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LOAN NUMBER 3446-SRI

LOAN AGREEMENT  
(Ordinary Operations)  
(Capital Market Development Program)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 24 NOVEMBER 2016

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SRI 49365

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 24 November 2016 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

**WHEREAS**

(A) ADB has received from the Borrower a development policy letter dated 6 September 2016 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's capital markets ("Program");

(B) the Borrower has applied to ADB for a loan for the purposes of the Program; and

(C) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Program Agreement of even date herewith ("Program Agreement") between ADB on the one part and the Independent Implementing Agencies (as hereinafter defined) on the other part;

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(49) is deleted and the following is substituted therefor:

49. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

- (c) Section 2.01(51) is deleted and the following is substituted therefor:

51. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

- (e) Section 3.03 is deleted and the following is substituted therefor:

**Commitment Charge; Credit.** (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

- (f) Section 3.06 is deleted and the following is substituted therefor:

**Rebate.** (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (g) Section 3.07 is deleted and the following is substituted therefor:

**Surcharge.** (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (h) Section 6.01(b) is deleted and the following is substituted therefor:

(b) Except as ADB and the Borrower shall otherwise agree, no withdrawals shall be made on account of payments made prior to the Effective Date.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Capital Market Advisory Council" or "CMAC" means the capital market advisory council for the Borrower, to be established under the First Tranche and chaired by the senior advisor to the Prime Minister or an official of equivalent status;

(b) "Capital Market Strategy" means the capital market strategy proposed by the SEC and described in paragraph 1 of Attachment 2 to Schedule 3 to this Loan Agreement;

(c) "Central Bank of Sri Lanka" or "CBSL" means the Borrower's central bank or any successor thereto acceptable to ADB;

- (d) "Colombo Stock Exchange" or "CSE" means the Colombo Stock Exchange or any successor thereto acceptable to ADB;
- (e) "Counterpart Funds" means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 4 of Schedule 4 to this Loan Agreement;
- (f) "Deposit Account" means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;
- (g) "Employees' Provident Fund" or "EPF" means the Borrower's Employees' Provident Fund or any successor thereto acceptable to ADB;
- (h) "First Tranche" means the portion of the proceeds of the Loan in an amount of \$125,000,000 to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;
- (i) "Independent Implementing Agencies" means CBSL, IBSL, SEC and SLAASMB;
- (j) "Insurance Board" or "IBSL" means the Insurance Board of Sri Lanka or any successor thereto acceptable to ADB;
- (k) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);
- (l) "Ministry of Finance" or "MOF" means the Borrower's Ministry of Finance or any successor thereto;
- (m) "Ministry of Labour" or "MOL" means the Borrower's Ministry of Labour or any successor thereto;
- (n) "Ministry of Public Enterprise Development" or "MPED" means the Borrower's Ministry of Public Enterprise Development or any successor thereto;
- (o) "Policy Matrix" means the policy matrix as agreed between the Borrower and ADB, which sets forth actions accomplished or to be accomplished by the Borrower under the Program and is attached to the Policy Letter;
- (p) "Program Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the MOF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;
- (q) "Program Implementing Agencies" means the various concerned departments and agencies of the Borrower (including MOF, MOL and MPED) and the Independent Implementing Agencies;
- (r) "Program Management Unit" or "PMU" means the Program management unit;

(s) "Program Performance Monitoring System" or "PPMS" means the Program performance monitoring system in a form and with a composition acceptable to ADB;

(t) "Second Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 6 of Schedule 3 to this Loan Agreement;

(u) "Securities and Exchange Commission" or "SEC" means the Securities and Exchange Commission of Sri Lanka or any successor thereto acceptable to ADB; and

(v) "Sri Lanka Accounting and Auditing Standards Monitoring Board" or "SLAASMB" means the Sri Lanka Accounting and Auditing Standards Monitoring Board or any successor thereto acceptable to ADB.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred fifty million Dollars (\$250,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 12 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

(a) LIBOR; and

(b) 0.60% as determined by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement and the Program Agreement.

Section 3.02. The proceeds of the Loan shall be withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 December 2018 or such other date as may from time to time be agreed between the Borrower and ADB.

