Dharamawardena on 4 October 2019.

<sup>273</sup> Refer Exhibit- 12 for the fact statement provided by Mr. R A A Jayalath on 18 September 2019.



10.58 As evident from post facto ratification of the transactions, the top management relied on the technical knowledge of the fund managers of the FO to evaluate and approve the Investments and Divestments executed in the Secondary Market and did not assess the transactions independent.

This resulted in a loss as detailed in the subsequent Sections (Section 11 and Section 12) of this Report.

10.59 On review of internal audit reports for the period 2007 to 2015<sup>274</sup>, with respect to the EPF, it was noted that above-mentioned non-compliances were not reported<sup>275</sup> by the Internal Audit Team / Department.

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<sup>274</sup> Internal Audit reports were not available for the review, for the period January 2002 to December 2006, March 2008 and July 2008.

<sup>275</sup> Refer Exhibit- 61 for the extract of the Internal Audit reports.

## 11. INVESTMENT IN TREASURY BOND BY THE EPF THROUGH SECONDARY MARKET

### OVERVIEW

Investment in Treasury Bonds in the Secondary Market represent the purchases made by EPF through the Over the Counter (“OTC”) platform where purchase and sale transactions are conducted between entities who are not the primary issuer of the securities. EPF purchases Treasury Bonds from constituents of the Secondary Market who include, brokers and Primary Dealers. The investments in the Secondary Market are made with the objective to maximise (capital) gain from the investments earmarked / designated to be part of the “trading portfolio” of EPF.

The analysis of Investments in the Secondary Market was performed to identify abnormal trends if any, in the investment pattern, counterparty concentration and benefit gained by sellers of the Investments which resulted in loss to the EPF.

- 11.1 During the Review Period, the EPF purchased Treasury Bonds amounting to Rs. 180,917 Million (through 1,574 transactions) from the Secondary Market. The year-wise summary of transactions<sup>276</sup> during the Review Period 1 January 2002 till 28 February 2015 are provided in the below Table 74:

Table 74 - Summary of year wise transactions in the Secondary Market<sup>277</sup> (Rs. in Million)

#	Year	No. of Transactions	Investment	
			Face value	Purchase cost
1	2002	369	16,466	15,525
2	2003	401	30,703	33,254
3	2004	153	12,967	13,603
4	2005	75	5,100	5,319
5	2006	106	8,285	7,468
6	2007	36	6,988	5,145
7	2008	83	10,135	8,488
8	2009	26	3,450	3,281
9	2010	36	4,450	4,579
10	2011	32	3,300	3,301

<sup>276</sup> The value of transactions mentioned in the Table are face value of the transactions.

<sup>277</sup> The value of transactions was extracted from the transaction listing provided by the EPF Department

#	Year	No. of Transactions	Investment	
			Face value	Purchase cost
11	2012	5	450	438
12	2013	111	33,731	28,343
13	2014	141	43,933	52,173
14	2015	-	-	-
Total		1,574	179,958	180,917

11.2 On analysis of the Secondary Market purchases during the Review Period, it was noted that the purchases made in 5 years (i.e.) 2002, 2003, 2004, 2013 and 2014 constituted 79% amounting to Rs. 142.89 Billion of the total purchases made by the EPF in the Secondary Market.

11.3 On analysis of the year wise participation during the period January 2002 to December 2004, it was noted that the EPF had purchased primarily from Ceylinco Shriram Securities Limited (12.08%), Commercial Bank of Ceylon (7.90%), Seylan Bank Asset Management (7.72%) and First Capital Treasuries Limited. (6.77%).

Table 75 - Summary of counterparty wise contribution in the Secondary Market for the period from January 2002 to December 2004 (Rs. in Million)

#	Counterparty	Count of transactions	Volume of Transaction (Rs. in Million)	% of contribution
1	Ceylinco Shriram Securities Limited	135	7,265	12.08%
2	Commercial Bank of Ceylon	105	4,749	7.90%
3	Seylan Bank Asset Management	117	4,641	7.72%
4	First Capital Treasuries Limited	35	4,070	6.77%
5	HNB Securities Limited	96	3,167	5.27%
6	Hongkong and Shanghai Banking Corp.	35	2,273	3.78%
7	Janashakthi Securities Limited	18	1,822	3.03%
8	People's Bank Primary Dealer	14	618	1.03%
9	Seylan Merchant Bank	4	400	0.67%
10	Ceylinco Insurance	1	300	0.50%
12	Seylan Bank	4	300	0.50%
13	Capital Alliance Limited	4	250	0.42%
14	Cey Bank Securities Limited	3	250	0.42%
15	Citi Bank	5	250	0.42%
16	NDB Bank Limited	3	250	0.42%
17	Sampath Surakum Limited	15	245	0.41%

#	Counterparty	Count of transactions	Volume of Transaction (Rs. in Million)	% of contribution
18	National Development Bank	1	200	0.33%
19	Capital Asia	3	156	0.26%
20	Deutsche Bank	1	150	0.25%
21	Union Assurance Limited	3	140	0.23%
22	Seylan Bank Limited	2	120	0.20%
23	Hatton National Bank PLC	1	100	0.17%
24	Bank of Ceylon	1	50	0.08%
25	Ceylinco Insurance Co. Limited	1	50	0.08%
26	People's Bank	1	50	0.08%
27	Seylan Merchant Limited	1	25	0.04%
28	Counterparty Name is not available*	314	28,246	46.79%
<b>TOTAL</b>		<b>923</b>	<b>60,137</b>	

\*Note: The counterparty name was not available in the transaction listing provided by the CBSL and supporting documents (Deal Tickets) relating to these investments in 2003 and 2004 were not provided for review.

11.4 The top 5 (five) counterparties (value wise) from whom the EPF had purchased the Treasury Bonds in the Secondary Market during the year 2013 and 2014, were PTL (14.55%), Hongkong and Shanghai Banking Corp. (13.55%), First Capital Treasuries Limited. (12.61%), Pan Asia Banking Corporation PLC (11.91%), WealthTrust Securities Limited. (10.23%) and Seylan Bank PLC (7.98%).

Table 76 - Summary of counterparty wise volume of transactions in the Secondary Market for 2013 and 2014 (Rs. in Million)

#	Counterparty	Volume of Transaction	Transactions	% of Contribution
1	Perpetual Treasuries	11,303	30	14.55%
2	Hongkong and Shanghai Banking Corp	10,525	25	13.55%
3	First Capital Treasuries Limited	9,792	28	12.61%
4	Pan Asia Banking Corporation PLC	9,250	24	11.91%
5	WealthTrust Securities Limited	7,943	36	10.23%
6	Seylan Bank PLC	6,200	18	7.98%
7	Commercial Bank of Ceylon Limited	6,100	8	7.85%
8	CITI Bank	5,000	12	6.44%
9	Peoples Bank	3,600	9	4.64%
10	Capital Alliance	3,051	23	3.93%
11	Natwealth Securities Limited	2,100	12	2.70%
12	Entrust Securities PLC	1,000	13	1.29%
13	NSB Fund Management Company Limited	700	7	0.90%

#	Counterparty	Volume of Transaction	Transactions	% of Contribution
14	Acuity Securities Limited	600	3	0.77%
15	National trust Bank	250	1	0.32%
16	Standard Chartered bank PLC	150	2	0.19%
17	Bank of Ceylon	100	1	0.13%
	Total	77,664	252	

11.5 There was no significant increase in the purchases made in the Secondary Market from the period from January 2005 up till June 2013. The EPFs participation from June 2013 increased significantly post the then Governor's direction to the members of the Investment Committee and the EFP top management on 4 June 2013 to actively participate in the Secondary Market.

11.6 As per minutes of the Investment Committee dated 5 June 2013<sup>278</sup>, where it was stated that "IC informed Fund Management Division, the Governor expressed his concerns with the following matters in relation to the Investment of EPF in Government Securities at the meeting held with the top management of EPF on 4 June 2013.

- A. "EPF has to give adequate attention to earn capital gains from the investment in Government Securities,
- B. EPF to involve in the Secondary Market activities of Government Securities market, and
- C. Allocate funds for Secondary Market activities of Government Securities before making any investment in the Primary market for Government Securities".

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<sup>278</sup> Refer Exhibit - 62 for minutes of the Investment Committee meeting of 5 June 2013.

*Accordingly, IC instructed to actively involved in the Secondary Market activities when dealing with Government Securities and allocate certain amount of money before making any investment in the Government Securities through Primary market.”*

- 11.7 During an interview of 19 September 2019 with Mrs. K Gunathilake, Additional SEPF and SEPF for the period July 2008 to June 2013<sup>279</sup> (Refer Exhibit-12), stated that, “... During the period 1 January 2012 to 30 June 2013, when I was Superintendent of EPF, instruction by the then Governor with respect to the investment of EPF in Government Securities was expressed. The matters highlighted to the top management on 4 June 2013 were EPF had to give adequate attention to earn capital gains from investment in Government Securities as per the minutes of the IC meeting shown to me, to involve in the Secondary Market activities and allocate funds for Secondary Market activities before making any investment in the Primary market. According to my view, we took the correct decision as the capital gains could be increased only if the volume of purchase and sales in the Secondary Market also increases...”
- 11.8 During an interview of 1 October 2019 with Mr. JDSJ Nanayakkara<sup>280</sup> (Refer Exhibit - 12), the Deputy Superintendent during the year 2013-14, stated that, “...It is also to be noted that former governor had shown more interest on the Government Securities market. I was absent on 5 June 2013, When IC instructed EPF on major decision regarding the active participation in the Secondary Market and increase in the capital gain earning as instructed by the former Governor, Mr. Ajith Nivard Cabraal. This was a major direction of the IC which had a significant impact on the activities of EPF. I was not aware of any proper research or study which was conducted before the imposition of the decision by the former Governor. However, Equity market was down during that period and the alternate option available to EPF to make capital gains as budgeted for was through Government Securities trading. Normally, budget and strategy plans happen during the month of November/December every year and capital gains from Secondary Market activities has been a one of the budget items of EPF. When I was questioned whether June was not the time for Budget plan, I had agreed to it. This instruction together with the capital gain targets, EPF led to increase of Secondary Market transactions of Government Securities with respect to EPF...”

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<sup>279</sup> Refer Exhibit - 12 for the extract of fact statement of Mrs. K Gunathilake of 19 September 2019.

<sup>280</sup> Refer Exhibit-12 for the extract of fact statement of Mr. JDSJ Nanayakkara of 1 October 2019.

## APPROACH AND METHODOLOGY

### Key Parameters of CDS Data

11.9 The following key parameters from the Treasury Bond settlement data in the CDS application were considered for performing an analysis of the purchase of Treasury Bonds to identify abnormality in the trend as detailed in the subsequent Sections:

- A. Expected amount (Purchase Value);
- B. Quantity;
- C. Transaction message type “DVP / RVP”, “DVF / RVF”; and
- D. Transaction account type (Exhibit- 63)<sup>281</sup> “OWN”, “CSF”, “CFD” and “CSD”.

11.10 Computation of Loss by comparing the purchase price and the market prices of Treasury Bond as Specified in “TWO- WAY Quotes”:

- A. The loss was computed by comparing the Secondary Market price (“Ask price”) and purchase price per security (“Clean Price”) on the transaction date, if the transaction date was not available, the Secondary Market Price at the Settlement was considered for computation;
- B. As confirmed by the PDD, an average selling price published by the PDD (“Two-way quotes”) is an average of the clean price quoted by the Primary Dealers on daily basis; and
- C. Impact of the loss in terms of yield rate was computed by comparing the average selling yield and the yield rate of the purchased Treasury Bond.
- D. Refer Table 77 for the computation of the loss in comparison with the Secondary Market Price.

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<sup>281</sup> Refer Exhibit - 63 for Para 5.1.2 of the LSS Manual for the detailed description of message and account type.

11.11 Computation of loss on account of excess price paid by the EPF for Purchase of same Treasury Bonds on the same day:

- A. The purchase price per security was calculated by dividing expected amount (“Dirty Price<sup>282</sup>”) with the quantity of the Treasury Bond purchased;
- B. The purchase price between the counterparties was compared for the same ISIN transacted on the same day based on the transactions available in the CDS;
- C. The difference between the prices were computed considering the weighted average price at which the ISIN was purchased on the same transaction date and same settlement date;
- D. The loss was computed by multiplying the difference as computed in step 2 with the quantity of Treasury Bond purchased at a higher price; and
- E. Refer Table 98 for the excess price paid by EPF for the purchase of same ISIN on the same transaction date.

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<sup>282</sup> Refer Section “Terms of Reference” for the definition of the “Dirty Price”.



11.12 Analysis of front ending transactions with the EPF in Secondary Market:

- A. The transactions recorded in the CDS were considered based on the settlement date and time of the transactions executed with the EPF;
- B. The prior transactions executed by the counterparty are traced back based on the quantity of Treasury Bond purchased by the EPF;
- C. The trend was identified based on Investment and Divestment pattern of the counterparty prior to execution of transactions; and
- D. If the frequency of the Investment and Divestment was high, then the similar transactions executed with the EPF were categorised as front ended transactions.

11.13 The following Section provides a detailed analysis of loss and concentration of counterparties:

- A. Loss incurred by the EPF due to Treasury Bonds purchased from counterparties at higher price in comparison with the Secondary Market price. (Two - way Quotes); and
- B. Concentration of counterparties with whom the EPF had majorly traded in the Secondary Market.

**COMPUTATION OF LOSS ON INVESTMENTS IN TREASURY BONDS THROUGH SECONDARY MARKET**

11.14 On comparison of the purchase price (“Clean Price”) of the Treasury Bond with the Secondary Market price (“Ask Price”)<sup>283</sup> specified in the “Two Way Quotes” for the period 1 January 2005 to 28 February 2015<sup>284</sup>, it was noted that in 177 out of 651 purchase transactions, the purchase price of the EPF was higher than the Secondary Market price. (Refer Annexure 80 for computation of loss in comparison with the two-way quotes published by the PDD)<sup>285</sup>.

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<sup>283</sup> Secondary Market price is as specified in the “two-way quotes” published by the PDD for the period January 2005 to February 2015.

<sup>284</sup> Refer Exhibit - 64 for the email confirmation received from the PDD on non-availability of two-way quotes for the period January 2002 to December 2004.

<sup>285</sup> Refer Annexure - 80 and Exhibit - 65 for computation of loss incurred by the EPF due to higher purchase price.

Table 77- Summary of year wise purchases made at higher price compared to the prevailing market price (Rs. Million)

Year	Count of ISIN	Cumulative Purchase Value (Rs. In Million)	Loss incurred by EPF (Rs. In Million)	% of proportion	Range of Yield Variance (in Basis points)
2007	2	107	0.28	0.05%	6-11
2008	22	1,624	16.56	2.67%	2-100
2009	7	885	3.66	0.59%	2-58
2010	18	1,940	12.26	1.97%	2-77
2011	12	1,110	7.19	1.16%	14-27
2013	27	3,971	15.72	2.53%	4-50
2014	89	31,835	565.15	91.03%	1-80
Grand Total	177	41,473	620.81		

11.15 The loss is computed with the clean price of Treasury Bonds in comparison with the market price published by the PDD in “two-way quotes”.

11.16 There was no loss incurred in 2012, on comparison with the purchase price and Secondary Market price.

11.17 The loss was not computed in respect of transactions of 2005 and 2006, due to abnormal market conditions presented in the “two-way quote” published by the PDD in comparison to the actual transacted prices recorded in the CDS.

11.18 On analysis of transactions in the other years, it was noted that Investments made during 2014 contributed 91.03% of the total loss incurred by the EPF amounting to Rs. 565.15 Million. The difference between the purchase yield rate and prevailing market yield rate was ranging between 1 to 80 basis points<sup>286</sup>. The summary of counterparty wise contribution to loss for the period January 2007 to December 2014 are provided in the Table below:

<sup>286</sup> Refer Section “Terms of Reference” for the definition of Basis Points.

Table 78 - Summary of Counterparty wise distribution of loss for the period January 2007 to December 2014

(Rs. In Million)

Years	Pan Asia Banking Corporation PLC	Perpetual Treasuries	Seylan Bank PLC	First Capital Treasuries Limited.	WealthTrust Securities Limited.	Commercial Bank of Ceylon	Hongkong and Shanghai Banking Corp.	Other counterparties	Total
2007	-	-	-	-	-	-	-	0.28	0.28
2008	-	-	-	0.03	-	-	0.56	15.96	16.56
2009	-	-	-	2.80	-	-	-	0.86	3.66
2010	-	-	2.50	-	-	0.50	0.03	9.23	12.26
2011	-	-	0.81	-	-	-	-	6.38	7.19
2013	-	-	-	0.07	6.54	0.22	0.05	8.83	15.72
2014	191.98	97.19	77.42	97.73	31.65	28.83	28.05	12.30	565.15
Total	191.98	97.19	80.73	100.64	38.19	29.55	28.69	53.84	620.81
% of Contribution	31%	16%	13%	16%	6%	5%	5%	9%	

11.19 It was noted that the loss assessed due to transactions with PTL, PABC and WTL in 2014 amounts to approximately Rs. 320.82 Million (56.77% of total loss in the year 2014 and 51.68% on the overall loss for the period) with the variance in the yield rate ranging from 4 to 80 basis points.

11.20 It was noted that the loss contributed by WTL in 2013 amounts to approximately Rs. 6.54 Million (41.60% of total loss in the year 2013 and 1% on the overall loss for the period) with the variance in the yield rate ranging from 4-5 basis points.

11.21 The Counterparty wise and ISIN wise loss for 2007 to 2014 is detailed below:

Table 79 - Summary of Counterparty-wise and ISIN wise distribution of loss for the period January 2007 to December 2014

ISIN	PABC	PTL	SLB	HSBC	FCTL	WTL	Others (25 Primary Dealer)	Total
LKB00922G017	46.43	36.77	21.84	-	-	0.45	31.02	136.52
LKB01529A012	8.32	13.23	47.33	-	11.10	15.97	0.55	96.49
LKB01024A014	43.95	20.82	8.13	-	0.91	-	3.15	76.95
LKB01123I017	-	-	-	5.31	67.04	-	-	72.35
LKB01529E014	13.49	26.01	0.11	-	18.68	2.08	-	60.38
LKB03044F019	37.21	-	-	-	-	4.70	-	41.91
LKB02034A012	33.40	-	-	-	-	-	-	33.40
LKB00921E014	-	-	-	22.79	-	-	0.86	23.65
Others ISINs (24 ISINs)	9.19	0.37	2.97	0.59	2.91	14.99	48.15	79.16

ISIN	PABC	PTL	SLB	HSBC	FCTL	WTL	Others (25 Primary Dealer)	Total
Total	191.98	97.19	80.39	28.69	100.64	38.19	83.74	620.81

11.22 It was noted that the trades in seven specific ISINs out of 32 ISINs (LKB00922G017, LKB01024A014, LKB01529A012, LKB01529E014, LKB030444F019, LKB01123I017 and LKB02034A012) contributed to approximately 83% of the total loss amounting to Rs.518 Million. These ISINs were highly traded by PTL, PABC, WTL, SLB and FCTL in 2014.

11.23 On comparison of the opening price and closing price of these ISINs (Refer Annexure 81)<sup>287</sup>, the following were noted:

- A. LKB01024A014 (11.40%2024A), the price increase by 18% with yield variance of 282 Basis points within a period of 12 months;
- B. LKB00922G017 (11.20% 2022A), the price increased by 15% with yield variance of 277 Basis points within a short period of 12 Months;
- C. LKB030444F019 (13.50%2044B), the price increased by 29% with yield variance of 249 Basis points within a period of 6 Months;
- D. LKB01529A012 (13.00%2029A), the price increased by 20% with yield variance of 243 Basis points within a period of 10 Months
- E. LKB01123I017 (09.00%2023A ), the price increased by 9% with yield variance of 126 Basis points within a period of 10 Months;
- F. LKB01529E014 (13.00%2029B), the price increased by 15% with yield variance of 222 Basis points within a period of 6 Months;
- G. LKB02034A012 (13.25%2034A), the price increased by 17% with yield variance of 222 Basis points within a short period of 5 Months.

<sup>287</sup> Refer Annexure - 81 for the details of month on month yield rate comparison of the reported ISINs.

Table 80 - Difference in the opening and closing rate for the traded ISINs

Bond series	Opening rate					Closing rate			Period (in Months)	% of Increase (C-A)/A	% decrease in Yield (in Basis Points)
	Maturity Date	Date	Price(A)	Yield Rate (B)	Weighted Average rate	Date	Price (C)	Yield Rate (D)			
LKB00922G017	01-Jul-22	20-Jan-14	108.97	9.62%	118.75	31-Dec-14	125.43	6.85%	12	15%	277
LKB01024A014	01-Jan-24	24-Jan-14	109.6	9.86%	122.66	26-Dec-14	128.88	7.04%	12	18%	282
LKB01123I017	01-Sep-23	03-Jan-14	95.8	9.68%	98.32	21-Oct-14	103.98	8.42%	10	9%	126
LKB01529A012	01-Jan-29	10-Mar-14	118.85	10.47%	130.26	26-Dec-14	142.23	8.04%	10	20%	243
LKB01529E014	01-May-29	15-Jul-14	120.76	8.20%	130.94	26-Dec-14	138.34	5.99%	6	15%	222
LKB02034A012	01-Jan-34	18-Jun-14	121.2	10.65%	119.66	30-Oct-14	142.11	8.79%	5	17%	186
LKB03044F019	01-Jun-44	04-Jul-14	116.06	11.57%	129.15	26-Dec-14	149.34	9.08%	6	29%	249

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## LOSS DUE TO TRANSACTIONS WITH SPECIFIC COUNTERPARTIES

11.24 During the year 2014, PTL had contributed to market variance loss amounting to Rs. 97.19 Million which contributed to 16% of the overall loss amounting to Rs. 620.81 Million. Further, transactions were identified in which PTL had transacted through intermediators in which the EPF had purchased at higher price compared to other counterparties. Due to the above indicative red flags, the transactions with PTL along with its intermediators had been analysed and detailed in the subsequent paragraphs.

## ANALYSIS OF TRANSACTIONS EXECUTED WITH PTL, PABC AND WTL IN 2014

11.25 PTL had acquired the license as a Primary Dealer (Refer Exhibit - 66)<sup>288</sup> in September 2013, the first transaction in the Secondary Market as per the CDS data was recorded in the month of February 2014.

11.26 The total Treasury Bonds purchased from the PTL in the Secondary Market during the year 2014 amounted to a face value of Rs. 11,303 Million (30 Transactions) which contributed to 26% of the total investments made in the year 2014 with 20 out of 30 transactions resulting in market variance loss of Rs.97.19 Million.

11.27 The yield variance ranged from 10 basis points to 25 basis points. On review of the IRMD remarks for 20 of 29 transactions where there was a yield variance, it was noted that except in 2 out of 20 transactions, there were no adverse remark specified by the IRMD officer. However, for 2 transactions, no justification note was provided by FO nor requested by the SEPF for the transaction with adverse remark which resulted in a loss of Rs. 5.70 Million. (Refer Annexure 82)<sup>289</sup>

11.28 In the remaining 18 instances, there were no queries raised by the approving authorities in respect to high yield rates.

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<sup>288</sup> Refer Exhibit - 66 for the License copy of the PTL being granted as the Primary Dealer.

<sup>289</sup> Refer Annexure - 82 for the IRMD remarks for the transactions executed by the EPF with PTL, PABC and WTL.

- 11.29 During an interview of 30 September 2019 with Mrs. NLM Abeysekara, the former IRMD staff office during 2014-2015, it was informed that, “...10-50 basis points variation between Two -way quotes and EPF transacted yield and the same had been communicated verbally is what I remember and not documented. Further, there were no proper independent benchmark yield in the market in Sri Lanka to compare the yield given by the counterparties. Therefore, IRMD compared yield given by counterparties with the indicative Two -way quotes pub listed by PDD. Further, IRMD adverse remarks were not captured where there were market deviations identified in comparison to the buy and sell yield rate with PDD Two-way quotes...” (Refer Exhibit-12)<sup>290</sup>
- 11.30 During an interview of 1 October 2019 with Mr. JDSJ Nanayakkara, the Deputy Superintendent during the year 2013-14, he stated that, “According to my view, allowance of illiquidity risk premium may be in the range 5bps-20 bps from the bid rate. It was not documented in any form and I do not remember any such verbal instruction was given to Ms. N L M Abeysekara for the purpose of IRMD verification. As per defined responsibilities of IRMD, they are supposed to check with the broker/Primary Dealers to understand the market rate before verifying the transactions. I believe that is the practice followed.”<sup>291</sup>
- 11.31 On documentation review and CBSL Employee’s email review, there were guidelines identified which are applicable for the IRMD which to verify the EPF transaction prices.
- 11.32 Further, as specified in Paragraph 11.34 of this Report for the Divestment pattern of PTL was analysed through CDS data, it was noted that PTL had sold to PABC and WTL (referred to as “intermediaries<sup>292</sup>”) and immediately PABC / WTL had sold the bonds to the EPF, thus acting as intermediary to PTL. Refer the subsequent paragraphs for detailed analysis of PTL, PABC and WTL pattern.

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<sup>290</sup> Refer Exhibit - 12 for the statement of fact of Mrs. NLM Abeysekara dated 30 September 2019.

<sup>291</sup> Refer Exhibit - 12 for the statement of fact of Mr. JDSJ Nanayakkara dated 1 October 2019.

<sup>292</sup> Intermediaries - A Primary Dealer acts an intermediary to other, the Primary Dealer purchases from other Primary Dealer and immediately after settlement, sells the same security to the EPF.

11.33 The overall loss from transaction related to PTL (directly / through intermediary) amounts to Rs. 222.76 Million which contributes to 36% of the loss incurred due to higher purchase price paid in comparison with the market price as detailed in the below Table:

**Table 81 Summary of the overall loss attributed to PTL** (RS. IN MILLION)

Counterparty	Transaction	No of transactions	Loss due to Market Variance	% of proportion on the total loss of Rs.620.81
Perpetual Treasuries Limited	8,411	20	97.19	16%
Through Pan Asia Banking Corporation PLC	6,413	14	111.15	18%
Through WealthTrust Securities Limited	704	1	14.42	3%
<b>Total</b>	<b>15,528</b>	<b>36</b>	<b>222.76</b>	<b>36%</b>

11.34 During an interview of 2 October 2019 with Mr. T Udayaseelan, former Senior Assistant Superintendent, FO, the reason for transacting with PTL was stated as, “The reason I believe for EPF to choose PTL and PABC might be better rates and required quantity available with them. However, there are no evidences to prove that other counterparties may have better rates, as there was no practice in place to call and check with other Primary Dealer or broker”.<sup>293</sup>

11.35 On comparison of the price offered by the counterparties with the price paid by EPF to PTL, it was observed that in 27 out of 30 transactions executed with PTL, it is indicated that PTL had sold the Treasury Bonds at higher price to the EPF as compared to the other counterparties (including the price at which PTL had sold to other counterparties) as detailed in the subsequent paragraph.

#### **INTERMEDIARY TO PTL (PURCHASES THROUGH PABC AND WTL)**

11.36 On analysis of the CDS data to identify the purchase pattern of the EPF from PTL, it was noted that PABC acted as the intermediary in 13 transactions out of 24 transactions carried out with the EPF in the following instances, which ultimately lead to loss to the EPF due to higher purchase price of Treasury Bonds in the Secondary Market amounting to **Rs.111.15 Million**. (Annexure 83)<sup>294</sup>

11.37 As per the below Table, **PABC had purchased from PTL and within few hours sold Treasury Bond to the EPF, thus acting as an intermediary to PTL.**

<sup>293</sup> Refer Exhibit - 12 for the fact statement of Mr. T Udayaseelan dated 2 October 2019.

<sup>294</sup> Refer Annexure - 83 for the pattern identified with PTL, PABC and the EPF



Table 82 -Summary of purchase pattern between PTL, PABC and the EPF

ISIN	Transaction date	Seller	Buyer	Settlement time	Duration in Minutes	Qty (A)	Price per bond	Clean Price (B)	Market rate (C)	Purchase price vs Market rate D=(B)-(C)	Loss (D)*(A) (Rs. in Million)	Investment Yield (E)	Market Yield Rate (F)	Yield difference (F)-(E)
1	LKB03044F019	28-Jul-14	PTL	PABC	7/30/2014 13:56	98	500,000	134.02						
			PABC	EPF	7/30/2014 15:34		500,000	134.63	132.45	131.25	1.20	0.60	10.05%	10.15%
2	LKB03044F019	30-Jul-14	PTL	PABC	7/31/2014 13:00	128	1,000,000	134.06						
			PABC	EPF	7/31/2014 15:08		1,000,000	134.66	132.45	131.25	1.20	1.20	10.05%	10.15%
3	LKB01529E014	7-Aug-14	PTL	PABC	8/11/2014 14:27	40	5,000,000	134.08						
			PABC	EPF	8/11/2014 15:07		5,000,000	134.86	131.26	127.02	4.24	21.18	9.10%	9.54%
4	LKB02034A012	28-Oct-14	PTL	PABC	10/30/2014 13:09	98	2,500,000	139.93						
			PABC	EPF	10/30/2014 14:47		2,500,000	142.11	137.75	133.59	4.16	10.41	9.06%	9.43%
5	LKB03044F019	29-Oct-14	PTL	PABC	10/31/2014 14:01	0	1,000,000	144.33						
			PABC	EPF	10/31/2014 14:01		1,000,000	149.06	143.45	135.82	7.63	7.63	9.20%	9.78%
6	LKB00922G017	31-Oct-14	PTL	PABC	11/3/2014 14:23	21	5,000,000	124.01						
			PTL	PABC	11/3/2014 14:28	17	5,000,000	123.69						
			PABC	EPF	11/3/2014 14:45		5,000,000	124.08	120.27	119.02	1.25	6.27	7.65%	7.85%

ISIN	Transaction date	Seller	Buyer	Settlement time	Duration in Minutes	Qty (A)	Price per bond	Clean Price (B)	Market rate (C)	Purchase price vs Market rate D=(B)-(C)	Loss (D)*(A) (Rs. in Million)	Investment Yield (E)	Market Yield Rate (F)	Yield difference (F)-(E)
LKB00922G017		PABC	EPF	11/3/2014 14:45		5,000,000	123.75	119.95	119.02	0.93	4.66	7.70%	7.85%	0.15%
7	LKB01024A014	PTL	PABC	11/7/2014 12:58	0	5,000,000	126.62							
	4-Nov-14	PABC	EPF	11/7/2014 12:58		5,000,000	126.84	122.84	122.53	0.31	1.57	7.85%	7.89%	0.04%
8	LKB03044F019	PTL	PABC	12/26/2014 15:13	3	500,000	144.20							
	23-Dec-14	PABC	EPF	12/26/2014 15:16		500,000	149.34	148.42	141.99	6.43	3.22	8.85%	9.30%	0.45%
9	LKB01529E014	PTL	PABC	12/26/2014 15:16		3,000,000	137.21							
	23-Dec-14	PTL	PABC	12/26/2014 15:16	0	2,500,000	137.21							
	LKB01529E014	PABC	EPF	12/26/2014 15:16		5,500,000	138.34	136.36	133.91	2.45	13.49	8.55%	8.79%	0.24%
10	LKB01529A012	PTL	PABC	12/26/2014 15:13	3	2,000,000	141.13							
	23-Dec-14	PABC	EPF	12/26/2014 15:16		2,000,000	142.23	135.95	133.58	2.37	4.73	8.55%	8.79%	0.23%
11	LKB03044A010	PTL	PABC	12/26/2014 15:13	3	1,500,000	149.69							
	23-Dec-14	PABC	EPF	12/26/2014 15:16		1,500,000	154.81	148.28	142.15	6.13	9.19	8.85%	9.28%	0.43%
12	LKB01024A014	PTL	PABC	12/26/2014 15:16	1	5,000,000	128.81							
	23-Dec-14	PTL	PABC	12/26/2014 15:16		4,000,000	128.81							

ISIN	Transaction date	Seller	Buyer	Settlement time	Duration in Minutes	Qty (A)	Price per bond	Clean Price (B)	Market rate (C)	Purchase price vs Market rate D=(B)-(C)	Loss (D)*(A) (Rs. in Million)	Investment Yield (E)	Market Yield Rate (F)	Yield difference (F)-(E)
LKB01024A014		PABC	EPF	12/26/2014 15:17		9,000,000	129.25	123.73	121.60	2.14	19.25	7.70%	7.99%	0.29%
13 LKB01024A014	23-Dec-14	PTL	PABC	12/26/2014 15:12	5	5,000,000	128.81							
LKB01024A014		PABC	EPF	12/26/2014 15:17		5,000,000	128.88	123.37	121.82	1.55	7.75	7.75%	7.96%	0.21%
Total											111.15			

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11.38 On analysis of Treasury Bonds purchased from WTL, in 2 out of 18 transactions (1 transaction date), it was evident from that the date and time of settlement, WTL had purchased Treasury Bonds from PTL and the same was immediately sold to the EPF at higher rate compared to the Secondary Market rate resulting in loss of **Rs.14.42 Million**. (Annexure 84)<sup>295</sup>

Table 83 - Summary of purchase pattern between PTL, WTL and EPF

#	ISIN	Transaction date	Seller	Buyer	Settlement time	Duration in Minutes	Qty (A)	Price per bond	Clean Price (B)	Market rate (C)	Purchase price vs Market rate D=(B)-(C)	Loss (D)*(A) (Rs. In Million)	Investment Yield (E)	Market Yield Rate (F)	Yield Difference (F)-(E)
1	LKB01529A012	30-Jul-14	PTL	WTL	8/1/2014 14:50	14	2,000,000	126.41							
	LKB01529A012		WTL	EPF	8/1/2014 15:04		5,500,000	129.18	128.09	125.47	2.62	14.42	9.40%	9.83%	0.43%

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<sup>295</sup> Refer Annexure-84 for the pattern identified with PTL, WTL and the EPF.

11.39 Further, in reference to the marked document attached with the PCOI report (“C192D” - the transcript voice recording between Mr. Kasun Palisena, CEO of PTL and Mr. Ravisha Athapaththu Dealer of PABC - Refer Exhibit 67)<sup>296</sup>, it was evident that PTL was giving instruction to PABC for selling Treasury Bonds to the EPF in 2016. The same pattern was noted through the transactions in PABC.

11.40 The extract of the Mark document C192D is detailed below:

**“Marking: C 192 D**

*Participants:*

1. Mr. Kasun Palisena, PTL, call Originator (KP)
2. Mr. Ravisha Thapatha, PABC, Call Receiver (RA)

**P. 157**

Copied

RA: Hello Kasu

KP: Hello Keshana

RA: Ravisha Bro

KP: Ah, Ravisha Bro, that yesterday's Deal is still there, value 25<sup>th</sup>, another one

RA: 25<sup>th</sup>

KP: Yes, 1bn at 51, I am selling you to you, you be selling at 50.

RA: 1bn at 10.51

KP: Sorry, sorry bro, bill Auction stood at 12.51

KP: Ha, Ha (laughter)

RA: 12.51 Ah, value

KP: 12.51 1bn value 25<sup>th</sup>

RA: 15.03.30 no, bro

KP: 15.03.30

RA: Ah...no...15.05.30 no., 15.03.30 no bro.

KP: 15.03.30 sorry, sorry 15.05.30 yeah

---

<sup>296</sup> Refer Exhibit - 67 for the extract of the transcript between Mr. Kasun Palisena of PTL and Mr. Ravisha Thapatha of PABC.

***RA: 15.05.30 I am buying you 12.51....at 1 bn selling to EPF 1 bn at ah***

*KP: 12.50, yes*

*RA: value 25<sup>th</sup>*

*KP: Ah, can you call him.*

*RA: Right I 'll give.*

*KP: value 25<sup>th</sup>”*

11.41 In 2014, in the absence of voice recording facility in the FMD, the voice recording of the Primary Dealers pertaining to 24 transaction dates were requested from PABC and 16 transaction dates were requested from PTL. However, voice recording from the two Primary Dealers were not received, the reason stated in response to PTL’s voice recordings request, “The Function data cannot be received, as the company is not functioning as of now. Further, the voice recording systems was installed in PTL in May 2015. The voice recording for PABC were received for 2015 which were beyond the Review Period.

