

Financial Sector-Development Project II

INTERIM EVALUATION OF THE FINANCIAL MARKETS COMPONENT OF THE PRIVATE SECTOR POLICY SUPPORT PROJECT (NO 383-0100)

OCTOBER 1995

This interim evaluation of a project designed to support broadly the development of capital markets in Sri Lanka finds that the project has been highly successful in spite of early managerial difficulties. The project began in 1992. It has capitalized on favorable policy-induced opportunities such as privatization and liberalization, while introducing innovative technologies and practices contributing to a more efficient and effective market.

Prepared for USAID/Colombo*

Russell R. Diehl
(Eccles Associates)

Aneela de Soysa



Office of Economic and Institutional Reform
Center for Economic Growth
Bureau for Global Affairs, Field Support & Research
U.S. Agency for International Development
Washington, D.C. 20523-0228

Submitted by:

KPMG Peat Marwick LLP
Policy Economics Group

***This report presents the independent findings and recommendations of the evaluation team. It does not necessarily represent the official views of the Government of Sri Lanka or the Agency for International Development**

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EXECUTIVE SUMMARY

Background

In May 1992, USAID authorized \$7.0 million for an amendment to the Private Sector Policy Support (PSPS) project referred to hereafter as the Financial Markets Project (FMP) component, with a host country component of \$ 2 million. The PSPS has a project assistance completion date (PACD) of July 1996.

The technical assistance and training contract to execute the FMP was competed and awarded to the US based International Science and Technology Institute (ISTI), a Cooperative Grant Agreement was signed with the Institute of Chartered Accountants of Sri Lanka (ICASL) and the contract for the upgrading of the Central Depository System was awarded to Sun Micro Systems, USA.

The FMP purpose is to develop the capacity of the Sri Lanka capital market to broaden public equity and debt participation in the economy and increase capital investment resources. This is to be accomplished by: (1) improving the reliability of market information (2) increasing the availability of financial instruments and (3) assisting in the development of financial intermediation in the capital market by enhancing the analytic capability of market participants.

Objectives

The objective of this evaluation is to provide USAID, project counterparts and the GSL with an assessment of project implementation and progress achieved to date, an overall analysis of the impact of the FMP on the development of Sri Lanka's financial markets and recommendations for project modifications to improve the likelihood of achieving the project's objectives. A secondary purpose of the evaluation is to recommend alternative or additional activities which could be considered for support after the project end date.

The evaluation team has conducted extensive interviews with individuals at USAID, project contractors, project participants, government counterparts, beneficiaries, private sector and financial institutions. The team has also met with the World Bank and government officials. Research done by the team includes USAID documentation for the FMP, contractors' reports and files, market research documents and other donor reports.

Overall Assessment

The chart below provides a financial summary of the project as at 30th April 1995 :

	US \$ thousands
Obligations	6,925
Expenditures	4,646
Pipeline	2,279

(source: see Attachment 2)

The project rationale is consistent with USAID/Sri Lanka's economic growth objective as outlined in its Strategic Framework, i.e. increased private sector employment and income. The project has already completed a number of its objectives and is on track to realize those remaining. The activities supported by the project are likely to be continued and further developed by the institutional structures that have been put in place.

The last two years have seen a structural change in the financial markets in Sri Lanka with the emergence of many new institutions, healthy competition and an internationalization of the equity markets. Several new financial instruments have emerged and new methods of structuring corporate finance have been developed. Financial and management skills have increased considerably to meet the new demands of the market.

The significant enhancement of the Post Trade Automation System at the Colombo Stock Exchange (CSE) has been a particularly successful aspect of the project. USAID assistance has enabled the CSE to increase efficiency and the integrity of the clearing and settlement systems and make the necessary changes to cope with the substantially increased volumes of trading experienced during the early part of 1994.

In the course of developing a market for Quoted Debt Securities the FMP has secured a policy consulting role at the Central Bank of Sri Lanka (CBSL) and considerable progress has been made by the CBSL through FMP technical and training assistance. Pending the enactment of enabling legislation, the debt securities market appears positioned to experience additional liberalization and structure. Policy papers focusing on modifying the CBSL's present secondary window and repurchase operations have been prepared. It is expected that the CBSL will implement the principal proposals in August 1995. The FMP assisted the CBSL in undertaking a program to focus on the merits of diversifying the portfolio of Sri Lanka's national pension fund, the Employees' Provident Fund (EPF).

With regard to Industry Training and Certification of Securities Markets Professionals, the FMP has conducted 34 seminar programs, involving over 850 participants, on a comprehensive list of financial topics. In addition, the FMP has sponsored 14 distinct

study tours to foreign stock exchanges and regulatory institutions. The FMP initiated the Chartered Financial Analysts program in 1993. In June 1995, 69 candidates sat for the CFA Level I, II and III examinations. This highly visible and internationally respected designation has developed local acceptance, has contributed significantly to the development of analytical skills and appears to be well positioned in terms of sustainability.

Regulation and self-regulation activities have been actively pursued by the Securities and Exchange Commission (SEC) of Sri Lanka and the CSE. The primary condition precedent for the project, a cess (user tax) levied on share transactions in the secondary market, enabled the SEC to have a source of funding to increase institutional capability and become self-financing. Project technical assistance has provided expertise in several areas including the consolidation of rules and regulations relating to security markets and the training of staff. The project has now to focus on strengthening the surveillance function of the SEC SL and the CSE.

Financial reporting standards have shown rapid development over the past two years, while coping with new developments in Financial Markets and the increased demands of investors and analysts. A technical and research unit was set up at the ICASL, with the assistance of the project, to provide a central point for research and information into accounting and auditing standards. This has enabled the Institute to expedite the development of the standards and to prepare for the demands that the proposed Accounting Standards Monitoring Board is likely to place on the Institute. The project now has to focus on assisting the Institute to develop teaching tools and research linkages in this area.

The assistance to emerging Financial Institutions given by the project through technical assistance and training has resulted in a number of new instruments being introduced into the market. This assistance has also strengthened both the technical and operational capability of the institutions.

Recommendations:

The principal recommendations are that the project should:

1. focus on the activities that are principal to the achievement of project objectives which have yet to be adequately addressed. Key among them is the enhancement of the surveillance function at the CSE and SEC.
2. work together with the ICASL to support the development of financial reporting standards through the development of teaching tools and research linkages.
3. assist the SEC to develop regulations for unlisted securities and financial intermediaries which has lagged behind the rapid development of the financial markets.
4. set up an Over The Counter (OTC) booth at the stock exchange to promote greater equity participation in small and medium-sized companies.

5. consider giving assistance to the Sri Lanka Association of Securities and Investment Analysts (SLASIA) to set up and sustain the CFA program.
6. continue the policy dialogue and technical assistance with the central bank necessary to institute pending financial market reforms and legislation.

Lessons Learned

The principal lessons learned from the project are that :

- * USAID's support for capital markets development is fully consistent with its mandate to promote broad-based sustainable economic growth.
- * developing effective capital market regulatory institutions is a critical success factor in emerging markets.
- * one of the developments with the greatest impact on Sri Lanka's capital market was the introduction of the Central Depository System (CDS) which has led to scripless trading.
- * emerging markets in developing countries compete amongst themselves and then on a regional basis rather than globally.
- * the development of an efficient government debt securities market is essential to developing a private debt securities market.
- * linkages between privatization and capital markets development programs are synergistic in Sri Lanka.
- * demand-driven, cost-shared assistance to emerging financial institutions is an effective technical assistance mechanism.
- * a comprehensive financial training program like the Chartered Financial Analysts (CFA) can be implemented long distance and be successful locally if it is closely managed and professionally implemented.

**Interim Evaluation of the Financial Markets Component of the
Private Sector Policy Support Project (No 383-0100)
June 1995**

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ACRONYMS

GDP	Gross Domestic Product
GSL	Government of Sri Lanka
USAID	United States Agency for International Development
CSE	Colombo Stock Exchange
PSPS	Private Sector Policy Support Project
CDS	Central Depository System
DS&T	Development Support and Training Project
ICASL	Institute of Chartered Accountants of Sri Lanka
SEC	Securities Exchange Commission of Sri Lanka
FASMB	Financial Accounting Standards Monetary Board
UITF	Urgent Issues Task Force
EITF	Emerging Issues Task Force
FMP	Financial Markets Project
FASB	Financial Accounting Standards Board
AICPA	American Institute of Certified Public Accountants
CBSL	Central Bank of Sri Lanka
PTA	Post Trade Automation
OTC	Over the Counter
ISTI	International Science & Technology Institute Inc.
US	United States

Interim Evaluation of the Financial Markets Component of the Private Sector Policy Support Project (No 383-0100)

1. INTRODUCTION

In May 1992, USAID authorized an amendment to the Private Sector Policy Support Project (PSPS) called the Financial Markets Project (FMP) component with a budget of \$ 7 million to develop further the capacity of the capital market to broaden public equity participation and increase capital resources for investment. The overall project has a project assistance completion date (PACD) of July 1996 which will apply to this component of the project.

The primary purpose of this interim evaluation of the Financial Markets Project is to provide USAID/Sri Lanka and project counterparts with a detailed assessment of project implementation and progress achieved to date and the overall impact of the FMP on the development of Sri Lanka's financial markets. This assessment will also include any recommendations for project modifications to improve the likelihood of achieving the project's objective.

A secondary purpose of the evaluation is to examine possible project activities in the light of the future conditions of Sri Lanka's financial markets. Specifically, the evaluation will include recommendations for alternative or additional activities which could be considered for support after the current scheduled Project Activities Completion Date of July 1996.

The evaluation was carried out in May and June of 1995 under a USAID contract with the Barents Group, Washington, DC The Scope of Work is set out in Attachment 2. The team leader was in Sri Lanka from May 6th to June 10th 1995. Extensive interviews were held with World Bank officials, Government of Sri Lanka (GSL) officials, USAID officers, technical assistance contractors and private sector representatives involved in Sri Lanka's capital markets. In addition, USAID documents, contractor files and other sources were reviewed. (see Attachments 10, 12 and Bibliography). The team's findings and conclusions constitute the body of this report.

1.1 Background and Genesis of Program

Sri Lanka, located off the southern coast of India, was known as Ceylon until it obtained independence from British rule in February 1948. Sri Lanka has a land area of 65,610 square kilometers, the size of Indiana, with a population estimated at 17.9 million (1994) and an annual real GDP rate of 5.6 over the last three years. The country endures a continuing 10 year civil war which has constrained its full economic development potential.

During the past two decades, the GSL has moved away from an economic structure where government institutions and state-owned enterprises exert significant control over the country's commercial activities to an economic structure increasingly guided by market forces. While the three traditional exports (tea, rubber and coconut) are all

agricultural in nature, the government has recently tried to strengthen its industrial and service sectors. The primary goal of the Government's liberalization strategy of the late 1980's and today is to raise Sri Lanka's standard of living by attaining and sustaining more broadly based economic development. As part of the Government's focus on economic reforms conducive to increased private sector participation in the economy, it has pursued three objectives of particular relevance to the emerging capital market in Sri Lanka : (1) increasing the privatization of state-owned enterprises; (2) creating an investment climate that attracts foreign capital, and (3) developing a diversified and efficient financial market which can respond to the needs of a growth-oriented developing economy.

1.2 Economic Restructuring and Financial Market Development

Financial market development is a key ingredient in Sri Lanka's move from a largely government-controlled economy to a more open-market approach and is critical to the mobilization of increased investment in productive activity. As the economy develops towards the high growth rates of 7-8% of GDP per annum, which is the GSL's current target, an increasing proportion of productive assets must move to the private sector. The most efficient and transparent means of effecting this transfer is through the orderly operation of an equities market. Further investment is needed to fuel rapid growth, and this can more readily be achieved with the introduction of long-term debt which is more acceptable if there is a market which allows investor mobility and transparency.

Since 1990, the rapidly growing financial market in Colombo has seen many new institutions and financial instruments emerge. Significant increases were seen in the growth of market capitalization and turnover in the stock market, attracting many foreign investment funds. The stock broking industry expanded rapidly with enhanced quality in the services provided. Many new unit trusts, venture capital companies and merchant banks entered the market, rapidly developing new products to meet increasing competition and the needs of the market. The rapid sophistication of the market, which in some aspects is now approaching international standards, has exceeded many expectations.

1.3 GSL Economic Restructuring and the USAID Program

A major objective of the past regime of the United National Party and the new administration of the People's Alliance which came into power in August 1994, has been continued economic liberalization in the form of privatization and the development of capital markets. Meanwhile, the government has pledged a commitment to private sector led economic growth.

The success of the Government's privatization program, financial markets development program and capital markets regulatory program are inextricably linked. The recognition of this fact led USAID, in July 1992, to fund the amendment to the Private Sector Policy Support Project known as the Financial Markets Project (FMP) component. This amendment builds on past successes in capital market development, strengthens the underlying financial markets and provides assistance and encouragement to the Government's liberalization strategy.

To achieve these purposes, the project is involved in the following activities:

- a) Improving the reliability of market information by strengthening the market-regulation capacity of the SEC and the self-regulation activities of the CSE and improving the financial reporting of listed companies.
- b) Increasing the availability of financial instruments by developing a second tier market and developing a market for debt securities, initially by supporting a secondary market in GSL Treasury Bills and subsequently, Corporate Bonds.
- c) Improving the analytic capability of market participants by establishing the US certification program of Chartered Financial Analysts (CFA) as a formal certification program in Sri Lanka.
- d) Providing technical assistance and training to selected emerging financial institutions in Sri Lanka.

Box 1 sets out the overall objectives of the Financial Markets Project. The remainder of this report outlines the findings, conclusions and recommendations of the evaluation team.

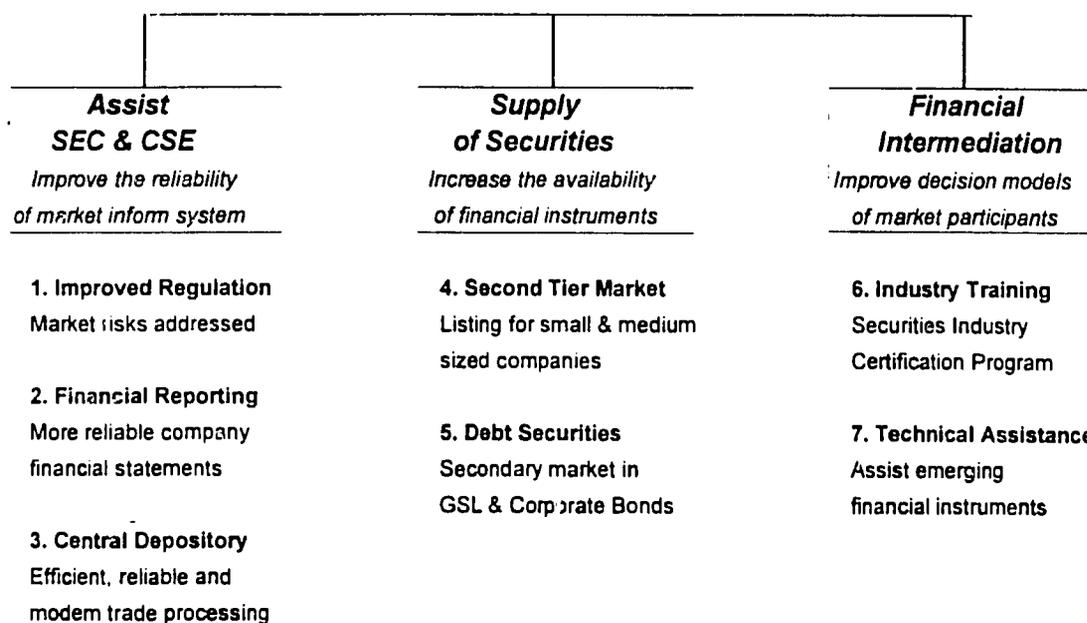
Box 1. Objectives of the Financial Market Project

GOAL

*Increase pvt sector
Real Investment 10% p.a.*

PURPOSE

*Develop Sri Lanka Quoted
Securities Market*



2. REGULATION AND SELF-REGULATION

This chapter evaluates the regulatory aspects dealt with by the Financial Markets Project.