## ARTICLE IV

### Particular Covenants

Section 4.01. (a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement and the Program Agreement.

Section 4.02. The Borrower shall make available, or cause to be made available, promptly as needed, the funds, facilities, services, and other resources as required, in addition to the proceeds of the Loan, for the carrying out of the Program. For the avoidance of doubt, the Borrower may need to make such funds available to achieve policy actions described in paragraphs 3, 4, 9, and 14 of Attachment 3 to Schedule 3 of this Loan Agreement.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. (a) As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

Section 4.05. The Borrower shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of the constitutional documents of the Independent Implementing Agencies, which, if implemented, could adversely affect the carrying out of their respective policy actions under the Program. The Borrower shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

Section 4.06 ADB and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Program and the Loan.



## ARTICLE V

### Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations:

- (a) ADB shall be satisfied that the Borrower has met all conditions for release of the First Tranche as set out in Attachment 2 to Schedule 3 to this Loan Agreement;
- (b) the Deposit Account shall have been established as provided in paragraph 3 of Schedule 3 to this Loan Agreement; and
- (c) the Program Agreement shall have been duly authorized, executed and delivered on behalf of the Independent Implementing Agencies, and all conditions precedent to its effectiveness, other than a condition requiring effectiveness of this Loan Agreement, shall have been fulfilled.

Section 5.02. The following is specified as an additional matter for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Program Agreement shall have been duly executed and delivered on behalf of each of the Independent Implementing Agencies, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 5.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

## ARTICLE VI

### Miscellaneous

Section 6.01. Each of the Secretary of MOF, the Deputy Secretary to the Treasury and the Director General of the Department of External Resources, Ministry of National Policies and Economic Affairs, of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Secretary  
Ministry of Finance  
Colombo 1  
Sri Lanka

cc: Deputy Secretary to the Treasury  
Director General, Department of External Resources

Facsimile Number:

+94 11 248-4563

For ADB

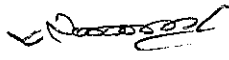
Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2337.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

DEMOCRATIC SOCIALIST REPUBLIC  
OF SRI LANKA

By   
\_\_\_\_\_  
R. H. S. SAMARATUNGA  
Secretary  
Ministry of Finance

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
SRI WIDOWATI  
Country Director  
Sri Lanka Resident Mission

**SCHEDULE 1****Description of the Program**

1. The principal objective of the Program is to increase the capacity and size of the capital market through enhanced market facilitation, demand measures and supply measures. The Program is described in more detail in the Policy Letter.
2. The Program is expected to be completed by 31 December 2018.

## SCHEDULE 2

### Amortization Schedule

#### (Capital Markets Development Program)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Due</u>	Installment Share (Expressed as a %)
15 November 2019	4.166667
15 May 2020	4.166667
15 November 2020	4.166667
15 May 2021	4.166667
15 November 2021	4.166667
15 May 2022	4.166667
15 November 2022	4.166667
15 May 2023	4.166667
15 November 2023	4.166667
15 May 2024	4.166667
15 November 2024	4.166667
15 May 2025	4.166667
15 November 2025	4.166667
15 May 2026	4.166667
15 November 2026	4.166667
15 May 2027	4.166667
15 November 2027	4.166667
15 May 2028	4.166667
15 November 2028	4.166667
15 May 2029	4.166667
15 November 2029	4.166667
15 May 2030	4.166667
15 November 2030	4.166667
15 May 2031	4.166659
<b>TOTAL</b>	<b>100.000000</b>

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**SCHEDULE 3****Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook, and the following provisions of this Schedule.
2. An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (Deposit Account) at CBSL into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.  
  
(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
4. No Loan proceeds shall be withdrawn to finance any item specified in Attachment 1 to this Schedule.
5. No withdrawal shall be made from the Loan Account for the First Tranche unless ADB is satisfied that the Borrower has met the policy actions for the release of the tranche specified in Attachment 2 to this Schedule.
6. Notwithstanding any other provisions of this Loan Agreement and except as ADB may otherwise agree, no withdrawal shall be made from the Loan Account for the Second Tranche unless ADB is satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; (b) the policy actions that were met for the release of the First Tranche continue to be complied with by the Borrower; and (c) the Borrower has met the policy actions for the release of the tranche specified in Attachment 3 to this Schedule.