**PURCHASE PRICE VARIANCE BETWEEN THE COUNTERPARTIES**

11.42 On analysis of the price paid to PTL, PABC and WTL, for the same bond series, on the same day in comparison of the other counterparties, it was noted that the EPF had paid a higher price to PTL, PABC and WTL.

11.43 Analysis of the price variation between the PTL, PABC, WTL and other counterparties, the attributes mentioned in the Table below were considered:

Table 84 - Comparison of prices for the ISIN purchased

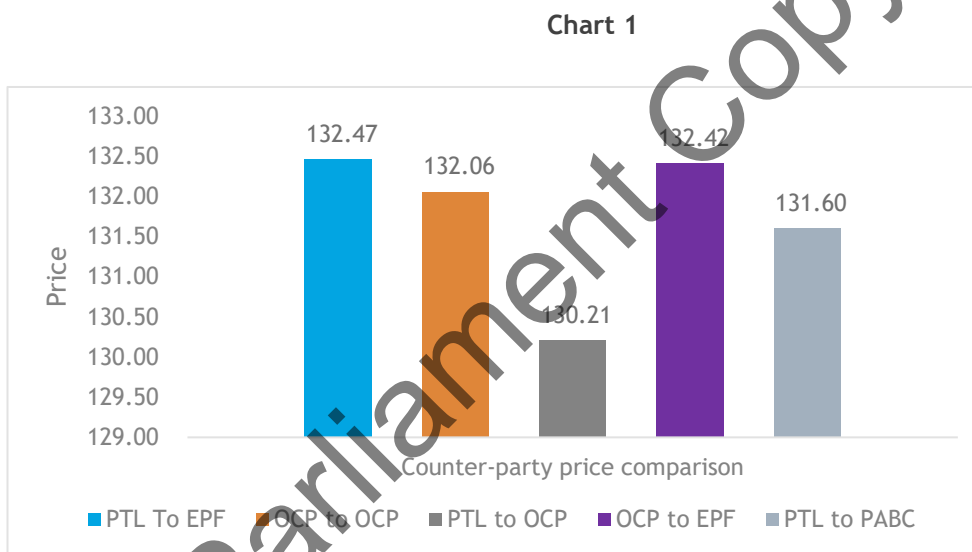
#	Particulars	Type of Transaction on the same day for the same ISIN	Price considered to compare the price difference
1	Purchase by EPF from PTL, PABC and WTL (PTL/PABC/WTL to EPF)	Single Transaction	Actual Price
2	Purchase by EPF from other counterparties (OCP to EPF)	Single Transaction Multiple transactions	Actual Price Weighted average Price
3	Purchase by other counterparties from PTL, PABC and WT (PTL/PABC/WTL to OCP)	Single Transaction Multiple transactions	Actual Price Weighted average Price
4	Purchase by other counterparties from other counterparties (OCP to OCP)	Single Transaction Multiple transactions	Actual Price Weighted average Price

## TRANSACTIONS WITH PTL

11.44 In 27 out of 30 transactions<sup>297</sup> executed with PTL, it is indicated that PTL had sold the Treasury Bonds at higher price to the EPF as compared to the other counterparties (including PTL the price in which PTL had sold to other counterparties) (Refer Attribute 1 and 3 mentioned in the above Table 85). Refer Annexure - 85 for the details of 30 transactions executed with PTL<sup>298</sup>.

11.45 The analysis of the 5 (five) transaction dates (13 out of 27 transactions) are detailed below, where the EPF had paid highest price in comparison to the other counterparties who had transacted with PTL.

11.46 LKB01529A012 (Instance 1): Transaction between i) PTL and EPF ii) PABC and EPF iii) PTL and Other counterparties iv) Other counterparties and other counterparties v) PTL to PABC dated 11 August 2014



<sup>297</sup> Refer Exhibit - 69 for the underlying supporting documents for the transactions of PTL

<sup>298</sup> Refer Annexure - 85 for the list of transactions detailing the price difference between PTL and other counterparties.

Table 85A - Purchase price paid by other counterparties to PTL

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	(Rs.in Million)	Price per security	Yield Rate
PABC to EPF	11-Aug-14	08/11/2014 15:07	PABC	EPF	LKB01529A012	500	662	132.42	
PTL to EPF	11-Aug-14	08/11/2014 15:14	PTL	EPF	LKB01529A012	250	331	132.47	8.95%
OCP to OCP	11-Aug-14	08/11/2014 11:03:41	FCTL	WTL	LKB01529A012	100	131	131.21	
OCP to OCP	11-Aug-14	08/11/2014 14:04:30	NSB	NTB	LKB01529A012	50	66	132.08	
OCP to OCP	11-Aug-14	08/11/2014 14:29:45	NTB	DEU	LKB01529A012	50	66	132.18	
PTL to OCP	11-Aug-14	08/11/2014 14:57:02	PTL	BCEY	LKB01529A012	500	650	129.98	9.20%
PTL to OCP	11-Aug-14	08/11/2014 14:46:32	PTL	BCEY	LKB01529A012	500	652	130.45	9.15%
PTL to OCP	11-Aug-14	08/11/2014 14:34:35	PTL	PABC	LKB01529A012	500	658	131.60	9.03%
OCP to OCP	11-Aug-14	08/11/2014 13:41:21	SEY	DEU	LKB01529A012	110	145	132.18	
OCP to OCP	11-Aug-14	08/11/2014 13:40:07	SEY	DEU	LKB01529A012	100	132	132.37	
OCP to OCP	11-Aug-14	08/11/2014 14:54:33	SEY	WTL	LKB01529A012	50	66	131.89	
OCP to OCP	11-Aug-14	08/11/2014 13:48:52	WTL	DEU	LKB01529A012	100	132	132.18	
OCP to OCP	11-Aug-14	08/11/2014 13:49:21	WTL	DEU	LKB01529A012	100	132	132.37	

11.47 On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs.6.22 Million.

Table 85B - Price comparison between EPF and other counterparties transacted with PTL (Rs. Million)

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Yield	Difference in yield (in Basis points)
1	PTL	EPF	2,500,000	132.47	2.49	6.22	8.95%	26
2	PTL	BOC	5,000,000	129.98			9.20%	
3	PTL	BOC	5,000,000	130.45			9.15%	
4	PTL	PABC	5,000,000	131.6			9.03%	



11.48 LKB00922G017 (Instance 2): Transaction between i) PTL and EPF ii) PABC and EPF iii) PTL and Other counterparties iv) Other counterparties and Other counterparties dated 3 Nov 2014

Chart 2

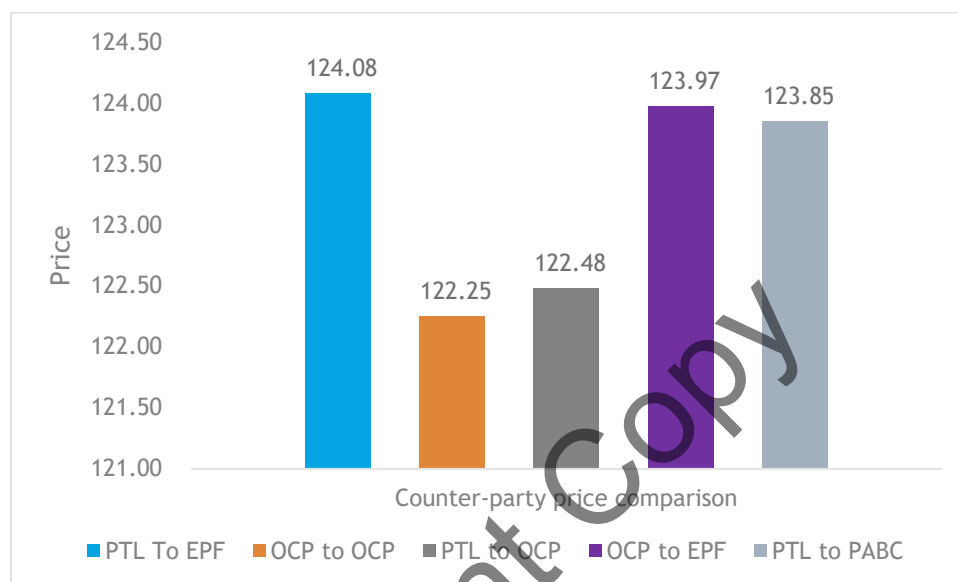


Table 86 - Transactions related to instance 2

(Rs. In Million)

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield Rate
OCP to OCP	3-Nov-14	11/03/2014 10:49:55	CALD	CCEY	LKB00922G017	100	122	121.85	119.26	
OCP to OCP	3-Nov-14	11/03/2014 12:35:12	SEY	CCEY	LKB00922G017	250	305	121.97	119.26	
OCP to OCP	3-Nov-14	11/03/2014 13:26:13	CCEY	NWS	LKB00922G017	50	61	122.48	119.26	
OCP to OCP	3-Nov-14	11/03/2014 13:25:49	SEY	NWS	LKB00922G017	50	61	122.48	119.26	
OCP to OCP	3-Nov-14	11/03/2014 13:25:18	WTEY	NWS	LKB00922G017	50	61	122.48	119.26	
PTL to OCP	3-Nov-14	11/03/2014 13:50:58	PTL	NWS	LKB00922G017	50	61	122.48	119.26	7.32%
PTL to PABS	3-Nov-14	11/03/2014 14:28:40	PTL	PABC	LKB00922G017	500	618	123.69	119.26	
OCP to EPF	3-Nov-14	11/3/2014 14:45	PABC	EPF	LKB00922G017	500	619	123.75	119.26	7.13%
PTL to PABS	3-Nov-14	11/03/2014 14:23:52	PTL	PABC	LKB00922G017	500	620	124.01	119.26	

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield Rate
OCP to EPF	3-Nov-14	11/3/2014 14:44	PABC	EPF	LKB00922G017	500	620	124.08	119.26	7.08%
OCP to EPF	3-Nov-14	11/3/2014 14:45	PABC	EPF	LKB00922G017	500	620	124.08	119.26	7.08%
PTL to EPF	3-Nov-14	11/3/2014 15:08	PTL	EPF	LKB00922G017	250	310	124.08	119.26	7.08%

11.49 On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs.3.99 Million.

Table 87 - Price comparison between the EPF and other counterparties transacted with PTL (Rs. In Million)

#	Seller	Counterparty	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)
1	PTL	EPF	2,500,000	124.08	1.60	3.99
2	PTL	NW	500,000	122.48		
3	PTL	PABC	5,000,000	123.69		
4	PTL	PABC	5,000,000	124.01		
Total						3.99

11.50 LKB01529A012 (Instance 3): Transaction between i) PTL and EPF ii) PABC and EPF iii) PTL and Other counterparties iv) Other counterparties and Other counterparties dated 10 November 2014

Chart 3

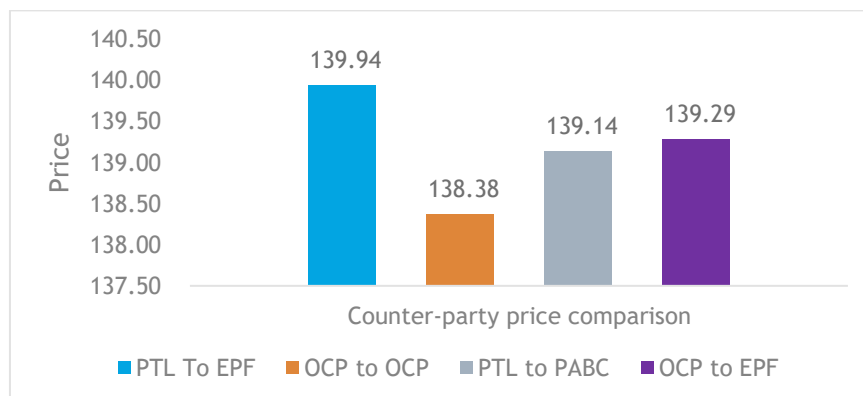


Table 88 - Transactions related to instance 3

(Rs. In Million)

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Yield Rate
PTL to EPF	10-Nov-14	11/10/2014 14:37	PTL	EPF	LKB01529A012	500	700	139.94	8.63%
PTL to EPF	10-Nov-14	11/10/2014 14:37	PTL	EPF	LKB01529A012	200	280	139.94	8.62%
OCP to EPF	10-Nov-14	11/10/2014 14:46	NSB	EPF	LKB01529A012	50	69	138.94	
PABC to EPF	10-Nov-14	11/10/2014 14:38	PABC	EPF	LKB01529A012	200	279	139.64	8.21%
OCP to OCP	10-Nov-14	11/10/2014 13:20:39	DEU	HNB	LKB01529A012	50	69	137.70	
OCP to OCP	10-Nov-14	11/10/2014 13:25:55	HNB	NDB	LKB01529A012	50	69	138.24	
OC1P to OCP	10-Nov-14	11/10/2014 14:45:34	NDB	UBC	LKB01529A012	50	69	138.34	
OCP to OCP	10-Nov-14	11/10/2014 15:06:02	NDB	UBC	LKB01529A012	50	69	138.64	
PTL to PABC	10-Nov-14	11/10/2014 13:24:29	PTL	PABC	LKB01529A012	200	278	139.14	
OCP to OCP	10-Nov-14	11/10/2014 14:45:54	UBC	NSB	LKB01529A012	50	69	138.74	
OCP to OCP	10-Nov-14	11/10/2014 15:06:02	UBC	WTL	LKB01529A012	50	69	138.44	
OCP to OCP	10-Nov-14	11/10/2014 15:06:02	WTL	NDB	LKB01529A012	50	69	138.54	

11.51 On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that excess price was paid by the EPF amounted to approximately to Rs.5.60 Million.

Table 89 - Price comparison between EPF and other counterparties transacted with PTL (Rs. In Million)

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Yield Rate	Difference in yield Rate (in Basis points)
1	PTL	EPF	5,000,000	139.94	0.80	4.00	8.18%	8
2	PTL	EPF	2,000,000	139.94	0.80	1.60	8.18%	
3	PTL	PABC	3,500,000	139.14			8.26%	
Total						5.60		

11.52 LKB01024A014 (Instance 4): Transaction between i) PTL and EPF ii) PABC and EPF iii) PTL and Other counterparties iv) Other counterparties and Other counterparties dated 3 November 2014

Chart 4

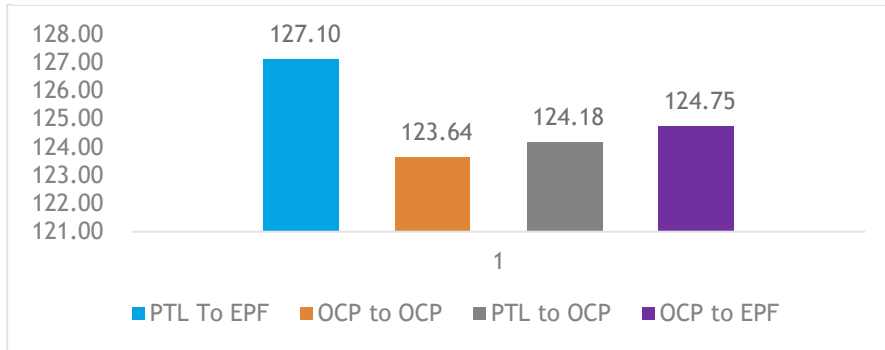


Table 90 - Transactions related to Instance 4

(Rs. In Million)

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs. In Million)	Price per security	Market Price	Yield Rate
OCP to EPF	3-Nov-14	11/3/2014 14:41	SEY	EPF	LKB01024A014	500	623	124.54	121.97	
OCP to EPF	3-Nov-14	11/3/2014 14:42	FCTL	EPF	LKB01024A014	50	62	124.90	121.97	
OCP to EPF	3-Nov-14	11/3/2014 14:43	CA	EPF	LKB01024A014	50	62	124.76	121.97	
OCP to EPF	3-Nov-14	11/3/2014 15:03	WTL	EPF	LKB01024A014	200	250	124.79	121.97	
PTL to EPF	3-Nov-14	11/3/2014 15:04	PTL	EPF	LKB01024A014	500	636	127.10	121.97	7.29 %
PTL to EPF	3-Nov-14	11/3/2014 15:19	PTL	EPF	LKB01024A014	500	636	127.10	121.97	7.29 %
PTL to EPF	3-Nov-14	11/3/2014 15:24	PTL	EPF	LKB01024A014	350	445	127.10	121.97	7.29 %
OCP to OCP	3-Nov-14	11/03/2014 12:07:28	FCTL	WTL	LKB01024A014	50	62	124.69	121.97	
OCP to OCP	3-Nov-14	11/03/2014 12:35:22	SEY	CBCL	LKB01024A014	50	62	124.18	121.97	
OCP to OCP	3-Nov-14	11/03/2014 12:35:32	SEY	CBCL	LKB01024A014	50	62	124.18	121.97	
OCP to OCP	3-Nov-14	11/03/2014 12:35:42	SEY	CBCL	LKB01024A014	100	125	124.54	121.97	

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield Rate
OCP to OCP	3-Nov-14	11/03/2014 13:11:22	FCTL	WTL	LKB01024A014	50	62	124.90	121.97	
OCP to OCP	3-Nov-14	11/03/2014 13:25:57	ESL	FCTL	LKB01024A014	50	63	125.41	121.97	
OCP to OCP	3-Nov-14	11/03/2014 13:26:28	ESL	NW	LKB01024A014	50	63	125.63	121.97	
OCP to OCP	3-Nov-14	11/03/2014 14:44:53	PTL	NW	LKB01024A014	50	62	124.18	121.97	
OCP to OCP	3-Nov-14	11/03/2014 15:32:54	BOC	FCTL	LKB01024A014	100	127	126.73	121.97	
OCP to OCP	3-Nov-14	11/03/2014 15:33:00	FCTL	CA	LKB01024A014	50	64	127.10	121.97	
OCP to OCP	3-Nov-14	11/03/2014 16:00:53	FCTL	BOC	LKB01024A014	19	20	108.99	121.97	

11.53 On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that excess price was paid by the EPF amounted to approximately Rs.39.45 Million.

Table 91- Price comparison between EPF and other Counterparties transacted with PTL

(Rs. In Million)

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Yield Rate	Difference in yield Rate
1	PTL	EPF	5,000,000	127.10	2.92	14.61	7.29%	38
2	PTL	EPF	5,000,000	127.10	2.92	14.61	7.29%	38
3	PTL	EPF	3,500,000	127.10	2.92	10.23	7.29%	38
4	PTL	NW	50,00,000	124.18			7.68%	

11.54 LKB00922G017 (Instance 5): Transaction between i) PTL and EPF ii) PTL and Other counterparties iii) Other counterparties and Other counterparties on 4 July 2014

Chart 5

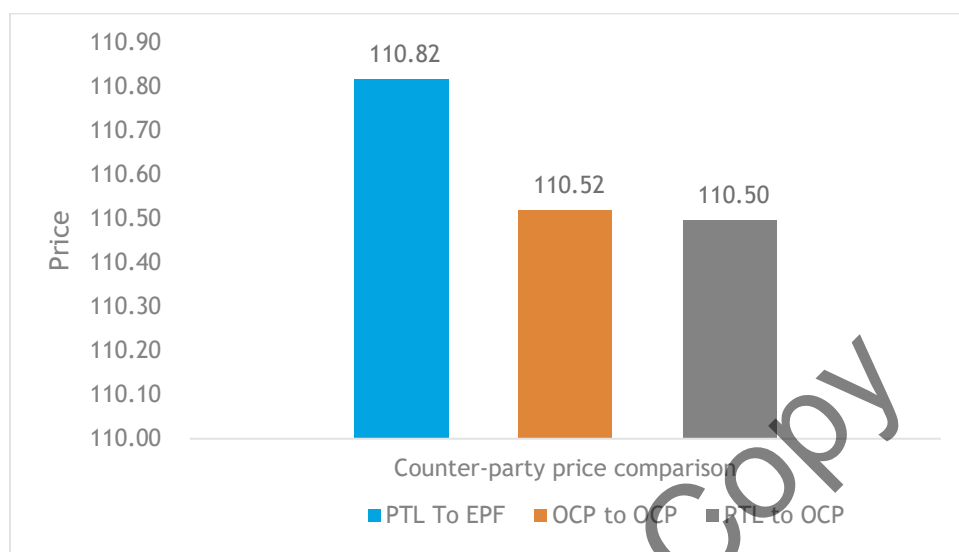


Table 92 - Transaction related to Instance 5

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount	Price per security	Market Price	Yield Rate
OCP to OCP	4-Jul-14	07/04/2014 15:04:58	CSS	CALD	LKB00922G017	50	55	110.05	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:59:16	CSS	DFCC	LKB00922G017	50	55	110.05	110.37	
OCP to OCP	4-Jul-14	07/04/2014 15:04:35	NSB	CSS	LKB00922G017	100	110	110.08	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:00:01	NDB	DFCC	LKB00922G017	50	55	110.11	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:25:37	NWS	FCTL	LKB00922G017	50	55	110.22	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:56:07	WTEY	CALD	LKB00922G017	50	55	110.28	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:28:28	CALD	DFCC	LKB00922G017	50	55	110.34	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:42:41	FCTL	NTB	LKB00922G017	50	55	110.34	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:27:43	FCTL	SEY	LKB00922G017	50	55	110.34	110.37	

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount	Price per security	Market Price	Yield Rate
OCP to OCP	4-Jul-14	07/04/2014 13:01:08	NDB	DFCC	LKB00922 G017	250	276	110.34	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:59:46	SEY	WTEY	LKB00922 G017	100	110	110.34	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:11:15	CSS	NSB	LKB00922 G017	50	55	110.4	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:24:09	NSB	HNB	LKB00922 G017	250	276	110.4	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:17:43	NTB	NSB	LKB00922 G017	50	55	110.4	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:24:09	SEY	HNB	LKB00922 G017	50	55	110.4	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:24:47	WTEY	SCB	LKB00922 G017	50	55	110.4	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:47:23	FCTL	CALD	LKB00922 G017	100	110	110.46	110.37	
OCP to OCP	4-Jul-14	07/04/2014 15:55:03	HNB	NWS	LKB00922 G017	250	276	110.46	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:25:37	NWS	NSB	LKB00922 G017	50	55	110.46	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:40:48	SEY	NWS	LKB00922 G017	50	55	110.46	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:56:40	SEY	WTEY	LKB00922 G017	100	110	110.46	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:22:44	CALD	CCEY	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:28:53	CALD	NTB	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:40:48	CALD	NWS	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:25:57	CALD	WTEY	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:28:38	CALD	WTEY	LKB00922 G017	100	111	110.52	110.37	

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount	Price per security	Market Price	Yield Rate
OCP to OCP	4-Jul-14	07/04/2014 13:26:26	CALD	WTEY	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:19:33	CCEY	WTEY	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 15:04:58	CSS	CALD	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 10:37:18	CSS	CCEY	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:26:15	NDB	NWS	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:46:02	NSB	CALD	LKB00922 G017	100	111	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:29:52	NWS	WTEY	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:59:20	SCB	NWS	LKB00922 G017	50	55	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:46:12	SEY	CALD	LKB00922 G017	100	111	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:50:50	SEY	WTEY	LKB00922 G017	100	111	110.52	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:59:36	SEY	WTEY	LKB00922 G017	50	55	110.52	110.37	
PTL to OCP	4-Jul-14	07/04/2014 13:23:07	PTL	NSB	LKB00922 G017	50	55	110.52	110.37	9.31%
OCP to OCP	4-Jul-14	07/04/2014 14:27:43	FCTL	WTEY	LKB00922 G017	100	111	110.55	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:50:50	WTEY	CCEY	LKB00922 G017	50	55	110.58	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:56:40	DFCC	WTEY	LKB00922 G017	50	55	110.64	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:01:16	FCTL	CALD	LKB00922 G017	150	166	110.64	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:27:33	FCTL	CALD	LKB00922 G017	50	55	110.64	110.37	



Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount	Price per security	Market Price	Yield Rate
OCP to OCP	4-Jul-14	07/04/2014 12:24:28	HNB	WTEY	LKB00922 G017	50	55	110.64	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:25:38	NWS	WTEY	LKB00922 G017	50	55	110.64	110.37	
OCP to OCP	4-Jul-14	07/04/2014 12:29:35	SEY	WTEY	LKB00922 G017	50	55	110.64	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:25:37	NWS	DFCC	LKB00922 G017	50	55	110.7	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:27:44	FCTL	PSB	LKB00922 G017	50	55	110.76	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:25:37	NWS	DFCC	LKB00922 G017	50	55	110.76	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:32:17	SEY	NSB	LKB00922 G017	50	55	110.76	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:59:56	SEY	PSB	LKB00922 G017	50	55	110.76	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:52:57	WTEY	PSB	LKB00922 G017	50	55	110.76	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:26:30	NWS	PSB	LKB00922 G017	50	55	110.82	110.37	
PTL to EPF	4-Jul-14	7/4/2014 15:29	PTL	EPF	LKB00922 G017	500	554	110.82	110.37	9.26%
OCP to OCP	4-Jul-14	07/04/2014 16:20:21	NSB	CSS	LKB00922 G017	50	55	110.88	110.37	
OCP to OCP	4-Jul-14	07/04/2014 14:12:23	NWS	HNB	LKB00922 G017	50	56	111.12	110.37	
OCP to OCP	4-Jul-14	07/04/2014 13:08:44	HNB	NSB	LKB00922 G017	50	56	111.17	110.37	

11.55 On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs.1.50 Million.

Table 93 - Price comparison between EPF and other counterparties transacted with PTL (Rs. In Million)

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Yield Rate	Difference in yield Rate
1	PTL	EPF	5,000,000	110.82	0.30	1.50	9.26%	5
2	PTL	NSB	500,000	110.52			9.31%	
Total						1.50		

11.56 LKB00922G017 (Instance 6): Transaction between i) PTL and EPF ii) PTL and Other counterparties iii) Other counterparties and Other counterparties dated 20 October 2014

Chart 5

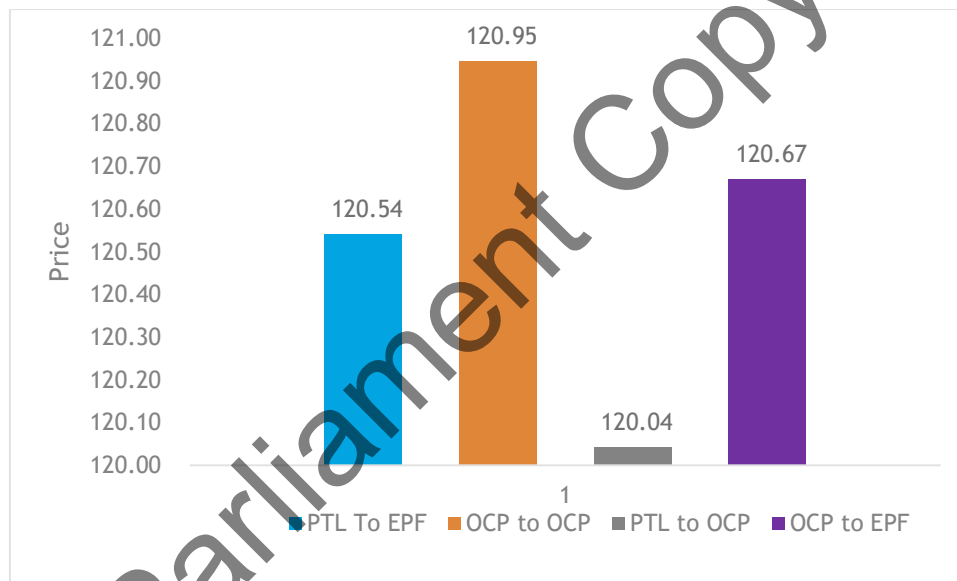


TABLE 94 - Transaction related to Instance 6

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs. in Million)	Price per security	Market Price	Yield Rate
PTL to OCP	20-Oct-14	10/20/2014 14:04	PTL	SEY	LKB00922G017	100.0	120.0	120.04	116.99	7.70 %
OCP to OCP	20-Oct-14	10/20/2014 14:55:09	CALD	NWS	LKB00922G017	50.0	60.1	120.23	116.99	
OCP to OCP	20-Oct-14	10/20/2014 14:30:02	FCTL	CALD	LKB00922G017	50.0	60.1	120.23	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:50:45	CALD	CSS	LKB00922G017	50.0	60.2	120.35	116.99	

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield Rate
OCP to OCP	20-Oct-14	10/20/2014 13:02:03	CALD	SEY	LKB00922G017	50.0	60.2	120.42	116.99	
PTL to EPF	20-Oct-14	10/20/2014 13:56	PTL	EPF	LKB00922G017	200.0	241.1	120.54	116.99	7.62 %
OCP to EPF	20-Oct-14	10/20/2014 14:34	WTEY	EPF	LKB00922G017	250.0	301.7	120.67	116.99	
OCP to OCP	20-Oct-14	10/20/2014 15:08:18	CALD	NWS	LKB00922G017	100.0	120.7	120.73	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:50:31	WTEY	SEY	LKB00922G017	200.0	241.7	120.83	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:50:44	CALD	CSS	LKB00922G017	50.0	60.4	120.85	116.99	
OCP to OCP	20-Oct-14	10/20/2014 14:41:52	CALD	NWS	LKB00922G017	50.0	60.4	120.85	116.99	
OCP to OCP	20-Oct-14	10/20/2014 14:30:00	FCTL	CALD	LKB00922G017	50.0	60.4	120.85	116.99	
OCP to OCP	20-Oct-14	10/20/2014 15:26:30	FCTL	SEY	LKB00922G017	250.0	302.1	120.85	116.99	
OCP to OCP	20-Oct-14	10/20/2014 10:47:48	SCB	DFC	LKB00922G017	50.0	60.4	120.85	116.99	
OCP to OCP	20-Oct-14	10/20/2014 11:06:07	WTEY	DFC	LKB00922G017	50.0	60.4	120.85	116.99	
OCP to OCP	20-Oct-14	10/20/2014 11:33:09	CALD	CCEY	LKB00922G017	50.0	60.6	121.17	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:04:53	DFCC	SEY	LKB00922G017	50.0	60.6	121.17	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:04:22	SEY	CCEY	LKB00922G017	50.0	60.6	121.17	116.99	
OCP to OCP	20-Oct-14	10/20/2014 10:57:47	WTEY	CCEY	LKB00922G017	50.0	60.6	121.17	116.99	
OCP to OCP	20-Oct-14	10/20/2014 15:11:35	SEY	CSS	LKB00922G017	50.0	60.6	121.23	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:02:39	CALD	SEY	LKB00922G017	100.0	121.5	121.48	116.99	

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield Rate
OCP to OCP	20-Oct-14	10/20/2014 11:11:12	CSS	CCEY	LKB00922G017	50.0	60.7	121.48	116.99	
OCP to OCP	20-Oct-14	10/20/2014 13:02:40	CSS	SEY	LKB00922G017	50.0	60.7	121.48	116.99	
OCP to OCP	20-Oct-14	10/20/2014 10:47:48	DFCC	CCEY	LKB00922G017	50.0	60.7	121.48	116.99	
OCP to OCP	20-Oct-14	10/20/2014 10:58:23	WTEY	CCEY	LKB00922G017	50.0	60.7	121.48	116.99	

- a. On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs. 0.98 Million.

Table 95 - Price comparison between EPF and other counterparties transacted with PTL

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Yield Rate	Difference in yield Rate
1	PTL	EPF	2,000,000	120.54	0.50	0.98	7.62%	8
2	PTL	SLB	1,000,000	120.04			7.70%	
Total						0.98		

- 11.57 LKB01024A014 (Instance 7): Transaction between i) PTL and EPF ii) PTL and Other counterparties iii) Other counterparties and Other counterparties dated 17 October 2014.

TABLE 96A - Transaction related to Instance 7

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield
OCP to OCP	17-Oct-14	10/17/2014 14:58:40	FCTL	BCEY	LKB01024A014	200.00	247.15	123.58	120.22	
OCP to OCP	17-Oct-14	10/17/2014 14:57:50	HNB	NWS	LKB01024A014	50.00	61.68	123.36	120.22	
OCP to OCP	17-Oct-14	10/17/2014 14:36:15	WTEY	CALD	LKB01024A014	50.00	61.86	123.72	120.22	
OCP to OCP	17-Oct-14	10/17/2014 14:36:33	WTEY	CALD	LKB01024A014	100.00	123.00	123	120.22	
OCP to OCP	17-Oct-14	10/17/2014 14:42:11	WTEY	FCTL	LKB01024A014	50.00	62.59	125.18	120.22	
OCP to OCP	17-Oct-14	10/17/2014 15:05:31	WTEY	FCTL	LKB01024A014	50.00	61.50	123	120.22	

Type of transaction	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Million)	Price per security	Market Price	Yield
OCP to OCP	17-Oct-14	10/17/2014 11:59:01	WTEY	FCTL	LKB01024A014	200.00	246.72	123.36	120.22	
OCP to OCP	17-Oct-14	10/17/2014 11:22:33	WTEY	SEY	LKB01024A014	50.00	62.22	124.45	120.22	
PTL to EPF	17-Oct-14	10/17/2014 14:08	PTL	EPF	LKB01024A014	500.00	633.65	126.73	120.22	7.35%
PTL to OCP	17-Oct-14	10/17/2014 14:37:39	PTL	CALD	LKB01024A014	50.00	61.86	123.72	120.22	7.75%
PTL to OCP	17-Oct-14	10/17/2014 13:21:05	PTL	CCEY	LKB01024A014	50.00	62.04	124.08	120.22	7.70%
PTL to OCP	17-Oct-14	10/17/2014 13:21:05	PTL	CCEY	LKB01024A014	50.00	62.59	125.18	120.22	7.56%
PTL to OCP	17-Oct-14	10/17/2014 14:09:34	PTL	NWS	LKB01024A014	50.00	61.86	123.72	120.22	7.75%

11.58 On comparison of the lowest price at which PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs.15.05 Million.

Table 96B - Price comparison between EPF and other counterparties transacted with PTL

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Yield Rate	Difference in yield Rate
1	PTL	EPF	5,000,000	126.73	3.01	15.05	7.35%	40
2	PTL	CA	500,000	123.72			7.75%	
3	PTL	CBCL	500,000	124.08			7.70%	
4	PTL	CBCL	500,000	125.18			7.56%	
5	PTL	NW	500,000	123.72			7.75%	
Total						15.05		

11.59 LKB00922G017 (Instance 8): Transaction between i) PTL and EPF ii) PTL and Other counterparties iii) Other counterparties and Other counterparties dated 28 October 2014

Chart 6

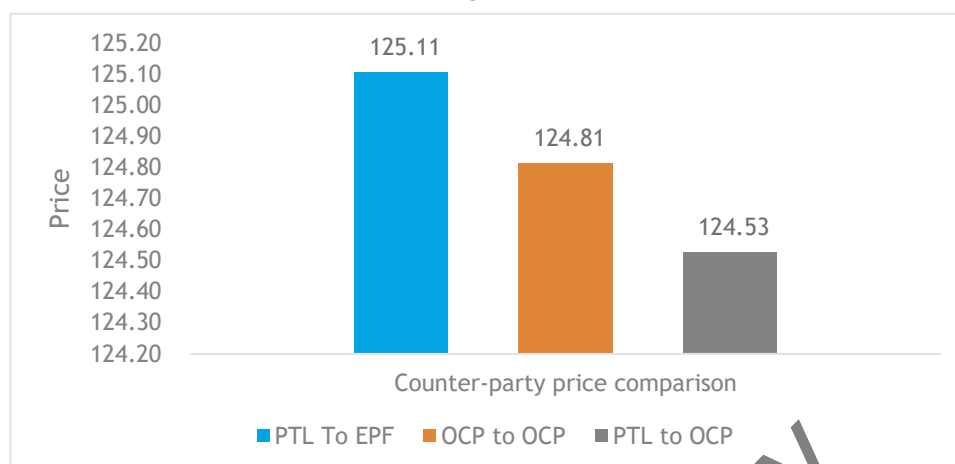


Table 97A- Transaction related to Instance 8

Type of transaction	Settlement Date	Settlement Time	Seller	Buyer	ISIN	Face Value	Amount (Rs. in Million)	Price per security	Market Price	Yield Rate
PTL to OCP	28-Oct-14	10/28/2014 13:30:05	PTL	NWS	LKB01024A014	50.00	62.01	124.02	120.85	
OCP to OCP	28-Oct-14	10/28/2014 10:34:15	CALD	WTEY	LKB01024A014	50.00	62.37	124.74	120.85	
OCP to OCP	28-Oct-14	10/28/2014 14:44:31	FCTL	CALD	LKB01024A014	50.00	62.37	124.74	120.85	
OCP to OCP	28-Oct-14	10/28/2014 11:37:11	SEY	BCEY	LKB01024A014	50.00	62.48	124.96	120.85	
PTL to OCP	28-Oct-14	10/28/2014 12:37:16	PTL	BCEY	LKB01024A014	50.00	62.52	125.03	120.85	
PTL to EPF	28-Oct-14	10/28/2014 15:12	PTL	EPF	LKB01024A014	500.00	625.53	125.11	120.85	7.56%
PTL to EPF	28-Oct-14	10/28/2014 15:38	PTL	EPF	LKB01024A014	500.00	625.53	125.11	120.85	7.56%

11.60 On comparison of the lowest price at which the PTL had sold to other counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to Rs.10.86 Million.