2.1 Objective of Project Component

The objectives of this component are:

- To develop a fully functional surveillance unit at the SEC, staffed by trained personnel, to supervise effectively, a market that encompasses listed securities including equities and debt and several new financial intermediaries such as the unit trusts.
- To enhance the self-regulatory function of the CSE which will have the capability to address a wide range of issues associated with a substantially expanded financial market.

2.2 Findings

2.2.1 Background

Listed securities in Sri Lanka are regulated by the Securities and Exchange Commission of Sri Lanka (SEC) and the Colombo Stock Exchange (CSE). The SEC is the governmental body which is required by statute to perform this task. The CSE engages in self-regulation through the institutions that directly manage the traders who are the shareholders and are represented on the Board of the CSE.

The need to maintain the confidence of the investor community by adequate regulatory and surveillance of new institutions and instruments in the rapidly developing financial markets was specifically recognized by several studies. These studies called for a significant strengthening of staff to fulfill SEC new regulatory obligations and identified some of the issues that were to be addressed to meet the regulatory needs of the market. The rapid development of financial markets since 1992 led to many new demands in terms of regulation and market infrastructure and the Commission had to play a far more pro-active role to ensure that the market developed in a fair and ordered manner.

The Commission has had a remarkably successful record in enforcing rules and regulations. For instance, since the end of 1993, over 25 brokers and investment advisors in 15 brokering firms have been debarred from the industry for contraventions of industry rules. Several investigations have been completed on cases of insider-dealing and appropriate action has been taken in cases of front-running and rebating of commissions. These timely actions of the SEC have contributed in no small measure to the development of a healthy environment for financial markets development in Sri Lanka.

While the regulatory powers of the SEC have been limited to listed securities, the development of new financial intermediaries, including merchant banks, venture capital

companies and unit trusts has resulted in the need for effectively regulating the activities of these financial intermediaries. (see Box 2)

The CSE and the SEC have the necessary staff in place to develop a surveillance function and have looked to the project for assistance to enhance their capability.

Box 2

Are Merchant Bankers "Dealers" under the Securities Act?

It is hard to tell exactly, but if so they are subject to the authority of the Securities and Exchange Commission. As Merchant Banks do not take public deposits they are not regulated by the Central Bank and under current practice the merchant banking companies are not reviewed by the SEC. To whom the merchant banks are regulatorily obliged is not quite ascertainable but there is a notion that the SEC is the right institution with the right mix of regulatory tools and skills for the Merchant Banking community. After all, the definition of "dealer" contained in Section No.55 of the Securities Act specifically includes those engaged in the business of underwriting or merchandising securities - things merchant banks do every day. In Section No.13 of the Securities Act the SEC is charged with the power to grant a license to any person to operate as a stock "dealer" and to ensure the proper conduct of their business. Finally to assure clarity, Section 15b of the Securities Act requires any person who is carrying on or intends to carry on the business of a "dealer" to make an application to the Commission for the grant of a license as a dealer. Presumably it is intended that it is illegal to carry on the business of a dealer without possessing a license. Therefore, any underwriter or merchandiser of securities that is not licensed as a dealer with the SEC may be acting in violation of the law of the land. Given the rapid growth of the merchant banking industry in Sri Lanka, prudential regulation of the industry should be addressed by regulatory authorities.

The Project has provided technical and financial assistance to:

- advise the Director General of the SEC on developing and implementing various securities market regulations.
- assist the General Manager of the CSE in sequencing and implementing regulatory reforms.
- implement on-the job training of the regulatory personnel of the two institutions.
- conduct overseas training tours for the regulatory personnel of the two institutions to gain exposure to surveillance and monitoring functions in highly developed markets.

2.2.2 Accomplishments to Date and Remaining Tasks and Issues

One of the principal Conditions Precedent for the Financial Markets project was aimed at enabling the SEC to generate the funds through a "cess" to be levied on share transactions in order to recruit competent staff. This was meant to ensure the institutional sustainability of the SEC. The SEC is now self-financing and able to meet its operational, training and research costs through the funds being generated. Over the last two years, the staff of the SEC has been expanded to meet its growing needs. These funds have also assisted market development activities such as public awareness, upgrading the infrastructure of the stock exchange and conducting broker-training for certification.

The project has made substantial progress in assisting the SEC to develop regulations with several useful pieces of work being completed. The principal among these are the Consolidation of the Sri Lanka Securities Law, Rules and Regulations and a finalization of the Mergers and Acquisition code. The regulations relating to new emerging financial institutions and instruments such as Unit Trusts, several small studies on issues such as the regulation of margin trading activities and the setting up of a compensation fund has enabled the Commission to focus on these aspects of regulation. Several studies that would contribute to the surveillance systems development are now being finalized. These include the surveillance hand-book, listed company reporting requirements, compliance guidelines for broking companies, audit unit methods and investigation procedures. The reviews of the SEC authority to regulate the CDS and to regulate market intermediaries under amendments to the Securities Act have also been completed.

The project has also been able to provide training seminars for persons involved in the regulation of the industry. The participants in these seminars include judges, the staff of the Attorney-General's office, the Legal Draftsman's Department, the Registrar of Companies, stock brokerage firms and the staff of the SEC and CSE. These seminars have covered a broad range of issues including securities markets, financial markets, and regulation and enforcement. A listing of these seminars and the details of duration and attendance is set out in Attachments 5 and 6. These seminars have been a useful method of exposing the participants to developments in financial markets. The staff of the CSE and SEC have been sent on many study tours by the project to observe the surveillance function in developed markets, including several funded through the DS&T project managed by USAID.

While substantial work has been accomplished on the regulatory aspects, from now on, the project will have to concentrate on delivering the principal output of the project, which is the establishment of surveillance capability. This aspect has yet to be institutionalized in the SEC and CSE. There is a need for a surveillance specialist to spend a substantial amount of time working with the staff of these institutions to provide on-the-job training, to set up systems and procedures for surveillance and to record and report on a timely basis. The finalization of the documents written for this purpose should be expedited to facilitate the development of the surveillance function.

2.3 Recommendations

2.3.1 Regulation of Unlisted Securities

While the SEC currently has jurisdiction over listed securities, unlisted securities remain outside the purview of the SEC. This could pose a serious hazard to the orderly development of the market where inexperienced or unscrupulous market participants could mislead and/or defraud investors. The absence of the regulation of unlisted securities leaves room for mistakes to be compounded in any attempts to recoup losses. The SEC may wish to take action to bring unlisted securities under their purview.

2.3.2 Regulation of other Financial Intermediaries such as Merchant Banks

Institutions commonly known as "Merchant Banks" act as dealers in securities through activities such as underwriting, trading shares for clients on margin and acting for their own account. These activities should ideally be carried out under license and be

subject to the supervision of regulatory authorities. The SEC may wish to identify whether the present law allows such activity to be regulated and if not consider action to do so.

2.3.3 Training on Using Screen-Based Trading for Surveillance and Developing Regulations for Screen-Based Trading

The CSE plans to have a system of automated, screen-based trading in place by June 1996. The project should incorporate training in surveillance techniques using screen-based trading for both the CSE and the SEC as part of the on-the-job training planned for the remaining life of the project.

2.3.4 Seminar on role of Financial Markets

It is important that decision-makers in the government and the staff of the CSE and the SEC understand the significant role that they are being called on to play in the development of financial markets in Sri Lanka. A better understanding of the potential developments and its contribution to economic progress could lead to more informed action, leading to the facilitation of new developments. To this end, the project could initiate a seminar which could be held as part of the association of securities and investment analysts' program of continuing education.

3. FINANCIAL REPORTING

This chapter evaluates the contribution of the Financial Markets Project to improve the quality and reliability of financial reporting in the market.

3.1 Objective of Project Component

The objectives of this component are :

- To have an accounting standards setting group established and functioning at the Institute of Chartered Accountants of Sri Lanka (ICASL).
- To have a compliance unit functioning at the CSE.

3.2 Findings

3.2.1 Background

The development of the financial market has created the need for better accounting information to improve the credibility and information content of published financial statements. The non-availability or unreliability of financial information hampers the operation of the market, leading to inefficiencies and resulting in reduced participation in market activities, while inaccurate or incomplete financial data can also contribute to insider trading and other abuses. This component of the project was designed to address these issues and to institutionalize a process to develop reporting standards.

ICASL issues accounting standards used in the presentation of the financial statements and auditing guidelines which govern the field-work of the auditor.

Legislation for the Establishment of the Financial Accounting Standards Monitoring Board (FASMB) and to provide for the establishment of accounting and auditing standards as a legal requirement has been now prepared and is awaiting approval by Parliament. The legislation of this act is likely to increase significantly the demands made on the accounting profession and the ICASL for advice and assistance.

The project has provided technical and financial assistance in addition to a cooperative grant to the ICASL to develop the capacity to respond to the needs of the market for improved financial reporting by:

- establishing a core staff of specialists to oversee the standard setting, monitoring and compliance unit.
- developing linkages with the research community to improve reporting standards.
- providing the existing members of the ICASL with a greater exposure to new standards.
- developing tools for the teaching of accounting and auditing standards to students

which includes the revision of the syllabus and examination questions.

3.2.2 Accomplishments to Date and Remaining Tasks and Issues

The technical and research unit at the ICASL has been set up and staffed and involved in providing research support to the Urgent Issues Task Force set up by the Institute to give guidance on accounting issues brought to its notice. This unit is expected eventually to form the secretariat to the FASMB once it is set up, thus ensuring sustainability in this component of the project.

The ICASL made use of project assistance to expedite the process of developing accounting and auditing standards to conform to accepted international standards and to holding seminars to discuss and publicize the work done. To date 35 seminars have been conducted under project assistance and 11 accounting standards have been revised to conform to international standards and two Sri Lanka standards have been developed since 1993.

A study of auditing standards in audit practices has been carried out to determine the quality of audit working papers and reporting standards to serve as a benchmark from which to develop further.

The study tour of the Vice President of the ICASL to the US to visit the Financial Accounting Standards Board has proved useful to the Institute to understand the nature of the assistance, compliance and monitoring function that should be provided by the Institute. It has also resulted in many useful contacts in the US that have the potential to assist the Institute with technical advice. (see Box 3)

The focus of activity for the rest of project life should include the development of teaching tools and research linkages. This includes developing case-study based materials for post-qualifying education seminars, developing training modules for students, developing objective methods of examination-setting and systems of periodic review of syllabi in relation to standards, the development of audit methodology for financial markets, a public education series on the role of the auditor and the establishment of a program of sub-grants for research.

3.3. Recommendations

3.3.1 A Program of Action to be Developed

A program of action should be developed along with the ICASL to carry out the remaining project activities that contribute to improving the reliability of financial reporting in the market.

BOX 3

Study Tour to observe reporting standards in the USA

The Urgent Issues Task Force at the Institute of Chartered Accountants of Sri Lanka (ICASL) expects to face many challenges once the Sri Lanka Accounting Standards become mandatory by law. Many issues relating to accounting and auditing are likely to be raised by the membership to which the ICASL will have to develop technical capability to respond in a credible and expeditious manner.

USAID has assisted the institute to set up the Technical and Research Unit which supports the Urgent Issues Task Force. Riyaz Mihular, the Vice President of ICASL, was able to gain invaluable insights into the workings of the Emerging Issues Task Force (EITF), its equivalent body in the USA, through the study tour organized by the FMP. Riyaz was able to gain access to publications issued by the FASB, discuss the standard setting process in the USA, and establish personal contact with the staff who have promised to assist ICASL on technical issues. He was also able to attend a Regional Meeting of the American Association of Accountants to observe the close rapport between the accounting academic community and the accounting practitioners in the service and industry sectors and believes that such an interaction will benefit Sri Lanka.

A visit to the American Institute of Certified Public Accountants (AICPA) enabled Riyaz to observe the working of the Technical Information Hot line which he believes may be a useful method of giving assistance for compliance with accounting standards. He was also briefed on the examination procedures of the AICPA and observed the current practice in setting papers and conducting examinations. This study tour has generated many ideas for restructuring the UITF and improving reporting standards which will be presented to the members of the Council of the Institute for implementation through assistance given by USAID/FMP.

4. POST TRADE AUTOMATION SYSTEM

This chapter evaluates project activity aimed at enhancing the capacity and performance of the Colombo Stock Exchange Central Depository System.

4.1 Objective of Project Component

The objective of the project component is :

to enhance systems reliability and the ability to handle greater volumes and a broader range of transactions by the Central Depository System (CDS).

4.2 Findings

4.2.1 Background

One of the key objectives of the previous USAID project, known as the Capital Markets project (1988-1992), was to provide the CSE with a computer system to handle Post Trade Automation which included a computer-based Central Depository System (CDS). This project met with its goals resulting in one of the most modern CDS' s in the world. The current FMP objective (1993-1996) was to ensure that the CSE had at project end a more reliable Post Trade Automation/Central Depository System (PTA/CDS) with faster response times, less down time and a reduced error rate. The system is to be able to offer new information services to the market and staff is to be trained to manage the system. In addition, the CDS is to be a financially viable going concern.

A further enhancement of the PTA/CDS provides opportunities such as linking brokers and adding other financial products to the range of instruments traded on the exchange. It will allow financial intermediaries to operate simultaneously in equity and debt markets, improving market efficiencies and reducing costs.

The project provided consultancy assistance in systems management to ensure the smooth development of systems expansion and operation. It also organised overseas study tours for systems personnel at the CSE to expose them to the management of similar operations overseas. In addition, funding was provided for an upgrade of PTA/CDS hardware and the integration of the CPS software application from a proprietary system to an open (UNIX) system.

The stock market has a problem of a limited supply of shares, with a total of 215 companies listed and a market capitalization of Rs.143 billion or 25% of GDP as at 31st December 1994 (US\$2.8 billion). Stock market indicators are set out in Box 5. After a very successful period of trading from May 1993 to March 1994 the stock market has been affected by the lack of foreign buying resulting from the unsettled political climate in 1994 and developments in international markets. The turnover volumes have dropped from Rs.350m per day in March 1994 to Rs. 53 m per day in second quarter 1995. The need to increase volumes of business at the exchange and for the broking firms has become a pressing concern.

A major source of listings in the stock exchange over the last few years has been the

state-owned enterprises which were privatized. The listings have occurred as a result of a sale of a part of the enterprise to the public and also from the need for these enterprises to raise capital for development. In the year 1994 privatized companies accounted for 23.23% of the total turnover in the market and 14.39% of the market capitalization as at 31st December 1994.

4.2.2 Accomplishments to Date and Remaining Tasks and Issues

The FMP first work plan (January 1993 to June 1994) anticipated that the Post Trade Automation/Central Depository System would focus on the procurement and implementation of the CDS back-up and enhancement equipment. This scope of work changed considerably. After an extensive review by USAID, the CSE and project consultants, it was determined that in the place of the enhancement of the existing Unisys A1-FX and its propriety application software, the CDS should embrace an open systems architecture computer system. This required a major change in computer procurement plans. With this system every terminal would be a "smart" box, in place of one central mainframe computer which serviced "dumb" terminals.