### Negative List

No withdrawals of Loan proceeds will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

**Table: Ineligible Items**

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.



**Policy Actions for Release of the First Tranche**

1. Cabinet shall have approved a Capital Market Strategy to include the following elements:
  - (a) CMAC at the strategic level to facilitate inter-agency policy coordination and facilitate the implementation of the Capital Market Strategy; and
  - (b) Capital Market Development Division at SEC to spearhead the implementation of the Capital Market Strategy.
2. A new SEC bill to include the following elements shall have been submitted to Parliament:
  - (a) enhancing the SEC's governance by (i) requiring, with respect to SEC members, the provision of cause for their dismissal and introduction of term limits, and the inclusion of qualification criteria in their appointment, and (ii) transferring the power to appoint and remove the director general of the SEC to the SEC members;
  - (b) enabling the regulatory framework to introduce derivatives, including commodities derivatives;
  - (c) enabling market making and securities borrowing and lending; and
  - (d) enhancing the framework for collective investment schemes (mutual funds).
3. A demutualization bill shall have been submitted to Parliament which establishes a legal framework for CSE, if it elects, to convert its structure from a company limited by guarantee to a public limited company.
4. A clearing company for exchange-listed securities shall have been incorporated.
5. A CSE circular shall have been issued in coordination with the SEC requiring all publicly listed companies to comply with continuous listing requirements on timely submission of financial statements, unqualified audit opinions, corporate governance standards, and related party transactions or otherwise have their trading suspended or be delisted.
6. Two representatives from MOF shall have been appointed to CBSL's Auction Tender Board Committee.
7. CBSL shall have:
  - (a) published rules which primary auctions of government securities shall follow in terms of transparency and predictability; and

- (b) completed an inspection of all non-bank primary dealers for compliance with the October 2015 capital adequacy directive; and
8. CBSL shall have approved revisions to its Public Debt Department's operational manual resulting in concentration of issuances across benchmark securities at key points along the yield curve and consolidation of the number of issuances.
9. A circular shall have been issued requiring all secondary market trading to be reported to CBSL via Bloomberg.
10. The maturity and series of bonds to be auctioned during the next quarter (beginning with October – December 2016) shall have been published on either the CBSL or MOF website.
11. Any insurance company not in compliance as of 31 March 2016 with regulatory capital requirements shall have submitted a capital plan that is acceptable to IBSL, or IBSL shall have taken regulatory action against such company.
12. EPF's investment policy statement shall have been amended to allow investments in foreign equities.
13. SEC shall have instructed the CSE to make the necessary system change to quote the prices of corporate securities using yield to maturity.

**Policy Actions for Release of the Second Tranche**

1. A license shall have been issued approving CSE as a demutualized exchange.
2. SEC shall have:
  - (a) issued risk-based capital rules for intermediaries; and
  - (b) adopted and initiated the implementation of capital restructuring plans for intermediaries.
3. A central counter party system shall have begun to be installed.
4. A new SEC electronic market surveillance system, to enable the following, shall have begun to be installed:
  - (a) alert parameters to be set out by surveillance staff;
  - (b) production of ad hoc and pre-specified reports tailored to the nature and timescale of the transactions surrounding the alerts; and
  - (c) detailed analysis of alerts to be carried out both online and offline without transferring the data to another system.
5. Companies that are not compliant with the requirements under the circular referred in paragraph 5 of Attachment 2 to Schedule 3 to this Loan Agreement as of issuance of the circular shall have had their trading suspended or be delisted.
6. An amendment to the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 shall have been submitted to Parliament on a priority basis that reconstitutes SLAASMB as an independent body and allows it to:
  - (a) fund itself through contributions from listed exchanges, regulatory agencies, and the central government;
  - (b) determine its own staffing needs and pay salaries competitive with market rates;
  - (c) determine the work scope to focus on entities that are likely to pose a risk to the public interest or to the viability or stability of the public markets;
  - (d) recover, for cases decided in its favor, the costs of investigation and prosecution; and
  - (e) permit SLAASMB to conduct qualitative reviews of audit firms.