Table 97B- Price comparison between EPF and other counterparties transacted with PTL

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B) (Rs. in Million)	Yield Rate	Difference in yield Rate
1	PTL	EPF	5,000,000	125.11	1.09	5.43	7.56%	14
2	PTL	EPF	500,000	125.11	1.09	5.43	7.56%	14
3	PTL	BOC	500,000	125.03			7.57%	
4	PTL	NW	500,000	124.02			7.70%	
Total						10.86		

11.61 It is evident from the above transactions, PTL had charged higher price to the EPF compared to the other counterparties.

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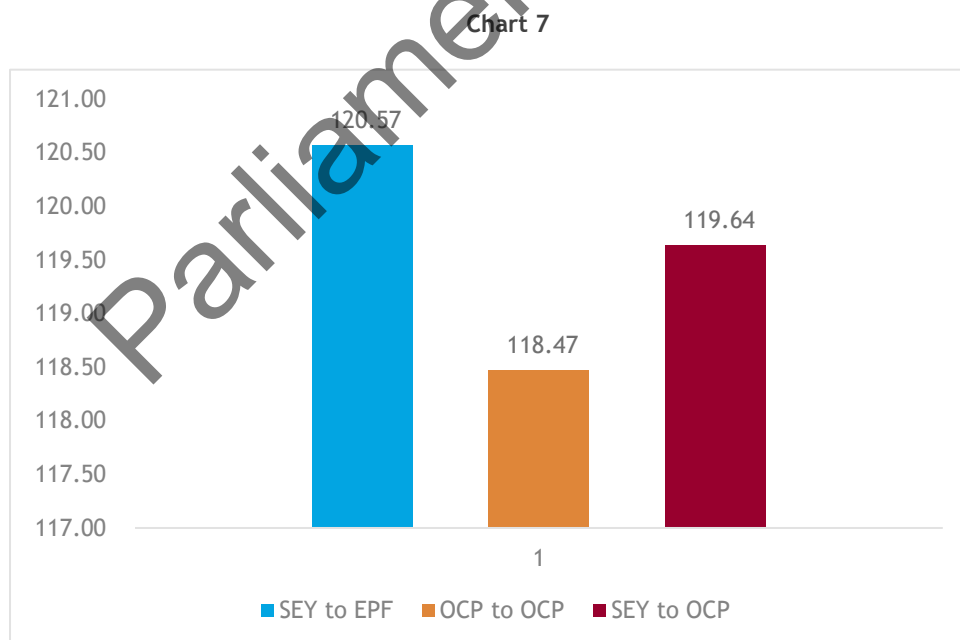
## TRANSACTIONS WITH SEYLAN BANK PLC

11.62 Seylan Bank PLC had contributed to market variance loss amounting to Rs. 80.73 Million which contributed to 13% of the overall loss amounting to Rs. 620.81 Million for the period 2007 to 2014. During the year 2014, Seylan Bank contributed to Rs.77.42 Million which contributes to 15% of the overall loss amounting to Rs.565.15 Million. Due to the above indicative red flags, the transactions with Seylan Bank PLC had been further analysed and detailed in the section below.

11.63 In 4 out of 15 transactions executed with Seylan Bank PLC during the year 2014, indicates that Seylan had sold the Treasury Bonds at higher price to the EPF as compared to the other counterparties (Refer Attribute 1 and 3 mentioned in the above Table 84). Refer Annexure - 86 for the details of 15 transactions executed with Seylan Bank PLC<sup>299</sup>.

11.64 The analysis of the 3 (three) transaction dates (4 out of 15 transactions) are detailed below, where the EPF had paid highest price in comparison to the other Counterparties who had transacted with Seylan.

11.65 LKB00922G017 (Instance 1): Transaction between i) SEY and EPF ii) SEY and Other Counterparties iii) Other Counterparties and other Counterparties dated 21 October 2014



<sup>299</sup> Refer Annexure - 86 for the list of transactions detailing the price difference between Seylan Bank PLC and other counterparties.



Table 98 - Purchase price paid by other Counterparties to Seylan Bank

Type	Settlement Date	Settlement time	Seller	Buyer	ISIN	Face Value	Amount (Rs.in Millions)	Price per security	Yield Rate
OCP to OCP	21-Oct-14	10/21/2014 13:35:15	CALD	CCEY	LKB00922G017	50	60	119.14	
OCP to OCP	21-Oct-14	10/21/2014 13:35:16	CALD	CCEY	LKB00922G017	50	59	118.71	
OCP to OCP	21-Oct-14	10/21/2014 13:35:16	CALD	NWS	LKB00922G017	50	60	119.64	
OCP to OCP	21-Oct-14	10/21/2014 13:04:53	CCEY	CALD	LKB00922G017	50	59	118.10	
OCP to OCP	21-Oct-14	10/21/2014 11:56:47	CCEY	NWS	LKB00922G017	50	59	117.80	
OCP to OCP	21-Oct-14	10/21/2014 14:48:37	CCEY	PTL	LKB00922G017	50	60	119.33	
OCP to OCP	21-Oct-14	10/21/2014 13:15:27	CSS	CALD	LKB00922G017	50	58	116.89	
OCP to OCP	21-Oct-14	10/21/2014 10:29:43	CSS	CCEY	LKB00922G017	50	60	119.02	
OCP to OCP	21-Oct-14	10/21/2014 11:53:57	CSS	NWS	LKB00922G017	50	59	117.50	
OCP to OCP	21-Oct-14	10/21/2014 13:46:36	DFCC	NWS	LKB00922G017	100	119	119.02	
OCP to OCP	21-Oct-14	10/21/2014 14:58:38	NWS	CALD	LKB00922G017	100	118	118.41	
OCP to OCP	21-Oct-14	10/21/2014 13:47:00	NWS	CALD	LKB00922G017	50	58	116.60	
OCP to OCP	21-Oct-14	10/21/2014 13:47:01	NWS	CALD	LKB00922G017	50	59	117.50	
OCP to OCP	21-Oct-14	10/21/2014 13:35:39	NWS	CSS	LKB00922G017	50	58	116.30	
OCP to OCP	21-Oct-14	10/21/2014 12:48:12	NWS	DFCC	LKB00922G017	100	118	118.10	
OCP to OCP	21-Oct-14	10/21/2014 13:44:31	NWS	HNBS	LKB00922G017	50	59	117.50	
OCP to OCP	21-Oct-14	10/21/2014 11:48:47	NWS	PABC	LKB00922G017	250	299	119.64	
SEY to EPF	21-Oct-14	10/21/2014 13:58:02	SEY	EPF	LKB00922G017	250	301	120.57	7.62
SEY to OCP	21-Oct-14	10/21/2014 13:06:05	SEY	CALD	LKB00922G017	100	120	119.64	7.67

11.66

11.67 On comparison of the lowest price at which the Seylan had sold to other Counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs. 2.32 Million.

Table 99 - Price and yield comparison between EPF and other Counterparties transacted with Seylan Bank (Rs. Million)

#	Seller	Buyer	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Calculated Yield	Yield difference
1	SEY	EPF	2,500,000	120.57	0.19	2.32	7.62	14
2	SEY	OCP	1,000,000	119.64			7.76	

11.68 LKB00922G017 (Instance 2): Transaction between i) SEY and EPF ii) SEY and OCP iii) Other Counterparties and Other Counterparties dated 4 Nov 2014

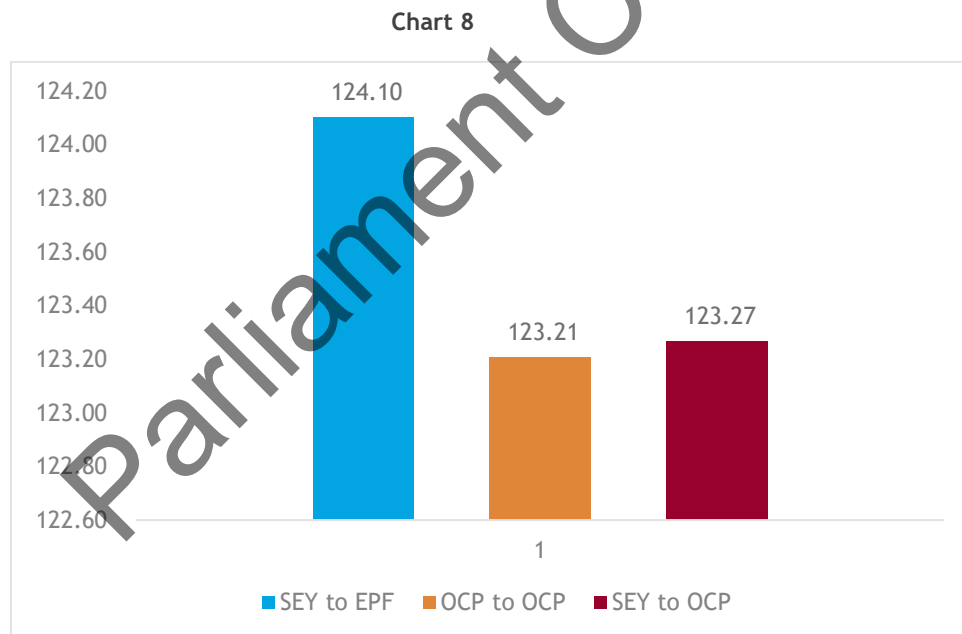


Table 100 - Transactions related to instance 2

(Rs. In Million)

Type	Settlement Date	Settlement time	Seller	Buyer	ISIN	Face Value (Rs.in Millions)	Amount (Rs.in Millions)	Price per security	Yield Rate
OCP to OCP	4-Nov-14	11/04/2014 11:01:56	CALD	CCEY	LKB00922G017	50	62	123.78	
OCP to OCP	4-Nov-14	11/04/2014 11:57:37	CALD	NWS	LKB00922G017	50	62	123.27	
OCP to OCP	4-Nov-14	11/04/2014 13:38:08	CSS	CALD	LKB00922G017	50	62	123.78	
OCP to OCP	4-Nov-14	11/04/2014 10:47:13	CSS	CCEY	LKB00922G017	50	62	123.46	
OCP to OCP	4-Nov-14	11/04/2014 11:52:27	CSS	NSB	LKB00922G017	50	62	123.14	
OCP to OCP	4-Nov-14	11/04/2014 11:56:49	CSS	NWS	LKB00922G017	50	61	122.76	
OCP to OCP	4-Nov-14	11/04/2014 11:56:46	CSS	NWS	LKB00922G017	50	62	123.65	
OCP to OCP	4-Nov-14	11/04/2014 14:04:03	DEUT	HNBS	LKB00922G017	50	61	121.06	
OCP to OCP	4-Nov-14	11/04/2014 15:03:55	FCTL	CCEY	LKB00922G017	100	123	123.46	
OCP to OCP	4-Nov-14	11/04/2014 12:31:43	FCTL	CCEY	LKB00922G017	50	62	123.78	
OCP to OCP	4-Nov-14	11/04/2014 14:06:45	HNBS	CCEY	LKB00922G017	50	62	123.78	
OCP to OCP	4-Nov-14	11/04/2014 14:07:05	HNBS	CSS	LKB00922G017	50	62	123.40	
OCP to OCP	4-Nov-14	11/04/2014 14:14:43	HNBS	DEUT	LKB00922G017	50	61	121.06	
OCP to OCP	4-Nov-14	11/04/2014 12:18:17	NSB	CSS	LKB00922G017	50	61	122.69	
OCP to OCP	4-Nov-14	11/04/2014 14:53:19	NSB	HNBS	LKB00922G017	50	62	123.33	
OCP to OCP	4-Nov-14	11/04/2014 13:40:28	NWS	CALD	LKB00922G017	50	61	122.82	
OCP to OCP	4-Nov-14	11/04/2014 11:51:06	NWS	CCEY	LKB00922G017	50	62	123.14	
OCP to OCP	4-Nov-14	11/04/2014 11:51:35	NWS	CCEY	LKB00922G017	50	62	123.78	
OCP to OCP	4-Nov-14	11/04/2014 11:51:57	NWS	CCEY	LKB00922G017	100	123	123.46	
OCP to OCP	4-Nov-14	11/04/2014 11:52:16	NWS	CCEY	LKB00922G017	100	124	123.65	
OCP to OCP	4-Nov-14	11/04/2014 12:31:43	NWS	FCTL	LKB00922G017	50	62	123.14	
OCP to OCP	4-Nov-14	11/04/2014 12:31:19	NWS	FCTL	LKB00922G017	50	62	123.01	
OCP to OCP	4-Nov-14	11/04/2014 13:54:14	PTL	CCEY	LKB00922G017	50	61	122.82	
OCP to OCP	4-Nov-14	11/04/2014 13:54:23	PTL	CCEY	LKB00922G017	50	61	122.50	
OCP to OCP	4-Nov-14	11/04/2014 13:54:14	PTL	CCEY	LKB00922G017	100	124	123.78	
OCP to OCP	4-Nov-14	11/04/2014 13:54:14	PTL	CCEY	LKB00922G017	150	185	123.46	
OCP to OCP	4-Nov-14	11/04/2014 13:54:24	PTL	CSS	LKB00922G017	50	61	122.82	
OCP to OCP	4-Nov-14	11/04/2014 15:03:48	PTL	FCTL	LKB00922G017	50	61	122.82	
OCP to OCP	4-Nov-14	11/04/2014 15:03:48	PTL	FCTL	LKB00922G017	50	62	123.46	

Type	Settlement Date	Settlement time	Seller	Buyer	ISIN	Face Value (Rs.in Millions)	Amount (Rs.in Millions)	Price per security	Yield Rate
OCP to OCP	4-Nov-14	11/04/2014 14:03:33	PTL	HNBS	LKB00922G017	50	61	122.50	
OCP to OCP	4-Nov-14	11/04/2014 14:03:05	PTL	HNBS	LKB00922G017	50	62	123.65	
OCP to OCP	4-Nov-14	11/04/2014 14:22:36	PTL	NWS	LKB00922G017	50	61	122.82	
OCP to OCP	4-Nov-14	11/04/2014 14:10:54	WTEY	CALD	LKB00922G017	50	62	123.14	
OCP to OCP	4-Nov-14	11/04/2014 14:10:54	WTEY	CCEY	LKB00922G017	50	62	123.78	
SEY to EPF	4-Nov-14	11/04/2014 14:39:22	SEY	EPF	LKB00922G017	1,750	2,172	124.10	7.07
SEY to OCP	4-Nov-14	11/04/2014 13:40:18	SEY	CALD	LKB00922G017	50	62	123.14	7.22
SEY to OCP	4-Nov-14	11/04/2014 13:40:08	SEY	CCEY	LKB00922G017	50	62	123.40	7.18
SEY to OCP	4-Nov-14	11/04/2014 13:39:58	SEY	CCEY	LKB00922G017	50	62	123.40	7.18
SEY to OCP	4-Nov-14	11/04/2014 13:39:09	SEY	CSS	LKB00922G017	50	62	123.14	7.22
SEY to OCP	4-Nov-14	11/04/2014 15:11:30	SEY	FCTL	LKB00922G017	100	123	123.27	7.20
SEY to OCP	4-Nov-14	11/04/2014 13:50:30	SEY	NWS	LKB00922G017	50	62	123.27	7.20

11.69 On comparison of the lowest price at which the SEY had sold to other Counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs.16.80 Million.

Table 101 - Price and Yield comparison between the EPF and other Counterparties transacted with SEY (Rs. In Million)

#	Seller	Counterparty	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Calculated Yield	Yield difference
1	SEY	EPF	17,500,000	124.10	1.60	16.8	7.07	0.14
2	SEY	CALD	500,000	123.14			7.22	
3	SEY	CCEY	500,000	123.40			7.18	
4	SEY	CCEY	500,000	123.40			7.18	
5	SEY	CSS	500,000	123.14			7.22	
6	SEY	FCTL	1,000,000	123.27			7.20	
7	SEY	NWS	500,000	123.27			7.20	

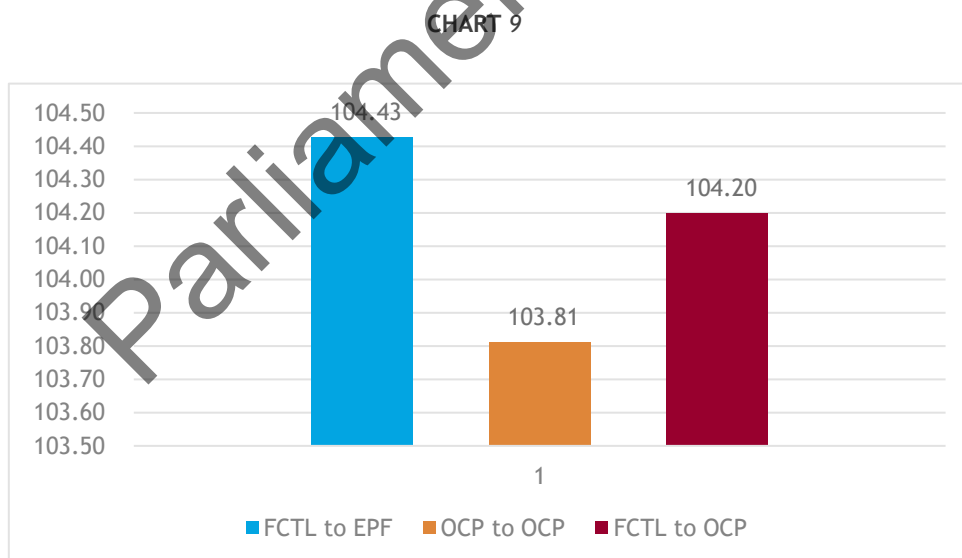
## TRANSACTIONS WITH FIRST CAPITAL TREASURIES LTD

11.70 First Capital Treasuries Ltd had contributed to market variance loss amounting to Rs.100.64Million which contributed to 16% of the overall loss amounting to Rs. 620.81 Million for the period 2007 to 2014. During the year 2014, First Capital Treasuries Limited contributed to Rs.77.42 Million which contributes to 15% of the overall loss amounting to Rs.565.15 Million. Due to the above indicative red flags, the transactions with First capital Treasuries had been further analysed and detailed in the section below:

11.71 In 3 out of 25 transactions executed with First Capital Treasuries Ltd, indicates that First Capital Treasuries Ltd had sold the Treasury Bonds at higher price to the EPF as compared to the other Counterparties (Refer Attribute 1 and 3 mentioned above). Refer Annexure - 88A for the details of 25 transactions executed with First Capital Treasuries Ltd<sup>300</sup>.

11.72 The analysis of the 2 (two) transaction dates (3 out of 25 transactions) are detailed below, where the EPF had paid highest price in comparison to the other counterparties who had transacted with First Capital Treasuries Ltd.

LKB00413B018 (INSTANCE 1): Transaction between i) FCTL and EPF ii) FCTL and Other Counterparties and iii) Other counter parties and Other counter parties dated 01 June 2009



<sup>300</sup> Refer Annexure - 87 for the list of transactions detailing the price difference between First Capital Treasuries LTD and other counterparties.

Table 102 - Transactions related to instance 1

(Rs. In Million)

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value (Rs.in Millions)	Amount (Rs.in Millions)	Price per security	Yield
FCTL to EPF	1-Jun-09	06/01/2009 12:39:41	FCTL	EPF	LKB00413 B018	100	104	104.43	11.97%
OCP to OCP	1-Jun-09	06/01/2009 14:29:32	BCEY	CAL D	LKB00413 B018	50	52	104.28	
OCP to OCP	1-Jun-09	06/01/2009 11:20:02	BCEY	CSS	LKB00413 B018	50	52	104.28	
OCP to OCP	1-Jun-09	06/01/2009 14:31:27	CALD	SEY	LKB00413 B018	100	105	104.64	
OCP to OCP	1-Jun-09	06/01/2009 14:25:57	HSBC	CAL D	LKB00413 B018	50	52	104.43	
OCP to OCP	1-Jun-09	06/01/2009 14:26:33	HSBC	CAL D	LKB00413 B018	100	104	104.43	
OCP to OCP	1-Jun-09	06/01/2009 14:51:01	HSBC	NTB	LKB00413 B018	100	104	104.43	
OCP to OCP	1-Jun-09	06/01/2009 14:39:26	NSB	SEY	LKB00413 B018	50	65	129.33	
OCP to OCP	1-Jun-09	06/01/2009 14:17:28	NTB	BCE Y	LKB00413 B018	100	104	103.86	
OCP to OCP	1-Jun-09	06/01/2009 14:29:25	NTB	CSS	LKB00413 B018	50	52	103.86	
OCP to OCP	1-Jun-09	06/01/2009 14:39:28	NTB	SEY	LKB00413 B018	750	780	104.06	
OCP to OCP	1-Jun-09	06/01/2009 14:39:59	NTB	SEY	LKB00413 B018	500	513	102.61	
OCP to OCP	1-Jun-09	06/01/2009 14:40:05	NTB	SEY	LKB00413 B018	100	104	103.58	
OCP to OCP	1-Jun-09	06/01/2009 14:40:33	NTB	SEY	LKB00413 B018	100	103	103.44	
OCP to OCP	1-Jun-09	06/01/2009 14:38:27	NTB	SEY	LKB00413 B018	50	52	104.43	
OCP to OCP	1-Jun-09	06/01/2009 14:51:25	NWS	NTB	LKB00413 B018	50	52	104.09	
OCP to OCP	1-Jun-09	06/01/2009 14:51:53	PABC	NTB	LKB00413 B018	100	104	104.28	
OCP to OCP	1-Jun-09	06/01/2009 14:25:26	SEY	CAL D	LKB00413 B018	150	156	104.14	
OCP to OCP	1-Jun-09	06/01/2009 13:21:05	SEY	CSS	LKB00413 B018	50	52	104.00	
OCP to OCP	1-Jun-09	06/01/2009 14:47:55	SEY	NTB	LKB00413 B018	750	773	103.03	
OCP to OCP	1-Jun-09	06/01/2009 14:48:25	SEY	NTB	LKB00413 B018	500	513	102.61	

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value (Rs.in Millions)	Amount (Rs.in Millions)	Price per security	Yield
OCP to OCP	1-Jun-09	06/01/2009 14:48:55	SEY	NTB	LKB00413 B018	100	104	103.58	
OCP to OCP	1-Jun-09	06/01/2009 14:50:12	SEY	NTB	LKB00413 B018	100	103	103.44	
OCP to OCP	1-Jun-09	06/01/2009 14:50:42	SEY	NTB	LKB00413 B018	50	52	104.14	
FCTL to OCP	1-Jun-09	06/01/2009 15:20:27	FCTL	NTB	LKB00413 B018	50	52	104.20	12.05%
FCTL to OCP	1-Jun-09	06/01/2009 13:12:56	FCTL	SBAE	LKB00413 B018	50	52	104.20	12.05%
FCTL to OCP	1-Jun-09	06/01/2009 11:27:39	FCTL	SEY	LKB00413 B018	100	104	104.20	12.05%

11.73 On comparison of the lowest price at which the First Capital Treasuries LTD. Had sold to other Counterparties with the price at which it was sold to the EPF, it is noted that the **excess price was paid by the EPF amounted to approximately Rs.0.23 Million.**

Table 103 - Price comparison between the EPF and other Counterparties transacted with FIRST CAPITAL TREASURIES LTD (Rs. In Million)

#	Seller	Counterparty	Quantity (A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Calculated Yield	Yield Difference (In Basis Points)
1	FCTL	EPF	1,000,000	104.43	0.23	0.23	11.97%	8
2	FCTL	NTB	500,000	104.20			12.05%	
3	FCTL	SBAE	500,000	104.20			12.05%	
4	FCTL	SEY	1,000,000	104.20			12.05%	

11.74 LKB01529A012 (Instance 2): Transaction between i) FCTL and EPF ii) FCTL and Other Counter Parties and iii) Other Counter parties and Other Counter parties dated 03 November 2014

Chart 10

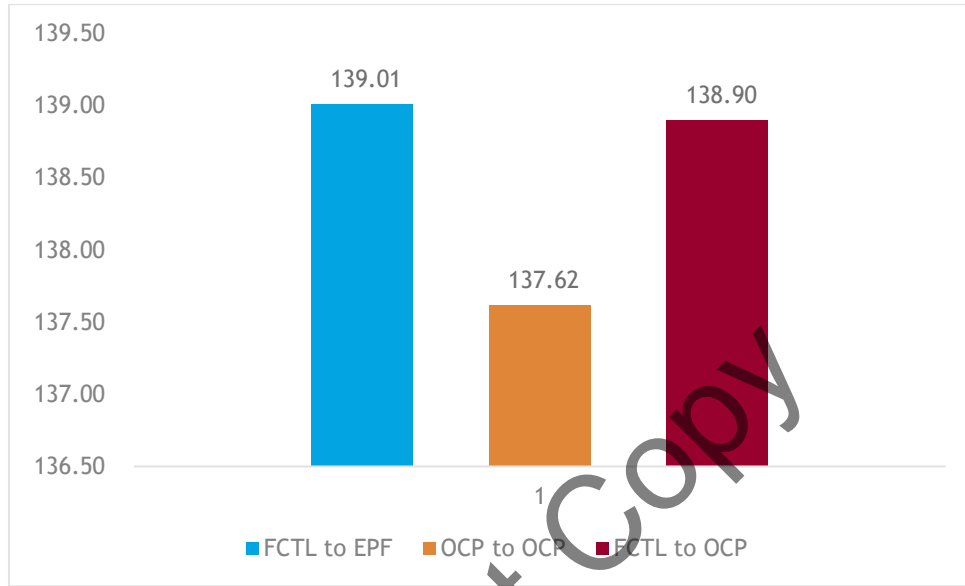


Table 104 - Transactions related to instance 4

(Rs. In Million)

Type	Settlement date	Settlement time	Seller	Buyer	ISIN	Face Value (Rs.in Millions)	Amount (Rs.in Millions)	Price per security	Yield Rate
FCTL to EPF	3-Nov-14	11/03/2014 15:38:20	FCTL	EPF	LKB01529A012	500	695	139.01	8.27 %
FCTL to EPF	3-Nov-14	11/03/2014 15:16:53	FCTL	EPF	LKB01529A012	250	348	139.01	8.27 %
FCTL to OCP	3-Nov-14	11/03/2014 13:47:26	FCTL	PTL	LKB01529A012	100	139	138.51	8.32 %
FCTL to OCP	3-Nov-14	11/03/2014 14:56:58	FCTL	PTL	LKB01529A012	350	487	139.01	8.27 %
OCP to OCP	3-Nov-14	11/03/2014 15:04:03	PTL	WTE Y	LKB01529A012	300	398	132.72	
OCP to OCP	3-Nov-14	11/03/2014 13:47:25	PTL	WTE Y	LKB01529A012	350	489	139.72	
OCP to OCP	3-Nov-14	11/03/2014 15:36:29	PTL	WTE Y	LKB01529A012	350	489	139.72	



11.75 On comparison of the lowest price at which the First Capital Treasuries LTD had sold to other Counterparties with the price at which it was sold to the EPF, it is noted that the excess price was paid by the EPF amounted to approximately Rs.3.75 Million.

Table 105 - Price comparison between the EPF and other counterparties transacted with First Capital Treasuries LTD (Rs. In Million)

#	Seller	Counterparty	Quantity(A)	Price per Security	Difference (Price per Security) (B)	Excess price paid by EPF(A*B)	Calculated Yield	Yield Difference (In Basis Points)
1	FCTL	EPF	5,000,000	139.01	0.50	2.50	8.27%	0.05%
2	FCTL	EPF	2,500,000	139.01	0.50	1.25	8.27%	0.05%
3	FCTL	PTL	1,000,000	138.51			8.32%	
4	FCTL	PTL	3,500,000	139.01			8.27%	

11.76 On review of the voice recordings for FCTL and Seylan Bank PLC, no indication of collusive behaviour was identified. Further, no pattern had evidence similar to the PTL, PABC and WTL.

**PRICE VARIANCE BETWEEN THE COUNTERPARTIES FOR PURCHASE OF SAME ISIN ON THE SAME DAY**

11.63 On comparison of purchase price between multiple counterparties (“PDs”) on the date of transaction where the same ISIN was purchased from more than one Counterparty, it was noted that in 104 transactions (40 transaction dates) (Refer Annexure 88 and Exhibit 73 )<sup>301</sup>, the EPF had paid excess price in comparison with the weighted average purchase price of the ISIN resulted in a loss of Rs. 12.59 Million for the period 2002 to 2004 and 2007 to 2014.

11.64 The loss due to excess price paid by EPF amounted to Rs. 3.36 Million for the period 2002 to 2004.

11.65 The loss due to price variance between the counterparties for the period 2005 to 2006 was not ascertained due to the Non availability of the Deal Tickets.

<sup>301</sup> Refer Annexure - 88 and Exhibit 73 for the computation of loss in comparison with weighted average price paid per security.

11.66 The total loss incurred in 2014 amounted to approximately Rs.8.57 Million. In 13 transactions (5 transaction dates) out 43 transactions (8 transaction dates), the EPF had purchased from PTL, PABC and WTL at a higher price resulted in loss of Rs.7.21 Million contributing to 78% of loss due to excess price paid.

11.67 Due to non-maintenance of quotes received from other counterparties, the reason for excess price paid to PTL, PABC and WTL resulting in a loss of approximately Rs.7.21 Million cannot be ascertained. This was confirmed during an interview of 2 October 2019 with Mr. T Udayaseelan, former Senior Assistant Superintendent, FO, stated that, "I had received calls from dealers/brokers such as Perpetual Treasuries Limited, PABC, WealthTrust, First Capital and Capital Alliance for the quotes. However, there was no practice of maintaining the documentation for the quotes."<sup>302</sup>

11.68 In the absence of the call recording system in the EPF, the collusion of the Primary Dealer by the staff of FO cannot be evaluated.

### Identification of ultimate beneficiary

11.69 On review of purchase transactions where the EPF has paid higher than the Secondary Market price, it was noted that in 6 instances (8 transactions) (Refer Annexure 89)<sup>303</sup> the following individuals / Entities Treasury Bond were purchased by the EPF through the following specific Primary Dealers:

- A. WDNH Perera
- B. Saakya Capital Private Limited
- C. John Keels Holdings Plc
- D. Litro Gas Lanka Limited
- E. Taprobane Holdings Limited
- F. MN Aloysius

11.70 For one instance, the PABC had sold Treasury Bonds valuing Rs. 2 Million to the EPF on 8 August 2014, it was traced from the CDS data that the bond was held by WDNH Perera on 28 July 2014. It was subsequently transferred from his beneficiary account to PABC own account before it was sold to EPF. Due to limitation in access to PABC settlement records, it cannot be commented on the ultimate beneficiary of these transactions where the EPF paid more than the Secondary Market price.

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<sup>302</sup> Refer Exhibit 12 for the fact statement of Mr. T Udayaseelan dated 2 October 2019.

<sup>303</sup> Refer Annexure 89 for the list of identified Secondary Market transactions - Ultimate Beneficiary

11.71 Similarly, the above-mentioned instance, the following additional instances appears that the ultimate beneficiary of transactions, where the EPF has paid more than the Secondary Market price, were other than the counterparties of the transactions:

(Rs. In Million)

#	Transaction Date	Counterparty	Beneficiary	Amount transacted	Loss
1	01-09-2014	PTL	M N Aloysius	700	12.09
2	31-07-2014	Commercial Bank of Ceylon	John Keells Holdings PLC and Litro Gas Lanka Limited	2,373	26.63
3	07-08-2014	Seylan PLC	Bank Taprobane Holdings Limited	651	28.97
4	30-09-2014	Seylan PLC	Bank Saakya Capital Private Limited	1,750	21.84
5	08-08-2014	PABC	WDNH Perera	274.2	15.62
6	08-08-2014	PABC	WDNH Perera	347.57	11.69

The yield variance ranging between 21 to 80 basis points. Refer Annexure 89 for details.

- B. The above-mentioned transactions require further investigation to identify any if of these parties were benefitted causing loss to the EPF. It involves review of transaction documents of primary Dealers which is not part of the RFP 2 scope.

### Approving Authority for the above reported transactions

11.72 On review of supporting documents and HR records provided by the Management of the EPF, the below mentioned CBSL employees were responsible for execution and approval of the above transactions with PTL / PABC and WTL:

Table 106- Summary of approving authority for 2013 and 2014

Year	Total Transaction Amount (Rs. in Million)	Loss (Rs. in Million)	Name	Designation	Responsibility
2014	15,792	224.99	PWDNR Rodrigo	Superintendent of EPF	Approving the transactions
			TDH Karunaratne	Additional Superintendent of EPF	Approving the transactions
			MSK Dharmawardena	Additional Superintendent of EPF	Approving the transactions
			AGU Thilkarathna	Actg Additional Superintendent of EPF	Approving the transactions

Year	Total Transaction Amount (Rs. in Million)	Loss (Rs. in Million)	Name	Designation	Responsibility
			JDSJ Nanayakkara	Deputy Superintendent of EPF	Approving the transactions
			NLM Abeysekara	Senior Assistant Superintendent	Verifying and commenting on transactions entered at the market price
			T Udayaseelan	Senior Assistant Superintendent	Execution of the transaction

11.73 The above reported transactions were ratified by the Investment Committee and the Monetary Board. The details of the Investment Committee members are detailed below:

**Table 107 - Members of Investment Committee**

Year	Name	Designation
2014	PN Weerasinghe	Deputy Governor
	BDWA Silva	Deputy Governor
	R Dheerasinghe	Assistant Governor
	CPA Karunathilake	Assistant Governor

11.74 On review of the Investment Committee minutes for 2014, it was noted that the members of the Investment Committee never raised concerns on the concentration of transaction with the specific counterparties such as PTL, PABC and WTL. This was confirmed during an interview with the former and current top management of the EPF, the former and the current Employees also stated that:

- A. During an interview of 19 September 2019 with Mrs. K Gunathilake, the Additional SEPF and SEPF for the period July 2008 to June 2013<sup>304</sup> (Refer Exhibit-12), stated that “...*The Investment Committee discussed mainly into the asset and liability management future investment strategy, weekly investments etc. of the EPF Department and during the meetings there was not much discussions on the counterparty concentration. The concentration of few parties could be because those Primary Dealer would have been active in the Secondary Market...*”
- B. During an interview of 24 September 2019 with Mr. S Pathumanpan, former Senior Assistant superintendent, MO, stated that, “*At the Investment Committee meetings, none of the committee members ever questioned about the EPF’s transaction with PTL in the Secondary Market in the year 2014. Also, the Investment Committee members never questioned about the counterparties who were majorly transacting with EPF...*”

<sup>304</sup> Refer Exhibit- 12 for the fact statement signed by Mrs. K Gunathilake on 19 September 2019

- C. During an interview of 16 September 2019 with Mr. W G H R Harshapriya, Former Senior Assistant Superintendent, FO and MO, he stated that, “ *During my tenure at the EPF department until 31.12.2016, as per my knowledge no one (members of IC) questioned on investing in Government Securities in Secondary Market, with one particular/ continuously with one or particular Primary Dealer.*”
- D. On review of the minutes of the Investment Committee meetings for the year 2014 and it was observed that there were no discussions on the concentration of counterparties.

11.72 Further, the counterparty details were not presented at the Investment Committee meetings from the period June 2014, when major transactions with PTL had been carried out. However, the Investment Committee members did not question on the removal of the details from the Investment Committee minutes.