Due to the change in approach, the FMP/ISTI consultants were charged with the gathering of information and the preparation of the technical specifications. USAID, in turn, carried out the competitive procurement process. Sun Microsystems (USA), whose local agent is Computerland, was selected as the contractor for the CDS upgrade. To date, the CDS upgrade is on schedule and the new application is expected to be ready for full implementation and integration by August 1995. The CSE, while it would have preferred to install this system in its new facilities at Echelon Towers, plans to bring this system "up" at their current quarters in York Street. It is hoped that the Echelon Towers facility will be prepared and ready for a move-in by November 1995.

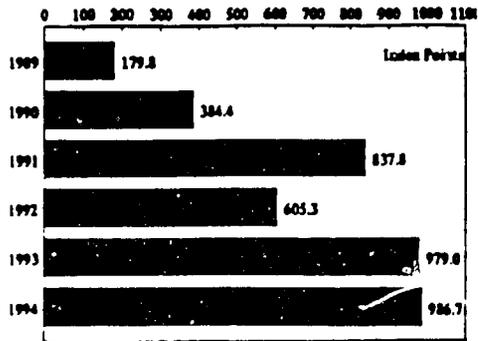
It is anticipated that the PTA/CDS system used by the CSE will be fully integrated into the CSE's own screen-based trading system once the complete system is finally installed at Echelon Towers. This will give the CSE an enormously powerful and comprehensive computer system capable not only of twenty thousand trades per day but also capable of providing information to brokers, dealers and regulatory authorities as well. The existing CDS can handle over four thousand trades per day but the current volume ranges at around seven hundred trades per day.

An interesting aspect of the FMP project effect on the computer system at the CSE is the high degree of "spin-off" technology which has developed from both long and short term FMP consultants. Attachment 7 includes a comprehensive listing of tasks performed and completed, which far exceed those anticipated by the consultants in the original work plan for this component.

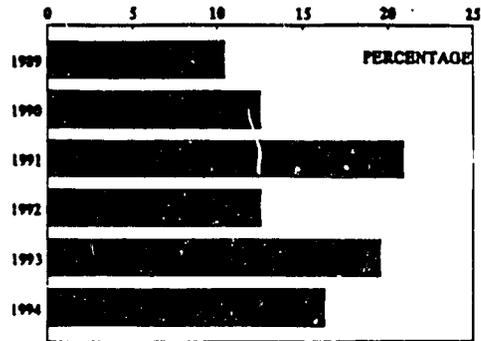
The most impressive spin-off of USAID's support for the CDS upgrade is the CSE decision to move forward with plans to procure a multi-million dollar screen-based trading system. This is a result of both the decision to migrate to an open systems architecture, and also recognition by the CSE that it needed to begin to invest its own funds in information technology if it was to remain a competitive and modern market. This bodes well for the sustainability of USAID's investments in the CSE.

BOX 4

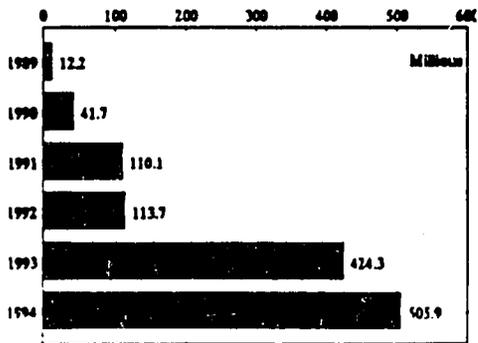
CSE ALL SHARE INDEX



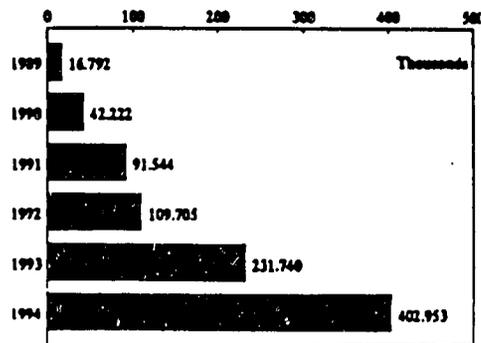
MARKET PRICE EARNINGS



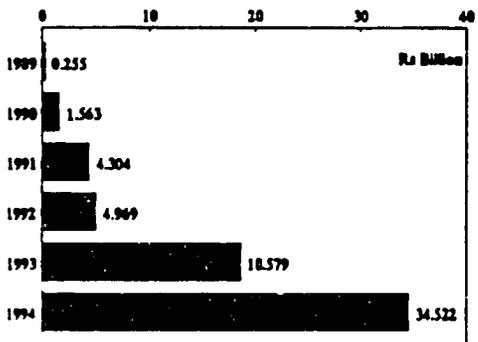
VOLUME OF SHARES TRADED



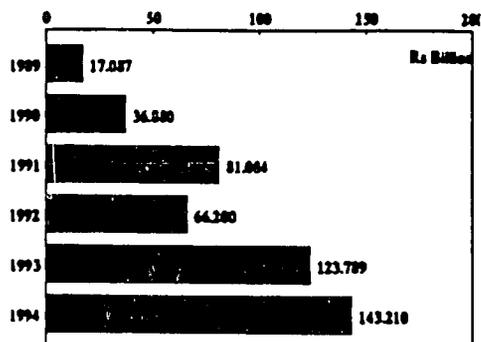
NUMBER OF TRANSACTIONS



TURNOVER



MARKET CAPITALISATION



4.3 Recommendations

4.3.1 Attracting Merchandise

The CSE needs to attract, additional listings and additional business volume to the exchange. The Government's privatization program is a potential major source of listings in the future, as it has been in the recent past. The CSE may wish to develop a liaison with the Public Enterprise Reform Commission for the purpose of assisting in the process. Getting debt traded on the exchange is the single most likely source of volume business in the near future. Short-term commercial paper which has increased from near zero to Rs. four billion in a space of two years is likely to see increased growth in the near future as a result of the wide interest rate spread maintained by the commercial banks. Private participation in infrastructure development, which is being promoted by the Government, is a likely source of business to the exchange owing to its need to raise capital in the form of debt and equity.

Attracting private companies to the exchange by targeting corporate advisors such as accountants and lawyers is an activity that the CSE could continue to pursue. India, Bangladesh and Pakistan are a potential regional source of listings for the CSE. Although the sales cycle may be somewhat long drawn out, it is worthwhile to make the effort. The greater acceptance of unit trusts as a mechanism for investment is another source of business for the exchange.

The CSE may wish to engage in more aggressive marketing for new business. Once the enhanced capability to handle transactions is put in place, the recognition of a "business development" function at the CSE is a possible method of furthering this aspect.

5. DEVELOPMENT OF A SECOND TIER MARKET

This chapter evaluates project activities aimed at establishing a second tier market which would encourage smaller companies to list on the Colombo Stock Exchange.

5.1 Objective of project component

The objective of the Project Component is :

- to have small and medium companies using the second tier market to access funds through initial public offerings and rights issues.

5.2 Findings

5.2.2 Background

The listing of new companies has lagged behind the general trend of development of the Colombo Stock Exchange (CSE). The CSE had 215 listed companies as at the end of 1994. While many of the listed companies have raised capital through rights issues, there have been few initial public offerings, with only 15 new issues during 1994 and 12 in 1993. The lack of new listings resulted in several obstacles in developing the capital market, including the lack of liquidity in the market, which is a constraint to foreign investment in the market, and the high price earnings ratios relative to some other markets in the region which were experienced in 1994. The main constraints of smaller companies to list on the main board have been cited as the high cost of listing, a lack of understanding of regulations and market operations, the required size of offering to the public and the perceived high cost of meeting required reporting and accounting standards. The project envisaged that the disclosure requirements and the regulations governing the main board of the stock exchange were likely to be tightened, thus effectively discouraging smaller companies from accessing the equity market for capital.

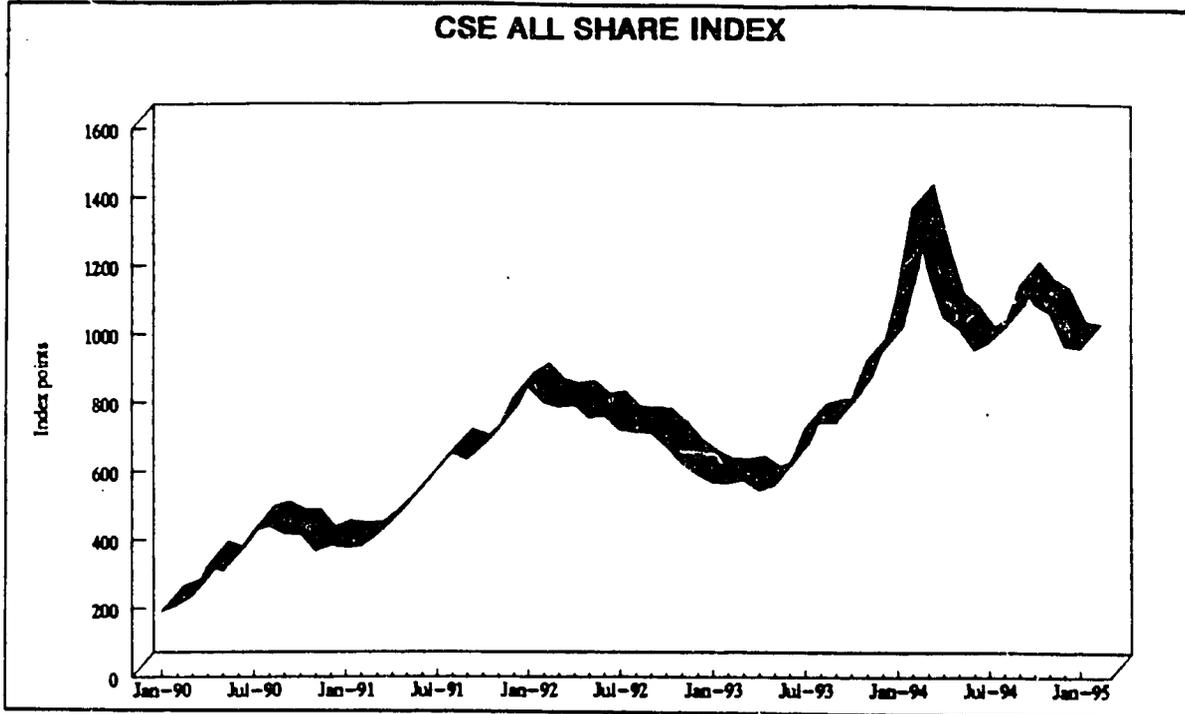
5.2.3 Accomplishments to Date and Remaining Tasks and Issues

A feasibility study undertaken by the project in July 1994 identified the potential for a second-tier market for the trading of new issues and the distinguishing features between the existing exchange and the proposed second tier market. The report identified the appropriate structure and timing of the establishment of a second tier market. At this time, the Colombo Stock Market had entered a bear market phase, with low turnover levels, with many new issues being under-subscribed (see Box 5). Due to the prevailing environment in the market, the project together with USAID, the CSE and the SEC decided to curtail significantly, this aspect of the project. The project has continued to assist the CSE and the SEC to run seminars for unlisted companies to encourage them to list in the future.

There still remains a small but robust Over The Counter (OTC) market with brokerage firms and merchant banks acting as intermediaries in the share transactions of non-listed companies. Around 50 investments have been made by Venture Capital firms over the last 4 years, some of which are now ready for divestment. These investments

remain a potential source for increasing the supply of shares in the market in the future. While the number of companies that would enter an OTC market in the immediate future may be small, the potential still remains for encouraging this activity by increasing the efficiency of this segment of the market.

BOX 5



5.3 Recommendations

5.3.1 Setting up an Over The Counter Booth at the Colombo Stock Exchange

The CSE may wish to set up an Over The Counter (OTC) booth at the Colombo Stock Exchange to trade unlisted securities. This booth can then be used as a test of volume and value levels for potential entrants to the listed market. The transactions could be posted and reported in the stock market reports on a weekly basis. It is suggested that this booth could be opened for a designated period of time such as one day per week and extended if warranted by demand. The CSE may wish to set up a procedure for dealings so that brokers can be fairly compensated and uniformly charged for any service they provide the seller and the buyer of the securities. A very basic list of regulations could be drawn up with reference to those used in other international markets for unlisted companies. A second-tier market could in this way be allowed to develop in an organic manner. A seminar program to publicize the OTC market with brokers, regulators and potential participants could be held on a regular basis. The progress on this matter could be reviewed by the CSE after six months of trading to ascertain whether further developments should be initiated.

6. DEVELOPMENT OF A MARKET FOR QUOTED DEBT SECURITIES

This chapter evaluates project activity aimed at developing a market for quoted debt securities.

6.1 Objectives of Project Component

The objectives of this project component are :

- to establish a secondary market in government debt securities
- to float quoted corporate long-term debt instruments

In essence, this component is to create a general secondary market for short-term treasury securities as well as medium and long-term government securities, corporate debt securities and other debt instruments.

6.2 Findings

6.2.1 Background

Initially, two ISTI short term consultants, expected to focus their efforts on the development of the market for private debt securities. This notion was modified in March 1993 during the team's initial visit to Colombo as part of the initial project planning meeting. The consultants discerned that the market for government securities was essentially non-existent and therefore there was no yield curve from which to price privately issued bonds (See Box 6). In addition, they discovered that the ability to create a functioning market for government securities requires the implementation of a series of policy and procedural reforms. (See Box 7).

The consultant team authored the monograph Debt Securities Advisors Action Plan, in September 1993, which provided, for the first time, a detailed and relatively comprehensive plan for the establishment of a market-driven government securities market in Sri Lanka. The Action Plan serves as the basis for the implementation undertaken by the team.

6.2.2 Accomplishments to Date and Remaining Tasks and Issues

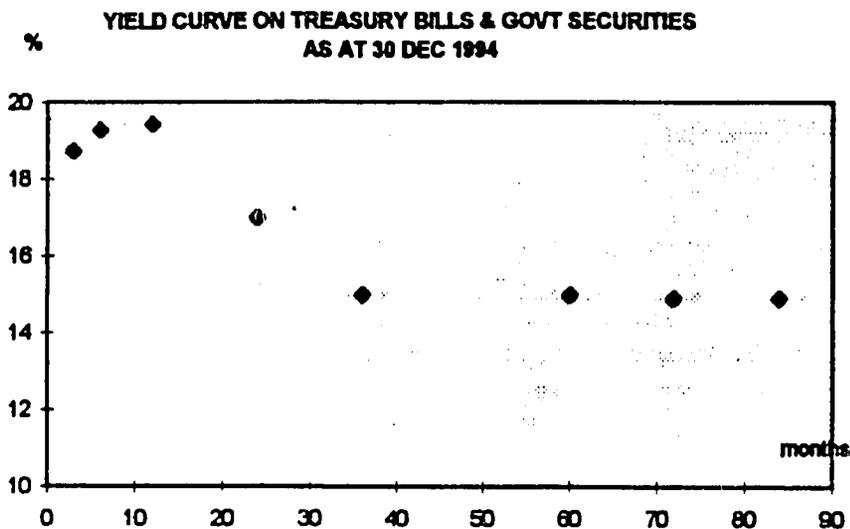
Central Bank: The consultant team needed to position the FMP as well as themselves so as to have access to and credibility with officials and institutions with direct influence over the government securities market. Clearly this meant that they needed to establish an open dialogue, indeed a consultancy, with the Central Bank of Sri Lanka, which was not originally anticipated in the FMP design. USAID provided the access needed and subsequently the ISTI team established a level of credibility for the FMP and their work which resulted in an atmosphere of acceptance relative to the policy advice provided by them to Central Bank of Sri Lanka. The Deputy Governor of the Central Bank characterized the policy advice which the team provided over the past two years, as excellent. He has undertaken a leading role in developing the Central Bank reforms and the support provided to him by the FMP has, in no small measure, been most useful to the identification and the framing of those reform issues.