7. SEC's educational and qualification framework shall have been enhanced to include the following elements:
- (a) enabling qualified market intermediaries to deal with different asset classes;
  - (b) enhancing financial literacy and outreach for unit trusts; and
  - (c) developing continuous securities-related education programs.
8. MOF shall have established a committee with strategic responsibility for debt issuance, whose membership will include senior representation from CBSL.
9. An electronic trading system to capture all government securities trading shall have begun to be installed.
10. The maturity and series of bonds to be auctioned during the next year shall have been published on either the CBSL or MOF website.
11. An amendment to the Inland Revenue Act shall have been submitted to Parliament so that unit trusts shall become tax pass-through vehicles.
12. IBSL shall have (i) established, staffed and trained in assessing evidence and adjudication methodology a dispute-resolution panel for the insurance sector that is independent of IBSL's investigation division and submits its recommendations to IBSL's board; (ii) commenced implementation of a comprehensive strategy for retail education to strengthen financial literacy with regards to insurance products; and (iii) caused Sri Lanka Insurance Corporation to have secured its board's approval of the legal segregation of its life and non-life operations, as undertaken by the Chairman of SLIC's board.
13. A white paper on retirement savings reform, to include establishing professional fund managers and to consider demographics, cost of current government financial support of retirees and projected fiscal implications, setting out options and making recommendations while considering political constraints, shall have been submitted to Cabinet.
14. A new EPF information communications technology system to integrate member data with the general ledger shall have begun to be installed.
15. At least three state owned enterprises shall have been partially listed on the CSE.
16. Rules for derivatives, to include rules on covered short selling through stock borrowing and lending, shall have been issued.
17. A securitization bill that provides for bankruptcy remote vehicles and tax neutrality shall have been submitted to Parliament.

**SCHEDULE 4****Program Implementation and Other Matters**Implementation Arrangements

1. The CMAC shall be responsible for the coordination and execution of the Program with the Program Implementing Agencies. The Program Executing Agency shall oversee and coordinate the timely implementation of agreed policy, legal and regulatory actions. The Program Implementing Agencies shall be responsible for administration, disbursements and maintenance of all Program records relating to policy actions for which they are responsible. ADB will work through the CMAC to monitor progress and oversee the implementation of the Program. The PMU shall be placed at the SEC, and the Deputy Secretary to the Borrower's Treasury shall be the Executing director.

Policy Actions and Dialogue

2. The Borrower shall ensure that (i) all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program, and (ii) progress continues towards full installation of the systems described in paragraphs 3, 4, 9 and 14 of Attachment 3 to Schedule 3 to this Loan Agreement, and towards full implementation of the strategy described in paragraph 12(ii) of Attachment 3 to Schedule 3 to this Loan Agreement.

3. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.

Use of Counterpart Funds

4. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

Governance and Anticorruption

5. The Borrower and the Independent Implementing Agencies shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Monitoring and Review

6. Without limiting the generality of Section 2.05 of the Program Agreement, the Borrower, Independent Implementing Agencies and ADB shall closely monitor the completion of the Program and its impact. The Borrower shall ensure that the PMU is responsible for: (a)

establishing and maintaining a PPMS within 3 months after the Effective Date; (b) carrying out monitoring and evaluation of the Program for at least 1 year after completion of the Program; and (c) maintaining all relevant monitoring data to evaluate the benefits of the Program.

7. The Borrower shall ensure that reporting on the progress of the Program through periodic meetings at least quarterly is made by the PMU through the CMAC to ADB in accordance with the performance indicators described in the preceding paragraph.

8. The Borrower and ADB shall jointly conduct periodic reviews of the macroeconomic and fiscal conditions of the Borrower's economy and assess the impact and evaluate the benefits of the Program, in accordance with the PPMS. The PMU through the CMAC shall prepare and submit to ADB at least quarterly a progress report on policy and institutional reforms implementation. In addition to the periodic reviews, a Program review shall take place prior to the Second Tranche release. The PMU through the CMAC shall submit a Program completion report to ADB not later than 3 months after Program completion that assesses compliance with, and impact of, the agreed actions under the Program on each sector and describes lessons identified during the Program implementation period.