- A. This was confirmed during an interview of 1 October 2019 with Mr. J D S J Nanayakkara, Deputy Superintendent of EPF during 2014, stated that, “ There were some changes in the Investment Committee presentation format w.r.t Government Securities during the year 2013 and 2014, the counterparty details in the annexure relating to the Investment and Divestment of Treasury Bonds were missing from middle of 2013.”
- B. Further, during an interview of 2 October with Mr. T Udayaseelan, Senior Assistant Superintendent, FO, stated that, “...I do not exactly recall the decision for removing the counterparty names in the Investment Committee minutes 2014. I remember none of the Investment Committee members raised questions about the absence of the counterparty details...”

## Review of Target Devices and Server Emails

- 11.73 On review of the server emails of the identified officials for the execution and approval of the transactions, there were no documents related to quotations received from the counterparty / broker quotations to identify the market rate for 2014.
- 11.74 The relevant target devices of Mrs. NLM Abeysekara, Mr. PWDNR Rodrigo, Mr. MSK Dharmawardena, and Mr. T Udayaseelan were not traceable by the IT department / EPF department. This resulted in loss of information pertaining to their tenure in the EPF Department.

11.75 Further, during an interview of 1 October 2019 with Mr. JDSJ Nanayakkara, Deputy Superintendent of EPF during the 2014, stated that, "...Any limit on counterparties was not covered in the ITG, 2011 and was not introduced by the IC or EPF, where EPF always had transactions with few counterparties including Perpetual Treasuries Limited in the year 2014 when T Udayaseelan, was the dealer at the EPF department. When I enquired about the same from Mr. T Udayaseelan, he said there were no parties available for transactions in the market so EPF had to invest/deal with those counterparties. It was noted that most of the deals with Perpetual Treasuries were done when I was leave. In 2015, IRMD had found high concentration with PTL and informed to SEPF and deals were done by Udayaseelan..."

11.76 On verification of the CDS data, it was noted that EPF had purchased at the higher price compared to the price transacted with the other counterparties. It appears that there were adequate counterparties in the Market.

11.77 On review of the image and the emails of Mr. T Udayaseelan, documents containing the assets details acquired by him were recovered. The asset details had been verified with the asset declaration statement (Refer Exhibit-70 for the asset declaration statement of Mr. T Udayaseelan)<sup>305</sup> for 2016 submitted to the CBSL. The assets acquired during the period 2014 to 2016 in form of Land and Buildings, Vehicle and Investment in shares amounted to Rs. 24.12 Million. The annual income during the period 2014 to 2016 was close to approximately Rs. 2 Million. The assets held by him appear disproportionate compared to the annual earnings. Refer Section 16 of this report for the detailed report on the evidences acquired from the target device and Server email review. Refer Section 17 of this report for detailed Report on the interview conducted with Mr. T Udayaseelan for the transactions executed with PTL, allegations of bribes, statement of Mr. Nuwan Salgado.

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<sup>305</sup> Refer Exhibit - 70 for the asset declaration statement of Mr. T Udayaseelan.

## Review of Voice Recordings

11.78 No call recording system had been installed in the EPF department despite the approval of the Investment Committee as per the minutes dated 2 March 2007<sup>306</sup>,” which stated, “...The IC gave the approval for the EPF to engage in Secondary Market trading via the telephone taking into consideration the fact that the telephones are having the voice recording facility and any dispute can be sorted out. The IC also advised the EPF that the telephone recordings should be maintain<sup>^</sup> until the monthly compliance report is prepared...”

11.79 Due to the above stated limitations, 171 selected voice recordings had been requested from the Primary Dealers. (Refer Annexure - 96 for the list of voice recordings requested).<sup>307</sup>

11.80 The voice recording dates were selected based on the following exceptions on the transaction date / Settlement date of the purchase transaction executed in CDS:

- A. Purchase price is higher than the market price;
- B. High concentration of Purchases on the same day;
- C. Purchase pattern identified between the Primary Dealers; and
- D. Price variance between the Primary Dealers for the purchase of the same Treasury Bond on the same day.

11.81 Voice recordings for 55 dates were requested from PTL, PABC and WTL for the period 2014. However, the voice recording of PTL, PABC and WTL were not received stating the following reasons:

- A. PTL stated reason, “...further data cannot be received, as the company is not functioning as of now...”;
- B. WTL stated the reason, “...further data cannot be received, as voice recording installed in November 2013 with hard disk capacity of 500 GB. Hence, data prior to 2015 was deleted...”; and
- C. No data for 2014 was received from PABC.

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<sup>306</sup> Refer Exhibit - 71 for extract of minutes of the Investment Committee meeting dated 2 March 2007.

<sup>307</sup> Refer Annexure - 96 for the status of voice recording requested but not received.

11.82 Due to the above limitation, the voice recordings of other counterparties coincidental with the date of transaction executed between the EPF and PTL were reviewed as detailed in the Section 14 of this Report.

11.83 As per the voice recordings detailed in the Section 14 of this Report, it is evident that the EPF had majorly transacted with PTL and acted as facilitator to PTL in the Secondary Market with Mr. T Udayaseelan being the point of contact.

11.84 During an interview dated 1 October 2019 with Mr. JDSJ Nanayakkara, former Deputy Superintendent during the year 2013-14, he stated that, *“...T Udayaseelan was required to deal for the best available rates, after evaluating available offers with the money broker, counterparties (direct contact/Primary contact with them) for the transactions and getting the same approved from the management. He used to be the driver in the EPF department with respect to the decisions and discussions with Secondary Market transactions, with the management including me. In mid-2014, IRMD was set up specially to monitor the acceptability and 5% limit on the HTM selling...”*

11.85 It is apparent that the top management of EPF no knowledge about the prevailing market connections.

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## 12. DIVESTMENTS IN THE SECONDARY MARKET

### Overview

Divestments in Treasury Bonds in the Secondary Market represent the sales made by the EPF through Over the Counter (“OTC”) platform where purchase and sale transactions are made between entities who are not the primary issuer of the securities. EPF Sells the Treasury Bonds from constituents of the Secondary Market who include, brokers and Primary Dealers. The Divestments in the Secondary Market are made with the objective to maximise (capital) gain from the investments earmarked / designated to be part of the “trading portfolio” of EPF.

The analysis of divestments in the Secondary Market was performed to identify abnormal trend if any, in the investment pattern, counterparty concentration and benefit gained by sellers of the investments which resulted in loss to EPF from those investments.

### BACKGROUND

12.1 During the Review Period, the EPF Department had sold Treasury Bonds with face value amounting to Rs. 240,971 Million (1,240 transactions) which includes 923 transactions of HTM portfolio amounting to Rs. 181,170 Million and 317 transactions of Trading Portfolio amounting to Rs. 59,801 Million.

12.2 The below mentioned is the year-wise summary of transactions<sup>308</sup> during the Review Period 1 January 2002 till 28 February 2015.

Table 108 - Summary of year wise transactions in the Secondary Market<sup>309</sup> (Rs. In Million)

#	Year	Divestment					
		No. of Transaction	Sale Proceeds (Rs. in Million)	HTM Portfolio	Sale proceeds	AFS/FVTI Portfolio	Sale proceed
1	2002	113	23,313	113	23,313	-	-
2	2003	195	33,567	195	33,567	-	-
3	2004	181	20,184	181	20,184	-	-
4	2005	178	12,163	178	12,163	-	-
5	2006	123	9,957	120	9,707	3	250
6	2007	7	3,510	2	1,290	5	2,220
7	2008	21	2,750	-	-	21	2,750

<sup>308</sup> The value of the transactions mentioned in the Table are face value of the transactions.

<sup>309</sup> The value in the Table consists of the sale proceeds extracted from transaction listing and CDS data.

8	2009	90	17,277	-	-	90	17,277
9	2010	100	13,244	1	100	99	13,144
10	2011	9	900	-	-	9	900
11	2012	2	3,500	2	3,500	-	-
12	2013	71	37,281	23	30,146	48	7,135
13	2014	138	61,175	96	45,050	42	16,125
14	2015	12	2,150	12	2,150	-	-
<b>Total</b>		<b>1,240</b>	<b>240,971</b>	<b>923</b>	<b>181,170</b>	<b>317</b>	<b>59,801</b>

12.3 On analysis of the Secondary Market sales during the Review Period, it was noted that the sales made in 5 years (i.e.) 2002, 2003, 2004, 2013 and 2014 constituted 73% of the total divestment amounting to Rs. 175.52 Billion of the total divestments made by EPF in the Secondary Market.

12.4 The following section details on the loss incurred due to price per security lower than the market price, sale of security at the different prices to multiple parties for the sale of same ISIN on the same day.

## APPROACH AND METHODOLOGY

### Key Parameters of CDS Data

The following key parameters<sup>310</sup> from the Treasury Bond settlement data in the CDS application were considered for performing the data analysis for the observations detailed in the subsequent Sections of this Report: (Computation of loss in comparison to market price and multiple price paid to different Primary Dealers for the purchase of same ISIN on the same day):

- A. Expected amount (Purchase Value);
- B. Quantity;
- C. Transaction message type “DVP/RVP”, “DVF/RVF”; and
- D. Transaction account type<sup>311</sup> “OWN”, “CSF”, “CFD” and “CSD”.

<sup>310</sup> Refer Section “Terms of Reference” of this Report for Definition of the key parameters.

<sup>311</sup> Refer Para 5.1.2 of the LSS Manual for the detailed description of message and account type.

12.5 Computation of Loss by comparing the sale price with Market prices (“Bid Price”) of the Treasury Bond as specified in “two - way quotes”:

- A. The loss was computed by comparing the average buying price and sale price per security;
- B. As per process understanding, the average purchase price published by the PDD (“Two-way quotes”) is an average of the clean price<sup>312</sup> quoted by the Primary Dealers daily on the transaction date, if the transaction date was not available, the Secondary Market sale price at the Settlement was considered for computation; and
- C. The impact of the loss on the basis of yield was computed by comparing the average buying yield and the yield rate of the sold Treasury Bond.
- D. The loss due to market variance for the period 2005 and 2006 were not ascertainable due to abnormal difference between the price specified in the Two - way Quote and the actual transacted price prevailing in the market.

12.6 Computation of Loss - Difference in sale price between the Primary Dealers on same day for the same ISIN

- A. The sale price between the Primary Dealers was compared for the ISIN on the same day based on the transactions available in the CDS and the difference between the prices was computed considering the Weighted Average Price at which the ISIN was sold. The sale price per security was calculated by dividing expected amount (“Dirty Price<sup>313</sup>”) with the quantity of the Treasury Bond sold; and
- B. The loss was computed by multiplying the difference as computed in Step A with the quantity of the Treasury Bond sold at a lower price.

The subsequent Sections provide the detailed analysis of the following:

- 1. Loss incurred by the EPF due to Treasury Bonds were sold to these counterparties at low price in comparison with the Secondary Market rates (Two - way Quotes); and
- 2. Concentration of counterparties with whom the EPF had majorly traded in the Secondary Market.

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<sup>312</sup> Refer Section “Terms of Reference” of this Report for Definition of the “Clean Price.”

<sup>313</sup> Refer Section “Terms of Reference” for the definition of the “Dirty Price”

## Analysis of Divestments in “HTM” Portfolio

### Introduction

12.7 The following Section details the loss in divestments due to the difference in sale price versus the market price published by the PDD (“Two-way quotes”) and the comparison of the sale price of same Treasury Bond sold to different counterparties on the same day.

12.8 The HTM portfolio is invested with the intent to be held till its maturity. As per the ITG, 2007 and ITG, 2011, the short sell of Treasury Bonds in HTM portfolio are not permitted without the prior approval of the Investment Committee.

12.9 The sale of Treasury Bonds in HTM portfolio of Treasury Bonds during the period 2013,2014 and 2015, the sale value of the HTM portfolio amounted to Rs. 77.34 Billion. The year wise break-up of the HTM portfolio is provided in the Table below:

Table 109 - Year-wise summary of the HTM Portfolio<sup>314</sup> (Rs. In Million)

Year	HTM Portfolio Transaction Count	Amount (Rs. in Million)	Capital Gain
2002	113	23,313	-
2003	195	33,567	4,178
2004	181	20,184	1,866
2005	178	12,163	1402
2006	120	9,707	696
2007	2	1,290	5
2008	-	-	-
2009	-	-	-
2010	1	100	-
2011	-	-	-
2012	2	3,500	34
2013	23	30,146	615
2014	96	45,050	2845
2015	12	2,150	13
<b>Total</b>	<b>923</b>	<b>1,81,170</b>	<b>11,654</b>

<sup>314</sup> Refer Annexure - 90 for the list of transactions of 923 HTM Portfolio.

12.10 It was observed that there was an increase in trend on sale of HTM portfolio post the decision made by the Investment Committee to actively participate in the Secondary Market during 2013 on the direction of the then Governor and series of the decisions taken by the Investment Committee members in the year 2013 as detailed below:

- A. In the minutes of Investment Committee meeting dated 5 June 2013<sup>315</sup> it was stated that, *“...MO noted that Section 52 of LKS39 states that “Whenever sales or reclassification of more than an insignificant amount of held to maturity investments shall be reclassified as available for sales, on such reclassification the difference between their carrying amount and fair value shall be accounted for in accordance with paragraph 55(b). Further, MO suggests 1% or below of Total Government Securities portfolio as the relevant insignificant level for sale or reclassification from the held to maturity portfolio and when monitoring above limit all transactions carried out during the previous 12-month period should be considered. IC approved the suggestion of MO...”*
- B. In the minutes of Investment Committee meeting dated 22 August 2013<sup>316</sup> it was stated that, *“MO suggested to increase the current limit of 1% to 5% or below of Total Government Securities Portfolio as the relevant insignificant level for the sale or reclassification from held to maturity portfolio and when monitoring the above limit all transactions carried out during previous 12-month period should be considered. IC approved the suggestion of MO.”*

12.11 During an interview of 1 October 2019 with Mr. JDSJ Nanayakkara<sup>317</sup>, the Deputy Superintendent during the year 2013-14, stated that, *“...There was a significant increase in the sale in Treasury Bonds during the year 2013-2014 mainly to attain the capital gain target specified in the budget. The sale proceeds were reinvested in long term high yielding bond as the yield enhancement strategy approved by IC. Realised capital gains were informed to IC on a weekly basis...”*

12.12 On analysis of the counterparty wise sale for the period January 2002 to December 2005, it was noted that the major sales were to First Capital Treasuries (17%), Janashakthi securities (14%) and Ceylinco Shiram Securities Limited (10%).

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<sup>315</sup> Refer Exhibit - 62 for the extract of minutes of Investment Committee meeting dated 5 June 2013.

<sup>316</sup> Refer Exhibit - 59 for the extract of minutes of Investment Committee meeting dated 22 August 2013.

<sup>317</sup> Refer Exhibit-12 for the extract of fact statement of Mr. JDSJ Nanayakkara dated 1 October 2019.

12.13 The counterparty wise break-up of the HTM for the period 2002-2005 are provided in the below Table:

**Table 110 - Summary of counterparty wise Divestment transaction executed by the EPF in the Secondary Market for the period January 2002 to December 2005**

Counterparty	No of transactions	Amount (Rs.in Million)	Percentage
First Capital Treasuries Limited	55	15,520	17%
Janashakthi Securities Limited	55	12,650	14%
Ceylinco Shiram Securities Limited	62	8,991	10%
Commercial Bank of Ceylon	38	8,030	9%
HSBC	41	5,940	7%
Seylan Bank Asset Management Limited	59	5,425	6%
Capital Alliance Limited	48	4,168	5%
Bank of Ceylon	28	4,075	5%
People's Bank	20	3,840	4%
HNB Securities Limited	38	2,557	3%
NDB Bank	29	2,395	3%
Others <sup>318</sup>	194	15,636	18%
<b>Total</b>	<b>667</b>	<b>89,227</b>	

12.14 The major counterparties to whom the EPF sold the Treasury Bonds during the year 2013 and 2014, were NSB (27%), PTL (23%) and Commercial Bank of Ceylon (12%). The counterparty wise break-up of the HTM portfolio for 2013 and 2014 are provided in the below Table:

**Table 111 - Summary of counterparty wise divestment transaction executed by the EPF in the secondary market for the 2013 and 2014**

Counterparty Name	No of transactions	Face Value	Percentage
NSB Fund Management Company Limited.	5	20,321	27%
Perpetual Treasuries	41	17,500	23%
Commercial Bank of Ceylon Limited.	12	9,200	12%
WealthTrust Securities Limited.	10	4,400	6%
Pan Asia Banking Corporation PLC	8	4,350	6%
Hatton National Bank PLC	6	3,250	4%
Hongkong and Shanghai Banking Corp.	4	2,625	4%
People's Bank	7	2,300	3%
DFCC Bank PLC	1	2,000	3%

<sup>318</sup> Refer Annexure - 90 for the break-up of counterparty classified as "Others" for 2002-2005

Counterparty Name	No of transactions	Face Value	Percentage
Bank of Ceylon	3	1,800	2%
Seylan Bank PLC	5	1,600	2%
CITI Bank	3	1,500	2%
National trust Bank	3	1,400	2%
Capital Alliance	4	1,000	1%
Deutsche Bank	3	1,000	1%
Acuity Securities Limited	1	500	1%
First Capital Treasuries Limited.	1	100	0%
National Development Bank	1	100	0%
<b>Total</b>	<b>118</b>	<b>74,946</b>	

12.15 On analysis of the sale proceeds from PTL and NSB which attributes to 50% of the overall sale in the HTM portfolio for 2013 and 2014, it was observed that the proceeds had been subsequently invested in the Treasury Bonds transacted through Auction / Direct placement.

### Computation of Loss on Divestment of Treasury Bonds (HTM Portfolio) in the Secondary Market

12.16 On comparison of sale price of Treasury Bonds with the Secondary Market price (“Bid Price”) as specified in the “Two Way quotes” published by PDD for the period<sup>319</sup> January 2007 to February 2015, it was noted that in 41 out of 134 transactions (Refer Annexure - 91 for the computation of Loss)<sup>320</sup>, the EPF had sold Treasury Bonds at a lower price compared to the Secondary Market price resulting in loss of Rs. 26.46 Million.

12.17 The sale price was lower by up to 18 basis points in approximately 86% of the sales. This extent of difference is considered abnormal since in the other transactions of sales are closer to the Secondary Market price.

<sup>320</sup> Refer Annexure - 91 for the computation of loss incurred by EPF due to lower selling price.

12.18 Details of transactions where Treasury Bonds were sold at a lower price compared to the market price is detailed below:

Table 112 - Summary of year wise loss incurred by the EPF<sup>321</sup>

Year	Loss due to Market Variance (Rs. in Million)	% Contribution	Range of Yield (In Basis Points)
2007	0.02	-	15
2012	3.44	13%	32-50
2013	8.62	33%	4-18
2014	12.46	47%	1-16
2015	1.92	7%	6-30
<b>Total</b>	<b>26.46</b>		

12.19 During 2014, the loss amounted to Rs.12.46 Million which contributes to 47% of the total loss (Rs.26.46 Million). Further, the loss incurred in the year 2012 and 2013 attributed to 13% and 33% of the total loss of Rs. 3.44 Million and Rs.8.62 Million respectively.

12.20 Summary of counterparty-wise proportion to the loss for the period January 2008 to February 2015 is detailed below:

Table 113 - Summary of counterparty wise contribution of the loss

Counterparty*	(Rs. in Million)						%Contribution
	2007	2012	2013	2014	2015	Total	
Nations Trust Bank	-	-	6.55	-	-	6.55	25%
Bank of Ceylon	-	-	-	3.75	-	3.75	14%
Commercial Bank of Ceylon Limited	-	-	-	3.52	-	3.52	13%
HSBC	-	3.44	-	-	-	3.44	13%
WealthTrust Securities Limited	-	-	1.41	1.61	-	3.03	11%
Ceylinco Insurance Limited	-	-	-	1.36	-	1.36	5%
Perpetual Treasuries Limited	-	-	-	1.16	-	1.16	4%
Citibank N A	0.02	-	0.65	0.01	-	0.68	3%
Pan Asia Banking Corporation Limited	-	-	-	0.51	-	0.51	2%
Seylan Bank PLC	-	-	-	0.48	-	0.48	2%
Acuity Securities Limited	-	-	-	0.06	-	0.06	0%
Peoples Bank	-	-	-	-	1.86	1.86	7%

<sup>321</sup> Refer Exhibit - 75 for the deal tickets resulting Rs.26.46 Million.



Counterparty*	2007	2012	2013	2014	2015	Total	%Contribution
Total	0.02	3.44	8.62	12.46	1.86	26.40	

Note: Remaining loss of approximately Rs.0.06 contributed by other counterparties for 2015 not added in the above table.

12.21 The year-wise details of breakup of the major counterparties contributing to the loss are detailed below:

Table 114 - Summary of major counterparty contributing to the loss

	Year	Counterparty	Total Loss (Rs. in Million) (A)	Loss (Rs. In Million) (B)	% of Proportion, loss for the year (C=B/A)
1	2012	HSBC	3.44	3.44	100%
		NTB		6.55	76%
2	2013	WTL	8.62	1.41	16%
		CitiBank NA		0.65	8%
		BOC		3.75	30%
3	2014	CBCL	12.46	3.52	17%
		WTL		1.61	12%
4	2015	Peoples Bank	1.92	1.86	97%

The counterparty wise and ISIN wise contribution of the loss for the period January 2007 to February 2015 is detailed as follows:

Table 115 - Summary of counterparty wise distribution of loss for the period September 2006 to February 2015

(Rs. In Million)

ISIN	Others	Bank of Ceylon	Ceylinco Insurance Limited	People's Bank	Commercial Bank of Ceylon Limited.	HSBC	Nations Trust Bank	Pan Asia Banking Corporation Limited	Perpetual Treasuries Limited	Seylan Bank PLC	WealthTrust Securities Limited	Total (Rs. In Million)
LKB01518H150	0.03	3.38	1.36	-	3.12	-	-	0.02	0.53	0.48	1.63	10.56
LKB01518B013	0.65	-	-	-	-	-	6.55	-	-	-	1.41	8.61
LKB00612J158	-	-	-	-	-	3.44	-	-	-	-	-	3.44
LKB00618D018	-	0.38	-	-	-	-	-	-	0.24	-	-	0.62
LKB00819A158	-	-	-	-	-	-	-	0.49	-	-	-	0.49
LKB00615I013	-	-	-	-	0.31	-	-	-	-	-	-	0.31
LKB00515G159	-	-	-	-	-	-	-	-	0.15	-	-	0.16
LKB00415K014	-	-	-	-	-	-	-	-	0.09	-	-	0.09
LKB00617G153	-	-	-	-	0.09	-	-	-	-	-	-	0.09
LKB00619G019	-	-	-	-	-	-	-	-	0.07	-	-	0.07
LKB00616D012	0.06	-	-	-	-	-	-	-	-	-	-	0.06
LKB00614D017	0.01	-	-	-	0.01	-	-	-	-	-	-	0.02
LKB00516F019	-	-	-	-	-	-	-	-	0.08	-	-	0.08
LKB00615C156	0.02	-	-	-	-	-	-	-	-	-	-	0.02
LKB00507E177	0.02	-	-	-	-	-	-	-	-	-	-	0.02
LKB00517A018	-	-	-	1.86	-	-	-	-	-	-	-	1.86
<b>TOTAL</b>	<b>0.79</b>	<b>3.76</b>	<b>1.36</b>	<b>1.86</b>	<b>3.52</b>	<b>3.44</b>	<b>6.55</b>	<b>0.51</b>	<b>1.16</b>	<b>0.48</b>	<b>3.04</b>	<b>26.46</b>

It was noted that the trades in two specific ISINs (LKB01518H150, LKB01518B013) contributed to approximately 72% of the total loss in the HTM portfolio.

The following section details on the concentration and patterns identified between the counterparties.

12.22 On review of the CDS data, no patterns indicating collusive behaviour with the specific entities was identified.

12.23 As per the ITG, 2011, prior approval from the Investment Committee is required for the short sale of Treasury Bonds in HTM. However, as detailed in the Section 10 of this Report, the above short sales transactions were not approved prior to the sales, by the Investment Committee.

12.24 During an interview with Mr. T Udayaseelan of 2 October 2019, the interdicted CBSL employee (Refer Exhibit-12)<sup>322</sup>, he stated that, “...*This decision was made to overrule the prior approval required by Investment Committee for the sale of HTM Portfolio...*”

### **Computation of loss due to sale of Treasury Bonds at lower price compared to Counterparties for sale of same ISIN on the same Day**

12.25 On comparison of sale price between multiple counterparties on the date of transaction where the same ISIN was sold to more than one counterparty, it was noted that in 4 (four) transactions (3 transaction dates) (Refer Annexure-92)<sup>323</sup>, the EPF had sold at lower price in comparison with the weighted average price of the ISIN to other parties on the date of transaction which resulted in a loss of Rs.5.34 Million for the period 2002 to 2004 and 2007 to 2015 (Refer Annexure 92)<sup>324</sup>.

12.26 The loss due to price variance between the counterparties for the period 2005 to 2006 was not ascertained due to the Non availability of the Deal Tickets.

12.27 One instance out of 70 transactions resulted in a loss amounting to Rs. 4.72 Million in the year 2003. Further the transaction date could be traced for only 70 transactions out of 258 transactions reviewed.

12.28 The rationale behind the sale of same ISIN at multiple rates cannot be ascertained due to the non-maintenance of the quotes received from the Primary Dealers During an interview of 2 October 2019 with Mr. T Udayaseelan, Senior Assistant Superintendent, FO, he stated that, “...*I had received calls from dealers/brokers such as Perpetual Treasuries Limited, PABC, WealthTrust, First Capital and Capital Alliance for the quotes. However, there were no practice of maintaining the documentation for the quotes...*”

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<sup>322</sup> Refer Exhibit- 12 for the witness statement of Mr. T Udayaseelan

<sup>323</sup> Refer Annexure - 92 for the computation of the loss on account of different price sold to various Primary Dealers.

<sup>324</sup> Refer Exhibit - 76 for the extract of Deal Tickets for transactions resulting in loss amounting Rs.5.34 Million.

12.29 In the absence of the call recording system in the EPF, the collusion of the Primary Dealer by the staff of FO cannot be evaluated. During an interview of 2 October 2019 with Mr. T Udayaseelan, Senior Assistant Superintendent, FO, stated that, “ *...despite constant escalations to the top management and Investment Committee members, there were no efforts taken by the top management to implement the call recording system in the dealer room may be due to frequent changes in SEPFs and lesser importance given for implementation...*”

12.30 On review of supporting documents and HR records provided by the EPF Management, below mentioned CBSL employees were responsible for the execution and approval of the above transactions:

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TABLE 116 - Summary of approving authority for the year 2012,2013 and 2014

Year	Total Transaction Amount (Rs. in Million)	Loss (Rs. in Million)	Name	Designation	Responsibility
2012	3,500	3.44	K Gunathilake	SEPF	Approving the transactions
			CMDNK Seneviratne	Additional. SEPF	Approving the transactions
			LDDY Perera	Additional. SEPF	Approving the transactions
			JDSJ Nanayakkara	SAS	Execution of the transaction
			GACN Ganepola	SAS	Execution of the transaction
			WGR Harshapriya	SAS	Execution of the transaction
2013	30,146	8.62	PWDNR Rodrigo	SEPF	Approving the transactions
			K Gunathilake	SEPF	Approving the transactions
			CMDNK Seneviratne	Additional. EPF	Approving the transactions
			LDDY Perera	Additional. EPF	Approving the transactions
			JDSJ Nanayakkara	Actg Deputy SEPF	Approving the transactions
			T Udayaseelan	SAS	Execution of the transaction
2014	45,050	12.46	PWDNR Rodrigo	EPF	Approving the transactions
			TDH Karunaratne	Additional. EPF	Approving the transactions
			MSK Dharmawardena	Additional. EPF	Approving the transactions
			AGU Thilkarathna	Actg Additional. EPF	Approving the transactions
			JDSJ Nanayakkara	DS	Approving the transactions
			NLM Abeysekara	SAS	Verifying and commenting on transactions entered at the Market price
2015	2,150	1.92	T Udayaseelan	SAS	Execution of the transaction
			R A Jayalath	Superintendent of EPF	Approving the transactions
			S. Somapala	Acting SEPF	Approving the transactions
			T D H Karunaratne	Additional. EPF	Approving the transactions

Year	Total Transaction Amount (Rs. in Million)	Loss (Rs. in Million)	Name	Designation	Responsibility
			A G U Thilkarathna	Actg Additional. SEPF	Approving the transactions
			JDSJ Nanayakkara	DS	Approving the transactions
			T Udayaseelan	SAS	Execution of the transactions
			NLM Abeysekara	SAS	Verifying and commenting on transactions entered at the Market price

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## Conclusion

- 12.31 On review of the server emails of the identified persons responsible for the execution and approval of the transactions, no documents related to counterparty / broker quotations were maintained by the EPF department to identify the market rate for 2013 and 2014 were noted. The server email and Target Devices of Mr. LDDY Perera were not provided for review due to unavailability of the device / email back up as confirmed by the DIT (Refer Exhibit-77)<sup>325</sup>.
- 12.32 The relevant Target Devices of Mrs. NLM Abeysekara, Mr. PWDNR Rodrigo, Mr. MSK Dharmawardena, and Mr. T Udayaseelan were not traceable by the IT department / EPF department. This resulted in a loss of information pertaining to their tenure in the EPF Department. In the absence of the server emails and data files pertaining to the year 2013-14 for the person responsible, we could not establish any nexus with the parties benefitted.
- 12.33 There was no voice records facility installed at the FMD by the EPF. Further, the mobile phones were allowed to be used by the employees working in the FMD. The voice recording pertaining to 800 dates were requested from the 19 Primary Dealers for 2013 and 2014. However, voice records pertaining to 314 dates from 18 Primary Dealer was provided for review. (Refer Section 14 of this Report with respect to review of voice recording received) (Refer Annexure 96)<sup>326</sup>.
- 12.34 Further, adequate steps for the implementation of the voice recordings were not taken by the top management. During an interview of 2 October 2019 with Mr. T Udayaseelan, Senior Assistant Superintendent, FO, he stated that, “...despite constant escalations to the top management and Investment Committee members, there were no efforts taken by the top management to implement the call recording system in the dealer room may be due to frequent changes in SEPFs and lesser importance given for implementation...”
- 12.35 In the absence of the Target Devices, email backup, voice recordings and non-maintenance of the quotes obtained from the counterparties (for the period 2013 and 2014), the party / s benefitted from the loss of Rs. 21.08 Million were not ascertainable.

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<sup>325</sup> Refer Exhibit - 77 for the email received from the DIT.

<sup>326</sup> Refer Annexure - 96 for the list of voice recording requested but not received.

12.36 During an interview with the former and current top management (SEPF, Additional SEPF and DS) of the EPF Department, the former and the current employees stated that:

- A. Mrs. K Gunathilake on 19 September 2019, (Additional SEPF and SEPF for the period July 2008 to June 2013), informed that “...*The top management of the EPF Department had relied upon the fund managers working in the Fund Management Division for the investment decisions of the EPF Department. The practice of obtaining prior approval was not followed, as market information was not available to analyze the transactions and the Secondary Market rates...*” (Refer Exhibit 12)<sup>327</sup>
- B. Mr. MSK Dharmawardane on the 30 September 2019 (Additional SEPF), it was informed that, “...*I reached out through verbal communication, to the senior management with regards to my transfer back to RDD, as I had no sufficient knowledge on the EPF Department and its functions. My request was not considered due to the reason that shortage of staff prevailing in the EPF Department. Further, I confirm that I had to sign on the deal tickets and IC minutes, and to approve transactions without any background / knowledge on the Fund Management, Primary Market and Secondary Market operations. I also confirm that these activities had been performed during my short tenure as a routing function assigned to the Additional Superintendent in the EPF Department. The sole intention was getting transactions processed and ensure the documents are pushed forward to the Superintendent of EPF for approval...*” (Refer Exhibit-12)<sup>328</sup>

12.37 It is evident that the top management of the EPF Department relied on the Fund Managers of FO for evaluating and approving the Investments and Divestments made in the Secondary Market and did not independently assess and approve the transactions.

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<sup>327</sup> Refer Exhibit- 12 for the witness statement provided by Mrs. K Gunathilake on 19 September 2019.

<sup>328</sup> Refer Exhibit- 12 for the witness statement provided by Mr. Dharamawardena on 4 October 2019.



12.38 Further, as detailed in the section 10 of this report, the transactions were executed without prior approval from the top management of the EPF as the practice of verbal approval and ratification of the transactions had been followed. This clearly indicates deficiencies in the oversight function at the EPF department, since it cannot be ascertained as to if EPF management was aware of the execution of such transactions.

12.39 Non maintenance of the quotes received from the counterparties and in absence of the voice recording system indicated the gaps in the oversight of the FMD by the Top management of the EPF Department.

## Analysis of Divestment of Treasury Bonds in Trading Portfolio

### Introduction

12.40 The following Section provides the details on loss incurred due to the difference in sale price versus the market price (“Bid Price”) published by the PDD (“Two-way quotes”) and the comparison of the sale price of same Treasury Bond sold to different counterparties on the same day.

12.41 The reclassification of the Trading portfolio of the Treasury Bonds into ‘Held to Maturity’ (“HTM”) and ‘Fair Value Treasury Bond’ (“FVTB”) was implemented in 2006 as per the requirement of the Accounting Standard. The classification of portfolio ‘Available for Sale’ (“AFS”) was implemented post revision of the Accounting Standard LKAS 39 “Financial Instruments: Recognition and Measurement”.

12.42 Trading portfolio of Treasury Bonds valuing at Rs. 30.42 Billion were sold during 2009 and 2010 and Treasury Bonds valuing Rs. 23.01 Billion was sold during 2013 and 2014. The year-wise break-up of the trading portfolio is provided in the Table below:

Table 117 - Year-wise summary of the Trading Portfolio<sup>329</sup>(Refer Annexure 93)

Year	FVTB Portfolio			Available for Sale Portfolio		
	Face Value (Rs. in Million)	Count of Transactions	Capital Gain (Rs. in Million)	Face Value (Rs. in Million)	Count of Transactions	Capital Gain (Rs. in Million)
2006	250	3	-	-	-	-
2007	2,220	5	-	-	-	-
2008	2,750	21	35*	-	-	-
2009	17,277	90	593*	-	-	-

<sup>329</sup> Refer Annexure-93 for the list of transactions of FVTB and AFS portfolio.

	FVTB Portfolio			Available for Sale Portfolio		
2010	13,144	99	874*	-	-	-
2011	900	9	10	-	-	-
2013	250	1	2	6,885	47	138
2014	-	-	-	16,125	42	1198
<b>Total</b>	<b>36,791</b>	<b>228</b>	<b>1514</b>	<b>23,010</b>	<b>89</b>	<b>1,336</b>

\*Note: The Capital Gain for 2008, 2009 and 2010 were specified under the HTM portfolio in the EPF Annual Reports, however, there were no sale of HTM portfolio Treasury Bonds during the period 2008 to 2010.

12.43 Increase in trend on sale of trading portfolio of Treasury Bond was noted, post the decision made by the Investment Committee to actively participate in the Secondary Market in 2008 (Minutes of Investment Committee decision dated 3 November 2008) and 2013 (Minutes of Investment Committee Meetings dated 5 June 2013).

A. In the minutes of the Investment Committee meeting dated 3 November 2008<sup>330</sup>, it was mentioned that “...IC advised to actively participate in the Secondary Market with a view to generate cashflow to the Fund to continuously earn high returns...”

B. In the minutes of the Investment Committee meeting dated 5 June 2013<sup>331</sup>, it was stated that, “...IC informed Fund Management Division, as the Governor expressed his concerns with the following matters in relation to the investment of EPF in Government Securities at the meeting held with the top management of EPF on 4 June 2013...”

1. EPF has to give adequate attention to earn capital gains from the investment in Government Securities,
2. EPF to involve in the Secondary Market activities of Government Securities market, and
3. Allocate funds for Secondary Market activities of Government Securities before making any investment in the Primary market for Government Securities.

C. Accordingly, IC instructed to actively involved in the Secondary Market activities when dealing with Government Securities and allocate certain amount of money before making any investment in the Government Securities through Primary market.”