Corporate Debt: The corporate debt market has developed from a negligible base in 1992 to a volume of Rs 4 billion, in spite of a yield curve that discourages term bonds (See Box 7). New instruments, noted in section 8, have also evolved.

BOX 6

Inverted yield curve deters the development of a long-term debt market

Bond markets are likely to be important contributors to the financial future in Sri Lanka. Presently, medium to long-term debt issued by government does not have an active secondary market. The resultant lack of liquidity in this market deters participants from entering this market and results in a truncated yield curve, making it difficult to develop a secondary market in corporate debt, as a risk free rate of return (on government debt) is not established. The development of a secondary market in government debt is therefore an important part of financial market development. The inverted yield curve (i.e., where short-term government debt commands higher returns than longer-term debt) creates yet another disincentive for the development of a long-term debt market as the private sector then has a preference for investing in short-term debt. This situation creates mismatch in the term structure of assets and liabilities of financial institutions where long-term funds collected by pensions funds and insurance companies are invested in short-term instruments while banks use short-term deposits for longer term lending, increasing the risks borne by financial institutions.



Note: 24 month rate is NSB savings rate
Source : Central Bank of Sri Lanka

Infrastructure: The ISTI team has proposed the installation of a scripless securities system. In this regard, Amendments to the Registered Stock and Securities Ordinance and the Treasury Bill Ordinance have been drafted and submitted to the GSL. Parliament action is anticipated in July 1995. In addition, a regulatory framework for scripless securities under the new legislation is being drafted by the team for review.

Primary Dealers: The heart of the government securities market is the primary dealer system. In efforts to foster this system, the ISTI team has advised the Central Bank to improve communications with its 22 primary dealers including a regular weekly meeting at the Central Bank. In addition, the FMP has held several training sessions for the primary dealer and Central Bank employees (Seminar Nos.12, 30 and 34) (See Attachments 5 and 6), which were well received. Most importantly, the ISTI team is drafting amendments to the Monetary Law Act that will permit non-bank primary dealers

to have accounts at the Central Bank. This would eliminate a principal barrier of competition between bank and non-bank dealers. It is anticipated that this Act may be implemented by September, 1995.

Primary Markets: Several project recommendations aimed at increasing the competitiveness of weekly Treasury Bill auctions have been adopted by the Central Bank. Now prior to each auction, the amount of Treasury Bills to be auctioned in each of the three maturities (3-6-12 months) is disclosed. In addition, all government-controlled investor institutions must now bid competitively in the auction. These procedures and some new regulations governing primary dealers have resulted in increased market effectiveness of the auctions and the expected development of competitive pricing.

Secondary Markets: In an effort to increase liquidity in the secondary market, the FMP has obtained the removal, by the Inland Revenue, of Withholding Tax on Treasury Bills. In addition, and most importantly, the Central Bank has, with the advice of the FMP, adjusted the pricing of the Treasury Bills which it sells through its secondary window. This is the first step in urging the Central Bank to close these windows entirely, which is hoped for by the end of the year.

Employees' Provident Fund: This pension fund plan is the largest concentration of long-term savings and therefore investible assets in Sri Lanka, the majority of which are short-term treasury bills. These funds are invested exclusively in government securities. This investment process often occurs at rates below market. The FMP is working to develop a plan to allow these assets to find more diverse investment instruments and better rates of return for the pension beneficiaries. To date the FMP has drafted an amendment to the EPF Act that permits investment in non-government securities. In addition, the FMP has assisted the EPF staff in demonstrating how increased returns can be achieved from a more diversified portfolio, and also assisted the Central Bank and Ministry of Finance to address political resistance, particularly in the Ministry of Labor, to the recommended changes. This will be a long-term, on-going effort. Coordination with the World Bank and the Asian Development Bank will be critical in achieving this important objective.

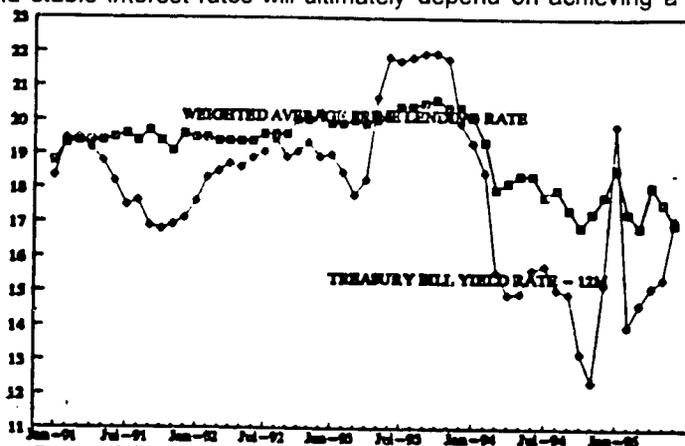
The FMP has succeeded in setting forth in specific detail the various changes the Central Bank should introduce in order to promote a government securities market. These measures would allow the Central Bank to conduct monetary functions appropriate and necessary for the development of an environment more conducive to a private sector debt securities market. It should be noted that the FMP has clearly established a relationship with the Central Bank that allows the various policy matters of importance to be effectively undertaken and considered.

These reforms assisted by the FMP have served to move forward the reforms as agreed to by the GSL and the World Bank as part of the overall Policy Framework Paper package.

Box 7

Government borrowing drives lending rates upward

The treasury bill rate remains a prime determinant of the lending rates in Sri Lanka. High interest rates on treasury bills are a result of the demand generated by the government using treasury bills as a source of funding the recurring fiscal deficit. Developments in financial markets that result in more efficient methods of mobilizing capital such as corporate bonds, commercial paper and greater access to treasury bills through dealer networks, are likely to contribute towards reducing interest rate levels. However, the desired low and stable interest rates will ultimately depend on achieving a reduced fiscal deficit.



Source : Central Bank of Sri Lanka

6.3 Recommendations

6.3.1 Pending Legislation Concerning Financial Markets

The Amendments to the Treasury Bill Ordinance, the Monetary Law Act and the Registered Securities and Stocks Ordinance, which are delayed because the Central Bank wanted to include the legal foundation for including scripless securities, need to be instituted as soon as possible. Unless these matters are settled, further progress in this area will be difficult.

6.3.2 Reform of the Repurchase Operations

The Central Bank should modify its present secondary window and repurchase operations to enable the development of a secondary market in treasury bills.

6.3.3 Assistance to Enable Amendment to EPF Act

To enable the Employees' Provident Fund to invest in non-government securities, the EPF Act must be changed. The FMP has assisted the EPF staff in analysis and should assist the Central Bank in the preparation of a policy paper setting out the issues and justifying EPF investments in non-government securities, for review by the Ministry of Finance and the Ministry of Labor.

7. INDUSTRY TRAINING AND CERTIFICATION OF SECURITIES MARKETS PROFESSIONALS

7.1 Objective of Project Component

The objective of this project component is :

- to assist in developing a pro-active, market-driven securities industry, with trained brokers, agents and analysts.

7.2.1 Background

USAID recognized that with the rapid growth of Sri Lanka's capital market since 1988, the lack of skilled professionals in corporate finance represented a constraint to further development. To remedy this situation, the following three training activities were developed. First, the Chartered Financial Analysts (CFA) program, second, in-country training seminars and third, overseas study tour training. This training has contributed in an integral manner to other components of the project as noted in other sections of the evaluation report.

The assistance provided by USAID aimed to have the CFA program well-recognized as a point of entry for financial professionals in the securities industry in Colombo. Also, it was anticipated that the market should have at least 60 CFA qualified professionals, with at least 40 students at various stages of obtaining certification.

7.2 Findings

7.2.1 Accomplishments to Date and Remaining Tasks and Issues

CFA Training: The CFA program orientation was initiated in February 1993 with classes starting in March. Books and materials ordered in January 1993 arrived in March. Classes ended in May and in June 1993 and 36 candidates sat for the CFA Level I examination. Attachment 6 (Section III) includes a full chronology of events from January 1993 to June 1995. As of June 1995, CFA Level I had 56 candidates who sat for the examination, CFA level II had 8 candidates and CFA Level III had 5 candidates. In 1993, 160 applications were received for entrance to the CFA Level I and 70 were selected. In 1995 over 300 applications were received and 80 candidates were selected. 65 of these candidates were admitted to the Level I program on a self-payment basis. It is expected that in 1996 the program may receive 400 applications and accept approximately 80 candidates, all of whom will be on a self-payment basis, as the USAID assisted portion of the program will have come to a conclusion. Clearly the CFA is a rigorous program and is aimed at training securities analysts and portfolio managers in banks, brokerage and insurance companies and institutional investors. The program involves three years of self-directed study with one examination per year. The CFA designation is a widely known credential in the investment research and management field. The introduction of the CFA program has met an important need in the market and it appears that the program has gained professional acceptance in the Colombo financial community. Indeed many, if not most of the institutions visited

were quite keen to point out the number of CFA Level I, II or III participants in their company.

Students who were interviewed rated the self-study instructor-assisted program instructors and structure quite highly. Indeed, lectures conducted by US and local instructors met and exceeded the evaluation team's expectations. Classes, study halls and materials are provided at the Hotel Galadari, a five-star hotel in the center of the Colombo business district, known as the Fort. Throughout the programs' design, high end, quality features are provided : first-rate instructors, air-conditioned classroom facilities, study halls, CFA study materials, individual tutorials, a sensible class schedule and of course the relevant instruction materials. The Sri Lanka CFA program students have the opportunity to obtain the CFA designation on a basis very similar, if not equal, to individuals in the USA.

In-country Training: The objective of in-country training is to increase the depth of knowledge and awareness of capital market issues among a broad range of professionals who will impact market development either as direct participants such as brokers and bankers or as indirect participants such as government and media personnel. Thirty-five seminars were conducted over the 30 months' period from FMP initiation to June 1995 (See Attachment 6 Section I). The institutions and professions targeted included the Securities Exchange Commission, the Colombo Stock Exchange, the Central Bank of Sri Lanka, the Attorney-General's Department, the Bar Association, Journalists, Educators and ICASL Management Accountants. Over 850 professionals have attended these seminars, many of which consisted of multiple programs. For example, Seminar Twelve (See Attachment 6 Section I) consisted of comprehensive two-day workshops on Fixed Income Securities for Managers of the Central Bank. Seminar Twenty for journalists was a series of five classes on the trading of securities on the CSE. These programs have been well managed and presented and they have resulted in an increased understanding of capital markets by the financial community at large.

Overseas Training: The overseas study tours are designed to familiarize the participants with circumstances, techniques and procedures in other markets. In the 30 month FMP period thirteen study tour programs have been completed involving twenty three professionals (See Annex. 6 Section II). Members of the SEC, CSE, Attorney-General's Department and members of the ICASL have visited the NYSE, the SEC in Washington DC, the Pacific Stock Exchange, the Philadelphia Stock Exchange, the Chicago Board of Options, the Chicago Stock Exchange, the NASD in Washington and New York, the American Stock Exchange, the Financial Accounting Standards Board and the Federal Reserve Bank in New York, as well as the Hong Kong Stock Exchange in Hong Kong and the Stock Exchange in Thailand. While it was generally acknowledged that the overseas study tours were beneficial, there were occasional instances where schedules were mismatched or unexpected cancellations were experienced. In addition, some visitation sites (the New York Stock Exchange was mentioned several times) did not have personnel sufficiently dedicated to the study tour program and expectations of the study tour participants were not always met.

The FMP has promoted the Sri Lanka Association of Securities and Investment Analysts (SLASIA), involving the leaders of the business community in Sri Lanka, to sustain the

momentum in the training of investment analysts thus addressing a key sustainability concern. (See Box 8).

7.3 Recommendations

7.3.1 Assistance to Sri Lanka Association of Securities and Investment Analysts (SLASIA)

As the USAID involvement with the CFA program ends with the June 1995 examinations, it would undoubtedly assist the various interested parties, notably the SLASIA, in sustaining the CFA program if USAID stayed involved for an additional year. SLASIA may need some financial support, especially to contract instructors from the USA.

7.3.2 Training of Journalists

Many business leaders and senior government officials cited the need for further training of journalists as an area that needs further attention. While acknowledging the significant contribution made by the project to date, USAID is well placed to promote more responsible and informed business reporting.

BOX 8

Sri Lanka Association of Securities and Investment Analysts

The FMP has been instrumental in promoting the establishment of the Sri Lanka Association for Securities and Investment Analysts to link Sri Lanka's investment professionals to the global capital markets. This association will also serve to institutionalize some aspects of the FMP such as the CFA certification course and the on-going education of investment professionals which will provide the sustainability and the further development of the work accomplished to date.

The objectives of SLASIA are:

- Providing means for securities and investment analysts to gain professional qualifications and professional development
- Transferring technology to securities and investment professionals
- Providing self regulatory mechanisms for investment professionals
- Liaison with regulatory authorities and associate professional bodies in ensuring the development of capital markets
- Enriching the capital market by encouraging the development of new investment instruments.
- Promoting local market-oriented research and data base development
- Improving awareness amongst the investor public
- Developing relations with similar associations overseas.

8. ASSISTANCE TO EMERGING FINANCIAL INSTITUTIONS

This chapter evaluates the FMP's assistance to emerging financial institutions.

8.1 Objectives of Project Component

The objectives of this component are :

- to assist emerging institutions such as Unit Trusts, Insurance Companies and Retirement Funds, Venture Capital companies and Merchant Banks to be more active in fresh market segments and to develop new financial instruments.
- to assist emerging institutions to improve existing operations.

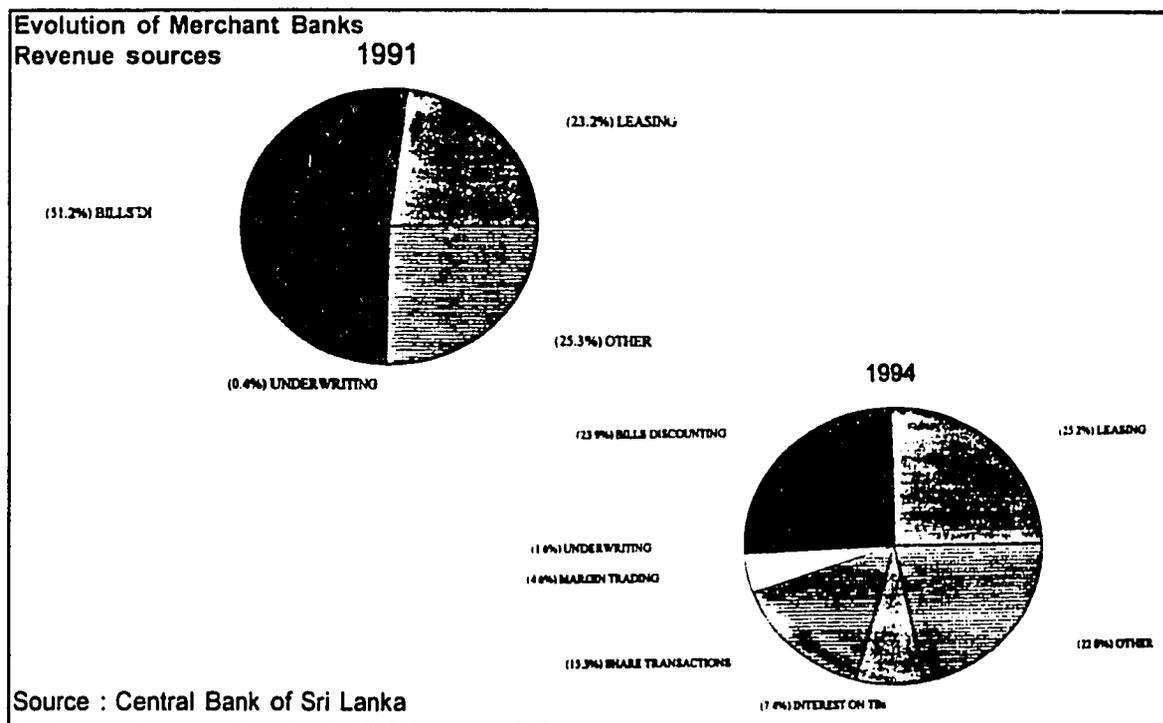
An important element of this project is that it is demand driven and requires cost sharing (25%) by the financial institutions.