<sup>330</sup> Refer Exhibit - 78 for the extract of Investment Committee meeting dated and the members involved in the decision-making process.

<sup>331</sup> Refer Exhibit - 62 for the extract of minutes of the Investment Committee meeting dated 5 June 2013.

12.44 On analysis of the counterparty wise proportion of the sale for 2009 and 2010, it was noted that major proportion of the sales was with Seylan Bank PLC (28%), NSB Fund Management Company Limited (16%), National Trust Bank (13%) followed by HSBC with a proportion of 11%. The Counterparty wise break-up of the Trading Portfolio for 2009 and 2010 is provided in the below table:

**Table 118- Summary of counterparty wise break-up of the transactions in the Secondary Market for 2009 and 2010** (Rs. In Billion)

Counterparty	Face Value	Count of Transaction	Percentage
Seylan Bank PLC	8.61	44	28%
NSB Fund Management Company Limited	4.84	28	16%
National trust Bank	3.85	19	13%
Hongkong and Shanghai Banking Corp.	3.25	17	10%
Bank of Ceylon	1.75	8	6%
National Development Bank	1.5	12	5%
Capital Alliance	1.4	15	4%
DFCC Vardhana Bank PLC	1.39	8	5%
Others	3.83	38	13%
<b>Total</b>	<b>30.42</b>	<b>189</b>	

12.45

12.46 On analysis of the counterparty wise proportion of sales during the years 2013 and 2014, it was noted that the major proportion of sales were to PTL (24%), PABC (24%) and CBCL (14%). The counterparty wise break-up of the Trading Portfolio for 2013 and 2014 are provided in the below Table:

**Table 119 - Summary of counterparty wise break-up of the transactions in the Secondary Market for 2013 and 2014**  
(Rs. In Billion)

Counterparty	Face Value (Rs. in Billion)	Count of Transaction	Proportion %
Perpetual Treasuries Limited	5.40	14	24%
Pan Asia Banking Corporation PLC	5.35	11	24%
Commercial Bank of Ceylon Limited.	3.05	10	14%
WealthTrust Securities Limited.	2	10	9%
Seylan Bank PLC	1.5	6	7%
DFCC Bank PLC	1.4	1	6%
Capital Alliance	0.92	10	4%
Hongkong and Shanghai Banking Corp.	0.65	4	3%
Natwealth Securities Limited.	0.65	6	3%
Others <sup>332</sup>	1.85	16	6%
<b>Total</b>	<b>22.77</b>	<b>88</b>	

### Computation of Loss on Divestment of Treasury Bonds (Trading Portfolio) in the Secondary Market

12.47 On comparison of sale price of Treasury Bonds with the Secondary Market price<sup>333</sup> for the period January 2005 to February 2015, it was noted that in 92 out of 316 transactions<sup>334</sup> (Refer Annexure - 94 for the computation of Loss), the EPF had sold Treasury Bonds at a lower price compared to the prevailing Secondary Market price of the same ISIN. Details of transactions are provided in the Table below:

**Table 120 - Summary of year-wise loss incurred by the EPF<sup>335</sup>** (Rs. In Million)

Year	Loss	% of Proportion	Range of Yield (In Basis Points)
2008	15.84	23%	8-100
2009	25.20	37%	3-65
2010	18.92	27%	1-37

<sup>332</sup> Refer Annexure - 93 for the breakup of the counterparties classified as "Others".

<sup>333</sup> Secondary Market price is as specified in the "Two-way quotes" published by PDD for the period January 2005 to February 2015.

<sup>334</sup> Refer Annexure - 94 for the Computation of loss due to sell of same ISIN at different prices to counterparties.

<sup>335</sup> Refer Exhibit - 75 for the extract of deal tickets of the transactions resulting in loss.

Year	Loss	% of Proportion	Range of Yield (In Basis Points)
2011	0.49	1%	1-3
2012	-	-	-
2013	0.94	1%	1-11
2014	7.44	11%	1-13
<b>Total*</b>	<b>68.83</b>		

Note: Loss was not incurred in 2007. The loss was not computed for 2005 and 2006, due to abnormal market price present in the "Two - way Quote" published by the PDD in comparison to the actual transacted prices recorded in the CDS (Central Depository System).

12.48 During 2009, the loss amounted to Rs.25.20 Million which contributes to 37% of the total loss (Rs.68.83 Million). Further, the loss incurred in 2008, 2010 and 2014 attributed to 23%, 27% and 11% of the total loss of Rs. 15.84 Million, Rs.18.92 Million and Rs.7.44 Million respectively.

12.49 Summary of counterparty-wise proportion to the loss for the period January 2008 to December 2014 is detailed below: (AMOUNT IN MILLION)

Table 121 -Summary of year-wise loss incurred by the EPF

Counterparty	2008	2009	2010	2011	2013	2014	Total	% of Proportion
Seylan Bank PLC	-	8.91	5.79	-	0.43	-	15.13	22%
Capital Alliance Limited	6.31	0.10	1.07	0.43	0.04	-	7.95	12%
NSB Fund Management Co. Limited	-	6.71	0.31	-	-	-	7.02	10%
Nations Trust Bank	0.91	3.64	2.04	-	0.01	-	6.60	10%
Standard Chartered Bank PLC.	6.27	-	-	-	-	-	6.27	9%
HSBC	1.07	3.15	1.01	-	0.06	0.48	5.77	8%
Perpetual Treasuries	-	-	-	-	-	5.74	5.74	8%
Bank of Ceylon	-	1.98	3.31	-	-	0.11	5.40	8%
National Savings Bank	-	0.49	1.41	-	-	-	1.91	3%
Commercial Bank of Ceylon Limited	-	-	1.71	-	-	0.04	1.75	3%
DFCC Bank	-	-	1.33	-	-	-	1.33	2%
Waldock Mackenzie	1.09	-	-	-	-	-	1.09	2%
WealthTrust Securities Limited	-	-	-	-	0.36	0.43	0.79	1%
Others <sup>336</sup>	0.19	0.21	0.94	0.06	0.05	0.64	2.08	3%
<b>Total</b>	<b>15.84</b>	<b>25.20</b>	<b>18.92</b>	<b>0.49</b>	<b>0.94</b>	<b>7.44</b>	<b>68.83</b>	

<sup>336</sup> Refer Annexure- 93 for the detailed break up of counterparties classified as "Others".

12.50 The year-wise details of counterparties contributing to the loss are detailed below:

Table 122 -Summary of year-wise counterparty contributing to loss

#	Year	Counterparty	Loss for the year(A)	Loss (Rs. In Million) (B)	% of proportion, loss for the year (C=B/A)
1	2008	Capital Alliance Limited	15.84	6.31	80%
		Standard Chartered Bank PLC		6.27	
2	2009	Seylan Bank PLC	25.20	8.91	35%
		NSB		6.71	27%
		NTB		3.64	14%
		HSBC		3.15	13%
3	2010	Seylan Bank PLC	18.92	5.79	31%
		Bank of Ceylon		3.31	17%
4	2014	Perpetual Treasuries Limited	7.44	5.74	77%

12.51 In 2008, Capital Alliance Limited attributed to Rs. 6.31 Million and Standard Chartered Bank PLC attributed to Rs. 6.27 Million resulting in 80% of the loss incurred amounting to Rs.15.84 Million;

12.52 In 2009, Seylan Bank PLC attributed to Rs. 8.91 Million and NSB attributed to Rs. 6.71 Million resulting in 61% of the loss incurred amounting to Rs. 25.20 Million. Similarly, HSBC and NTB attributed to Rs. 6.79 Million resulting in 16% of the loss incurred in the year;

12.53 In 2010, Seylan Bank PLC and Bank of Ceylon attributed to 48% of the total loss incurred amounting to Rs. 18.92 Million; and

12.54 In 2014, PTL attributed to Rs. 5.74 Million resulting in 77% of the total loss of Rs. 7.44 Million incurred in the year.

12.55 There was no evidence for the above reported Divestment transactions indicating collusive behaviour between the PDs.

12.56 On review of supporting documents and HR records provided by the EPF Management, below mentioned CBSL employees were responsible for the approvals of the above transactions:

Table 123: Summary of approving authority for the period 2008 to 2011 (Rs. In Million)

Year	Total Transaction Amount	Loss	Name	Designation	Responsibility
2008	2,750	15.84	D Wasantha	SEPF	Approving the Transactions
			K Gunatilake	Additional. SEPF	Approving the Transactions
			CMDNK Seneviratne	DS	Handling Operations
			DAGK Wijetunga	DS	Approving the transactions
			LDDY Perera (from 16 July 2008)	DS	Approving the Transactions
			UHE Silva	Additional. SEPF	Handling Operations
			T Udayaseelan	MO	MO recommendations
			K Suthakaran	MO	MO recommendations
			BMWS Balasooriya	FO	Execution of Transactions
2009	17,277	25.20	K Gunatilake	SEPF	Approving Transactions
			CMDNK Seneviratne	Additional. SEPF	Handling operations
			UHE Silva	Additional. SEPF	Handling operations
			LDY Perera	DS	Approving Transactions
			AGU Thilakarathne	DS	Handling operations
			V Bhaskeran	DS	Handling operations
			BHIS Kumara	FO	Equity transactions
			BMWS Balasooriya	FO	Execution of Transactions
			T Udayaseelan	Fund Manager	MO recommendations
K Suthakaran	Fund Manager	Supporting in execution of Transactions			
2010	13,244	18.92	R Dheerasinghe	SEPF	Approval of Transactions
			MJS Abeysinghe	SEPF	Approval of Transactions
			K Gunatilake	Additional. SEPF	Approval of Transactions
			CMDNK Seneviratne	Additional. SEPF	Handling operations
			AGU Thilakarathne	DS	Handling operations
			V Bhaskeran	DS	Handling operations
			LDDY Perera	DS	Approval of Transactions
			BHIS Kumara	Fund Manager	Equity
			T Udayaseelan	Fund Manager	MO recommendations
BMWS Balasooriya	Fund Manager	Execution of Transactions			

## Conclusion

- 12.57 The emails on the server and Target Devices were requested for the employees in the EPF department responsible for the execution of the Treasury Board transactions as per list specified in the Section 16 “Review of Email or ESI of this report”. On review of the Target Devices and emails for Mrs. BWMS Balasooriya, it was noted that information pertaining to 2008-2012 were not available. Further, due to the unavailability of Target Device and back up of the emails<sup>337</sup> as confirmed by the DIT, the emails and Target Devices of Mr. LDDY Perera were not provided for review.
- 12.58 During an interview of 20 September 2019 with Mrs. BWMS Balasooriya, Former Senior Assistant Superintendent, FO, she stated that, “...In the IC minutes dated 31 October 2008, Investment Committee had advised EPF to use Two-way quotes for Bond trading the Secondary Market. But two-way quotes are indicative rate only and the rates are not available for executing the transactions in the Secondary Market. Further, for sales executed during the year 2009 and 2010, the transactions were executed with the counterparties based on the rates provided by the various dealers, brokers and Banks. Rates offered by counterparties were recorded and compared and get approval from the deputy superintendent before executing the transaction with counterparty. There were no favourism. I have not executed any transaction without obtaining approval from the management of EPF...”
- 12.59 No call recording system was implemented in the EPF department despite the approval of the Investment Committee as per the minutes of Investment Committee meetings of 2 March 2007<sup>338</sup>,” it was mentioned that, “...The Investment Committee gave the approval for the EPF to engage in Secondary Market trading via the telephone taking into consideration the fact that the telephones are having the voice recording facility and any dispute can be sorted out. The IC also advised the EPF that the telephone recordings should be maintained until the monthly compliance report is prepared...”

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<sup>337</sup> Refer Exhibit - 77 for the Email received from the DIT.

<sup>338</sup> Refer Exhibit- 81 for extract of minutes of the Investment Committee meeting dated 2 March 2007.



12.60 The Investment Committee also gave approval to carry out Secondary Market transaction during this period. During an interview of 19 September 2019 with Mrs. K Gunathilake, the Additional SEPF and SEPF, for the period July 2008 to June 2013 (Refer Exhibit-77), she stated that, “...According to me, call recordings were not installed in the EPF dealing room as all the works happened based on trust. But the installation of call recordings were many times highlighted to the management but may be diverted as other significant matters would have come across...”.

12.61 In the absence of quotes from the other Primary Dealers / brokers to assess the market rate and the dealer room voice recording facility, server emails and Target Devices, we are unable to comment on a nexus between the person responsible and parties benefitted from the loss to the EPF amounting to Rs. 59.96 Million during 2008 to 2010.

### Analysis of Divestment transactions in the year 2014

12.62 As per the process understanding, in case of any deviations from the prevailing market rate during 2014, the IRMD employees are required to provide adverse remark and request for justification for the executed transaction from FO.

12.63 In 2 instances<sup>339</sup>, there were differences between selling yield rate and the average Secondary Market buying rate, was more than 10 basis points. However, IRMD has not provided adverse remark for the transaction dated 2 October 2014. The remark stated, “The above buying yield is complied with the prevailing market yield”. The details of the transactions are provided in the Table below:

TABLE 124 - Summary of transactions for IRMD remarks

(Rs. In Million)

Transaction date	Counterparty Name	Selling Yield	Price	Qty	Market rate on Transaction date	Difference in price	Loss	Market Yield	Difference In Yield
2-Oct-14	PTL	7.68%	124.2579	4,000,000	125.22	(0.96)	3.85	7.56%	0.13%
2-Oct-14	PTL	7.48%	121.5235	2,500,000	122.13	(0.60)	1.51	7.39%	0.09%
Total						(1.56)	5.36		

<sup>339</sup> Refer Exhibit - 80 for the deal tickets dated 2 October 2014.

12.64 During an interview of 30 September 2019 with Mrs. NLM Abeysekara, the former IRMD staff office during 2014-15, she stated that, “...10-50 basis points variation between two-way quotes and EPF transacted yield and the same had been communicated verbally is what I remember and not documented. Further, there were no proper independent benchmark yield in the market in Sri Lanka to compare the yield given by the counterparties. Therefore, IRMD compared yield given by counterparties with the indicative Two-way quotes published by the PDD. Further, IRMD adverse remarks were not captured where there were market deviations identified in comparison to the buy and sell yield rate with PDD Two-way quotes...” (Refer Exhibit-12)<sup>340</sup>

12.65 During an interview of 2 October 2019 with Mr. T Udayaseelan, Senior Assistant Superintendent, FO, he stated that, “...I used to clarify the deviations highlighted by IRMD at times when they had been raised. They were clarified verbally and no documentation for the same was maintained...”

12.66 These transactions were ratified by the approving authority (SEPF / Additional SEPF / DS) and ratified by the members of the Investment Committee<sup>341</sup>. However, there were no documents evidencing the verification by the approver on the sales transactions that were lower than the market price.

#### **Price variance between the counterparties for the sale of same ISIN on the same Day**

12.67 On comparison of sale price between various counterparties on the date of transaction where the same ISIN was sold to more than one counterparty / same counterparty, it was noted that in 18 transactions (13 transaction dates) (Refer Annexure - 95)<sup>342</sup>, the EPF had sold at different prices resulting in an loss on comparing the selling price with the lower price at which the same ISIN was sold to different counterparty amounting to Rs. 0.51 Million<sup>343</sup>.

12.68 The quotes received from different counterparties were not maintained by the FO in the EPF Department as confirmed during an interview of 2 October 2019 with Mr. T Udayaseelan, Senior Assistant Superintendent, FO. He also stated that, “...I had received calls from dealers / brokers such as Perpetual Treasuries Limited, PABC, WealthTrust, First Capital and Capital Alliance for the quotes. However, there were no practice of maintaining the documentation for the quotes...”

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<sup>340</sup> Refer Exhibit- 12 for the witness statement of Mrs. NLM Abeysekara.

<sup>341</sup> Refer Exhibit - 81 for the minutes of Investment Committee decisions where the transactions were ratified.

<sup>342</sup> Refer Annexure - 95 for the list of transactions where price difference is computed.

<sup>343</sup> Refer Exhibit - 82 for the extract of deal tickets amounting Rs.0.51 Million.

12.69 On review of supporting documents and HR records provided by the EPF Management, below mentioned CBSL employees were responsible for the execution and approval of the above transactions:

TABLE 125 - SUMMARY OF APPROVING AUTHORITY FOR 2013 AND 2014

Year	Total Transaction Amount (Rs. in Million)	Loss (Rs. in Million)	Name	Designation	Responsibility
2013	7,135	0.9	PWDNR Rodrigo	SEPF	Approving the transactions
			K Gunathilake	SEPF	Approving the transactions
			CMDNK Seneviratne	Additional.SEPF	Approving the transactions
			LDDY Perra	Additional. SEPF	Approving the transactions
			JDSJ Nanayakkara	Actg DS	Approving the transactions
			T Udayaseelan	SAS	Execution of the transaction
2014	16,125	7.44	PWDNR Rodrigo	SEPF	Approving the transactions
			TDH Karunarathne	Additional.SEPF	Approving the transactions
			MSK Dharmawardena	Additional.SEPF	Approving the transactions
			AGU Thilkarathna	Actg Additional.SEPF	Approving the transactions
			JDSJ Nanayakkara	DS	Approving the transactions
			NLM Abeysekara	SAS	Verifying and commenting on transactions entered at the Market price
T Udayaseelan	SAS	Execution of the transaction			

## Conclusion

- 12.70 On review of the server emails of the above personnel responsible for the execution and approval of the transactions, documents related to quotations obtained from the counterparty / broker were not traceable to identify the market rate for 2013 and 2014.
- 12.71 The server email and target devices of Mr. LDDY Perera were not provided for review due to unavailability of the device / e-mail back up as confirmed by the DIT (Refer Exhibit -77)<sup>344</sup>.
- 12.72 The relevant target devices of Mrs. NLM Abeysekara, Mr. PWDNR Rodrigo, Mr. MSK Dharmawardena, and Mr. T Udayaseelan were not traceable by the IT department / EPF department. This resulted in a loss of information pertaining to their tenure in the EPF Department. In the absence of the server emails and data files pertaining to the year 2013-14 for the person responsible, we could not establish any nexus with the parties benefitted.
- 12.73 There was no voice records facility installed in the FMD by the EPF department. Further, the mobile phones were allowed to be used by the employees working in Fund Management Division.
- 12.74 The voice recording pertaining to 171 dates were requested from the 19 Primary Dealers for 2013 and 2014. However, voice records pertaining to one date from a Primary Dealer was provided for review (Refer limitation Section of this Report with respect to review of voice recording received).
- 12.75 In the absence voice recording facility installed we are unable to comment on the price negotiated with other Primary Dealer on the transaction date mentioned above. (Refer Annexure 96)<sup>345</sup>
- 12.76 Further, adequate steps for the implementation of the voice recordings were not taken by the top management which indicates a clear deficiency in the oversight by the Top Management. During an interview of 2 October 2019 with Mr. T Udayaseelan, Senior Assistant Superintendent, FO, it was informed that, despite constant escalations to the top management and Investment Committee members, there were no efforts taken by the top management to implement the call recording system in the dealer room may be due to frequent changes in SEPFs and lesser importance given for implementation.”
- 12.77 No evidences for the escalation to the Top Management had been identified during the document review and review of emails of the employees of the FMD.

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<sup>344</sup> Refer Exhibit - 77 for the Email received from DIT.

<sup>345</sup> Refer Annexure - 96 for the list of voice recording requested but not received.

12.78 In the absence of the target devices, email backup, voice recording system and non-maintenance of the quotes obtained from the counterparties (for the period 2013 and 2014), the party benefitted from the loss of Rs. 5.96 Million were not ascertainable.

12.79 During an interview with the former and current top management (SEPF, Additional SEPF and DS) of the EPF Department, the following were stated:

A. Mrs. K Gunathilake on 19 September 2019, (Additional SEPF and SEPF for the period July 2008 to June 2013), stated that *“...The top management of the EPF Department had relied upon the fund managers working in the Fund Management Division for the investment decisions of the EPF Department. The practice of obtaining prior approval was not followed, as market information was not available to analyze the transactions and the Secondary Market rates...”* (Refer Exhibit-12)<sup>346</sup>

B. Mr. MSK Dharmawardane on the 30 September 2019 (Additional SEPF), it was informed that, *“I reached out through verbal communication, to the senior management with regards to my transfer back to RDD, as I had no sufficient knowledge on the EPF Department and its functions. My request was not considered due to the reason that shortage of staff prevailing in the EPF Department. Further, I confirm that I had to sign on the deal tickets and IC minutes, and to approve transactions without any background / knowledge on the Fund Management, Primary Market and Secondary Market operations. I also confirm that these activities had been performed during my short tenure as a routing function assigned to the Additional Superintendent in the EPF Department. The sole intention was getting transactions processed and ensure the documents are pushed forward to the Superintendent of EPF for approval.”* (Refer Exhibit-12)<sup>347</sup>

It is evident that the top management of the EPF Department relied on the Fund Managers of FO for the evaluating and approving the Investments and Divestments as the practice of ratification had been followed by the Top Management of the EPF Department for the transactions made in the Secondary Market and did not independently assess and approve the transactions.

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<sup>346</sup> Refer Exhibit- 12 for the witness statement provided by Mrs. K Gunathilake on 19 September 2019.

<sup>347</sup> Refer Exhibit- 12 for the witness statement provided by Mr. Dharamawardena on 4 October 2019.

## 13. RECOMMENDATION

- 13.1 **Code of conduct for the dealers of the Fund Management Division** and the senior management of the EPF should be drafted and implemented with clause defining the actions on the violations of the code of conduct.
- 13.2 **Investment and Trading Guidelines should be revisited annually** and revised after analysing the changing trend. Limits should be specified on the transactions executed with the Primary Dealers, in order to avoid concentration of counter parties.
- 13.3 **The decision** with respect to the **EPF non-participation or partial participation in Auction** with the reasons **should be documented in minutes of the Investment Committee meetings**. Decision of Non-participation or partial participation in Auction should be approved by the Higher Management of the EPF and should be supported by the MO evaluation and recommendation with respect to the better alternative source of investment.
- 13.4 Document retention policy specifying the required number of years to be maintained and handover procedures to be drafted and implemented.
- 13.5 **A detailed description of the transactions to the Investment Committee** members should contain the following details.
- A. Name of the counterparty.
  - B. Prevailing Secondary Market rate and the Primary Market rate; and
  - C. Details of Quotes received from the various counterparties;
- 13.6 **Deal Ticket should be generated through an application** and the approval process should be automated before the execution of the transactions.
- 13.7 The qualified and experienced Fund Managers should be recruited or transferred to fund management division.
- 13.8 Training should be provided to the officers working in the fund management division and top management of the EPF department to acquire knowledge of the financial market, investments and divestments made using the EPF fund. The Investment Committee members must have the adequate knowledge on the Investment and Divestment EPF fund.

- 13.9 Training should be provided to staff of the internal audit department to verify the transactions including performance of market analysis to identify the prevailing market rates and alternate investment opportunities. Data analytics should be added as part of their scope of work. Trained data analysts should be appointed as part of the Internal Audit Department.
- 13.10 All the investment decisions should be supported by the **MO evaluation Report**. The MO evaluation Report shall consider the various economic factors and comparison with the market rates.

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## 14. REVIEW OF VOICE RECORDING

During the discussion with the SEPF, it was informed that the voice recording system was not installed for fixed line telephones in the FO of EPF. In the absence of this data from the EPF Department, copies of the voice recordings from the Primary Dealers associated with the Investment / Divestment transactions of the EPF were requested for review. The voice recording was requested from the Primary Dealer, in respect of specific dates where the anomalies noted from the document review, data analytics procedure and review of ESI. The details of voice recording requested are specified in Section 3 of this Report.

### REVIEW OF VOICE RECORDING AT THE DEALER ROOM OF SEYLAN BANK AND FIRST CAPITAL TRESURIES LIMITED

- 14.1 On review of the voice recording at the dealer room of Seylan Bank PLC and First Capital Treasuries Limited, the following voice recordings consisted of conversation between the Primary Dealers indicating the Investments and Divestments made by the EPF. (Refer Exhibit 83) <sup>348</sup>

Table 126 - Summary of voice recordings containing information relating to EPF and PTL transactions

#	Date	Document reference	PD	Evidence
1	30-Oct-14	20141030163149006.wav	First Capital	Voice recording and Transcript
2	30-Oct-14	20141030153159012.wav	First Capital	Voice recording and Transcript
3	30-Oct-14	20141030182151001.wav	First Capital	Voice recording and Transcript
4	30-Oct-14	20141030181641001.wav	First Capital	Voice recording and Transcript
5	30-Oct-14	20141030120127001.wav	Seylan	Voice recording and Transcript
6	28-Aug-14	20140828080444016.wav	First Capital	Voice recording and Transcript
7	28-Aug-14	20140828155422012.wav	First Capital	Voice recording and Transcript
8	28-Aug-14	20140828164349016.wav	First Capital	Voice recording and Transcript
9	31-Oct-14	20141031120204001.wav	Seylan	Voice recording and Transcript
10	13-Aug-14	201408131001350005.wav	Seylan	Voice recording and Transcript

<sup>348</sup> Refer Exhibit 83 for the transcript of the voice recordings.



14.2 The voice recording had been selected based on the high value transactions executed by the EPF with Seylan and FCTL and based on the deviations reported in the Section 10, Section 11 and Section 12 of this Report.

14.3 The details of the transactions executed on the 30 October 2014 and 31 October 2014 are specified below:

Table - 127 Summary of transactions executed by the EPF on 30 October 2014

#	Counterparty	Bond series	Transaction Count	Face value (Rs.in Billion)	Security Quantity (Face value /100)	Expected Amount (Rs. in Billion)
1	Seylan Bank PLC	11.40%2024A	1	0.50	5,000,000	0.62
2	Seylan Bank PLC	8.75%2017A	1	0.25	2,500,000	0.27
3	FCTL	13.00%2029A	2	0.75	7,500,000	1.04
4	PTL	11.40%2024A	4	1.60	16,000,000	2.03
5	PABC	11.20%2022A	3	1.50	15,000,000	1.86
6	WTL	11.40%2024A	1	0.20	2,000,000	0.25
Total			12	4.80	48,000,000	6.07

Table 128 - Summary of transactions executed by the EPF on 31 October 2014

#	Counterparty	Bond series	Transaction Count	Face value (Rs.in Billion)	Security Quantity (Face value /100)	Expected Amount (Rs. in Billion)
1	FCTL	11.40%2024A	2	0.10	1,000,000	0.13
2	Seylan Bank PLC	11.40%2024A	2	2.25	22,500,000	2.81
1	NW	11.40%2024A	2	0.10	1,000,000	0.16
2	ESL	11.40%2022A	3	0.50	500,000	0.63
3	PABC	11.40%2022A	1	1.00	10,000,000	1.27
3	CBCL	8.75%2017A	1	0.25	2,500,000	0.27
Total						5.27

14.4 The transcripts of the conversations between the dealers viz., First Capital Treasuries Limited and Seylan Bank PLC discussing on the transactions executed by the EPF are detailed below:

**EXTRACT OF TRANSCRIPTS OF FIRST CAPITAL TREASURIES LIMITED ON 30 OCTOBER 2014**

**1. File Name:** 20141030153159012.wav

**Duration:** 2:39

**Participants:** 1. Unknown (Caller - U)

2. Roshana (Receiver - R)

**Conversation start time:** 1:20

*"R: No, no. This was hit by a name you all very well know. Came in disguise. Only one broker*

*followed up since morning. No point...*

*U: <Unclear>*

*R: mmhmm... the other one*

*U: EPF?*

*R: One who hits them.*

*U: Perpetual?*

*R: mmm... Were you all shown the position in the morning?"*

**2. File Name:** 20141030181641001.wav

**Duration:** 3:36

**Participants:** 1. Mangala (Caller - M)

2. Roshana (Receiver - R)

**Conversation start time:** 2:04

*"M: Suddenly the market went down right?*

*R: Today EPF came and bought a lot Mangala.*

*M: Ah, is that so?*

*R: Reason, I think they must be having a bond maturity at least 1-11. Must be having some bill maturities and etc;*

*M: Yes, yes*

*R: So that's the fortunate day we had*

**M:** Today was a fortunate day  
**R:** A fortunate day. When you all were in the YCA only everything was cut  
**M:** That's the thing... I saw. Suhini also told  
**R:** Ya"

14.5 On review of the transactions in the CDS data, Treasury Bonds amounting to Rs. 272 Million had been sold on the Settlement day of 4 November 2014 and no loss had been incurred on the sale transactions of the EPF.

**3. File Name:** 20141030182151001.wav

**Duration:** 5:23

**Participants:** 1. Roshana (Caller - R)  
2. Anuja (Receiver - A)

**Conversation start time: 0:50**

**A:** Did EPF buy from you all?  
**R:** Yes  
**A:** In that 29 did the entire 500 go buddy... Roshi?  
**R:** 29 was taken...One broker came and hit all the offers which were put  
**A:** That means was it hit for 500 or one shot  
**R:** No, no. He didn't hit for 500. One shot... from the 250 and 350 maturities he hit  
**A:** mmhmm...  
**R:** After that... 24 you all hit right? Then some amounts went direct as well  
**A:** Ah is that so?  
**R:** Today... for you all... I saw.. There's a 250, another two small 250s have gone for another person, others went direct..."

**Conversation start time: 3:58**

**"R:** That of course, in vain you all did it well since morning  
**A:** Was it EPF who bought the 29?  
**R:** Perpetual men  
**A:** Ah... There a 250...  
**R:** No, no direct went for EPF, little went for Perpetual. I don't know. I think he would have bought for him"

**EXTRACT OF TRANSCRIPT OF SEYLAN BANK PLC DATED 30 OCTOBER 2014**

4. File Name: 20140813100135005.wav

Duration: 8:34

Participants: 1. Mr. Salman (Caller - SA)  
2. Mr. Shanaka (Receiver - SH - Seylan Bank)  
3. MR. Palihawadane (Receiver - P - Seylan Bank)

**Conversation start time: 3:56**

*SA: No.EPF*

*SH: Ah?*

*SA : EPF. I think its him. i do not know properly. i think its him*

*SH: if its EPF, then it will be done through perpetual though its not done through you all*

*SH: Hold on a second Sir.. Perpetual?*

*SA: No you tell...*

*SA: okay, okay i know what you wanted to tell. What you say is also correct.sir,sir...*

*SH: Here caannot do.. Customer position, that's why. those people have given us a rate and beyond that rate"*

5. File Name: 20141030120127001.wav

Duration: 4:29

Participants: 1. Unknown (Caller - U)  
2. Palihawadane (Receiver - P)

**Conversation start time: 2:08**

*U: No, no, this... Okay, Indi... Checking this one... Perpetual or someone... Hold on...*

*P: Isn't EPF buying?*

*U: Ah?*

*P: Isn't EPF buying?*

*U: Was it EPF who bought from you?*

*P: He's the one buying through Perpetual!*

*U: Ya, that's what... Hold on... I'm checking him...*

*P: Talking nonsense*

*U: Sir... Hold on Sir...Hello, hello.... Hold on Sir...It's like this Sir...*

*P: mmm...*

*U: Hold on Sir...Hello, hello.. Sir*

*P: mmhmmm..*

*U: Hold on Sir...there's a difference of a cent... Hold on...*

*P: That means? What do you mean by a cent?*

U: *Hold on...EPF is saying 21... Hold on... Hold on..."*

6. File Name: 20141031120204001.wav

Duration: 1:40

Participants: 1. Mr. Palihawadane (Caller - P - Seylan Bank)

Unknown (Receiver - U) "U: *He's at a meeting and asked to give a minute. I told you said that you'll buy for 80 so it hit me at 80.*

P: *Hmm...*

U: *Give me a minute... He asked for a minute and sent a message now saying he's at a meeting*

P: *Who? Who?*

U: *This... this... Udayaseelan*

P: *Oh*

U: *Doing dirty work*

P: *Dealing in the market in a dirty way*

U: *Ah?*

P: *Dealing in the market in a very bad manner*

U: *Bad in the sense...*

P: *Near various brokers...*

U: *Should have a proper dealer*

P: *Doing through brokers*

U: *Ya that's how he does it. Gives the authority to the brokers to do the deals and later they do*

*what they want.*

P: *Apart from that broker the man does outside/ externally as well*

U: *Yes, yes. With this one right?*

P: *Who?*

U: *This... Perpetual...*

P: *They're also like that*

U: *Yes."*

14.6 Extract of transcript of First Capital Treasuries Limited dated 28 August 2014:

**7. File Name:** 20140828080444016.wav

**Duration:** 2:44

**Participants:** 1. Roshana (Caller - R)  
2. Charitha (Receiver - C)

Conversation Start time: 0:36

*R: Forgetting like hell... What'll happen today?*

*C: Can't tell right? Yesterday Perpetual sold like a mad dog*

*R: They're mad*

*C: They're selling EPF ones it seems right?*

*R: That's what's told... Those days also was he good... Who...Is Kasun good with that fellow?*

*C: With whom?*

*R: With EPF*

*C: That I don't know... EPF now a new dealer is there called Udayaseelan*

*R: That's a mad fellow not a dealer. He does crazy things*

*C: Earlier it was Wasanthi*

*R: Huh?*

*C: Wasanthi and before that there was Humam. He's the one who did well*

*R: I remember a guy called Shanaka was there*

*C: Ah yes Shanaka... He was there for a short period. Something went wrong for him right?*

*R: Ah?*

*C: He was transferred right?*

*R: No, he went to UK*

*C: Did he go to UK?*

*R: mmm.... He was a good fellow*

*C: Awasthi also did a bit. Humam only did very well... Now he's doing Equity*

*R: Is that so? Okay, so let's see what'll happen*

*C: They're going for Equity it seems. That's what they're doing*

*R: By breaking these...*

*C: Breaking...and going for these*

*R: Ah-ha"*

**8. File Name:** 20140828155422012.wav

**Duration:** 4:21

**Participants:** 1. Unknown (Caller - U)  
2. Roshana (Receiver - R)

Conversation start time: 3:56

“U: Ah, is that so?

R: That fellow doing it has become insulting to him

U: Ya true

R: Who is that? Kasun might be doing it right?

U: Ya, Kasun only... Some say not to show the Perpetual prices...

R: No!

U: **Ya, they know they're getting the EPF ones**

R: Okay, okay... Let's see

U: Okay”

**9. File Name: 20140828164349016.wav**

Duration: 1:22

Participants: 1. Brentley (Caller - B)

2. Roshana (Receiver - R)

“R: Went, went... Went like hell...

B: Huh?

R: Ya went!

B: Was it Perpetual who bought?

**R: No not Perpetual. A friend of Perpetual bought**

**B: EPF?**

R: Why did you say EPF when I said a friend of Perpetual?

B: No, I just asked

R: Why did you say like that?

B: I just asked so!

R: Aha!

B: Is it Wealth?

R: I don't know. We didn't do anything with Perpetual's EPF. We did with another”

- 14.7 On 28 August 2014, PTL had sold Rs. 950 Million (Refer Exhibit 84)<sup>349</sup>. The conversations identify that PTL had sold the Treasury Bonds (LKB00619G019, LKB00921E014 and LKB01528E016) purchased from the EPF in the Secondary Market, indicating that the EPF acted as facilitator for PTL. Further, EPF was referred to as friend of PTL.
- 14.8 The conversations above between the Primary Dealers indicate that the EPF had majorly transacted with PTL (Refer Section 11 of the Report detailing on the transactions executed by EPF with PTL) and that the trading patterns indicate existence of an understanding / relationship between PTL and EPF.
- 14.9 However, as per the discussion with the approving authority (the former Superintendent, Assistant Superintendent, Deputy Superintendent) they had stated that they were not aware of any suspicious activities with PTL until the allegations post investigations.
- 14.10 It is evident that the approving authority were inefficient to understand the pattern of transactions executed with PTL.
- 14.11 As detailed in Section 11 of this Report along with the conversations noted above indicate that PTL had been benefitted from the EPF transactions during the year 2014.

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<sup>349</sup> Refer Exhibit 84 for the extract of CDS for the transactions executed by PTL.



## 15. PUBLIC DOMAIN SEARCHES

Searches of information as available in the Public domain, subscribed database and media archives was performed to assess, any possible, link between the identified officials (current and former employees) and the employees (current and former) of the Primary Dealer. The identified officials were selected based on the review of documents and data provided by the CBSL as requested by BDO and other data retrieved including the roles and responsibilities during the terms of the transaction Review Period.

### IDENTIFY ASSOCIATION BETWEEN THE OFFICIALS OF CBSL AND PRIMARY DEALERS

- 15.1 During the review of documents for EPF Investment / Divestment in the Treasury Bonds through Primary Market and Secondary Market; there were transactions wherein deviation / anomalies were noted in the process followed and the supporting documents for transactions carried out. The officials<sup>350</sup> of the CBSL were identified who were associated with taking decisions related to these Investment, through Auctions, Direct Placements and Secondary Market purchase and sale of treasury bonds (hereinafter referred to as identified officials). (Refer Annexure 7) <sup>351</sup>
- 15.2 As per the PCOI Report, PTL was alleged to have acted in collusion with the Primary person of contact at the EPF and other Primary Dealers. As per a media article, PTL had induced unidentified informants for price sensitive information pertaining to issue of Treasury Bonds since the time of its inception.
- 15.3 The identified officials operated in / worked in the FMD of EPF in the roles of Fund Managers ("FM") and Chief Dealers ("CD"). Potential relationships which could turn out to be potential conflicts of interest, professional misconduct or personal benefits were as follows:
- A. Former officials of the EPF taking up position in other Primary Dealers;
  - B. Social Media connections such as, personal and professional, between CBSL officials and officials of other Primary Dealers;
  - C. Relatives of CBSL officials in the roles of key staff employees of Primary Dealers;
  - D. Business partnership and shareholding pattern in Primary Dealers and group companies by any higher management of the Primary Dealers involved in transactions with EPF;
  - E. PTL or other Primary Dealers transacting with EPF through intermediaries such as captive sources or other group companies / individuals/ beneficiaries; and
  - F. Properties / assets held by CBSL identified officials disproportionate to their remuneration.

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<sup>350</sup> Refer Annexure 5 for Identified officials based on transactions with indicators of red-flag / inconsistencies

<sup>351</sup> Source: Financial Times

15.4 The Due Diligence was conducted on the identified officials which covered public domain searches, press releases to identify business profile, business affiliations and adverse information through media archives. The searches were conducted for them on subscribed Global Compliance Databases to identify any involvement of these identified officials for illegal activity or litigation cases, if any.

### **Conflict of interest relationships of Mr. Ajith Nivard Cabraal**

15.5 Mr. Ajith Nivard Cabraal (“Mr. Cabraal”) was appointed as Governor of the Central Bank of Sri Lanka effective from July 2006. Until November 2005, Mr. Cabraal headed a management consulting company<sup>352</sup> called Cabraal Consulting Group, specialised on corporate governance, the strategic planning and turnarounds. But he resigned from all his private positions to work full-time for CBSL.

15.6 As per the Presidential Commission of Inquiry (“PCOI”) Report, electronic media and Annual Reports of various Primary Dealers and Banks supervised by the CBSL, former Governor Mr. Ajith Nivard Cabraal, while holding office from July 2006 to February 2015, had several of his close relatives<sup>353</sup> appointed to the chief positions in Banks under the purview of CBSL.

15.7 Family relationships to be considered as conflict of interest, such as all direct descendants and ancestors, without regard to financial interests. The determination of the red flags from these identified relationships could led to a deliberation.

15.8 The Establishments Code of Democratic Socialist Republic of Sri Lanka issued in 1985 by the Public Administration Circulars<sup>354</sup>.

A. As per the Establishment Code - Chapter XLVII: (Section: General Conduct Sub Section 1.5) “An officer shall not do anything which will bring his private interest into conflict with the public duty or which compromises his office. He should always so conduct himself as to avoid giving rise to any appearance of such conflict or of being so compromised.”

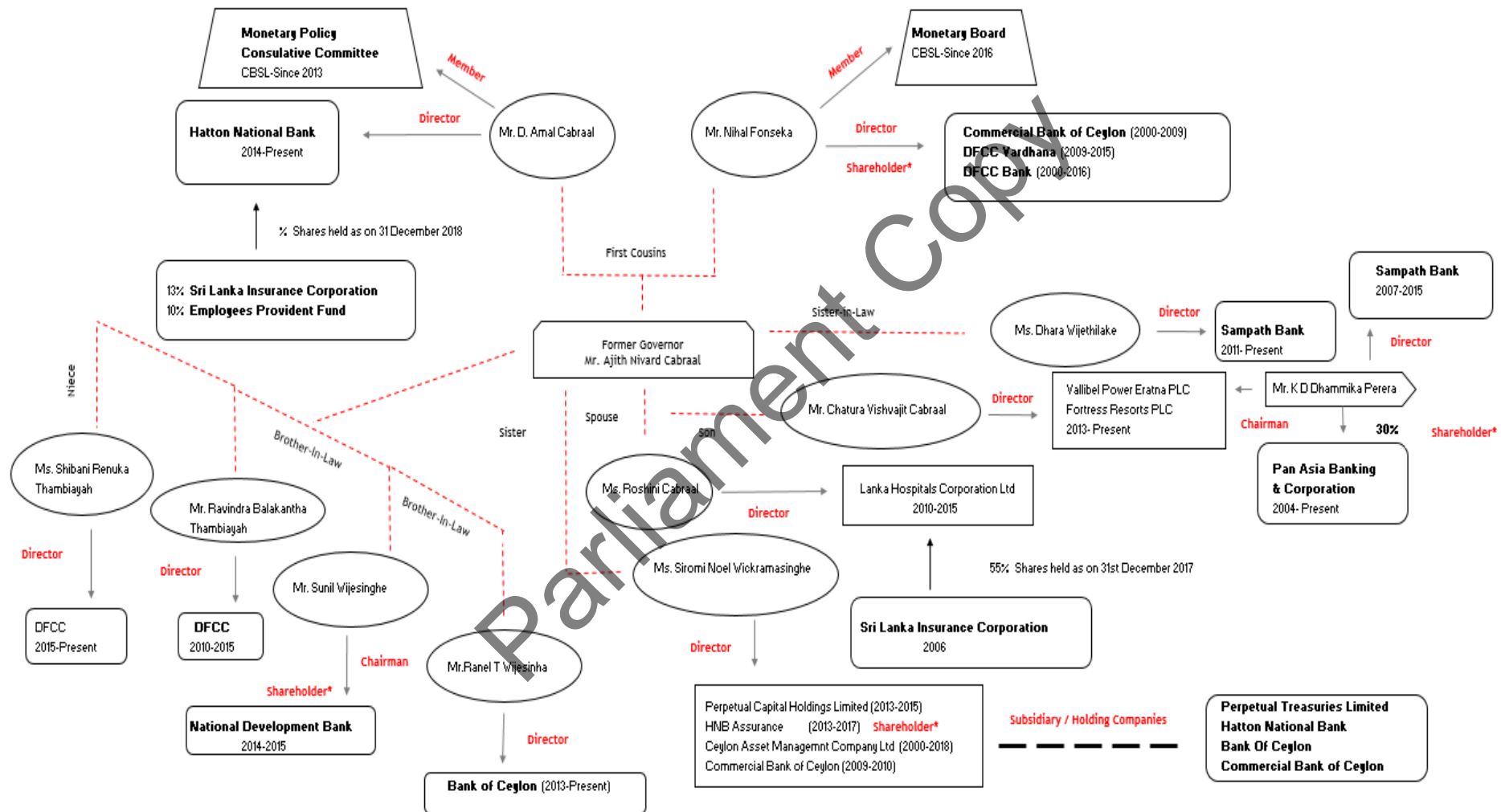
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<sup>352</sup> Refer Exhibit 85: CBSL website about the former Governor Mr. Ajith Nivard Cabraal.

<sup>353</sup> Refer to the Table 126: List of identified relatives of Mr. Ajith Nivard Cabraal directly / indirectly connected to Primary Dealers.

<sup>354</sup> [http://www.pubad.gov.lk/web/index.php?option=com\\_contentandview=articleandid=38andItemid=192andlang=en](http://www.pubad.gov.lk/web/index.php?option=com_contentandview=articleandid=38andItemid=192andlang=en)

## FAMILY TREE OF FORMER CBSL GOVERNOR MR CABRAAL (TERM 2006- 2015) AND THEIR RELATIONSHIPS ASSOCIATED



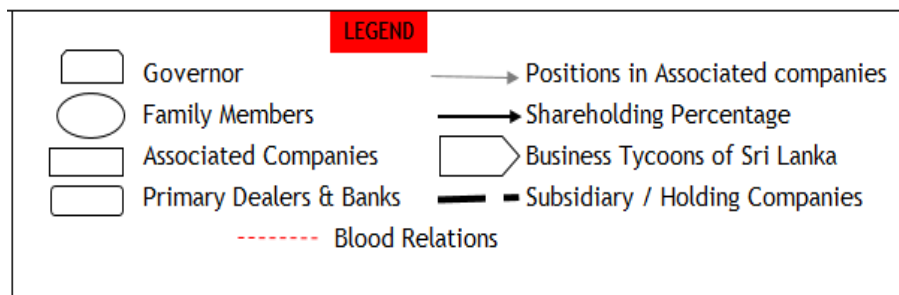


Table 129 - List of identified relatives of Mr. Ajith Nivard Cabraal directly / indirectly connected to Primary Dealers and Banks

#	Identified Individual	Relationship <sup>355</sup>	Position	Connected	Associated PDs/Banks	Period	PD /Banks Category
1	Ms. Roshini Cabraal	Spouse	Director <sup>356</sup>	Indirectly <sup>#</sup>	Sri Lanka Insurance Corporation	2010-2015	Captive
2	Mr. Chatura Vishvajit Cabraal	Son	Director <sup>357</sup>	Indirectly	Pan Asia Sampath Bank	2004-Present 2007-2015	Non-Captive
3	Ms. Siromi Noel Wickramasinghe	Sister	Director <sup>358</sup>	Indirectly	PTL HNB BOC Commercial Bank of Ceylon	2013-2015 2013-2017 2000-2018 2009-2010	Non-Captive Non-Captive Captive Non-Captive
4	Ms. Dhara Wijethilake	Sister-in-Law	Director	Direct	Sampath Bank	2011-Present	Non-Captive
5	Mr. D Amal Cabraal	First Cousin	Director	Direct	HNB	2014-Present	Non-Captive

<sup>355</sup> [http://www.island.lk/index.php?page\\_cat=article-detailsandpage=article-detailsandcode\\_title=169868](http://www.island.lk/index.php?page_cat=article-detailsandpage=article-detailsandcode_title=169868)

<sup>356</sup> Director in Lanka Hospitals Corporation Limited and 55% shares of Lanka Hospitals Corporation Limited have been held by Sri Lanka Insurance Corporation as on 31 December 2017.

<sup>357</sup> Mr. K.D. Dhammika Perera is the Chairman of Vallibel Power Eratna PLC, which holds 30% of the shares in Pan Asia Banking Corporation and he was a director in Sampath Bank during that time/ the period 2007 to 2015.

<sup>358</sup> Director in Perpetual Capital Holdings Limited, HNB Assurance and Ceylon Asset Management Company which are subsidiary / holding companies of the associated Primary Dealers.

#	Identified Individual	Relationship <sup>355</sup>	Position	Connected	Associated PDs/Banks	Period	PD /Banks Category
6	Mr. Nihal Fonseka	First Cousin	Director	Direct	Commercial Bank of Ceylon DFCC Vardhana DFCC Bank	2000-2009 2009-2015 2000-2016	Non-Captive
7	Ms. Shibani Renuka Thambiayah	Niece	Director	Direct	DFCC	2015-Present	Non-Captive
8	Mr. Ravindra Balakantha Thambiayah	Brother-in-Law	Director	Direct	DFCC	2010-2015	Non-Captive
9	Mr. Sunil Wijesinghe	Brother-in-Law	Chairman	Direct	NDB	2014-2015	Non-Captive
10	Mr. Ranel T Wijesinghe	Brother-in-Law	Director	Direct	BOC	2013-2018	Captive

*#Indirectly connected refers to the pattern where the associated Primary Dealer is holding major stake/ Holding Company / Subsidiary Company of the other Company in which the identified individual (family member of Mr. Cabraal) held position in the Board (directly connected).*

Table 130 - List of Primary Dealers (Banks) where former Governor’s relatives are on the Governing Board - Major shareholding percentage by Government institutions such as SLIC, EPF etc.

#	Primary Dealers / Bank	2014	2015	Relatedness and Connecting Events
1	Sampath Bank PLC (Refer Exhibit 87) <sup>359</sup>	Vallibel One PLC (15%) EPF (10%) HSBC (8%)	Vallibel One PLC (15%) EPF (10%) HSBC (8%)	<p>A. Related parties:</p> <p>B. Mr. Dhammika Perera, Chairman of Vallibel One Group</p> <p>C. Mr. Cabraal, then Governor of CBSL</p> <p>D. Ms. Dhara Wijethilake, Sister-in-Law of Mr. Cabraal</p> <p>E. Mr. Chatura Vishvajit Cabraal, son of Mr. Cabraal</p> <p>F. Connected Events: Refer - Section 6.3.1 (A)</p> <p>G. On January 2013, “The Kingsbury” hotel constructed by Mr. Dhammika Perera was inaugurated by Mr. Cabraal.</p> <p>H. Since January 2013, Mr. Chatura Vishvajit Cabraal, son of Mr. Cabraal is in the Board of Sampath Bank PLC.</p> <p>I. On January 2011, Mr Cabraal had inaugurated the new headquarters of Vallibel Finance (Group of Vallibel One owned by Mr. Dhammika Perera).</p> <p>J. Since January 2011, Ms. Dhara Wijethilake, sister-in-Law of Mr. Cabraal is in the Board of Sampath Bank PLC.</p> <p>K. Auction held on 27 February 2015 where Bids were accepted at high rate as stated before PCOI -Section 19.2.5.</p>

<sup>359</sup> Exhibit 87: Annual Report of Sampath Bank of 2014 and 2015.

2 Commercial Bank of Ceylon (Refer Exhibit 88) <sup>360</sup>	DFCC (15%)	DFCC (15%)	<p><b><u>Related parties:</u></b></p> <p>A. Mr. Cabraal, former Governor of CBSL</p> <p>B. Mr. Nihal Fonseka, first cousin of Mr. Cabraal</p> <p>C. Ms. Siromi, sister of Mr. Cabraal</p> <p><b><u>Connected Events:</u></b></p> <p>A. Mr. Nihal Fonseka was director at the same time in DFCC Bank and Commercial Bank of Ceylon for the period 2000 to 2009. He was appointed as director in DFCC Bank in January 2009 and held the position in Board until January 2015.</p> <p>B. Ms. Siromi, sister of Mr. Cabraal was appointed to the board of Commercial Bank of Ceylon for the period 2009 to 2010 as replacement to Mr. Nihal Fonseka.</p>
	HSBC (15%)	HSBC (11%)	
	EPF (10%)	EPF (10%)	
	SLIC (9%)	SLIC (9%)	
3 Pan Asia Banking Corporation (Refer Exhibit 89) <sup>361</sup> (“PABC”)	Mr. Dhammika Perera (30%)	Mr. Dhammika Perera (30%)	<p><b><u>Related parties:</u></b></p> <p>A. Mr. Dhammika Perera, Chairman of Vallibel One Group</p> <p>B. Mr. Cabraal, former Governor of CBSL</p> <p>C. Mr. Richie Dias, Deputy General Manager of PABC</p> <p>D. Mr. Nimal Perera, former Chairman of PABC</p> <p><b><u>Connected Events:</u></b></p> <p><i>Refer Section 6.3.1 (B) and (C)</i></p>
	NP Capital (4%)	NP Capital (2%)	

<sup>360</sup> Exhibit 89: Annual Report of Commercial Bank of Ceylon of 2014 and 2015.

<sup>361</sup> Exhibit 88: Annual Report of Pan Asia Banking Corporation of 2014 and 2015.

4 DFCC Bank (Refer Exhibit 90)<sup>362</sup>

BOC (14%)	BOC (14%)
HSBC (13%)	HSBC (13%)
HNB (12%)	HNB (12%)
SLIC (10%)	SLIC (10%)
EPF (9%)	EPF (9%)

**Related parties:**

- A. Mr. Cabraal, former Governor of CBSL
- B. Mr. Nihal Fonseka, first cousin of Mr. Cabraal
- C. Ms. Shibani Renuka Thambiayah, Niece of Mr. Cabraal
- D. Mr. Ravindra Balakantha Thambiayah, Brother-in-Law of Mr. Cabraal
- E. Mr. Kavin Karunamoorthy, Chief Dealer of DFCC Bank
- F. Mr. Kasun Palisena, PTL CEO
- G. Mr. Nuwan Salagado, Chief Dealer PTL

**Connected Events:**

- H. In 1974, HNB (Refer Exhibit 91)<sup>363</sup> acquired Merchantile Bank of India's branches in Pettah and Colombo, as well as a part shareholding in Merchantile (a subsidiary of HSBC since 1959, which retained its branch in Colombo).
- I. Mr. Cabraal's three family members are associated with DFCC Bank.
- J. Acuity Group is a joint venture between HNB and DFCC Bank.
- K. Mr. Kavin Karunamoorthy, Chief Dealer of DFCC Bank since 2014. He is closely associated with Mr. Kasun Palisena, CI they had worked together in First Capital Holdings PLC (F 92)<sup>364</sup>. Mr. Kavin was also observed in Mr. Kasun's wedding man. Both were connected to Mr. Nuwan Salgado, Chief I

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<sup>362</sup> Exhibit 90: Annual Report of DFCC Bank of 2014 and 2015.

<sup>363</sup> Exhibit 91: Wikipedia information of HNB.

<sup>364</sup> Exhibit 92: PCOI Chapter.



All of them had completed their professional course in the Institute of Bankers of Sri Lanka.

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5 Hatton National Bank (Refer Exhibit 93) <sup>365</sup> (“HNB”)	SLIC (12%) EPF (8%)	SLIC (12%) EPF (8%)	<p><b><u>Related parties:</u></b></p> <p>A. Mr. Cabraal, former Governor of CBSL.</p> <p>B. Mr. Amal Cabraal, first cousin of Mr. Cabraal</p> <p>C. Ms. Siromi, sister of Mr. Cabraal</p> <p><b><u>Connected Events:</u></b></p> <p>D. Mr. Amal Cabraal, first cousin of Mr. Cabraal was appointed to the board of <i>Hatton National Bank</i> since January 2014.</p> <p>E. Ms. Siromi, sister of Mr. Cabraal was in board of associated company of HNB, HNB Assurance for the period 2013 to 2017.</p> <p>F. Perpetual Treasuries Limited’s (“PTL”) CEO, Mr. Kasun Palisena and dealer, Mr. Gajan Devarajan were working in Acuity Securities Limited (Refer Exhibit 94)<sup>366</sup> (Acuity Group) together from March 2010 to October 2013. Acuity Group is a joint venture between HNB and DFCC Bank. Later, Mr. Kasun Palisena and Mr. Gajan Devarajan had joined PTL.</p>
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<sup>365</sup> Exhibit 93: Annual Report of Hatton National Bank of 2014 and 2015

<sup>366</sup> Exhibit 94: LinkedIn profile of Kasun Palisena

15.9 The former Governor, Mr. Cabraal's family members are in the associated Primary Dealer and connecting the events that had been highlighted by the PCOI and electronic media pertaining to the relevant Primary Dealer / identified individual.

15.10 Mr. Richie Dias (Refer Exhibit 95)<sup>367</sup>, Deputy General Manager of PABC, stated in his witness statement at PCOI that "Mr. Nimal Perera owned a company named "NP Capital" which deals in Treasury Bonds in the Secondary Market. He also mentioned that former Chairman of PABC, Mr. Nimal Perera engaged in the practice of dumping bonds on the EPF through his personal account and NP Capital. Further, Mr. Dias said, he first met Mr. Arjun Aloysius at the time Mr. Nimal Perera instructed Mr. Dias to deal in the aforesaid manner with PTL. Mr. Dias said that, Mr. Nimal had asked him to go to Mr. Aloysius's office and discuss the way business was to be done. Mr. Dias said that, he had gone to Mr. Aloysius office, where he had also met Mr. Kasun Palisena. Mr. Aloysius had explained to Mr. Dias, in Mr. Kasun Palisena's presence, that PTL wanted PABC "to play an intermediary role between PTL and EPF."

***Refer Section 11 of this report for details of transactions between PTL and the EPF through PABC***

15.11 Potential Conflict of Interest noted during the period July 2006 to January 2015 when Mr. Cabraal was the Governor and his family members in Primary Dealers including Banks under the supervision of CBSL:

A. Ms. Siromi Noel Wickramasinghe appointed as Director of PTL

1. Ms. Siromi Noel Wickramasinghe, sister of Mr. Ajith Nivard Cabraal, was appointed as Director of Perpetual Capital (Private) Limited on 23 December 2013 (Refer Exhibit 96)<sup>368</sup>. She was a director and shareholder in HNB Assurance during the period 2013 to 2017. She was also director of Ceylon Asset Management Company Limited during the period 2000 to 2018. These companies mentioned in which she was a director were the subsidiary / holding companies of the Primary Dealers namely Perpetual Treasuries Limited, Hatton National Bank and Bank of Ceylon.
2. Initially, Perpetual Treasuries (Pvt) Limited, a private limited liability company incorporated on 1 October 2012 under the Companies Act. No 7 of 2007, submitted application for approval as licensed Primary Dealer of CBSL on 17 October 2012. The application was rejected in view of the foregoing (Refer Exhibit 97)<sup>369</sup>. However, application was again submitted on 9 May 2013. It is also to be noted that the company name had changed from "Perpetual Treasuries (Pvt) Limited" to Perpetual Treasuries Limited.

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<sup>367</sup> Exhibit 95: PCOI Section 5.37, Pg 240.

<sup>368</sup> Exhibit 96: PCOI Chapter 15; Pg 474.

<sup>369</sup> Exhibit 97: PTL Rejection document submitted to DG, Mr. Samarasiri as on 5 December 2012

3. As per the Monetary Board Paper No. MB/PD/23/19/2013 (Refer Exhibit 99)<sup>370</sup> dated 30 September 2013, appointment of Perpetual Treasuries Limited (“PTL”) as a Primary Dealer in Government Securities was approved in principle on 9 May 2013. Based on conditions to be fulfilled within 90 days, as a Direct Participant and a Dealer Direct Participant in the Lanka Settle System was to be carried out. However, the conditions were fulfilled as on 25 September 2013 which had crossed the timeline of 90 days from the date of approval. The Primary Dealer had been approved by the Monetary Board members namely Mr. B.D.W.A. Silva (Deputy Governor), Mr. P. Samarasiri (Secretary Monetary Board), Mr. A. Kamalasiri (Assistant Governor) and Mr. N.W.G.R.D. Nanayakkarra (Superintendent Public Debt). It is also to be noted that Mr. N.W.G.R.D. Nanayakkarra had recommended for rejection of the appointment of PTL during October 2012, at the time of initial application.
  4. In May 2013, when PTL was granted permission or approved by the Monetary Board, Ms. Siromi Noel Wickramasinghe was also appointed as the director of the Perpetual Treasuries Limited’s holding company in December 2013. The concern related to conflict of interest of the then Governor, were not raised before this appointment.
- B. Mr. Nihal Fonseka and other relatives appointed as Director of DFCC Bank and DFCC Vardhana Bank PLC
1. Mr. Nihal Fonseka, first cousin of Mr. Cabraal, was the Director (Refer Exhibit 100)<sup>371</sup> of the DFCC Bank during the period 2000 to 2016 even before Mr. Cabraal was the Governor at CBSL. He was also the director (Refer Exhibit 101)<sup>372</sup> in DFCC Vardhana Bank from 2009 to 2015, prior to which he was director in Commercial Bank of Ceylon from 2000 to 2009. He is also part of the Monetary Board of CBSL since 2016. Governor of CBSL and Monetary Board members shall be appointed by the Elected President as per the Monetary Law Act.
  2. Other relatives of Mr. Cabraal who were directors in DFCC Bank during his tenure namely, Mr. Ravindra Balakantha Thambiayah, brother-in-law director in DFCC during 2010 to 2015 and niece Ms. Shibani Renuka Thambiayah, director (Refer Exhibit 102)<sup>373</sup> in DFCC from 2015 to present. All the appointments to the Board of DFCC of his relatives were during the period of Mr. Cabraal was the Governor of CBSL.
- C. Ms. Shibani Renuka Thambiayah, niece of Mr. Cabraal associated with Renuka Group where PTL had invested

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<sup>370</sup> Exhibit 99 Minutes of Monetary Board dated 30 September 2013 for the Appointment of PTL.

<sup>371</sup> Refer Exhibit 100 Annual Report - DFCC-Mr. Nihal Fonseka

<sup>372</sup> Refer Exhibit 101 Annual Report - DFCC Vardhana- Mr. Nihal Fonseka

<sup>373</sup> Refer Exhibit 102 Annual Report - DFCC - Mr. R.B Thambiayah

1. During public domain search, as per the media article dated 19 March 2017 in the Sunday Times, Perpetual Asset Management (Pvt) Limited, which was the immediate Holding Company of Perpetual Treasuries Limited<sup>374</sup>, made substantial Investments in "Renuka Group of Companies" (Refer Exhibit 103)<sup>375</sup> in which Mr. Cabraal had close family connections. The annual report (Refer Exhibit 104)<sup>376</sup> of DFCC Bank during the period 2015, states that Ms. Shibani Renuka Thambiayah, niece of Mr. Cabraal was appointed to the Board of DFCC Bank as of March 2015. She was Joint Managing Director of Renuka Hotels Limited and Renuka City Hotels PLC at the same time. She was the General Manager from 2001 to 2010 prior to assuming the contemporary position of Managing Director of the Board with Renuka Hotels Limited.

D. Mr. Amal Cabraal appointed as the director in HNB

1. Mr. Amal Cabraal, first cousin of the former Governor, is part of the CBSL namely Monetary Policy Consultative Committee since 2013 and was also appointed as director (Refer Exhibit 105)<sup>377</sup> of the Hatton National Bank from the year 2014 to extant. Prior to be appointed as the director in HNB he was Chief Executive Officer of Unilever Sri Lanka having three decades of business experience in General management, marketing and sales in Sri Lanka and overseas.

15.12 As per PCOI Report following were key aspects which were considered for relationship mapping with PTL, the employees of EPF, and officials of other Primary Dealers about former Governor Mr. Cabraal.

- A. The Governor and the Monetary Board which held office in 2015 had been "politicized" is demonstrated by the fact that the former Governor, Mr. Cabraal and two appointed members of the Monetary Board namely, Mr. Nimal Welgama and Mr. Neil Umagiliya - resigned from the offices on 9 January 2015 immediately after the Presidential Election results announced on 8 January 2015. (Refer Exhibit 86)<sup>378</sup> As per Section 16 of the Monetary Law Act stipulates that, a Governor of the CBSL or an appointed member of the Monetary Board can be removed from office only by the President. It also proceeds on the basis that, a Governor or an appointed member of the Monetary Board shall hold office for a full term of six years. However, Mr. Cabraal, Mr. Welgama and Mr. Umagiliya considered it necessary to resign when the new president was elected in January 2015 before completion of the required term period of six

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<sup>374</sup> <http://www.sundaytimes.lk/170319/news/bond-issue-26-mps-want-to-give-evidence-233340.html>

<sup>375</sup> Refer Exhibit 103 PCOI Chapter 15, Pg 482

<sup>376</sup> Refer Exhibit 104: Annual Report - DFCC- Ms. S R Thambiayah

<sup>377</sup> Exhibit 105: Annual Report - HNB - Mr. Amal Cabraal

<sup>378</sup> Refer Exhibit 86 for the Extract of PCOI.

years as per the Act. It was noted that the President who appointed the three gentlemen ceased to be President, so they regarded themselves to 'political appointees' who held office at the will of the President and resigned from the Monetary Board. (Refer Exhibit 106)<sup>379</sup>

B. Dr. W A Wijewardana is a retired CBSL Official who was Deputy Governor from 7 August 2002 to 6 July 2009. In his witness statement at PCOI; Section 5.19, Pg 176, where he was questioned about his views on aspects pertaining to steps to be carried out in a situation where a Governor of the CBSL finds himself in a situation where there could be conflict of interest. Also, Mr. Cabraal's sister, Ms. Siromi, was director of the Holding Company of PTL while Mr. Cabraal was the Governor of the CBSL. In his response he stated, "*...if Mr. Nivard Cabraal has disclosed it to the Monetary Board and if he had refrain himself from any dealings with PTL that would have been fine, but of course I know after my retirement from the Central Bank, Mr. Cabraal's sister was appointed chairperson of the HDFC Bank. One of the Banks that needs to be regulated by the Central Bank and will have to examine whether the correct Governance practices had been followed by him...*" When the Commission of Inquiry asked Dr. Wijewardana for his views on whether a failure by Mr. Cabraal to disclose to the Monetary Board that his sister, Ms. Siromi, was a Director of the Holding Company of PTL, would have been inappropriate. He replied in affirmative.

A. The witness statement at PCOI (Section 5.26) of Ms. Mano Ramanathan who was appointed as a Member to the Monetary Board on 6 December 2007. She was questioned by the Presidential Commission that whether Mr. Cabraal or Mr. Arjuna Mahendran had brought to attention of the Monetary Board, the fact that a close relative was a Director of the Holding Company of Perpetual Treasuries Limited namely Ms. Siromi and Mr. Arjun Aloysius respectively. She had replied that the fact was not disclosed to the Monetary Board.

15.13 Substantial impact in the Secondary Market transactions of EPF relating to Treasury Bonds based on decision of Mr. Cabraal on 5 June 2013<sup>380</sup>

A. During the Investment Committee ("IC") Meeting on 5 June 2013, the decision driven by Mr. Cabraal was approved by the IC members which was chaired by Ms. C Premaratne (Deputy Governor) and other members present in the meeting were Ms. R Dheerasinghe (Assistant Governor), Ms. K Gunathilake (SEPF), Ms. C M D N K Seneviratne (Additional Superintendent) and Mr. L D Y Perera (Additional Superintendent). It was also to be noted that the IC Minutes was prepared by Mr. T Udayaseelan (Senior Assistant Superintendent) and was Secretary to the meeting.

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<sup>379</sup> Exhibit 106: PCOI chapter 16, Pg 486

<sup>380</sup> Exhibit 62 5 June 2013 Investment Committee Minutes

- B. Prior to the Investment Committee Meeting, the decision was communicated with the top management on 4 June 2013, that EPF to provide adequate attention to earn capital gains from Investment in Government Securities. It was also decided to involve and allocate funds for Secondary Market activities before making any Investment in the Primary Market.
- C. The intention to increase the transactions in the Secondary Market was visible by the decision; however, there were no proper study or research conducted prior to this decision by Mr. Cabraal.
- D. During an interview dated 16 September 2019 with Mr. W.G.R Harshapriya, Senior Assistant Director in CBSL, stated that, *“as per my knowledge before Governor instructed EPF to actively involved in Secondary Market transaction, there was no proper study and research was carried before the decision to involve actively in Secondary Market activities”*.
- E. It was also noted that the Bond series traded during the year 2014, PTL and PABC transactions and volume traded was increased drastically. It should also be noted that PTL as a PD was introduced to the market and the approval of PTL for license as PD was obtained on 9 May 2013, which was a month prior to this decision on 5 June 2013 by the then Governor.

Parliamentary Copy

Table 131 - List of Primary dealers<sup>381</sup> traded in the Secondary Market with EPF during the period 2013-2014

#	Year	Name of the PD	2013		2014	
			No. of ISIN	Value in LKR (In Million) Purchase and Sale	No. of ISIN	Value in LKR (In Million) Purchase and Sale
1		Perpetual Treasuries Limited	-	-	85	34,203
2		Hongkong and Shanghai Banking Corp.	25	10,950	8	2,850
3		Pan Asia Banking Corporation	-	-	43	18,950
4		Commercial Bank of Ceylon Limited	10	3,950	20	14,400

## Conclusion

15.14 Based on the above facts, it may be noted that the transactions executed with the EPF Department with the above Primary Dealers resulted in loss (as detailed in the respective Sections of this Report) 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 such loss. It is pertinent to note that the CBSL did not installed voice record system at the FMD in the EPF Department 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.

<sup>381</sup> Connected to Mr. Ajith Nivard Cabraal relations in the Table 106

## 16. DIGITAL FORENSICS

During the review of documents related to EPF's Investment / Divestment transactions in Primary and Secondary Market, deviation / anomalies were noted in the process followed and the supporting documents maintained. A list of 25 identified officials of the CBSL was prepared who were responsible for taking decisions related to issue of Treasury Bonds during the review (hereinafter referred to as "custodian") (Refer Annexure 7)<sup>382</sup> 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".

### REVIEW OF EMAILS

- 16.1 The specific electronic evidences considered relevant to the findings of the report are detailed in the respective sections of the detailed observations. (Refer Annexure 99)<sup>383</sup>
- 16.2 The table below represents the availability of data/ emails/ facts considered relevant in respect of the the EPF's Investment / Divestment transactions in Primary and Secondary Market for TOR-2

**Table 132 - Summary of Evidences from ESI**

#	Name of the official	Relevant Findings
1	Dilini Udugamakorale	None
2	W.G.R Harshapriya	None
3	G.A.C.N Ganepola	None
4	R.A.A Jayalath	None
5	K Gunatilleke	None
6	Maheesha Wanniarachichi	None
7	B.M.W.S Batasooriya	None
8	K.L.A.C.N Anuradha	None
9	S Pathumanapan	None
10	Chandrasekharan Sivapriya	Available
11	ETWTRP Udakumbura	None
12	C.M.D.N.K Seneviratne	None
13	N.L.M Abeysekera	None
14	M.S.K Dharmawardane	None
15	D Wasantha	None

<sup>382</sup> Refer Annexure 7 for the list of 25 identified officials and their respective Target Devices along with rationale for their identification.

<sup>383</sup> Refer Annexure 99 for Evidence Matrix of identified custodian.



#	Name of the official	Relevant Findings
16	B.H.I Samana Kumara	Available
17	J.D.S.J Nanayakkara	Available
18	T Udayaseelan	Available
19	P.N Weerasinghe	None
20	P.W.D.N.R Rodrigo	None
21	Ajith Nivard Cabraal	None
22	Amila Dahanayake	None

### REVIEW OF SERVER EMAIL OF MR. B H I SAMAN KUMARA

- 16.3 During Email review of Mr. B H I Saman Kumara, an email dated 5 April 2016 at 7:47PM (Refer Exhibit 107)<sup>384</sup>, Mr. Murtaza Jafferjee, Senior Independent Director at Nations Trust Bank to Mr. B H I Saman Kumar providing response to the queries raised by him. Subsequent trail mails were shared between the Two in response to the 5 April 2016 subject. It was to be noted that Mr. B H I Saman Kumara was disappointed with Mr. Jafferjee on communicating incorrect information about him in the Market.
- 16.4 Mr. Jafferjee responded to the mail of Mr. B H I Saman Kumara and requested for a meet for at 10:00AM Saturday at Mr. Jafferjee's office. Mr. Jafferjee also said that, "Don't believe everything you hear; people say I am advising the Prime Minister but the last time I met him was at my neighbours Christmas Party in Dec 2015 for 5 minutes. During the past regime Nivard was made to believe that I was siding with the UNP- I have only once been invited to their party headquarters as a young business leader in 1999 with 100 other business leaders- he had instructed the EPF not to give us any trades. Interest rates are very volatile; the issue is with the Primary Market - Auction system. But you are in the EPF, you are NOT in the public debt department so how can I be accusing you of wrongdoing."
- 16.5 Mr. B H I Saman Kumara responded to Mr. Jafferjee's mail that, "...Ok I will come 10am. But you didn't tell anything about Primary Market. But you are accusing me on manipulation of Secondary Market. No, it is happen and gone I will tell what happen when I meet you and the person told me that also...".
- 16.6 It appears that there needs to be a further investigation to be conducted for the scenario of market manipulation in the Secondary Market of EPF during the period 2015-2016 as stated by Mr. B H I Saman Kumara in his mail that, "...No it is happen and gone I will tell what happen when I meet you and the person told me that also..." In response to Mr. Jaferjee.