8.2 Findings

8.2.2 Background

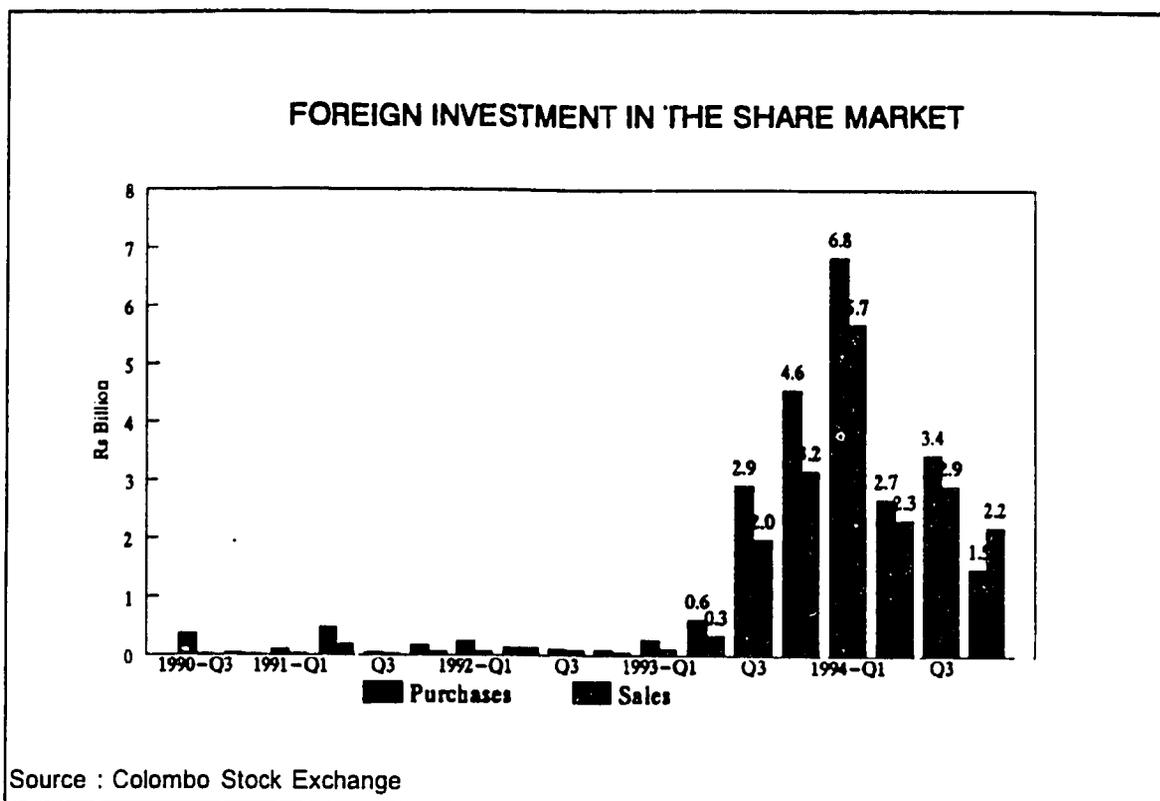
A number of new financial institution have emerged over the project period and have expanded rapidly. This includes four new Merchant Banks, four Unit Trusts, four stock broking firms which are joint ventures with international firms and four active Venture Capital companies. Three new commercial banks specializing in investment finance are about to be launched. The established institutions are responding well to the competition by developing new services. (See box 9)

BOX 9



The privatization program of the government has played an important role in the development of financial intermediaries, attracting foreign capital into Sri Lanka and increasing the volumes of transactions in the Colombo Stock Exchange through the public issue of shares in previously state-owned enterprises. This process has led to the "internationalization" of the stock market with a significant improvement in the quality of research generated by the broking firms and a flow of portfolio investments into the country (See Box 10). The rapid development of a corporate bond market which has grown from a negligible amount in 1992 to Rs 4 billion to date has resulted in a number of new instruments such as commercial paper, index linked bonds and interest rate swaps, thus enabling companies to lower interest costs. (see Box 11)

Box 10



In fact, there is now concern in the market as to whether the limited financial markets in Sri Lanka can sustain the number and variety of the new institutions that have emerged. Some of these institutions are now responding to these concerns by exploring the possibility of servicing companies in other countries, initially by entering into associations with firms operating in India. With the increasing sophistication of the market and the government's drive to encourage private investment in infrastructure projects, there still is potential for a variety of new financial instruments to be introduced

USAID assistance for this component of the project was designed to make experienced financial professionals available to private financial institutions to develop new products and improve operations. In-country training seminars to develop general skills were also provided through the training component of the project in addition to the certification program for financial analysts.

8.2.3 Accomplishments To Date and Remaining Tasks and Issues

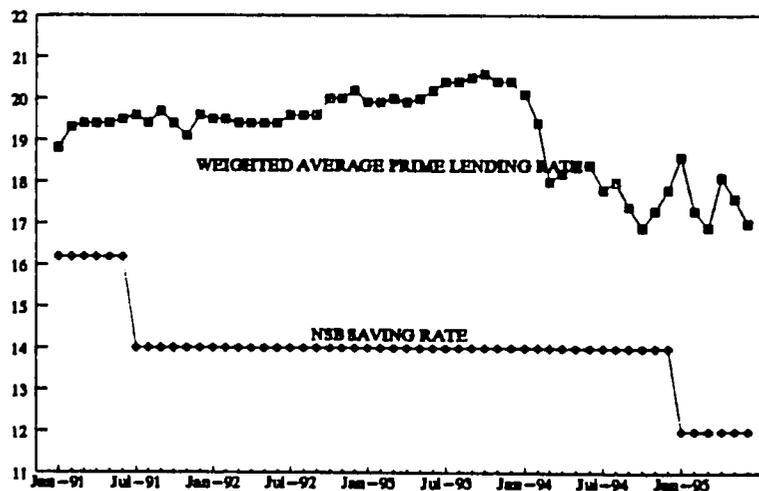
The numerous training courses held for venture capital companies, unit trusts, merchant banks and brokerage firms and the CFA program have contributed in no small measure to the development of these institutions in terms of exposure to new forms of instruments, general training of staff and awareness of financial market developments. A listing of the training courses is set out in Attachment 5 and an analysis of participant profiles is set out in Attachment 6.

The project has funded technical assistance for a pioneering program of securitization of assets for Vanik Incorporation and the Merchant Bank of Sri Lanka. The Merchant Bank of Sri Lanka has also received assistance to improve its back office operations. A significant development enabled by the project is the proposed syndication of an issue of medium-term debentures which is to be issued by four commercial banks (see Box 11). The mechanism of expecting the participating institutions to bear 25% of the cost of technical assistance has been particularly useful in ensuring demand driven, cost effective assistance.

BOX 11

A wide spread increases borrowing costs

High lending rates are a major barrier to sustained private investment in Sri Lanka. Sri Lanka's spread between lending and deposit rates (prime lending rate and savings rate) has remained above 6 percentage points over the last three years or double that of East Asian economies, indicating that reforms to address this deserves high priority. One of the causes for these large spreads includes the inefficiency of the two state-owned commercial banks that command a market share of around 60% and have the power to set a wide margin which is then exploited by the private banks which can effectively compete with marginally lower spreads and a more efficient service. Development of financial markets helps to create new instruments for saving and investments, increasing competition and thus reducing the cost of funds to borrowers and increasing returns to investors.



Source : Central Bank of Sri Lanka

Box 12

New investment instrument

The FMP has attempted to address the lack of medium and long-term financing for small and medium enterprises in Sri Lanka. Described below is one of the more promising attempts at long-term financing with the issuance of medium-term bonds by four private sector commercial banks:

The availability of properly structured and sustainable term financing for small and medium-sized enterprises in Sri Lanka is woefully inadequate. This is particularly true for the agricultural sector and is a major constraint to fulfilling the objectives of USAID's Agro-Enterprise Development Project (AgEnt). In mid-1994, the AgEnt project set about to remedy this situation and initiated dialogue with commercial and merchant banks and venture capital firms. In late 1994 the Financial Markets Project (FMP) was approached for technical assistance which was highly compatible with the FMP's objective of creating new financial instruments. Simultaneously, the USAID offices of Agriculture & Natural Resources (ANR) and Private Sector Development & Housing (PSDH) decided to cooperate in developing a new instrument which would address this credit constraint greatly. A comprehensive study was carried out by USAID's Center for Economic Growth in Washington, DC which proposed a six year term issue of Rs.300 million (US\$ 6 million), jointly issued/ guaranteed by the four local commercial banks (Commercial Bank, Hatton National Bank, Sampath Bank and Seylan Bank), with a "backstop" guarantee of USAID.

Subsequently, in a series of meetings with senior management of the four banks, followed by separate meetings with the CEO's of each bank, it was agreed, in principle, to jointly float a bond issue with a ten-year term and to forego the USAID guarantee. However, USAID's Loan Portfolio Guaranty (LPG) facility would be extended to cover term loans to small and medium enterprises participating in the program. In January, 1995 Invitations to Submit Bids were extended to three leading local merchant banks and presentations were made to the Banks' Working Committee in mid-February. The process of evaluating the bids, assessing various proposals, defining terms, and fine-tuning structural details has finally resulted in the selection of Vanik Incorporation Ltd. as Manager/Underwriter for the issue.

BENEFITS

- *The participating banks can now market new products and services associated with term lending and capital investments.
- *The participating banks can match maturities of their term loans with locally sourced funding of equal maturity.
- *Bond funds are not subject to reserve deposits at the Central Bank (CBSL).
- *Subject to CBSL approval, this debt is eligible for inclusion in tier two capital adequacy requirements for banks.
- *Institutional investors, such as insurance companies and private provident funds, now have an investment option that can match their long-term liabilities.
- *Local intermediation of funding will reduce international donor dependency, and channel resources into economically productive enterprises.
- *The banks' term borrowers can take down properly structured loans that allow equal advantage to small and medium-sized firms.
- *The capital market receives a new financial instrument that further develops the capabilities of the private sector.

(Source: Memo dated June 2 1995 -Commercial Bank's bonds for economic Development, Gibbs Mcdaniel, Chief of Party- ISTI, Colombo)

8.3 Recommendations

8.3.1 Continue assistance to emerging financial institutions

It is expected that there will be a continuing need in the future for this form of expertise for financial institutions to develop new products and processes. This type of activity has ripple effects through the markets as competitors replicate products. USAID should consider continuing this type of activity in the future.

9. ISSUES FOR EVALUATION

9.1 Extent of goal achievement as measured by verifiable indicators

Project output targets and progress to date have been discussed in detail in Chapters 2 to 8 and summarized in the log frame shown in Attachment 4. The log frame also contains the status of the verifiable indicators of project purpose outputs and the assumptions made.

The verifiable indicator of goal achievement is a 10% real growth in private sector investment. While a direct measure is not available, evidence suggests that this measure has exceeded the expected level over the project period to date (1992-1994). This result has been obtained despite an unstable political climate and a depressed climate for investment which are outcomes of the general elections and the Presidential election held in 1994.

The project purpose is to develop the capacity of the Sri Lankan capital market to broaden public equity participation in the economy and increase capital resources for investment. The verifiable indicators of purpose achievement show the significant development of capital markets during the project period. These have been set out in the log frame on Attachment 4. Additional indicators are reflected in the purpose level target indicators contained in Attachment 3 and summarised below:

During the period 1992 to 1994, growth in the relative size of the equity market, an indicator of market size relative to the size of the economy, shows an increase from 16% of GDP to 25% of GDP. Growth in market liquidity, measured by turnover volumes in the equity markets have increased seven-fold from Rs 5m to Rs 35m. Foreign net portfolio investments into the equity market amounted to Rs 1.1b in 1992, peaked in 1993 at Rs 3.3b and has amounted to approximately Rs 6 billion (US\$ 1.2b) over the period 1992 to 1994. The commercial paper market has increased from an almost negligible level to a total of approximately Rs 4 bn. These indicators are accompanied by corresponding development in institutional capability. From 1993, four merchant/investment banks, staffed with impressive leadership, have been newly established. All three of the older, well-established trading firms have established new financial services companies either as brokers or as merchant bankers or both. Venture Capital, which was not organized before 1992, has four very effective, well-managed firms competing for business and investment. Four new broking companies have been established since 1993 with affiliations with Singapore and Hong Kong based financial companies of international stature. Four new unit trusts have emerged while three new commercial banks are in the process of being organized.

While the linkage is far too complex to identify, it is indisputable that the more efficient use of resources and new opportunities for investment, resulting from the development of financial markets seen during this period, has contributed significantly to the rapid increase in private sector investment and the related developments of generating production, employment and increased incomes. A study carried out by the FMP indicates the creation of a total of 45,000 new jobs by companies that raised capital on the stock exchange in 1993 and 1994.

The output level indicators have been assessed in Chapter 2 to 8. Regulation, compliance and market risk issues are being addressed by the SEC and the CSE in a very active manner. Chapter 2 sets out the manner in which the project has contributed to this aspect. Company reporting and disclosure have seen a marked improvement over the project period while the development of more stringent accounting and auditing standards has progressed rapidly. The project contribution to these aspects are described in Chapter 3. Progress made on improving systems reliability and the ability to handle greater volumes and a broader range of transactions by the CDS system is on target as described in Chapter 4. Chapter 5 deals with the work undertaken to identify the potential for a second tier market. The considerable contribution by the project to the development of the market for debt securities is set out in Chapter 6. The training component of the project has contributed significantly towards upgrading the staff operating in financial markets with over 5800 hours of training being conducted through project training programs. In June 1995, 69 men and women sat for the CFA level I, II and III examinations, a figure up from zero in 1992 and 36 in 1993. This component of the project is analyzed further in Chapter 7 of the report. Chapter 8 describes the development of financial markets during the project period.

9.2 Relevance

The aims and objectives of the FMP are still relevant in the context of changes in the structure of Sri Lanka's economy and financial markets over the life of the project. They are consistent with the development strategies supported by the current USAID policy statements and those adopted by the GSL. The project purpose is central to USAID strategic objectives of increasing private sector employment and income to contribute to economic growth.

9.3 Sustainability

There are no significant sustainability issues in the project. Each component has dealt with sustainability aspects in an appropriate manner. The regulation and self-regulation activities are being sustained by the cess levied on the traded securities, the volume growth of which is being assisted by the project. The sustainability of the training component of the project is driven by the demand for skills in an expanding market and the keen interest in the activities shown by leaders in the Colombo business community that have launched a new organization of Investment Analysts which proposes to support the CFA program beyond the life of the project. Financial institutions are also promoting the development of staff capabilities through training to cope with competition and an increasingly demanding clientele. The CSE is self-financing and has even launched an upgrading of systems using its own reserves built up over the years.