<sup>384</sup> Refer Exhibit 107 for Email communication between Mr. B H I Saman Kumara and Mr. Murtaza Jafferjee dated 5 April 2016

## DELETION OF OUTLOOK FILES

16.7 During the extraction of ESI, logs indicating deletion of outlook .pst and .ost files were identified on target devices pertaining to custodian. The identification of deleted outlook files and the anomalies identified are explained as under:

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

B. Mentioned below are the data file formats used by Microsoft Outlook<sup>385</sup>.

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.

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.

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<sup>385</sup> According to [Outlook app website](#)

16.8 The deleted and overwritten Outlook files were identified through description mentioned in the Encase tool.

16.9 As confirmed by DIT that “the user does 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 5)<sup>386</sup>

16.10 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.

- A. 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.
- B. As per the logs generated by “Encase” using Enscript, it was observed that composite outlook files (ost andpst) were deleted from the Target Devices and the table provided below summarizes instances of deletion (Refer Annexure 97)<sup>387</sup> of deleted outlook files.

**TABLE 133 - DETAILS OF DELETED OUTLOOK FILES**

#	Custodian	Device	Name of the file deleted	Observation
1	Dilini Udagamakorale	Desktop	dilini_u@cbsl.lk.ost	<p>Two instances of outlook file deletion were identified from the system.</p> <p>Description of both the files as per Encase log is “File, Deleted, Overwritten, Archive, Not Indexed”.</p> <p>“Entry Modified” date of the files are as follows:</p> <p>04-Jan-19 at 14:36 HRS</p> <p>04-Jan-19 at 14:36 HRS</p> <p>During an interview, Mrs Dilini Udagamakorale stated, “ I have not intentionally attempted to delete the entirety of my emails on any occasion whatsoever and the only possibility of this as I can guess is an instance where I needed to clean up the inbox when the inbox had been full”</p>

<sup>386</sup> Refer Exhibit 5 for the Email communication of January 2019 for implementation of Litigation Hold

<sup>387</sup> Refer Annexure 97 for the details of deleted outlook files

#	Custodian	Device	Name of the file deleted	Observation
				However, composite (ost and pst) outlook files do not get deleted while deleting emails from inbox.
2	R.A.A Jayalath	Desktop	rjayalath@cbsl.lk.ost	<p>Seven instances of outlook file deletion were identified from the system.</p> <p>Description of files as per Encase log are</p> <p>“File, Deleted, Overwritten, Archive, Not Indexed”, “File, Deleted, Archive, Not Indexed”</p> <p>“Entry Modified” date of the files are as follows:</p> <p>13-Jul-18 at 13:32 HRS            16-Jul-18 at 14:04 HRS            03-Sep-18 at 11:03 HRS            14-Mar-19 at 14:48 HRS            09-Jul-18 at 14:59 HRS            28-Nov-18 at 09:02 HRS            18-Aug-16 at 10:09 HRS</p>
3	S Pathumanapan	Desktop	pathuman@cbsl.lk.ost	<p>One instance of outlook file deletion was identified from the system.</p> <p>Description of file as per Encase log is</p> <p>“File, Deleted, Overwritten, Archive, Not Indexed”</p> <p>“Entry Modified” date of the file is 17-Nov-17 at 16:45 HRS</p>
4	CMDNK Seneviratne	Desktop	deepa@cbsl.lk.ost	<p>Six instances of outlook file deletion were from the system.</p> <p>The description of the file in the Encase Forensic was “File, Deleted, Overwritten, Archive, Not Indexed”.</p> <p>It was noted that the “Entry Modified” for the deleted files were as followed:</p> <p>18-Aug-16 at 9:24 HRS            25-Apr-17 at 15:16 HRS            18-Jun-18 at 9:10 HRS            2-Jan-19 at 9:00 HRS.            2-Jan-19 at 9:00 HRS            10-Jan-19 at 17:54 HRS</p>

#	Custodian	Device	Name of the file deleted	Observation
5	NLM Abeysekera	Desktop	nimali@cbsl.lk.ost	<p>Four instances of outlook file deletion were noted from the system.</p> <p>The description of the files as per Encase log is “File, Deleted, Overwritten, Archive, Not Indexed”</p> <p>“Entry Modified” date for the files are as follows”</p> <p>16-Sep-19 at 10:42 HRS 19-Sep-19 at 08:33 HRS 29-Apr-19 at 11:06 HRS 12-Apr-19 at 11:10 HRS</p>
6	B.H.I Kumara	Samana Desktop	kumarabhis@cbsl.lk.ost	<p>Ten instances of outlook file deletion were noted from the system.</p> <p>The description of files as per Encase log is “File, Deleted, Overwritten, Archive, Not Indexed”.</p> <p>“Entry Modified” date for the files are as follows:</p> <p>01-Jul-16 at 14:56 HRS 05-Sep-16 at 16:32 HRS 13-Nov-15 at 16:15 HRS 18-Dec-15 at 16:09 HRS 20-Aug-15 at 16:28 HRS 21-Jun-16 at 08:20 HRS 24-May-16 at 09:54 HRS 28-Sep-15 at 07:50 HRS 29-oct-15 at 10:09 HRS 30-Nov-16 at 16:17 HRS</p>
7	JDSJ Nanayakkara	Desktop	samannanayakkara@cbsl.lk.ost archive1.pst archive.pst	<p>Three instances of outlook file deletion from the system were observed.</p> <p>The description of files as per Encase log is “File, Deleted, Overwritten, Archive, Not Indexed”, File, Deleted, Overwritten, Archive”</p> <p>“Entry Modified” date for the files are as follows:</p> <p>02-Oct-15 at 10:23 HRS 07-Aug-19 at 17:11 HRS 29-Oct-15 at 12:58 HRS</p>

#	Custodian	Device	Name of the file deleted	Observation
8	T Udayaseelan	Desktop	Udayaseelan@cbsl.lk.ost	<p>Five instances of outlook file deletion from the system was noted.</p> <p>The description of files as per Encase is “File, Deleted, Overwritten, Archive, Not Indexed”</p> <p>“Entry Modified” date for the files are as follows:                      05-Apr-17 at 08:30 HRS                      09-Jun-2017 at 13:41 HRS                      29-Jun-17 at 14:39 HRS                      19-Jul-17 at 08:19 HRS                      10-Aug-17 at 09:16 HRS</p>
9	PWDNR Rodrigo	Desktop	rodrigo@cbsl.lk.ost rodrigo@cbsl.lk (2).ost archive.pst	<p>Eleven instances of outlook file deletion from the system was noted.</p> <p>The description of files as per Encase is “File, Deleted, Overwritten, Archive”, “File, Deleted, Overwritten, Archive, Not Indexed”.</p> <p>“Entry Modified” date for the files are as follows:                      14-Jul-17 at 09:30 HRS                      15-Jun-17 at 16:23 HRS                      05-Jul-17 at 09:01 HRS                      20-Jul-17 at 09:01 HRS                      28-Jul-17 at 17:19 HRS                      06-May-16 at 12:03 HRS                      16-Aug-18 at 18:32 HRS                      28-Aug-18 at 14:00 HRS                      26-Oct-18 at 12:57 HRS                      20-Jul-17 at 09:01 HRS                      16-Aug-18 at 18:32 HRS</p>
10	BMWS Balasooriya	Desktop	shyamika@cbsl.lk.ost Outlook Data File - outlook1.pst Outlook Data File - outlooknew.pst shyamika@cbsl.lk - outlook1.ost	<p>Ten instances of outlook file deletion from the system were noted.</p> <p>The description of files as per Encase is “File, Deleted, Overwritten, Archive, Not Indexed”.</p> <p>“Entry Modified” date for the files are as follows:                      04-Sep-19 at 13:31 HRS                      17-Jul-19 at 11:50 HRS</p>

#	Custodian	Device	Name of the file deleted	Observation
				22-Aug-19 at 10:54 HRS
				09-May-19 at 13:44 HRS
				04-Sep-19 at 13:31 HRS
				17-Jul-19 at 11:47 HRS
				22-Aug-19 at 11:00 HRS
				11-Apr-16 at 10:13 HRS
				30-Dec-16 at 10:08 HRS
				30-Dec-16 at 10:07 HRS
11	Amila Dahanyake	Desktop	<a href="mailto:amilad@cbsl.lk.ost">amilad@cbsl.lk.ost</a>	One instance of outlook file deletion from the system were observed. The description of files as per Encase log is "File, Deleted, Overwritten, Archive, Not Indexed". "Entry Modified" date for the file is 5-Aug-16 at 11:34 HRS

16.11 The logs of 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 standard (provided by the application supplier (OEM)) filters and scripts in the "Encase" forensic tool.

- 16.12 Users of electronic email applications globally delete selected non-essential emails (such as notifications, reminders and business development communications) and other emails considered redundant, usually 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 file<sup>388</sup> itself. Deletion of email data files requires the user to access specific location of files on the machine (laptop / desktop / iPad, usually referred-to as “client machines”), which is a designated location of the data files, as part of the Program files folder. 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 (“Program Files” folder) through user access controls & permissions and through “Administrative” access rights to the computer device.
- 16.13 IDT confirmed that CBSL employees access to the Program File folder in the client 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.
- 16.14 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 client machine.
- 16.15 During the inquiries, the selected officers of 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:
- A. During the dates of logs indicating the deletion, the devices were in their own possession;
  - B. Access to the devices is restricted by user-specific access controls (log-in credentials) set-up by IDT; and
  - C. The officials have not shared the device access credentials issued by IDT to any other employees of the CBSL.

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<sup>388</sup> Refer para 16.7 for the details of the functionality & purpose of the email data file.



## Conclusion

16.16 On review of email backups of 22 target custodians, it was noted that in 11 officers the email backup was deleted from the target device. 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.

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## 17. OTHER OBSERVATIONS - Custodian specific review:

### Custodian: T UDAYASEELAN

During 2014, Mr. T Udayaseelan had executed transactions related to Investment and Divestment in Secondary Market. On review of these transactions, these were deviations from the authorisation limit, transaction price variance from the market price and concentration on specific counterparties such as PTL and PABC. (Refer Section 10, 11 and 12 of this report for detailed findings)

### APPROACH AND METHODOLOGY FOR A TARGET CUSTODIAN

- 17.1 Open source information available was gathered about the target custodian through public domain search such as social and professional media profile, electronic media and print media relating to the EPF involvement in Treasury Bond transacted in the Primary and Secondary Market.
- 17.2 Records were collected such as CBSL issued charge sheet, disciplinary action against the target custodian issued by the Monetary Board and preliminary investigations conducted by the CBSL.
- 17.3 Obtaining personal information about the target custodian (e.g. Age, positions, contact information, hobbies, telephone listings, interests, addresses about the locations, Bank accounts and Bank statements, relatives, close associates, friends and business or political associations).
- 17.4 Background check was conducted and interpreted with the evidences obtained from eDiscovery such as close association with the counterparties / Primary Dealers, high personal debt and undue family or peer pressure. Nexus was identified through public domain searches, call recordings, e-mail reviews and conforming the same in interviews with the target custodian.
- 17.5 The target custodian in the organisational environment had key factors such as other than financial reasons like high trust placed on him/ her by the management, violation of DOA, policies and procedures, no segregation of duties relating to authorisation of significant transactions and lack of independent checks on the performances.
- 17.6 Performing ESI Review/ eDiscovery of target's asset / device and findings for further investigation. Target custodian was called for interview session and the evidences from data analysis, review of documents, ESI review were discussed. The statements made by the custodian were corroborated as documentary evidence.

Table 134 - Identified individuals and connected events relating to Mr. T Udayaseelan

INV D#	Associated Individuals of Mr. T Udayaseelan	Nature of Connection	Related Events description
1	Kokileshwary Ammal	Mother	<ul style="list-style-type: none"> <li>Family member</li> </ul>
2	T. Vijayaseelan	Elder Brother	<ul style="list-style-type: none"> <li>Realtor and Director of Knuckles Farm Private Limited (Refer Exhibit 108)<sup>389</sup></li> </ul>
3	Yalini	Younger Sister	<ul style="list-style-type: none"> <li>Invested in Government Securities on behalf of Ms. Yalini</li> </ul>
4	Palaniyandy Ramaswamy	Cousin Brother	<ul style="list-style-type: none"> <li>Director of Knuckles Farm Private Limited</li> <li>Owner of Thalsewana Hotel and Tulsi Vegetarian café (Operation closed)</li> <li>Shareholder and Chairman of Universe Capital Company</li> <li>Export and Import of food products such as vegetables</li> </ul>
5	Nagalingam Subashini	Spouse of Mr. Palaniyandy Ramaswamy	<ul style="list-style-type: none"> <li>Director of Knuckles Farm Private Limited</li> </ul>
6	Vahini	Cousin	<ul style="list-style-type: none"> <li>Invested in Government Securities on behalf of Ms. Vahini</li> </ul>
7	Darshini	Cousin	<ul style="list-style-type: none"> <li>Invested in Government Securities on behalf of Ms. Darshini</li> </ul>
8	Sivapriya Chandrasekaran	Friend and Colleague	<ul style="list-style-type: none"> <li>Mr. T Udayaseelan and Mrs. Sivapriya Chandrasekaran had studied in the same University (University of Colombo), Land and Property co-owner and joined CBSL together in the same batch 2007.</li> <li>Invested in Government Securities on behalf of her</li> <li>Cheques from Universe Capital Company received to her address on behalf of Mr. T Udayaseelan.</li> </ul>
9	Naveen Anuradha and S. Pathumanapan	Colleague and Friend	<ul style="list-style-type: none"> <li>Closely associated and had mutual connect with the Primary Dealers contact person (PTL and Pan Asia)</li> </ul>
10	Arjun Aloysius	Chairman of PTL	
11	Kasun Palisena	CEO of PTL	
12	Nuwan Salgado	Chief Dealer at PTL	
13	Richie Dias	Deputy General Manager - Treasury Pan Asia Corporation Bank	<ul style="list-style-type: none"> <li>Approached/ contacted Mr. T Udayaseelan (Refer Exhibit 109)<sup>390</sup></li> </ul>
14	Dhanuka Liyanagamage	Dealer at Sri Lanka Insurance Corporation	

<sup>389</sup> Refer Exhibit 108: ROC Document pertaining to information related to directors of Knuckles Farm.

<sup>390</sup> Refer Exhibit 109: Mr. T Udayaseelan's witness statement dated 2 October 2019.

17.7 The transactions with PTL and PABC resulting in loss to EPF are detailed in the Section 11 of this Report.

17.8 Disciplinary Actions against Interdicted Central Bank Officers - Mr. T. Udayaseelan was interdicted with effect from 13 October 2017 (Refer Exhibit 110)<sup>391</sup> as there were reasonable grounds to believe that they have committed or have caused to commit or have aided or abetted or attempted to commit or have directly or indirectly been responsible for the misconducts of disclosing sensitive confidential information related to Investments of Employees’ Provident Fund and / or taking bribe/s from third party / parties to disclose such information, according to the material information available to the Bank.

17.9 Summary of witness statements provided by the CBSL officials during interviews conducted about Mr. T. Udayaseelan in Table 135:

Table 135 - Summary of statement of fact provided by CBSL Officials

#	Name	Designation	Interview Dated and Statement
1	N.L.M. Abeysekara (Refer Exhibit 112) <sup>392</sup>	Senior Assistant Director	<p><b>Dated: 30 September 2019</b></p> <ul style="list-style-type: none"> <li>“The top management of the EPF department had relied upon the fund managers working in the Fund Management Division (FMD) for the Investment decisions of the EPF department. The practice of obtaining prior approval was not always followed as market was not available to analyse the transactions and the Secondary Market rates. Specially, being professionals, Mr. T. Udayaseelan, Mr. Naveen Anuradha and Mr. S. Pathumanapan were part of the Fund Management and if any deviations / non-compliances were highlighted by myself, these professionals used to discuss and negotiate with management and approval was provided.”</li> <li>“Mr. T Udayaseelan discussed and negotiated the issue relating to the short sell, where sold without the security in the portfolio which was highlighted to him. Mr. Rodrigo and Mr. Saman Nanayakkara agreed to the negotiation of Mr. T. Udayaseelan even though the deviation existed. Escalation was done by myself but not minuted the same.”</li> </ul>

<sup>391</sup> Refer Exhibit 110: Disciplinary actions and Charge sheet of Mr. T Udayaseelan.

<sup>392</sup> Refer Exhibit 112: Mrs. N.L.M. Abeysekara’s witness statement dated 30 September 2019.

#	Name	Designation	Interview Dated and Statement
			<ul style="list-style-type: none"> <li>“Mr. T. Udayaseelan and Mr. Naveen Anuradha used mobile phones to talk to Primary Dealers. He was also stated to be aggressive at times. He could influence top management with negotiations.”</li> <li>“Also, I highlighted concentration of counterparties to Mr. T Udayaseelan, where EPF was always had transactions with Perpetual Treasuries Limited. However, he said there was no other parties available for transactions.”</li> </ul>
2	R.A. A. Jayalath (Refer Exhibit 111) <sup>393</sup>	Assistant Governor	<p><b><u>Dated: 18 September 2019</u></b></p> <ul style="list-style-type: none"> <li>“I was not aware of Mr. T Udayaseelan playing an independent broker role at PTL or his private business activities”</li> </ul>
3	J.D.S.J. Nanayakkara (Refer Exhibit 113) <sup>394</sup>	Additional Superintendent of EPF	<p><b><u>Dated: 1 October 2019</u></b></p> <ul style="list-style-type: none"> <li>“Mr. T. Udayaseelan was the long-time Secretary to the IC meeting continued as Secretary during the year 2013 -2014 was also the preparer of the IC minutes. However, it was not highlighted as to reason of removal of counterparty details from the IC minutes. In my response to that I also mentioned that all conversations discussed or covered during the IC meeting will not be part of minutes in details only key / relevant points and decisions are incorporated.”</li> <li>“Any limit on counterparties was not covered in ITG, 2011 and was not introduced by IC or EPF, where EPF always had transactions with few counterparties including Perpetual Treasuries Limited in the year 2014 when Mr. T Udayaseelan was the dealer at EPF. When I enquired about the same from Mr.T Udayaseelan, he said that there were no other parties available for transactions in the market so EPF had to invest / deal with those counterparties. It was noted that most of the deals where Perpetual Treasuries had done when I was on leave. In 2015, IRMD found high concentration with perpetual and informed to the SEPF. Subsequently, deals were not done by Mr. T. Udayaseelan.</li> <li>“Mr. T Udayaseelan was required to deal for the best available rates, after evaluating available offer with Money Brokers, counterparties (direct contact/ Primary contact</li> </ul>

<sup>393</sup> Refer Exhibit 111: Mr. R A Jayalath’s witness statement dated 18 September 2019.

<sup>394</sup> Refer Exhibit 113: Mr. J.D.S.J. Nanayakkara’s witness statement dated 1 October 2019.

#	Name	Designation	Interview Dated and Statement
			<p>with them) for the transactions and getting the same approved from the management. He used to be the driver in the EPF department with respect to decisions and discussions with Secondary Market activities as he was the person involved with the market on daily basis. As a practice, dealers discussed about size and rates before any Secondary Market transactions with the management including me. In May 2014, IRMD was set up specially to monitor the acceptability and 5% limit on HTM selling”.</p> <ul style="list-style-type: none"> <li>• “Email Dated 5 September 2013- Mr.T. Udayaseelan had sent me and others in EPF department asking them to submit the copies of annexures for preparation of IC minutes. The mail content was expressed in an authority and aggressive manner to submit the IC annexures within an hour. In my view, it for get things done as IC Secretary and did not target any person professionally. I was regarded as a directly speaking person and a reliable person by whole EPF/ management at that time.”</li> </ul>

17.10 Summary of Mr. T Udayaseelan’s witness statement about CBSL Officials are provided in the below Table 136

Table 136 - Summary of statement of fact provided by Mr.T Udayaseelan

#	Name	Designation	Interview Dated and Statement of Mr. T Udayaseelan
1	J.D.S.J. Nanayakkara	Additional Superintendent of EPF	<p><u>Dated: 2 October 2019</u></p> <ul style="list-style-type: none"> <li>• “Email Dated 5 September 2013- Mr.T. Udayaseelan had sent me and others in EPF department asking them to submit the copies of annexures for preparation of IC minutes. The mail content was expressed in an authority and aggressive manner to submit the IC annexures within an hour. I had some rough conversation with my superior due to disagreement with them on some the decisions.” (Refer Exhibit 12)<sup>395</sup></li> </ul>

<sup>395</sup> Refer Exhibit 113 for the statement of fact of Mr. J.D.S.J. Nanayakkara.

#	Name	Designation	Interview Dated and Statement of Mr. T Udayaseelan
2	R A Jayalath	Assistant Governor	<p><u>Dated: 2 October 2019</u></p> <ul style="list-style-type: none"> <li>“On August 2013, post the minutes of Investment committee meetings, I was transferred from MO to FO for reasons unknown. At that point, Mr. HarshaPriya was in FO and on study leave. I had raised concerns that I will move to FO once he is back.</li> </ul> <p>Later, despite the good ratings I got in 2013 and 2014, I was immediately transferred from EPF to International Operation Department (IOD) on 1 Oct 2015. One reason for the same may be this misunderstanding with Mr. Jayalath due to differences of opinion in work related matters. On 1 September 2016, I was once again transferred from IOD to Internal Audit Department.” (Refer Exhibit 113)<sup>396</sup></p>

17.11 Mr. T Udayaseelan’s witness statement about relationship with PTL and PABC - During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that -

“As a practice, EPF does not make calls to Primary dealers / third parties for better price and rates. Hence, I get calls from several Primary dealers and brokers regarding quotes and rates on daily basis. I agree that I was contacted by Mr. Kasun Palisena and Mr. Nuwan Salgado from PTL regarding rates.

Likewise, I was contacted by Mr. Richie Dias and two other sub-ordinates (unable to recollect name) from PABC for offering rates. I also get calls from dealers / brokers such as WealthTrust, First Capital and Capital Alliance.

<sup>396</sup> Refer Exhibit 113 for the statement of fact of Mr. R A A Jayalath.

*“In the year 2014 and 2015, I met Mr. Kasun Palisena and Mr. Nuwan Salgado in CBSL office. They came to distribute calendars to me and other members of EPF. To my remembrance, I might have met them in IP offerings, conferences and the conversations usually involved potential and directions of the Company.*

*I get invite for lunch, dinner and personal meetings from various brokers/ Primary Dealers and rejected their offers. I don’t deny that they would have attempted to induce me in taking bribes. I have also met Mr. Dhanuka Liyanagamage, Chief dealer from Sri Lanka Insurance Corporation in one of the conferences.*

*In the year 2013 or 2014, I remember getting a SMS from an unknown number. The message stated that the individual was in Singapore and invited me for dinner or meeting. I do not recall if I replied to that message. Later, I came to know that it was Mr. Arjun Aloysius from PTL. Also, I got call from Mr. Arjun Aloysius. I do not recollect the discussion I had between myself and Mr. Arjun Aloysius.”*

17.12 Background check and media profiling: The background check was conducted for the identified officials and relevant information was gathered including their professional history, family details and business associations, to establish any potential linkage between the identified officials of CBSL and officials at the Primary Dealers.

17.13 According to the information obtained from public domain, one instance was noted wherein an official of the CBSL, Mr. T Udayaseelan was found associated with one of the PD on media profile (LinkedIn), listed below are the details:

Name of the official of CBSL	Media Profile potential findings
Thuraisingam Udayaseelan	<ul style="list-style-type: none"><li>Experience in his profile had been updated as “independent broker” at PTL during the period January 2014 to December 2016. (Refer Exhibit 114)<sup>397</sup></li></ul>

17.14 As per his professional profile at LinkedIn, Mr. T Udayaseelan, had worked as “independent broker” at PTL from the period January 2014 to December 2016. It was checked and confirmed that the education details and other work experiences updated in the profile were corresponding to his Curriculum Vitae (Refer Exhibit 115)<sup>398</sup>, which was found in his device review.

17.15 During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that, “As for LinkedIn profile is concerned, I didn’t create any profile and using my name someone else have created to damage my reputation. As mentioned in the LinkedIn profile, I have never worked in the PTL as broker or any employment”.

<sup>397</sup> Refer Exhibit 114 LinkedIn profile Mr. T Udayaseelan.

<sup>398</sup> Refer Exhibit 115 Curriculum Vitae of Mr. T Udayaseelan.



## EVIDENCE

17.16 Below mentioned observations were made basis the review performed of the server e-Mail and target devices provided by the CBSL:

### Allusion to the code name “Charlie” and association with PTL

17.17 During the e-mail review of Mr. T Udayaseelan, an email dated 14 October 2014 (Refer Exhibit 116)<sup>399</sup> was noted, wherein Mr. T. Udayaseelan had forwarded an email from his CBSL ID “Udayaseelan@cbsl.lk” to his personal ID “Udayaseelan@gmail.com” which had the content referring to “a message about Charlie Chaplin’s 125 birthday” sent to Mr. T Udayaseelan by Mr. Nilakshan. This appears that he is also personally connected to the name “Charlie” but unable to identify the individual and his association with Mr. T Udayaseelan who had initially sent the mail to him.

17.18 Based on Mr. Nuwan Salgado’s witness statement (Refer Exhibit 117)<sup>400</sup> before PCOI, “Kasun Palisena, myself and the other dealers in the dealing room of Perpetual Treasuries Limited refer to persons by the code name “Charlie” and that such persons so referred to as “Charlie” were Mr. T Udayaseelan and Mr. Saman Kumara of Employee’s Provident Fund. Mr. T Udayaseelan was the Primary point of contact for Treasury Bond transactions between Perpetual Treasuries Limited and the Employees Trust Fund until around September 2015. Thereafter, Mr. Indika Saman Kumara was the Primary point of contact for Treasury Bond transactions with EPF. I also realised that code names were being used in the document under reference for purposes of anonymity”. It appears Charlie is the code word referred to the dealers in the EPF Department.

17.19 During the review of call recordings of PTL dated 25 June 2015 (Refer Exhibit 118)<sup>401</sup>, a conversation was identified between Mr. T Udayaseelan and Mr. Nuwan Salgado, Chief Dealer of PTL. The initial conversation of the call appears that Mr. Kasun Palisena, CEO of PTL mentioned, “call, Charlie” to Mr. Nuwan Salgado and the call was answered by Mr. T Udayaseelan, dealer at EPF.

17.20 During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that, “I agree that the voice played in the call recording dated 25 June 2015 are mine, Mr. Nuwan Salgado and Mr. Kasun Palisena’s. Based on the initial conversation between Mr. Nuwan and Mr. Kasun in the call, I am unable to deny that my code name is “Charlie” used by PTL”.

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<sup>399</sup> Refer Exhibit 116: Email dated 14 October 2014 of Mr. T Udayaseelan

<sup>400</sup> Refer Exhibit 117: Mr. Nuwan Salgado, Chief Dealer of PTL witness statement at PCOI

<sup>401</sup> Refer Exhibit 118: Transaction document - Deal ticket

17.21 Conclusion based on the evidences gathered through ESI, call recordings, interviews and witness statement it is inferred that “Charlie” is code word which was used for the dealers at the EPF Department and Mr. T Udayaseelan was referred as Charlie by the officials at PTL.

### Undetermined source of funds for acquisition of land and property by Mr. T Udayaseelan

17.22 During the review of Mr. T Udayaseelan device (Refer Exhibit 119)<sup>402</sup>, it was noted a working file which was prepared by him containing details of holding various assets such as Land and Buildings, Vehicle and Shares. These workings were found from deleted files in his device.

Table-137 List of assets Held by Mr. T Udayaseelan

Assets	Type of property	Date of Acquisition	Purchase Value of the Asset (Rs. In Million)	Total (Rs. In Million)
Land and Buildings (Refer Exhibit 120) <sup>403</sup>	Bare Land - Hunnasgiriya	16 June 2014	0.4	17.20
		14 September 2014	0.15	
	Land and Building - Ballagola	15 August 2014	0.65	
		24 August 2015	3.5	
		24 August 2015	3.5	
		24 August 2015	3.5	
	Land and Building - Kottawa	24 March 2016	5.5	
Vehicle	Car	02 March 2015	2.91	2.91
Shares (Refer Exhibit 121) <sup>404</sup>	Shares of Renuka Holdings PLC	20 October 2014	0.46	1.14
		07 November 2014	0.07	
		24 November 2014	0.13	
		26 November 2014	0.01	
		27 November 2014	0.24	
	Nation Lanka Equities Private Limited	27 March 2015	2.87	
Total				24.12

<sup>402</sup> Refer Exhibit 119: Spreadsheet prepared by Mr. T Udayaseelan for property and land details

<sup>403</sup> Refer Exhibit 120: Land details

<sup>404</sup> Refer Exhibit 121: Shareholding details

Table-138 Summary of inflows and outflows of Mr. T Udayaseelan (2007-2016)

Year	Inflow Description	Subtotal (Rs.)	Total (Rs.)	Outflow Description	Subtotal (Rs.)	Total (Rs.)	Difference (Rs.)
2007-08	Salaries 2007/08	198,000		Cost of Living	(25,000)		
	Receipt of ETF	46,000					
	Bonus and others	56,250	300,250			(25,000)	275,250
2008-09	Salaries 2008/2009	475,200		Cost of Living	(120,000)		
	EPF Loan 2008/09	108,000					
	Bonus and others	150,000	733,200			(120,000)	613,200
2009-10	Salaries 2009/2010	586,835		Cost of Living	(120,000)		
	EPF Loan 2009/10	201,100					
	Bonus and others	183,390	971,325			(120,000)	851,325

Year	Inflow Description	Subtotal (Rs.)	Total (Rs.)	Outflow Description	Subtotal (Rs.)	Total (Rs.)	Difference (Rs.)
2012-2013	Salaries 2012/2013	1,115,866		Investment in Shares	(302,000)		
	EPF Loan 2012/13	467,000		Loan Repayment	(51,332)		
	Bonus and others	308,346					
	Personal Loan	2,000,000		Cost of Living	(180,000)		
	Share proceeds	25,627	3,916,838			(533,332)	3,383,506
2013-2014	Salaries 2013/2014	1,266,865		Loan Repayment	(637,082)		
	Bonus and others	443,401		Cost of Living	(180,000)		
	EPF Loan 2013/14	408,000					
	Sale of Car	1,800,000					
	Share proceeds	11,405	3,929,671			(817,082)	3,112,589
2014-2015	Salaries 2014/2015	1,407,717		Loan Repayment 2014/15	(563,410)		
	Bonus and others	459,855	1,867,573	Investment in Shares	(2,719,099)		
				Land: Hunnasgiriya:1	(400,000)		
				Land: Hunnasgiriya:2	(150,000)		
				Land: Hunnasgiriya:3	(650,000)		
				CPCAE 3685	(2,907,193)		
						(7,589,701)	(5,722,129)
				Cost of Living	(200,000)		

Year	Inflow Description	Subtotal (Rs.)	Total (Rs.)	Outflow Description	Subtotal (Rs.)	Total (Rs.)	Difference (Rs.)
2015-16	Salaries 2015/16	1,672,		Loan Repayment 2014/15	(550,903)		
	Bonus and others	889,166		Kottawa	(5,500,000)		
	Car Loan	2,500,000		Balagolla	(10,500,000)		
	Proceeds from Shares	3,025,761	<b>8,087,296</b>	Cost of Living	(300,000)	(16,850,903)	(8,763,607)
2016-17	Salaries 2016/17	1,716,631		Loan Repayment 014/15	(421,566)		
	Bonus and others	646,029		Investment in Shares	(670,000)		
	EPF Loan 2016/17	1,313,000	<b>3,675,660</b>	Cost of Living	(300,000)	(1,391,566)	2,284,094
<b>Total</b>			<b>28,592,036</b>			<b>(31,611,585)</b>	<b>(3,019,549)</b>

- 17.23 During email review of Mrs. Sivapriya Chandrasekaran, an email dated 17 August 2012 at 8:43AM (Refer Exhibit 122)<sup>405</sup>, Mrs. Sivapriya had sent a mail to Mr. T Udayaseelan in his personal account “Udayaseelan@gmail.com”, she had sent an attachment of workings in a spreadsheet elaborating the payment arrangements involved in construction of house by Mrs. Sivapriya and Mr. T Udayaseelan during 2010 and 2014.
- 17.24 During email review of Mrs. Sivapriya Chandrasekaran, an email dated 17 February 2014 at 11:57AM (Refer Exhibit 123)<sup>406</sup>, Mrs. Sivapriya had sent a mail to Mr. T Udayaseelan in his personal account “Udayaseelan@gmail.com” she had stated that the contribution was made between herself and Mr. T Udayaseelan for the construction of house and Mr. T Udayaseelan’s contribution was amounting to LKR 7.13 Million.
- 17.25 During email review of Mrs. Sivapriya Chandrasekaran, an email dated 29 December 2014 at 10:56AM (Refer Exhibit 124)<sup>407</sup>, Mrs. Sivapriya had sent a mail to Mr. T Udayaseelan in his personal account “Udayaseelan@gmail.com” she had stated that Mr. T Udayaseelan had contributed upto Rs. 10 million for construction of house.
- 17.26 Based on the above email conversations, we could infer that a house/ property was constructed for which Mr. T Udayaseelan had contributed. The source of income for the contribution to construct the house was undetermined.
- 17.27 During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that, “...My source of funds for the purchase of land are savings from salary (CBSL), income from livestock sales close to LKR 1.5 or 2 Million. I have also availed home loan and car loan (LKR 2.5 Million). Also, I have constructed a house (period: 2010-2014) together with Mrs. Sivapriya Chandrasekaran (Friend and Colleague). My contribution to this house was approx. LKR 7 Million. However, I did not disclose this information in Assets and Liabilities statement submitted with CBSL, because it was not my contribution and fully contributed by Mr. Arumugam Chandrasekaran (father of Mrs. Sivapriya Chandrasekaran). My trend in purchase of land and property increased during the period 2014-2015. I do not have any explanation to provide to auditors, when they enquired regarding the source of funds and increasing trend in purchase of property which is coincidental to the timeline of bond scam. Also, I have prepared in the year 2016, the monthly cashflow statement stating my cash inflows and outflow since when I have joined the CBSL. In the year 2014-2015, LKR 4.5 Million was more than my source of income and in the year 2015-2016, LKR 8.7 Million was more than my

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<sup>405</sup> Exhibit 122 Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 17 August 2012.

<sup>406</sup> Exhibit 123 Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 17 February 2014.

<sup>407</sup> Exhibit 124 Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 29 December 2014.

*source of income. The statement was not completed, and it was only under preparation, due to that the reason for mismatch between income and assets were not recorded...*”

17.28 As per annual report of Renuka Holdings PLC of 2014, it was identified that former Governor Mr. Ajith Nivard Cabraal’s (“Mr. Cabraal”) close family associations were the owners and Board members of Renuka Holdings PLC (Refer Exhibit 125)<sup>408</sup> (Renuka Group of Companies). Mr. Ravindra Balakantha Thambiayah holds the position of Executive Chairman at Renuka Group of Companies, Brother-in-Law of Mr. Cabraal. Five out of nine board members of Renuka Group of companies are Mr. Thambiayah’s family. Ms. Shibani Renuka Thambiayah, niece of Mr. Cabraal is also one of the members on the board.

17.29 It is to be noted that Mr. T Udayaseelan had invested in shares of Renuka Holdings PLC during October 2014 and November 2014. As per PCOI Report (Refer Exhibit 126)<sup>409</sup>, the decision of the Monetary Board had not considered the fact that, Ms. Siromi Wickramasinghe, sister of Mr. Cabraal, was director of the ultimate Holding Company of PTL, rise to conflict of interest. It is also relevant to note that PTL, had made substantial Investments in the “Renuka Group of Companies”, with which Mr. Cabraal had close family connections. Mr. Mano Ramanathan, an appointed member of the Monetary Board at that time, had mentioned that the Monetary Board had not discussed the issue of a possible conflict of interest.

### Nexus between external Companies and Mr. T Udayaseelan

17.30 During the review of Mr. T Udayaseelan computer device (Refer Exhibit 127)<sup>410</sup>, it was noted that critical data pertaining to Knuckles Farm Private Limited such as Form 18 of the Directors, Invoices of Knuckle Farm, Articles of Association of Knuckle Farm and Form 1 of Knuckles Farm. These documents were found to be destroyed from CBSL desktop.

Table -139 - Mr. T Udayaseelan nexus with companies

#	Name of Director	Association with Mr. T Udayaseelan	Education Qualification	Other business involved
1	Palaniyandy Ramasamy	Cousin	No basic qualification	<ul style="list-style-type: none"> <li>Owner of Thalsewana Hotel and Tulsi Vegetarian café (Operation closed)</li> <li>Shareholder and Chairman of Universe Capital Company</li> </ul>

<sup>408</sup> Refer Exhibit 125: Annual Report of Renuka Holdings PLC 2014.

<sup>409</sup> Refer Exhibit 126: PCOI Section 15.2, Page number 482.

<sup>410</sup> Refer Exhibit 127: Documents related to Knuckles Farm Private Limited.

#	Name of Director	Association with Mr. T Udayaseelan	Education Qualification	Other business involved
				<ul style="list-style-type: none"> <li>Export and Import of food products such as vegetables</li> </ul>
2	Nagalingam Subashini	Wife of Palaniyandy Ramasamy	High School	<ul style="list-style-type: none"> <li>Director of Knuckles Farm Private Limited</li> </ul>
3	Thuraisingam Vijayaseelan	Elder Brother of Udayaseelan	High School	<ul style="list-style-type: none"> <li>Realtor</li> <li>Director of Knuckles Farm Private Limited</li> </ul>

17.31 During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that, “...I run a registered company called as Knuckles Farm Private Limited run by me and other directors. The Directors of this entity are my relatives. I am major shareholder (20) shares of this company. I had critical data pertaining to Knuckles Farm Private Limited such as Form 18 of the Directors, invoices of Knuckle Farm, Articles of Association of knuckle Farm and Form 1 of Knuckles farm saved in my CBSL desktop. I deleted those documents from CBSL desktop. I had prepared forecast of profit and loss for the next 10 years for Knuckles Farms Private Limited. I did not get any revenue from this company. I also performed extensive researches on purchase of livestock (Boer and Jamunapuri goats), cattle shed and livestock farming. Also, I had MS Word documents pertaining to transportation of goats, assistance for developing goat farms etc., in CBSL desktop. As my relatives (Directors) were not qualified to take care of these business activities, I was assisting running Knuckles Farm Private Limited...”

### Cheques received from Universe Capital Private Limited (Shell Company)

17.32 During email review of Mrs. Sivapriya Chandrasekaran, an email dated 7 January 2014 (Refer Exhibit 128)<sup>411</sup> at 8:31AM, Mrs. Sivapriya had sent a mail to Mr. T Udayaseelan in his personal account “Udayaseelan@gmail.com” requested Mr. T Udayaseelan to collect cheque for Universe Capital (Rs. 46,800/-) from Dilmah Ceylon Tea Services PLC.

17.33 During email review of Mrs. Sivapriya Chandrasekaran, an email dated 4 July 2014 (Refer Exhibit 129)<sup>412</sup> at 1:47 PM, Mrs. Sivapriya had sent a mail to Mr. T Udayaseelan in his personal account “Udayaseelan@gmail.com” requests Mr. T Udayaseelan to collect cheques and letters from Universe Capital through someone.

<sup>411</sup> Refer Exhibit 128: Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 7 January 2014.

<sup>412</sup> Refer Exhibit 129: Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 4 July 2014.



- 17.34 During email review of Mrs. Sivapriya Chandrasekaran (Friend and Colleague of Mr. T Udayaseelan), an email dated 16 December 2014 (Refer Exhibit 130)<sup>413</sup> at 9:10 AM, Mrs. Sivapriya had sent a mail to Mr. T Udayaseelan in his personal account “Udayaseelan@gmail.com” enquiring whether he had received the cheque for Rs. 10,000/- from Universe Capital.
- 17.35 Above emails infer that Mrs. Sivapriya was coordinating for the receipt of cheque of Universe Capital to Mr. T Udayaseelan. The unidentified source of income from the company was questionable.
- 17.36 As per the Registrar of Companies (“ROC”) details of Universe Capital (Private) Mr. Palaniandy Ramaswamy (Cousin of Mr. T Udayaseelan) was director and shareholder since May 2015.
- 17.37 During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that, “Universal Capital Company is an Investment company started in the year 2010-2011 where Mr. Arumugam Chandrasekaran (father of Mrs. Sivapriya Chandrasekaran) was one of the shareholders. Later, my cousin brother Mr. Palaniandy Ramaswamy became shareholder and currently is the Chairman for Universal Capital Company. I have been receiving several cheques from Dilmah- Ceylon Tea Services PLC through Universal Capital Company, during the period 2014-2015, this amount was received as dividend amount from Ceylone tea services. Mrs. Sivapriya was receiving these cheques as the registered office was her house and given it to me to be given for depositing. I am not part of Universal Company Private Limited either in the form of employment or director or shareholder.”
- 17.38 It is to be noted that Mr. Palaniandy Ramaswamy (Cousin of Mr. T Udayaseelan) did not have basic qualification and other family members were with limited qualification extreme to the extent of High School. So, Mr. T Udayaseelan was assisting his family members in their business activities such as Knuckles Farm Private Limited. Mr. Palaniandy Ramaswamy was the Shareholder and Chairman of Universe Capital Company. Mr. T Udayaseelan had mentioned that he had no association with Universe Capital Private Limited in the form of employment or director or shareholder. However, his relatedness to the Universe Capital Private Limited is still questionable.
- 17.39 During the public domain search, it was identified that “Ceylon Tea Services PLC” had changed the name to Dilmah Ceylon Tea Company PLC through a board resolution passed by Ceylon Tea Services PLC on 28 September 2016 (Refer Exhibit 131)<sup>414</sup>.
- 17.40 As per the annual report of Ceylon Tea Company PLC of 2015 (Refer Exhibit 132)<sup>415</sup>, Renuka City Hotels PLC (Renuka Group) was second major investor in Ceylon Tea Company PLC. Even after the change in name, the Investment of Renuka City Hotels PLC is the same.

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<sup>413</sup> Refer Exhibit 130: Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 16 December 2014.

<sup>414</sup> Refer Exhibit 131: A media article dated 3 October 2016 in Front page.

<sup>415</sup> Refer Exhibit 132: for the Annual Report of Dilmah Ceylon Tea Company PLC 2014-2018.

- 17.41 As per the annual report of Renuka City Hotels PLC (Renuka Group) of 2014 (Refer Exhibit 133)<sup>416</sup>, Pussellawa Plantations PLC had invested in Renuka City Hotels PLC.
- 17.42 On conclusion, cheques received from Universe Capital Private Limited to Mr. T Udayaseelan appears fictitious as Ceylon Tea Services PLC was associated with PTL. The cheques were also received from Ceylon Tea Services PLC through Universe Capital Private Company. The money received could be an inducement from the Primary Dealers. So, further investigation is required in this matter to establish the background of Universe Capital Private Limited.

### **Review of Bank statements of Mr. T Udayaseelan for Allegations of bribe**

- 17.43 As per the witness statement (Refer Exhibit 134)<sup>417</sup> provided by Mr. Nuwan Salgado, the Chief Dealer of PT, at the Presidential Commission of Inquiry (PCOI) dated 12 October 2017, stated that, “He realised that the persons referred to as “Charlie” in the document marked “C328A” were receiving gratifications for the provision of confidential information about Treasury Bond dealings to Perpetual Treasuries Limited.” (Refer Para 51 of Chapter 5 “Relevant Evidence of each witness”, Section 5.49, Page 322 (Refer Exhibit 135)<sup>418</sup> of the commission of Inquiry appointed to investigate and inquire into and Report on the Issuance of the Treasury Bonds during the period 1 February 2015 to 31 March 2016.)
- 17.44 The Marked Documents “C238A” contained the details which shows the transfer from Perpetual Treasuries Limited to its group companies Perpetual Asset Management Limited, Perpetual Capital (Pvt) Limited and W M Mendis. It was noted that 19 instalments amounting to Rs. 100 Million transferred to Charlie during the period July 2014 to March 2015.
- 17.45 On comparing the Marked Document “C238A” and Bank statement of Perpetual Asset Management (Pvt) Limited, out of 19 instalments, 6 were identified on tracing the transactions received from PTL to its group company amounting to Rs. 35 Million. The remaining transactions were not traceable in the Perpetual Asset Management (Pvt) Limited Bank statements as mentioned in the Mark document - Witness statement of Mr. Nuwan Salgado at PCOI.
- 17.46 We performed the activity tracing cash payments as per Bank Statement of Perpetual Asset Management (Pvt) Limited and the summary of payment for the informant “Charlie” as per the Marked Document in Mr. T Udayaseelan’s personal Bank account provided by the CBSL. We were unable to identify any cash deposits in Mr. T Udayaseelan’s Bank account in line with the value dates or nearby dates to confirm that he had obtained any inducement from PTL. (Refer Table 119)

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<sup>416</sup> Refer Exhibit 133 for the Annual Report of Renuka City Hotels PLC 2014.

<sup>417</sup> Refer Exhibit 134 for the extract of affidavit provided by the Mr. Nuwan Salgado.

<sup>418</sup> Refer Exhibit 135 PCOI chapter 5, Page 322.

Table - 140 Details of money transferred to group companies stated to be paid to “Charlie” and subsequent cash withdrawals

#	Payment No.	Reference No.	Payer	Payee	Amount (Million)	Value Date
1	SP20140717-002	RR20140717-002	Perpetual Treasuries Limited	Perpetual Asset Management Limited	3	17-Jul-14
2	SP20140723-003	OR20140722-022		Perpetual Asset Management Limited	3.04	23-Jul-14
3	SP20140723-005	RF20140723-003		Perpetual Asset Management Limited	2.96	23-Jul-14
4	SP20140728-012	RR20140728-002		Perpetual Asset Management Limited	0.42	28-Jul-14
5	SP20140728-009	OR20140728-019		Perpetual Asset Management Limited	2.58	28-Jul-14
6	SP20140805-017	RR20140805-003		Perpetual Asset Management Limited	0.19	05-Aug-14
7	SP20140805-006	OR20140805-002		Perpetual Asset Management Limited	3.04	05-Aug-14
8	SP20140805-008	OR20140805-004		Perpetual Asset Management Limited	6.77	05-Aug-14
9	SP20140806-005	RR20140806-002		Perpetual Asset Management Limited	3	06-Aug-14
10	SP20140814-011	RR20140814-003		Perpetual Capital (Pvt) Limited	10	14-Aug-14
			Perpetual Capital (Pvt) Limited	10	05-Sep-14	
			Perpetual Capital - UBC A/C	10	10-Oct-14	
			Paid my Mendis -Owned to Mendis	20	27-Oct-14	
			Paid my Mendis -Owned to Mendis	5	30-Oct-14	
			Perpetual Capital (Pvt) Limited- Not paid by us but the original	10	01-Oct-14	
			Perpetual Capital (Pvt) Limited	3	17-Dec-14	
			Perpetual Asset Management Limited Owe to Mendis	10	24-Dec-14	
			Owe to Mendis	10	30-Dec-14	
			PTL paid by Mendis (Chair and the rest)	3	10-Mar-15	
			<b>Total</b>		<b>100</b>	

Table - 141 Bank Account Details of Perpetual Asset Management Private Limited

#	Date	Bank Name and Account No.	Debit (in Million LKR)		Credit (In Million LKR)			
			Mode/ Reference of Transaction	Receipt	Mode/ Reference of Transaction	Withdrawal	Payment Reference Matching	
1	17-Jul-14	Union Bank and 008-01-01-00000459-6		416289	3	Cash Withdrawal	3	SP20140717-002
2	23-Jul-14	Union Bank and 008-01-01-00000459-6		416290	6	Cash payment	6	SP20140723-003 and SP20140723-005
3	28-Jul-14	Union Bank and 008-01-01-00000459-6	-		3	Cash payment	3	SP20140728-012 and SP20140728-009
4	05-Aug-14	Union Bank and 008-01-01-00000459-6		416294	10	Cash payment	10	SP20140805-017 SP20140805-006 SP20140805-008
5	06-Aug-14	Union Bank and 008-01-01-00000459-6	RTGS-00107000004356 (P.A.B.C-Kollupitiya BR)		3	Cash payment	3	SP20140806-005
6	10-Oct-14	Union Bank and 008-01-01-00000562-0		461689	10	Cash payment	10	-
				<b>Total</b>	<b>35</b>		<b>35</b>	<b>-</b>

Table -142 Bank Account Details of Mr. T Udayaseelan (Refer Exhibit 136)<sup>419</sup> obtained through his NIC details

#	Bank Name	Account Number	Type of Account
1	Standard Chartered Bank	185000984601	Savings
		4284211000765166	Visa Credit Card
		4284211000517344	Visa Credit Card
2	People's Bank	003200151227732	-
3	Sampath Bank PLC	101253761727	-
4	Commercial Bank of Ceylon PLC	8106004934	-

<sup>419</sup> Refer Exhibit 136: Bank account details of Mr. T Udayaseelan.

17.47 During an interview dated 2 October 2019 with Mr. T Udayaseelan, stated that, “...I get invite for lunch, dinner and personal meetings from various brokers / Primary Dealers and rejected their offers. I further do not deny they made attempts to induce me intaking bribes. As mentioned in the Nuwan Salgado’s statement, I didn’t receive any bribes from any Primary dealer/ Broker. The timing between acquisition of asset / forming new company and bribe allegation i.e. in the year 2014 and 2015 is mere coincidence. All my properties were acquired either out of my goat sales, inherited gold from my ancestors and home / personal loan...”

17.48 Work performed by gathering from various sources of information, evidences and modes of data such as public domain search, media profile verification, disciplinary action documents, review of documents, ESI and E-discovery, call recordings, PCOI, internal inquiries, internal audit reports and Bank statements etc.

- A. Mr. T Udayaseelan had undetermined source of income which was evident with the increase in the proportionate / trend of acquisition of properties during the period 2014 to 2016.
- B. Mr. T Udayaseelan had accepted that he cannot deny that he was called “Charlie” which was referred to the dealer at EPF by the employees of PTL.
- C. Universe Capital Private Limited, a company, which is owned and managed by Mr. T Udayaseelan’s cousin brother. It was noted that there were multiple cheques received from the company through Mrs. Sivapriya address is questionable.
- D. Considering all the above factors, we understand that we have investigated the matter to the extent of information available and provided to us. We further recommend a detail investigation by the CID with the evidence of information and documents gathered.

## **Custodian: KLAC Naveen Anuradha**

17.49 CBSL provided copies of statements of bank accounts, held by the interdicted employees of CBSL for review.

17.50 Review the statements of bank accounts by account number - 101050368301 (Refer Exhibit 137)<sup>420</sup>, with Sampath Bank PLC, in the name of KLACN Anuradha, for the period May 2005 to October 2019, revealed 5 credits totaling Rs. 7.10 million into the account during January 2016 & February 2016. These credits were cash deposits, funds transfers from individuals (unidentified). The amount of credits of these transactions were unusually higher compared to other credits in this account during the previous three years. Provided below are the details of the credits:

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<sup>420</sup> Refer Exhibit 137 for the bank statements of Naveen Anuradha

#	Debit / Credit	Date	Description	Amount (Rs. n Million)	Debit days gap
1	Credit	26 January 2016	Sooriyam Cash	1.50	
2	Credit	01 February 2016	Matara SIR16LKR001411	3.08	
3	Debit	04 February 2016	PO/Draft Issue	(4.45)	3 days
4	Credit	09 February 2016	Matara S Cash	1.00	
5	Debit	09 February 2016	Rat Lana TFR -Vishwa	0.50	
6	Credit	09 February 2016	Matara SIR16LKR001762	1.02	
7	Debit	10 February 2016	Colombo Cash	(3.10)	1 day
<b>Total of Debits</b>				<b>7.10</b>	

17.51 Source of these credits is unknown, since his account with Sampath Bank PLC during the period January 2016 & February 2016. During this period, he was posted on deputation to National Savings Bank (“NSB”) at Galle Road, Colombo. His services at NSB were scheduled to start on 1 February 2016. Prior to deputation, he was associated with the Facilities & Administration department since 9 October 2017 to 12 October 2017.

17.52 Review of subsequent transactions indicated that these funds were withdrawn in 2 occasions within 1-4 working days gap, through issue of demand draft (unknown beneficiary) for Rs. 4.45 million and cash withdrawals (ATM / Branch withdrawals not known) for Rs. 3.1 million. On the two dates of the withdrawal, it was noted that these were the only debit transactions in the account.

17.53 Due to the delayed receipt of copies of bank statements, detailed inquiries could not be conducted as on the date of this report, with KLAC Naveen Anuradha to gather details of the source, nature and purpose of these credits in the account.

## 18. ANNEXURES

#	Name of Annexure	Annexure Reference	No. of Pages
1	Listing of applicable laws, regulations, guidelines and directions applicable to the EPF operations	A/1	1
2	List of interviews conducted with the officials of CBSL	A/2	3
3	List of meeting conducted with former and current employees for Process understanding	A/3	2
4	Details of meeting conducted with FAMC	A/4	2
5	List of Custodians	A/5	7
6	List of forensic tools used to perform Digital Forensic/ e-Discovery on Target Device	A/6	1
7	Details of Operating system artefacts of reviewed Target Devices	A/7	4
8	Details of User Accounts of reviewed Target Devices	A/8	5
9	Basic information and volume of data details of reviewed Target Devices	A/9	1
10	Count of files per extension	A/10	4
11	List of keywords along with their rationale	A/11	6
12	Count of Key words for each identified official of CBSL	A/12	9
13	List of 191 Auctions where the EPF has not participated	A/13	35
14	List of 465 successful Auctions conducted by PDD for the period 1 January 2003 to 28 February 2015	A/14	76
15	Details of winners in 146 Auctions where the EPF has not participated	A/15	45
16	List of 19 instances of cashflow statement not available where EPF has not participated	A/16	1
17	List of 109 instances where EPF has not participated and cash available was more than 30% of cumulative offered amount	A/17	5
18	Details of subsequent utilization for available cash in 109 instances	A/18	4
19	Details of subsequent investment of Treasury Bonds through Auction where the EPF has not participated	A/19	2
20	Details of subsequent investment of Treasury Bonds through Direct Placements where the EPF has not participated	A/20	4
21	Details of subsequent investments in Treasury Bonds through Secondary Market where the EPF has not participated	A/21	12
22	List of 100 instances where the Minutes of Investment committee meetings were available for review	A/22	5
23	List of members of Investment Committee and the FMD	A/23	3
24	List of 90 instances where the Investment Committee minutes were not made available for review	A/24	5
25	List of dates for voice records requested and response from Primary dealers where the EPF has not participated	A/25	5
26	List of 240 Auctions participated by the EPF	A/26	12

#	Name of Annexure	Annexure Reference	No. of Pages
27	List of 91 instances where cashflow statements were not available	A/27	5
28	Same ISIN purchased in Secondary Market within Five working days of settlement date of Auction (2005 and 2006)	A/28	1
29	List of 22 instances where available cash was more than 30% of amount short bid by EPF	A/29	1
30	Details of subsequent utilisation in 22 instances where available cash was more than 30% of amount short bid by EPF	A/30	1
31	Details of subsequent purchases made through Direct Placement	A/31	1
32	Details of subsequent purchases made through Secondary Market	A/32	2
33	List of EPF employees who have worked in the EPF during the reported period	A/33	4
34	Eight instances where transactions were required to be approved by higher management subject to ratification by investment committee	A/34	1
35	31 instances where transactions were required to be approved by the investment committee	A/35	3
36	Two instances where MO recommendation sheet was not available	A/36	1
37	List of two instances where monetary board has not ratified the investment	A/37	1
38	List of dates for voice records requested and response from Primary dealers where the EPF has bid short amount	A/38	2
39	Details of winner of Auction with % based on value in Auctions where the EPF bids were rejected completely and partially	A/39	5
40	Subsequent purchase in Secondary Market for same ISIN where EPF lost in Auctions	A/40	1
41	List of 14 instances where the minutes of Investment Committee meetings were not available	A/41	1
42	List of 15 instances where the transaction was not recorded in minutes of Investment Committee meetings	A/42	1
43	List of two instances where the bid amount at the Auction was not Approved	A/43	1
44	List of two instances where the MO recommendation sheet is not available	A/44	1
45	List of six instances where the transactions were not recorded in the minutes of investment committee meetings	A/45	1
46	List of three instances where the transaction was required to be approved by S/EPF, head of EPF or Deputy Superintendent	A/46	1
47	List of dates for voice records requested and response from Primary dealers where the EPF bids were rejected	A/47	1
48	List of 2,673 Direct Placement offered by the PDD	A/48	109
49	List of 645 Direct Placements participated by the EPF from 01-April-2005 to 28-february-2015	A/49	24
50	List of 49 instances of cashflow statement not available	A/50	3
51	List of 30 instances covered in analysis where EPF has not participated and bided less than offered amount in Auctions	A/51	2



#	Name of Annexure	Annexure Reference	No. of Pages
52	List of 96 instances where available cash on settlement date of Direct Placement is more than 30%	A/52	2
53	Details of subsequent utilisation in 96 instances	A/53	4
54	Subsequent purchase made for same and different ISIN in Secondary Market	A/54	6
55	Subsequent purchase made for same and different ISIN in Auction	A/55	2
56	Subsequent purchase made for same and different ISIN in Direct Placement	A/56	2
57	List of 46 instances of loss to EPF through investment in Direct Placement due to lower yield as compared to WAYR of previous Auction	A/57	2
58	List of 94 instances where the EPF yield rate in Direct Placement is lower than the market yield rate	A/58	2
59	List of 23 instances where the transaction was not approved by the Higher management of the EPF	A/59	1
60	List of 116 instances where the transaction was not approved by the investment committee	A/60	4
61	List of 64 instances where the minutes of Investment Committee Meeting is not available.	A/61	3
62	List of 526 Investment transactions	A/62	17
63	List of documents not traceable for Investments	A/63	40
64	List of 258 Divestment transactions	A/64	11
65	List of documents not traceable for Divestments	A/65	25
66	List of 282 Investment transactions with details of approving authority	A/66	6
67	List of 86 Divestment transactions with details of approving	A/67	2
68	List of transactions where the minutes of Investment Committee Meeting was available, however the transactions were not recorded.	A/68	2
69	List of 97 Investment transactions selected for the period January 2007 to December 2011.	A/69	3
70	List of 155 Divestment transactions transactions selected for the period January 2007 to December 2011.	A/70	4
71	List of the transactions where delegation of authority limits had been exceeded by the officer of FO as per ITG 2007.	A/71	1
72	List of the transactions where the deal tickets were not traceable period 2007-2011.	A/72	5
73	List of 128 transactions of trading portfolio.	A/73	4
74	List of 102 transactions of HTM portfolio.	A/74	3
75	Counterparty wise break up of 50 Transactions.	A/75	1
76	List of PTL & PABC transaction amounting to Rs.7,091 Million.	A/76	1
77	Details of 61 transactions violating the approving limit of Rs.500 Million as per ITG, 2011.	A/77	1
78	Details of 82 transactions violating the approving limit of Rs.500 Million as per ITG, 2011.	A/78	3

#	Name of Annexure	Annexure Reference	No. of Pages
79	Details of 98 transactions violating the approving limit of Rs.500 Million as per ITG, 2011.	A/79	3
80	Computation of loss incurred by the EPF due to higher purchase price.	A/80	4
81	Details of month on month yield rate comparison of the reported ISINs.	A/81	1
82	The IRMD remarks for the transactions executed by the EPF with PTL, PABC and WTL.	A/82	2
83	Transactions in which pattern was identified between PTL, PABC and EPF	A/83	2
84	Transactions in which pattern was identified between PTL, WTL and EPF	A/84	1
85	List of transactions detailing the price difference between PTL and other counterparties.	A/85	2
86	Details of 15 transactions executed with Seylan Bank PLC	A/86	12
87	Details of transactions with the price difference between First Capital Treasuries LTD and other Counterparties.	A/87	3
88	Computation of loss in comparison with weighted average price paid per security.	A/88	2
89	List of identified Secondary Market transactions - Ultimate Beneficiary	A/89	2
90	List of transactions of 923 HTM Portfolio.	A/90	24
91	Computation of loss incurred by the EPF due to lower selling price amounting to Rs. 26.46 Million.	A/91	1
92	Computation of the loss due to the sale of same Treasury bond at lower price on the same day.	A/92	1
93	The list of transactions of FVTB and AFS portfolio	A/93	6
94	Computation of loss incurred by EPF due lower selling price compared to Market Price	A/94	2
95	Computation of loss due to sell of same ISIN at different prices to counterparties.	A/95	2
96	List of voice recording requested but not received	A/96	16
97	Details of Deleted outlook files	A/97	5
98	e-Discovery of identified custodians	A/98	7
99	Evidence Matrix	A/99	8

## 19. EXHIBITS

#	Exhibit	Exhibit Reference	No. of Pages.
1	An Email of January 2019 for implementation of Litigation Hold	E/1	6
2	An Email of 2 August 2019 for requesting the firewall logs	E/2	2
3	An Email of 4 August 2019 for requesting the outlook mail exchange server logs	E/3	1
4	An Email of 2 August 2019 for non-availability of audit logs	E/4	2
5	A copy of Email confirmation from the Director, IT for outlook email backup	E/5	6
6	A copy of email communication by the DIT regarding migration of email communication platform	E/6	2
7	Not traceable devices and email backup copies on server that were requested by BDO but DIT unable to identify or track.	E/7	17
8	Details of logs generated for forensic image of Target Devices	E/8	78
9	Copies of Chain of Custodian forms of Target devices for respective custodians	E/9	22
10	E-mail of 2 August 2019 for keyword list sent to the CBSL	E/10	1
11	Mail request sent for Bank account details as on 3 October 2019	E/11	3
12	Statement of fact signed by the process owners	E/12	51
13	Summary of discussion - signed process document.	E/13	5
14	Para 2.2.1.1 of ITG of 21 March 2007 and Para 4.1.3 ITG, December 2011	E/14	3
15	Para 1.4.2 and for Para 3.2.1.2 of ITG, 21 March 2007.	E/15	2
16	Para 4.3 of ITG, 2011	E/16	1
17	Para 2.2.1.2 of ITG, 21 March 2007 and Para 4.1.4 of ITG, December 2011	E/17	2
18	Para 3.2.1.2 of ITG, 21 March 2007	E/18	1
19	Para 4.4 of ITG, December 2011	E/19	1
20	E-mail confirmation from the EPF Department for non-availability of cashflow statements for 2005 and 2006	E/20	5
21	Minutes of the Investment Committee meetings for 100 instances	E/21	226
22	Cashflow statement for 109 instances	E/22	511
23	Extract of asset allocation section of Investment Policy Statement of 2011	E/23	1
24	Copy of approval section extracted from the IPS 2002 and ITG 2007 and 2011.	E/24	4
25	22 Instances of cashflow statements	E/25	106
26	Minutes of Investment Committee meetings dated 23 January 2007 and 12 February 2007	E/26	3

#	Exhibit	Exhibit Reference	No. of Pages.
27	2 instances where the reason to quote bid amount less than offered amount in Auction is not specified	E/27	2
28	5 instances where the transaction has not been ratified in the minutes of immediate subsequent Investment Committee meeting	E/28	6
29	31 Instances where the transaction was not approved by the Investment Committee.	E/29	43
30	2 instances transactions were not reported to Monetary Board	E/30	5
31	15 Instances where the transactions were not recorded in the minutes of the Investment Committee meeting conducted on the date of Auction	E/31	17
32	2 Instances where only rate bided at Auction was approved and amount bid at Auction was not approved	E/32	8
33	Minutes of the Investment Committee where the transaction was not ratified	E/33	3
34	6 Instances where the transactions were not recorded in the minutes of Investment Committee meetings	E/34	26
35	List of three instances where the transaction was not approved by the SEPF or DS or HFMD.	E/35	3
36	Confirmation from IT department in respect of unavailability of emails	E/36	5
37	Cashflow statement for 96 Instances	E/37	365
38	Extract of Memo of Mr. N W G R D Nanayakkara	E/38	2
39	Extract of PDD manual	E/39	2
40	Summary of discussion of meeting conducted with the Mr. MZM Azim, Superintendent of PDD	E/40	10
41	Limits specified by the delegation of Authorities (“DOA”) in the ITG 2007 and ITG 2011	E/41	2
42	1 Instance the transaction was not ratified by the Investment Committee	E/42	1
43	116 instances where the transaction was not approved by the Investment Committee	E/43	195
44	Minutes of Monetary Board meeting dated 07 October 2007	E/44	2
45	Minutes of Investment Committee dated 09 October 2008	E/45	1
46	Minutes of Investment Committee dated 02 January 2008	E/46	3
47	Extract of Delegation of Authority limit as specified in ITG, 2007 and ITG, 2011	E/47	3
48	Extract of minutes of the Monetary Board dated 30 December 2011.	E/48	6
49	E-mail confirmation on non-availability of documents.	E/49	4
50	Supporting documents such as Deal Tickets, counterparty confirmations and Minutes of Investment Committee meetings for investment transactions	E/50	368

#	Exhibit	Exhibit Reference	No. of Pages.
51	Supporting documents Deal Tickets, counterparty confirmations and Minutes of Investment Committee meetings for divestment transactions	E/51	84
52	Sample Deal Ticket to illustrate the absence of date of approval in the deal ticket	E/52	1
53	Deal Tickets where the transactions have not been approved by Superintendent	E/53	17
54	Deal Ticket for 2 Transactions not approved by the Deputy Superintendent	E/54	2
55	Minutes of Investment Committee Meeting for the transactions.	E/55	73
56	Deal Tickets for the transactions only ratified by the approving authority instead of prior approval as required per ITG	E/56	58
56A	Deal Tickets for 61 transactions violating approving authority limit of Rs. 500 Million per day.	E/56A	
57	For the extract of ITG,2011 section 4.4 and 5.4	E/57	3
58	Attendance record of Additional SEPF and DS on the transaction date and settlement date	E/58	
58A	Details of transactions violating the approving limit of Rs.500 Million for HTM portfolio as per ITG,2011	E/58A	107
58B	Details of transaction of 98 instances of DOA violation in HTM portfolio as per ITG,2011.	E/58B	
59	Minutes of Investment Committee meetings dated 22 August 2013	E/59	6
60	Sample minutes of Monetary Board meeting.	E/60	13
61	Internal audit reports specifying the government securities	E/61	110
62	Minutes of Investment Committee meeting dated 5 June 2013	E/62	5
63	For Para 5.1.2 of the LSS Manual for the detailed description of message and account type.	E/63	3
64	E-mail confirmation received from the PDD on the non-availability of the two- way quotes for the period January 2002 to December 2004.	E/64	2
65	Deal ticket and counterparty confirmation for the computation of loss due to higher purchase price	E/65	140
66	License copy of the PTL being granted as the Primary Dealer	E/66	4
67	Extract of the transcript between Mr. Kasun Palisena of PTL and Mr. Ravisha Thapatha of PABC	E/67	2
68	Spreadsheet prepared by T Udayaseelan for property and land details	E/68	41
69	Underlying supporting documents for the transactions of PTL	E/69	40
70	Asset Declaration statement	E/70	18
71	For extract of minutes of the Investment Committee meeting dated 02 March 2007	E/71	1
72	Extract of the transcript between Mr. Kasun Palisena of PTL and Mr. Ravisha Thapatha of PABC	E/72	2

#	Exhibit	Exhibit Reference	No. of Pages.
73	Deal tickets resulting in loss amounting to RS.75.33 Million	E/73	80
74	Extract of the transcript between Mr. Kasun Palisena of PTL and Mr. Ravisha Thapatha of PABC	E/74	2
75	Deal tickets of transactions resulting in loss amounting to Rs.26.46 Million.	E/75	54
76	Deal tickets of the transactions resulting in loss of 3.10 Million	E/76	6
77	Email received from Director, IT	E/77	6
78	Minutes of the Investment Committee meeting dated 03 November 2008 and 05 June 2013	E/78	8
79	Deal tickets of the transactions resulting in loss 68.83 Million	E/79	69
80	Deal ticket dated 2 October 2014	E/80	1
81	Minutes of Investment Committee decisions where the transactions were ratified	E/81	5
82	Deal tickets for transactions resulting in loss amounting to Rs.2.99 Million	E/82	32
83	Transcript of voice recordings	E/83	31
84	Extract of CDS for the transaction executed by the PTL	E/84	1
85	Extract of CBSL website talking about Former Governor Ajith Nivard Cabraal	E/85	1
86	Extract of PCOI, Page 485	E/86	1
87	Annual Report of Sampath Bank 2014-2015	E/87	2
88	Annual Report of PAN ASIA 2014-2015	E/88	2
89	Annual Report of Commercial Bank 2014 2015	E/89	2
90	Annual Report of DFCC Bank 2014 2015	E/90	2
91	Wikipedia information for HNB	E/91	1
92	Extract of PCOI Chapter 16	E/92	1
93	Annual Report of HNB 2014 2015	E/93	1
94	LinkedIn profile of Mr. Kasun Palisena	E/94	6
95	Extract of PCOI Section 5.37, Page 240	E/95	2
96	Extract of PCOI Chapter 15, Page 474	E/96	1
97	PTL rejection document submitted to DG, Mr. Samarasiri as on 5 December 2012	E/97	2
98	Annual Report of DFCC Bank 2014 2015	E/98	2
99	Appointment of Perpetual Treasuries Limited	E/97	4
100	Annual Report - DFCC -Mr. Nihal Fonseka	E/100	1
101	Annual Report - DFCC Vardhana- Mr. Nihal Fonseka	E/101	5

#	Exhibit	Exhibit Reference	No. of Pages.
102	Annual Report - DFCC - Mr. R.B Thambiayah	E/102	2
103	PCOI Chapter 15, Page 482	E/103	1
104	Annual Report - DFCC- Ms. S R Thambiayah	E/104	1
105	Annual Report - HNB - Mr. Amal Cabraal	E/105	2
106	PCOI chapter 16, Pg. 486	E/106	1
107	Email communication between Mr. B H I Saman Kumara and Mr. Murtaza Jafferjee dated 5 April 2016	E/107	2
108	ROC Document pertaining to information related to directors of Knuckles Farm	E/108	21
109	Mr. T Udayaseelan's fact statement dated 2 October 2019	E/109	9
110	Disciplinary actions and Charge sheet of Mr. T Udayaseelan	E/110	1
111	Mr. RAA Jayalath's fact statement dated 18 September 2019	E/111	4
112	Mrs. NLM Abeyssekara's fact statement dated 30 September 2019	E/112	3
113	Mr. JDSJ Nanayakkara's witness statement dated 1 October 2019	E/113	7
114	LinkedIn profile Mr. T Udayaseelan	E/114	2
115	Curriculum Vitae of Mr. T Udayaseelan	E/115	3
116	E-mail dated 14 October 2014 of Mr. T Udayaseelan	E/116	1
117	Mr. Nuwan Salgado, Chief Dealer of PTL witness statement at PCOI	E/117	2
118	Transaction document - Deal ticket	E/118	18
119	Spreadsheet prepared by Mr. T Udayaseelan for property and land details	E/119	41
120	Land details	E/120	12
121	Shareholding details	E/121	1
122	E-mail communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 17 August 2012	E/122	10
123	E-mail communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 17 February 2014	E/123	3
124	E-mail communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 29 December 2014	E/124	1
125	Annual Report of Renuka City Holdings PLC 2014	E/125	2
126	PCOI Section 15.2, Pg. 482	E/126	1
127	Documents related to Knuckles Farm Private Limited	E/127	16
128	Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 7 January 2014	E/128	6
129	Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 4 July 2014	E/129	1

#	Exhibit	Exhibit Reference	No. of Pages.
130	Email communication between Mrs. Sivapriya and Mr. T Udayaseelan dated 16 December 2014	E/130	1
131	A media article dated 3 October 2016 in Front page	E/131	1
132	Annual Report of Dilmah Ceylon Tea Company PLC 2014-2018	E/132	1
133	Annual Report of Renuka City Hotels PLC 2014	E/133	2
134	Extract of affidavit provided by the Mr. Nuwan Salgado.	E/134	2
135	PCOI chapter 5, Page 322	E/135	1
136	Bank account details of Mr. T Udayaseelan	E/136	4
137	Bank Account statement of Mr. K L A C N Anuradha	E/137	1

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