9.4 Effectiveness, efficiency and relevance of project management

While the project has been carefully designed to meet very specific output targets, it has also provided the flexibility to develop the outputs as demands and conditions change. This has resulted in placing a heavy demand on USAID and the contractors to keep track of new developments and to maintain a continuing dialogue with counterparts and the financial markets community to ensure appropriate responses to on-going developments in financial markets.

For a variety of reasons, the first chief of party (February - May 1993) was unable to establish the required dialogue and rapport with counterparts resulting in the deterioration of relations rather early on in the project. During the gap of 5 months between the departure of the first chief of party and the arrival of the second in October 1993, the contracting team had to cope with interim arrangements which understandably put many pressures on project management and resulted in delays in some of the project components. The arrival of the new chief of party helped to resolve many of the administrative concerns. However, chief of party's dialogue with counterparts is an area which has been ineffective partly owing to the original breakdown in relationship and the slow-down in project activity and partly owing to the enhanced expectations of the counterparts. This is a reflection of the results of their enhanced capabilities and the stage of development of the market. This situation resulted in the need for the resolution by USAID of many managerial problems which appear to have been dealt with successfully.

ISTI has produced adequately designed work plans which assist effective planning as well as accommodate changes in work activities. The quarterly reports have been comprehensive and timely and are keyed directly to work plan components which allow the easy assessment of tasks. While some difficulty has been experienced in the appropriate timing of technical assistance, the personnel provided have contributed relevant and high quality work. This is especially so in the areas of long-term assistance to the CSE, the SEC and the Central Bank where the consultants were able to make significant contributions.

The project is now progressing satisfactorily towards its objectives. Since the major management tasks have been completed, in the main, the remaining management functions relate to specific tasks such as training in surveillance, compliance and enforcement for the SEC and CSE and interfacing with the ICASL. This however, will require some reallocation of remaining technical assistance resources.

Given the comprehensive scope of the FMP and the significant accomplishments achieved, in terms of the indicators, the impacts of the FMP are being produced at a relatively low level of USAID investment. There appears to be a very sensible allocation of resources between long-term and short-term personnel and the FMP's on-going overheads. At the present rate of expenditure, the project could run through to May of 1996 or 5 months longer than was originally proposed. As noted above, however, some adjustment in allocation of technical assistance is required. Extending the project within its current budget would certainly contribute to furthering the objectives of the project.

9.5 Host country and/or other counterpart contributions

Host country contributions to the Financial Markets Project, consisting of the input provided by the financial community to project activities and the contributions made by the CSE and the SEC exceed the expected level of US\$ 2m. This is a sign of the commitment of the counterpart organizations and augurs well for the sustainability of project activities. Absorptive capacity has been high due to the high caliber of counterpart personnel as well as the exposure to developed markets and training provided by the project to these personnel. This fact has contributed in no small measure to the successes of the project to date.

9.6 Gender concerns

Gender issues are an integral part of the design and implementation of the FMP. In a nation where both the Prime Minister and President are women, where the General Manager of the premier state bank, the Bank of Ceylon, is a woman and where women have both political and economic franchise there does not appear to be overt discrimination. Developing financial markets usually have expertise needs which reduce gender discrimination but Sri Lanka has an additional factor. Educated women in Sri Lanka are strongly encouraged to enter the accounting field. As a result, all the FMP counterpart organizations have significant female employment in managerial positions. The gender notion in Sri Lanka appears to equal or actually exceed USAID guided standards with regard to the financial market community.

10. LESSONS:

- I USAID's support for capital markets development is fully consistent with its mandate to promote broad-based, sustainable economic growth. Growth in Sri Lanka's capital markets has indirectly contributed to the creation of nearly 50,000 jobs in a three-year period, mobilized significant new foreign and domestic investment in productive sectors and broad-based ownership of Sri Lankan companies. It has also created new investment opportunities for nearly 150,000 Sri Lankan citizens. Most importantly, USAID's investment in capital markets development in Sri Lanka has proved to be sustainable. This will assist Sri Lanka in moving, over the next decade, from a dependence on foreign aid to a capital flow system based on private investment. Prospects for further growth and development of the capital market in Sri Lanka, with minimal USAID support, are good.
- II Developing effective capital market regulatory institutions is a critical success factor in emerging markets. The well-managed SEC of Sri Lanka only truly came into its own in 1993, but has already established itself as an effective and respected capital market institution. The SEC has also played an important role as a promoter of capital markets development.
- III One of the developments with the greatest impact on the Sri Lankan market was the introduction of the Central Depository System (CDS) which has led to scripless trading. Clearly, this system was prompted by a huge backlog of unsettled trades (1992) but in a few short years the Colombo Stock Exchange has become only the ninth market in the world to be transformed into a paperless environment. Usually, the clearing and settlement functions, along with transfer and registration, are the last elements addressed in emerging capital markets development. This is not the case in Sri Lanka and it has therefore provided the Colombo Stock Exchange with a distinct comparative advantage to all the other markets in South Asia relative to these administrative tasks.
- IV Emerging markets in developing countries compete amongst themselves and then on a regional basis rather than globally. Foreign institutional investors take exposure in "emerging markets" on a defined regional basis with specifically earmarked funds for each region. Sri Lanka competes not with Malaysia or Venezuela but with Bombay, Karachi and Dhaka, its South Asian counterparts. In the regional context, the Colombo Stock Exchange rivals all its competitors in terms of regulation and trading operations.
- V The development of an efficient government debt securities market is essential to developing a private debt securities market. Experience gained with the FMP has shown the difficulty of proceeding with a program to develop a market for private debt securities without a benchmark yield curve based on government debt securities. Financial market development projects should not underestimate the importance of an efficient government debt securities market, and should pay special attention to encouraging the development of medium and long-term government debt instruments.

- VI Linkages between privatization and capital markets development programs are synergistic in Sri Lanka. USAID's experience in Sri Lanka shows that simultaneous programs supporting privatization and capital markets development can be highly effective. The stock exchange has emerged as the most effective and transparent means of privatizing state-owned companies in Sri Lanka. The Colombo Stock Exchange has also enjoyed robust growth and increased liquidity as a result of privatizations. The GSL's plans for an expanded privatization program, provide an important source of growth for the CSE. Finally, the privatization program will provide opportunities for growth and increased professionalism in Sri Lanka's capital markets industry.
- VII Demand-driven, cost-shared assistance to emerging financial institutions is an effective technical assistance mechanism. USAID's experimental approach in providing technical assistance to emerging financial institutions in Sri Lanka has proved to be useful. While it requires a fair amount of "hand holding" to mobilize a consultant, the results are significant, whether measured in terms of new instruments developed or in improved operations. The requirements for cost-sharing by participating institutions ensures strong commitment to achieving planned results.
- VIII A comprehensive financial training program like the Chartered Financial Analysts (CFA) can be implemented long distance and be successful locally if it is closely managed and professionally implemented.

ATTACHMENT 1

PROJECT DATA SHEET

1. Country: Sri Lanka
2. Project Title: Private Sector Policy Support - Financial Markets Component
3. Project Number: 083-0100
4. Project Dates:
 - a. Date Commenced: 6/92
 - b. Date of Completion: 7/96
5. Project Funding: (amounts obligated to date in dollars or dollar equivalents from the following sources)
 - a. A.I.D. Bilateral Funding (grant) \$ 7.0 million (grant)
 - A.I.D Bilateral Funding (loan) N/A
 - b. Other donors N/A
 - c. Host Country Contribution \$ 2.0 million
 - Total \$ 9.0 million
6. Technical Assistance and Training Contractor International Science & Technology Institute Inc.
7. Project Designers: USAID/Colombo
Government of Sri Lanka
8. Responsible Mission Officials: (full life of project)
 - a. Mission Director(s) Richard M Brown 1992-1993
David Cohen 1993-present
 - b. USAID Project Enterprise Officer(s) Stephen Hadley 1993-1994
John Lindborg 1994-1995
 - c. USAID Project Officer(s): Nissanka Weerasekera
Vajira Kulatilleke
9. Previous Evaluation None

EVALUATION SCOPE OF WORK

STATEMENT OF WORK
FINANCIAL MARKETS PROJECT COMPONENT
PRIVATE SECTOR POLICY SUPPORT (PSPS) PROJECT
INTERIM EVALUATION

1.0 Title of Evaluation

Interim Evaluation of the Financial Markets Project (FMP) Component of the Private Sector Policy Support (PSPS) Project
Project No. 383-0100
United States Agency for International Development (USAID)
Colombo, Sri Lanka

2.0 Purpose of Evaluation

The primary purpose of this interim evaluation of the Financial Markets Project (FMP) is to provide USAID/Sri Lanka and project counterparts with a detailed assessment of project implementation and progress achieved to-date, as well as the overall impact of the FMP on the development of Sri Lanka's financial markets. This assessment will include any recommendations for project modifications to improve the likelihood of achieving the project's objectives.

A secondary purpose of the evaluation is to examine possible project activities in the future in light of Sri Lankan financial markets conditions. Specifically, the evaluation will include recommendations for alternative or additional activities which could be considered for support after the current scheduled Project Activities Completion Date (PACD) of July 31, 1996.

3.0 General Project Information

Date Started: 6/92
PACD: 7/96
Project Component Funding: \$. 7.0 million (grant)
Host Country Contribution: \$. 2.0 million
Project Components:

- a). Technical Assistance and Training Contract with the International Science and Technology Institute (ISTI)
Funding: \$6.08 million
Counterparts:
The Securities and Exchange Commission of Sri Lanka (SEC/SL)
Colombo Stock Exchange (CSE)
The Institute of Chartered Accountants of Sri Lanka (ICASL)
The Central Bank of Sri Lanka (CBSL)

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Attachment 2 - Statement of Work for Interim Evaluation of the Financial Markets Project

- b). Commodity Assistance to Colombo Stock Exchange's Post-Trade Automation System Upgrade through a Direct USAID Contract
Funding: \$0.71 million
Counterparts: Colombo Stock Exchange
- c). Other Costs (Monitoring and Evaluation)
Funding: \$0.21 million

4.0 Project Context and Background

In July 1988, USAID authorized \$15 million for the PSPS Project. The original PACD was July 31, 1993. The project involved: (1) support to the GSL privatization effort; (2) strengthening the private sector's ability to contribute to market-oriented economic policies through business chambers and associations; (3) capital market development through assistance to the SEC, CSE, as well as supporting the start-up of a venture capital company.

The project's interim evaluation in December, 1991 concluded that the project was on track to accomplish the project's objectives and that the activities supported will continue after the project is completed. With reference to the Capital markets component, the evaluation team concluded that this was an area where USAID could continue to add value. Concurrently, the GSL had determined that the country's financial markets needed further development, particularly in improving the market regulation structure, in increasing the supply of quoted securities, and in developing new forms of financial intermediation in the market place.

Accordingly, the Financial Markets Project (FMP) component, with a budget of \$7 million, was added to the PSPS project through a Project Paper supplement authorized in May, 1992. The project's goal to increase national employment and incomes remained unchanged, but the project's purpose was slightly modified to read: the project will further develop the capacity of the capital market to broaden public equity participation and increase capital resources for investment.

USAID/Sri Lanka determined that the most effective way to assist the GSL in its capital market development objective is to provide TA and training to support key financial institutions including the SEC, the CSE, the Institute of Chartered Accountants of Sri Lanka (ICASL) and other private sector financial intermediaries. \$6.08 million was set aside for a TA and training contract for this purpose. \$710,000 was set aside to upgrade CSE's post-trade automation system, the Central Depository System (CDS) that had already been funded and installed under the earlier Capital Markets development component of the project. The balance \$210,000 was set aside for monitoring and evaluation.

The TA and training contract was fully competed and awarded to the International Science and Technology Institute (ISTI) in December, 1992. The contract supports the following activities:

Attachment 2 - Statement of Work for Interim Evaluation of the Financial Markets Project

a) Improve the reliability of market information by strengthening the market regulation capacity of the SEC and the self regulation activities of the CSE; and improving the financial reporting of listed companies.

b) Increase the availability of financial instruments by developing a second tier market; and developing a market for quoted debt securities, initially by supporting a secondary market in GSL Treasury Bills and subsequently, Corporate Bonds.

c) Improve the analytic capability of market participants by establishing the U.S. certification program of Chartered Financial Analysts (CFA) as a formal certification program in Sri Lanka; and providing TA and training to selected financial institutions.

5.0 Current Status of Project

For planning purposes, the life-of-the-project was divided into two 18-month periods. The first 18-month period was concluded in June 1994, and the second phase began in July 1994. A review carried out at the end of the first workplan period compared actual results versus the objectively verifiable indicators of the project purpose. The results of the review are given in Attachment A-1.

The ISTI Contract is implemented by a resident U.S. Chief-of-Party, and three long-term specialists in the areas of training, computer systems, and research. The Contract has long-term level-of-effort (LOE) of about 100 person-months, and about 120 person months of short-term LOE. At the present moment, approximately 50% of the LOE has been expended. A Committee comprising representatives of USAID, SEC, CSE, ICASL, CBSL and ISTI meets on a monthly basis and provides oversight to the project. The project is managed by USAID's Office of Private Sector development and Housing (PSD/H).

6.0 Statement of Work for Interim Evaluation

6.1 Evaluation Objectives

As stated in Section 2, the primary purpose of this interim evaluation is to provide USAID and project counterparts with a detailed assessment of project implementation and progress achieved to-date, as well as the overall impact of the FMP on the development of Sri Lanka's financial markets.

A secondary purpose of the evaluation is to examine possible project activities in the future in light of Sri Lankan financial markets conditions.

6.2 Issues for Evaluation

The evaluation will be designed and implemented in a manner that will provide empirical findings and recommendations for appropriate changes in the project approach, while answering the questions listed below:

- a. To what extent have the measures of goal achievement and the objectively verifiable indicators of project purpose and outputs, as stated

Attachment 2 - Statement of Work for Interim Evaluation of the Financial Markets Project

in the Logical Framework of the PP Supplement been achieved? To what extent are the assumptions in the original logframe still valid?

- b. What is the verifiable impact of project achievements on the development of Sri Lanka's economy (i.e. direct and indirect beneficiaries) in general, and financial markets in particular?
- c. In light of changes in the structure of Sri Lanka's financial markets over the life-of-project, are the aims and objectives of FMP still relevant?
- d. How appropriate is the FMP within the context of USAID's overall strategic objectives?
- e. Is there evidence to suggest that the achievements of the project identified in 6.2a. above are likely to be sustainable beyond the life-of-project?
- f. To what extent have the technical assistance contractor been effective and efficient in providing technical and training assistance to project counterparts/beneficiaries? Has the assistance been relevant?
- g. How effective, efficient and relevant has the project's training program, including the Chartered Financial Analysts Program, been?
- h. What has been the extent of the host country and/or other counterpart contributions (input size, sequence, timing, effectiveness and absorptive capacity)?
- i. To what extent have gender concerns been integrated into the design and implementation of the project?
- j. What are the principal "lessons learned" from the FMP?

6.3 Statement of Specific Evaluation Tasks

In addressing the questions and issues summarized above, the evaluation team will perform the following tasks:

Task 1: Preparatory Work

Before the departure of the team leader for Sri Lanka, the team members shall familiarize themselves with previous and current literature about the project. The Mission will ensure that the following documents are available to the team.

- a. PSPS Project Paper Supplement;
- b. Project Implementation Reports (PIR), 1994;

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- c. Annual Workplans;
- d. Most recent Quarterly Reports;

The team leader will meet with the technical assistance contractor (ISTI) in Washington, D.C. In addition, USAID/Sri Lanka will make arrangements for the team leader to meet with relevant staff in USAID/Washington. While in Washington, D.C. the team leader shall also meet with a representative of the World Bank to determine the Bank's views on developments in Sri Lanka's financial markets.

The team members will also finalize a Workplan for the field work in Sri Lanka. This may include the preparation of evaluation instruments and criteria, interview forms, etc. The team may also choose to send USAID a list of questions on data requirements in order that collection of the information may be started in advance of the team's arrival.

In Sri Lanka, the team will carry out the following tasks:

Task 2: Prepare an Assessment of Project Achievements to Date

The team will identify project achievements from project initiation in 1992 to the present, based on monitoring indicators in the Project paper Supplement. This assessment will cover actions taken, policies adopted and changes initiated, and will identify issues which still need to be addressed.

In evaluating the overall achievements of the FMP, the team should use the means of verification identified in the Project Paper and Project Paper Supplement so far as readily available data permit. Their findings, both qualitative and quantitative, should be summarized in matrix form, comparing the targets in the Logical Framework with the current status. To the extent possible, beneficiary data (e.g. direct and indirect employment) should be gathered and reported.

Task 3: Evaluate the Effectiveness of the Management of the FMP - The team will evaluate the effectiveness of USAID and the technical assistance contractor in managing and implementing the project.

Task 4: Evaluate the Effectiveness of the FMP Training Program

The team will evaluate the effectiveness of the FMP training program, including the CFA program, in relation to the project's overall objectives.

Task 5: Identify Obstacles to Implementation and Emerging Opportunities

From the preceding tasks, the team will identify any obstacles to project implementation, and propose new approaches to overcoming these obstacles, including new approaches for provision of technical assistance, training and policy reform. In addition, the team will assess the probability for sustained impact of this project and will recommend whether a continuation of this type

Attachment 2 - Statement of Work for Interim Evaluation of the Financial Markets Project

of project is justifiable. The team will identify emerging opportunities which could be incorporated in any subsequent amendment of or extension to the FMP and/or FMP technical assistance contracts.

Task 6: Briefings and Preparation of Draft and Final Reports

The team will present a number of briefings and prepare draft and final reports, as described in Sections 6.7 and 6.8

6.4 Evaluation Methods

The evaluation team will utilize the following evaluation methods:

6.4.1 Interviews

The Evaluation team should conduct interviews with individuals from the following groups involved directly with the project and/or Sri Lanka's financial markets:

- a. USAID/Washington and USAID/Sri Lanka personnel;
- b. Representatives of the project contractor;
- c. Project counterparts, including the SEC, ICASL and CBSL;
- d. Private sector project participants/beneficiaries, including trainees, Colombo Stock Exchange staff and private sector financial institutions representatives.
- e. Academic and/or private sector observers of Sri Lanka's financial markets and privatization/restructuring program
- f. Other donors, including the World Bank, International Monetary Fund, and the Asian Development Bank

USAID will assist the evaluation team in setting up appointments for the above interviews and may also participate in a number of the interviews.

6.4.2 Research

Research will include, but not be limited to, a review of the following:

- a. USAID documentation for the FMP, including the Project Paper Supplement, periodic reports and project files;
- b. Contractors' reports and files'
- c. Financial press reports on Sri Lanka's financial markets;
- d. Market research documents prepared by private firms/advisors;

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- e. Other donor reports (World Bank, International Monetary Fund, Asian Development Bank)

USAID and FMP contractor will cooperate, to the maximum extent possible, with the evaluation team in providing access to appropriate, non-sensitive documents.

6.5 Evaluation Team Composition and Qualifications

It is proposed that the evaluation team will consist of the following two professionals:

Team Leader/Senior Financial Markets Specialist (36 person days): The primary responsibility of the team leader will be to plan, coordinate, execute and manage the overall evaluation. The team leader will also provide technical expertise related to the evaluation requirements to determine project relevance, efficiency, effectiveness, impact and sustainability. The team leader will be responsible for managing the evaluation team and completing all evaluation documentation. The team leader should hold a minimum of a MS degree in economics, management or a related social science, with extensive experience in the financial sector, with broad exposure to all facets of financial sector issues. The team leader must have demonstrated experience in capital markets and money markets. He/she should also be experienced in managing and implementing financial sector projects design and evaluation work, preferably with USAID projects. Previous experience in Sri Lanka is highly desirable.

Financial Markets Research Specialist (30 person days): This local-hire person will be responsible for gathering data regarding Sri Lanka's financial markets and carrying out research required for the evaluation. Representative tasks will include collating and presenting data on developments in Sri Lanka's financial markets during the period of project implementation, identifying and obtaining useful research documents, and ensuring that all relevant sources of information on the FMP and the Sri Lankan financial markets are reviewed by the evaluation team. This person should be a Sri Lankan national fluent in both Sinhala and English and should hold a minimum of a MS degree in economics or management. A strong background in financial markets is required, with a minimum of five years experience in the field.

The proposed level-of effort and the composition of the evaluation team may be adjusted, **but only with the prior written approval of USAID.**

USAID recommends that the contractor obtain the services of the local-hire person through a local (Sri Lankan) consulting firm. In addition to the two-member team described above, clerical and administrative staff support will be supplied by the evaluation team's home office in the U.S (see Section 6.9)

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6.6 Level of Effort

It is estimated that the three-person team will provide a total level of effort of 66 professional person-days within a period of 6 calendar weeks.

U.S.: (preparatory work: final report) 1 person x 6 days = 6 person-days

Sri Lanka: (field work; draft report) 2 persons x 30 days = 60 person-days

A 6-day work week is authorized

6.7 Evaluation Schedule and Deliverables

A notional schedule for the evaluation and deliverables is shown below:

Week No.	Work to Be Carried Out	Deliverables
One	The Team Leader meets with USAID and World Bank representatives in Washington, D.C. Draft Workplan is prepared; Team Leader travels to Sri Lanka; Set up appointments in Sri Lanka.	Draft Workplan
Two	Team members begin work in Sri Lanka: Research Specialist begins work: Initial briefing with USAID Office of Private Sector Development and Housing (PSD/H) staff and counterpart representatives; Agree on Workplan; Begin interviews and research.	Approved Workplan
Three	Interviews and research; Progress Briefing for PSD/H staff on Friday	Briefing at USAID
Four	Interviews and research; Progress Briefing for PSD/H staff on Friday	Briefing at USAID
Five	Complete interviews and research; Progress briefing for PSD/H staff on Friday	Briefing at USAID
Six	Prepare and present draft final report in exit briefing for USAID and counterparts	Draft final report and exit briefings for USAID and counterparts

Attachment 2 - Statement of Work for Interim Evaluation of the Financial Markets Project

6.8 Reports

The team will prepare, in Sri Lanka, a draft final report which responds to the questions and tasks outlined in Sections 6.2 and 6.3 This draft report will be submitted to USAID/Sri Lanka during Week 5 of the evaluation for discussion during exit briefings with USAID. USAID will provide the team with verbal comments during the exit briefings and written comments within one week of the team leader's departure. The team will provide a final report to USAID within the subsequent two weeks

The final report must correspond to USAID's required format for project evaluation reports as follows:

- *Executive Summary*, with these elements: (1) purpose of activity evaluated, (2) purpose of the evaluation and methodology used, (3) findings and conclusions, (4) principal recommendations, and (5) clear and succinctly stated "lessons learned" both regarding project design implications and broad action implications;
- *Project Identification Data Sheet*;
- *Table of Contents*
- *Body of the Report* (usually 30-40 pages) including sections on (1) evaluation purpose and questions, (2) the economic, political and social context of the project, (3) team composition and study methods (one page maximum) (4) evidence/findings concerning the evaluation questions (5) succinctly stated conclusions drawn from the findings (including "lessons learned") and (6) recommendations based on evaluation findings and conclusions;
- *Appendices*, including a copy of the evaluation scope of work, the most current logical framework for the project, a list of documents consulted and individuals and agencies contacted, more detailed discussions of methodological or technical issues as appropriate, and supporting tables and graphs.

Fifteen printed and bound copies of the final report will be provided to USAID. Another five copies of the printed report will be provided to the USAID/W Center for Development Information and Evaluation (CDIE) in accordance with normal USAID requirements. USAID will also be provided with a diskette copy of the final report written in Word Perfect 5.1 format, plus diskette copies of tables and graphs (in Harvard Graphics or Lotus format).

The team will also be responsible for the drafting of Sections H and J of the standard USAID Evaluation Summary. A copy of this form, and of the instructions for completing it, are attached for reference (Attachment A-2).

PURPOSE LEVEL TARGET INDICATORS

QUARTER ENDING 3-31-95

Indicator	Unit	Source	Beginning of Project	At 3 - 31 - 95	End of Project Dec 1995
1. Number of Individuals holding shares through the CSE	Qty	CDS	49,218	137,754	120,000
2. Number of Listed Companies	Qty	CSE	190	222	225
3. Total Capital raised by:					
- Bond Issues	RsMM	CSE	0	2,997	3,000
- Equity (a)	RsMM	CSE	5,565(b)	23,326(c)	20,000
4. Secondary market for Treasury Bills through Primary Dealers (incl."Repo's") (Monthly Turnover)	Rs.MM	Primary Dealers	<Rs 50	Rs. 20,000	Rs. 15,000
5. Number of new financial instruments introduced:					
- FMP assisted	Qty.	FMP	0	1	3
- Others	Qty	FMP	0	2	2
6. Improve reliability of market market information system					
- Trained staff in surveillance unit	Qty	CSE/SEC	-	Underway	Completed
- Standard practice manuals distribution	Qty.	CSE/SEC	-	Underway	Completed
7. Improvements in system reliability and capacity					
- Avg Terminal Response Time	Sec	CSE/CDS	7.92	2.66	<4.0
- Capacity capabilities (a) Avg. Daily Trade Transactions	Qty	CSE/CDS	454	1,073	2,000
(b) Avg. Daily CDS Transactions	Qty	CSE/CDS	505	691	2,000
8. CFA Students passed					
Level 1	Qty	FMP	0	16	59
Level 11	Qty	FMP	0	5	21
Level 111	Qty	FMP	0	0	5

Footnotes

(a) Includes IPO, subsequent issues & rights issues

(b) Total equity capital raised from 1-1-87 to 12-31-92

(c) total equity capital raised from 1-1-87 through 3-31-95

**REVISED LOGICAL FRAMEWORK FOR THE PRIVATE SECTOR POLICY
SUPPORT PROJECT**

Narrative Summary	Verifiable Indicators	Findings	Status of assumptions
Goal: To assist the GSL to increase national employment and incomes by the creation of a policy environment conducive to private sector growth	Increase in private sector investments of 10% per annum in real terms over the project period	Private sector and public corporations gross domestic capital formation.	This result has been achieved despite a unstable political climate resulting from General elections and a Presidential election held during the course of 1994
Purpose: To develop the capacity of the Sri Lankan capital market to broaden public equity participation in the economy and increase capital resources for investment.	<p>a. Growth in relative size of the market</p> <p>b. Growth in market liquidity</p> <p>c. New investments facilitated by the market</p> <p>d. Growth in net inflows of foreign investments through the market</p>	<p>Market Capitalization/GDP %</p> <p>1992 - 16%</p> <p>1993 - 25%</p> <p>1994 - 25%</p> <p>Turnover Volume Rs m</p> <p>1992 - 4,969</p> <p>1993 - 18,579</p> <p>1994 - 34,522</p> <p>New IPO's conducted through market</p> <p>1992 - 12</p> <p>1993 - 12</p> <p>1994 - 16</p> <p>Portfolio investments Rs m</p> <p>1992 - 1,121</p> <p>1993 - 3,372</p> <p>1994 - 1,334</p>	<p>The investment climate remains depressed, largely due to political uncertainty related to the ongoing war in the North and East.</p> <p>Private sector participation in the economy continues to be encouraged by the new government, but in a more passive manner than in the past.</p>

**REVISED LOGICAL FRAMEWORK FOR THE PRIVATE SECTOR POLICY
SUPPORT PROJECT**

Outputs:	Verifiable indicators	Current Status	Comment
Securities Exchange Commission operational; Colombo Stock Exchange playing expanded role in serving capital markets.	a. Surveillance unit staffed, training and functional at the SEC. Enhanced capability of the CSE for self regulation.	Market risks being addressed by the SEC in a very active manner. The project has to focus on developing the surveillance units at SEC and CSE	
	b. Improved company reporting, disclosure and the development and implementation of more stringent accounting and auditing standards.	Improvement of accounting and auditing standards is taking place through development of standards. The compliance unit is in place. Further activity is anticipated during rest of project life	
	c. Improved systems reliability and ability to handle greater volumes and broader range of transactions by the Central Depository System (CDS)	The upgrade of the CDS is meeting all expected outputs and implementing a system which is more technologically sound than originally intended.	
Increased supply of quoted securities	d. A second tier market established with lower costs of entry, lower costs of maintenance and less stringent regulations.	This issue has been studied and a decision has been taken to not to proceed with the second tier market as originally anticipated	The equity market has suffered price declines since March 1994. Currently, volumes transacted remain small.

**REVISED LOGICAL FRAMEWORK FOR THE PRIVATE SECTOR POLICY
SUPPORT PROJECT**

Outputs:	Verifiable indicators	Current Status	Comment
	A secondary market in Government Securities established and functioning . Several quoted corporate long term debt instruments floated.	Significant progress has been achieved with policy reforms still needed to develop a government debt securities market. The development of long term corporate debt has been hampered by the lack of a govt debt market.	Macro economic imbalances with cause inverted interest yield curve limits extent of activity in long term securities market in the medium term.
	Proactive, market driven securities industry with trained brokers, agents and analysts.	Over 35 seminars have been held for participants in financial markets. 14 overseas study tours completed SLASIA set up to institutionalize investment education and run the CFA program.	
	New institutions active in fresh market segments: Portfolio investment companies such as unit trusts, insurance companies and retirement funds. venture capital companies and investment banks	Market has fostered development of two new venture capital firms and 5 new merchant banking operations with 3 new commercial banks starting up	

TRAINING PROGRESS REPORT

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FINANCIAL MARKETS PROJECT IN-COUNTRY TRAINING
January 1, 1993 through June 30, 1995

(1) Securities & Exchange Commission

Conducted a series of Financial Markets Training on subjects such as Equity Securities, Debentures, Derivatives, Short Selling and Margins for Managers and Staff. Program was held during first and second quarters of 1993 on Tuesdays and Thursdays from 2:00 pm to 4:00 pm at the SEC Training Room. Program lectures were given by Seth Isaacs and Susan Martin. (See June 1993 Quarterly Report).

(2) Colombo Stock Exchange

Conducted a series of Financial Markets Training on subjects such as Equity Securities, Debentures, Derivatives, Short Selling and Margins for Managers and Staff. Program was held during first and second quarters of 1993 on Mondays and Wednesdays from 2:00 pm to 4:00 pm at the CSE Boardroom. Program lectures were given by Seth Isaacs and Susan Martin. (See June 1993 Quarterly Report).

(3) Attorney General's Department

Conducted a series of Financial Markets Training on subjects such as Equity Securities, Debentures, Derivatives, Short Selling and Margins for Managers and Staff. Program was held during first and second quarters of 1993 on Mondays and Wednesdays from 2:00 pm to 4:00 pm at the Library of the Attorney General's Department. Program lectures were given by Seth Isaacs and Susan Martin. (See June 1993 Quarterly Report).

(4) Stock Brokerage Firms

Coordinated with Susan Martin the continuation of the Stock Brokerage Certification curriculum and examination (Local series 7). Program lectures given by Susan Martin to 30 stock brokerage employees per class at the SEC Training Room (See June 1993 Quarterly Report).

(5) Regulation Seminars

A series of Regulation Seminars and Workshops were conducted during the third quarter of 1993. Two programs for Supreme Court Justices, High Court Justices, District court Justices and Justices of Court of Appeal were held between August 17 and August 21, 1993 at the Oberoi and Marriott Hotels. The program lectures and workshops were conducted by Dean Jeswald Salacuse and Professor Joel Trachtman from Fletcher School of Law at Tufts University. The program detailed the laws of enforcement and

disclosure. 18 Justices attended the first program and 26 justices attended the second program. (See September 30, 1993 Quarterly Report).

A conference for the senior Attorneys of the Attorney General's Department was held on August 19, 1993 at the Marriott Hotel. The program lectures and workshops were conducted by Dean Jeswald Salacuse and Professor Joel Trachtman from Fletcher School of Law at Tufts University. The importance of the Financial Market integrity as well as Markets Surveillance and Prosecution Procedures were taught. 55 members of the Attorney General's Department were in attendance. (See September 30, 1993 Quarterly Report).

A one-day workshop for the Bar Association of Sri Lanka was held at the Marriott Hotel on August 21, 1993. The workings of the Securities Market and Regulations were taught. 125 Attorneys from the Bar Association were in attendance. (See September 30, 1993 Quarterly Report).

(6) Journalism Training

A three-week training program for the Financial Journalists and Business Editors of the three local English language newspapers, local TV stations, Reuters and Bloomberg was held in the Training Room of the SEC during the third quarter of 1993. 26 Participants attended the program which met on Mondays, Tuesdays and Thursdays from 9:30 a.m. to noon. The program was conducted by Dr. Hannan Ezekiel, former Editor of the Financial Times of India. In-class lectures and writing assignments as well as evaluation of previously submitted articles and mock press conferences were held with guest speakers Mr. V. Kailasapillai, Chairman of the Colombo Stock Exchange and Mr. Stanley Jayawardena, Chairman of the Securities & Exchange Commission. (See September 30, 1993 Quarterly Report).

(7) University Professors and Course Curriculum Decision Makers

A three-day workshop was conducted by Dr. Hannan Ezekiel, former Editor of the Financial Times of India was held at the Triton Beach Hotel, July 18 through July 21, 1993. 18 Members of the University Community were in attendance. The structure of the market place investment instruments and investment regulations were taught. (See September 30, 1993 Quarterly Report).

(8) Regulatory Training

Held a Securities Enforcement, Regulation and Litigation Seminar for Senior Attorneys of the Attorney General's Department and selected managers of the Criminal Investigation Unit. Program was conducted by Mr. Bob Bishop, former Senior Regulatory Officer of the New York Stock Exchange. 15 Attorneys from the Attorney General's Department and 4 managers from Criminal Investigation Division were in

attendance. Program was conducted at the Marriott Hotel on October 7 and 8, 1993. (See December 31, 1993 Quarterly Report).

(9) Stock Brokerage Firms

Held a two-day Securities Regulation and Surveillance Seminar for senior managers and directors of the 16 stock brokerage firms. Program was conducted by Mr. Bob Bishop, former Senior Regulatory Officer of the New York Stock Exchange. Program was conducted at the Marriott Hotel on October 9 and 10, 1993. 19 Senior Managers and directors were in attendance. (See December 31, 1993 Quarterly Report).

Held a series of Financial Market Instruments Program for clients of Allied Stock Brokers. Program was conducted by Seth Isaacs and held at the Marriott Hotel in November of 1993. 29 Clients were in attendance. (See December 31, 1993 Quarterly Report).

Held broker training classes for newly licensed brokers of the Hatton National Bank. Program was conducted by Seth Isaacs at the Training Room of the SEC in November of 1993. 32 newly registered brokers were in attendance for such subjects as Market Instruments and their use as well as the Selling of Securities to Clients. (See December 31, 1993 Quarterly Report).

(10) Brokerage Firms

Conducted two seminars on Investment Instruments, their objectives, risks and rewards were held at the Board Room of the Colombo Stock Exchange on February 3 and 4, 1994. Program was conducted by Seth Isaacs. 25 New employees from various brokerage firms were in attendance. (See March 31, 1994 Quarterly Report).

(11) Series 7 Curriculum and Examination Update

Jack Buehler (Creator of the Initial NASD Series 7 Curriculum and Examination) reviewed the existing broker training program in Sri Lanka in March of 1994. Mr. Buehler submitted changes to the curriculum and the examination. These changes were incorporated into the new broker training program now managed by Mr. Kithsiri Gunawardena, Training Manager of the Securities & Exchange Commission for the new program which began in November of 1994. (See March 31, 1994 Quarterly Report).

(12) Central Bank

A comprehensive two-day workshop on Fixed Income Securities was conducted on February 13 and 14, 1994 at the Marriott Hotel for managers of the Central Bank and the 18 primary dealers. This workshop was the first in a series conducted by John Biasucci, President of Morbank, Pete Morley, former President of the Association of

Investment Management Research (AIMR) and Professor Frank Reilly, Dean, College of Business Administration, University of Notre Dame. 44 Managers from the Central Bank and Primary Dealers were in attendance. (See March 31, 1994 Quarterly Report).

Mike BeVier, John Biasucci, Seth Isaacs in conjunction with Mr. G.M.P.D. de Silva, Executive Director of the Central Bank began the creation of a Portfolio Management Training Program to be conducted by Seth Isaacs for managers of the Central Bank, Employee Provident Fund (EPF), Employee Trust Fund (ETF) and the Insurance Corporation. This program commenced in October of 1994. (See March 31, 1994 Quarterly Report).

Seth Isaacs in conjunction with Mr. G.M.P.D. de Silva arranged for an overseas training visit for Mr. S. Easparathan, Executive Director of the Central Bank to attend the Intradors Capital Market Development in Emerging Economies Conference in Washington, D.C., June 20 through July 1, 1994. In addition, arranged for Mr. Easparathan to attend a program on Interest Rate Risk at the New York Institute of Finance, July 11 through July 25, 1994 in New York as well as visits to the Federal Reserve Bank in Washington, July 5 and 6, 1994 and with Chuck Lucas at the Federal Reserve Bank of New York, July 7 and 8, 1994. The cost for these programs were paid by the Central Bank. (See March 31, 1994 Quarterly Report).

Seth Isaacs in conjunction with Mr. G.M.P.D. de Silva arranged for Mr. T.S.N. Fernando, Superintendent of Public Debts, Central Bank to attend the Intradors Securities Market Management in Emerging Economies Conference held in Washington, D.C., May 16 to May 27, 1994. In addition, Mr. Fernando was scheduled to visit the Federal Reserve Bank in Washington and New York. The cost for these programs were paid by the Central Bank. (See March 31, 1994 Quarterly Report).

(13) Journalism Training

Dr. Hannan Ezekiel, former Editor of the Financial Times of India conducted a series of training for Financial Journalists, TV Journalists, Reuters and Bloomberg were conducted during April and May, 1994. A Level I program for new journalists not hired or not available for the 1993 program was held on Mondays, Tuesdays and Thursdays from 9:30 am to noon at the SEC Training Room. 10 new journalists were in attendance. A Level II program was held on Mondays, Tuesdays and Thursdays from 2:00 pm to 4:30 pm for returning journalists from the 1993 program. In-class lectures and writing assignments were reviewed with participants. 12 returning journalists were in attendance. (See June 30, 1994 Quarterly Report).

(14) University Professors and Course Curriculum Decision Makers

Dr. Hannan Ezekiel, former Editor of the Financial Times of India conducted a one-day workshop for University Educators and Course Curriculum Decision Makers. This

program was a continuation of the August 1993 program and was an attempt to motivate the curriculum decision makers to incorporate Financial Markets programs in the University curriculums. Public Awareness programs will be run through the Universities. 24 University educators and decision makers were in attendance on March 14, 1994. (See June 30, 1994 Quarterly Report).

(15) Financial Decision Makers

A Policy Decision Maker Conference was conducted by Stanley Jayawardena, Chairman of the Securities and Exchange Commission on May 17, 1994. Dr. Hannan Ezekiel was moderator of the conference which highlighted the concerns of the brokerage firms and the concerns of the regulatory body (SEC). 42 CEOs and senior directors of the brokerage firms, SEC and CSE were in attendance. (See June 30, 1994 Quarterly Report).

A second Policy Decision Maker Conference was conducted by Mr. Stanley Jayawardena, Chairman of the Securities and Exchange Commission on June 3, 1994. This program was a follow-up to the May 14, 1994. Securities Market Regulator, Ms. Estella Tang was moderator. 35 CEOs and directors of brokerage firms, SEC and CSE were in attendance. (See June 30, 1994 Quarterly Report).

(16) SLASIA

Continued work on the formation of the Sri Lanka Financial Analysts Society. Khush Choksy and Gibbs Macdaniel have worked with the SLASIA executive committee. Seth Isaacs has spent much time with the SLASIA CFA committee on the CFA program, how to manage it, how to pay for it, how to continue training local trainers and how to best utilize team Copley. (See September 30, 1994 Quarterly Report).

(17) Securities & Exchange Commission

Conducted a series of four seminars and group discussions on screen-based trading for preparation for the screen-based trading coming to the Colombo Stock Exchange. This program was conducted by Bill Gorman and Seth Isaacs in July of 1994. (See September 30, 1994 Quarterly Report).

(18) Colombo Stock Exchange

Conducted a series of four seminars and group discussions on screen-based trading for preparation for the screen-based trading coming to the Colombo Stock Exchange. This program was conducted by Bill Gorman and Seth Isaacs in July of 1994. (See September 30, 1994 Quarterly Report).

(19) Stock Brokerage Firms

Conducted a series of four seminars and group discussions on screen-based trading for preparation for the screen-based trading coming to the Colombo Stock Exchange. This program was conducted by Bill Gorman and Seth Isaacs in July of 1994. (See September 30, 1994 Quarterly Report).

(20) Journalism Training

Conducted a series of five classes on the trading of securities of the Colombo Stock Exchange and the valuation of securities. This program was held in July and August of 1994 as a follow-up to the journalism programs conducted by Dr. Hannan Ezekiel. This program ended with a tour of the Colombo Stock Exchange and a complete explanation of the open outcry trading system utilized at the Colombo Stock Exchange. The journalists were able to view the birth of a trade from the client to the branch office, to the Stock Exchange, to the depository, back to the Stock Exchange, back to the branch office and back to the client. 12 journalists attended this program. (See September 30, 1994 Quarterly Report).

(21) Law Interns

A workshop on Securities Market Law, Rules and Enforcement was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University on August 23, 1994 at the Lasallian Education Center. 20 Law Interns from the Law College were in attendance. (See September 30, 1994 Quarterly Report).

(22) Attorney General's Department, Legal Draftsman's Department and Registrar of Companies

A workshop on Securities Market Regulation and Enforcement was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University on August 24, 1994 at the Marriott Hotel. 36 senior Attorneys of the Attorney General's Department and various managers of the Legal Draftsman's Department and Registrar of Companies. (See September 30, 1994 Quarterly Report).

(23) Securities & Exchange Commission

A workshop on Securities Market Regulation, Enforcement and Surveillance was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University on August 25, 1994 at the Marriott Hotel. 5 managers were in attendance. (See September 30, 1994 Quarterly Report).

(24) Colombo Stock Exchange

A workshop on Securities Market Regulation, Enforcement and Surveillance was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University on August 25, 1994 at the Marriott Hotel. 6 managers were in attendance. (See September 30, 1994 Quarterly Report).

(25) Regulation Seminars

A two-day intensified residential workshop on the Integrity of the Securities Market and the Enforcement of Securities Market Regulation was held at the Pegasus Reef Hotel on August 26 through August 28, 1994. This program was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University. 26 Judges and Magistrates island wide were in attendance. (See September 30, 1994 Quarterly Report).

(26) Brokerage Firms

A comprehensive workshop on Securities Market Regulation for the newly hired compliance officers of the brokerage firms was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University in conjunction with Mrs. Surekha Sellahewa, Enforcement Officer of the Colombo Stock Exchange. This program was held at the Taj Samudra Hotel on August 31, 1994 with 28 compliance officers in attendance. (See September 30, 1994 Quarterly Report).

(27) Fund Managers and Venture Capitalists

A one-day workshop on Fund Management and Asset Valuation was conducted by Professor Laurant Jacque of the Fletcher School of Law at Tufts University was held on August 31, 1994 at the Intercontinental Hotel. 26 Fund Managers and Venture Capitalists were in attendance. (See September 30, 1994 Quarterly Report).

(28) Regulation Seminar

A one-day workshop on Financial Market Investment and Regulation for members of the Sri Lankan Bar Association was held at the Taj Samudra Hotel on September 1, 1994. The program was conducted by Dean Jeswald Salacuse, Professor Joel Trachtman and Professor Laurant Jacque of the Fletcher School of Law, Tufts University. 23 members of the Bar Association were in attendance. (See September 30, 1994 Quarterly Report).

(29) Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants

A workshop on the functions and the regulations of the Financial Market was held for senior students of the Institute of Chartered Accountants and the Chartered Institute of Management Accountants at the ICASL Auditorium on August 31, 1994. 85 senior students from both institutes were in attendance. (See September 30, 1994 Quarterly Report).

(30) Central Bank

The second senior managers' workshop for the Central Bank and Primary Dealers was held on Saturday, October 15 and Saturday, October 22, 1994. Trading and selling of fixed income securities was the focus of this program, conducted by John Biasucci, President of Morbank, and was assisted by Mr. Keval Bhasin, Mr. Erik Davidson and Ms. Carolyn Lu. Between October 15 and October 22, the program coordinated, visited with members of the Central Bank and the Primary Dealers to view how they conduct trading. (See December 31, 1994 Quarterly Report).

(31) Securities & Exchange Commission

Mr. Paul Litteau and Ms. Stella Tang conducted a series of Regulation and Enforcement Training programs for various members of the SEC staff. Mr. Litteau and Ms. Tang wrote and delivered training manuals. 7 SEC managers attended the programs. (See December 31, 1994 Quarterly Report).

(32) Colombo Stock Exchange

Mr. Paul Litteau and Ms. Stella Tang conducted a series of Regulation and Enforcement Training programs for various members of the SEC staff. Mr. Litteau and Ms. Tang wrote and delivered training manuals. 7 SEC managers attended the programs. (See December 31, 1994 Quarterly Report).

(33) Securities & Exchange Commission, Colombo Stock Exchange, Attorney General's Department, Registrar of Companies, Legal Draftsman's Department

Conducted a three-day residential workshop on Emerging Market Regulations with Mr. Terry Chuppe of the United States Securities & Exchange Commission, Mr. Hung Kee Lai of the Hong Kong Stock Exchange, Mr. Dylan Moldrich of the Colombo Stock Exchange, Mrs. Malinie Goonewardene of the Securities & Exchange Commission, Mr. Bill Gorman, Mr. Khush Choksy, Mr. Seth Isaacs and Ms. Estella Tang. This program was held at the Pegasus Reef Hotel, December 18 through December 20, 1994. 32 managers were in attendance. (See December 31, 1994 Quarterly Report).

(34) Central Bank

Began Portfolio Management training for 23 managers of the Central Bank Employees

Provident Fund (EPF), Employees Trust Fund (ETF) and Insurance Corporation. Lectures were prepared by Pete Morley, Ron Copley, Seth Isaacs and Lalith Samarakoon. Lectures were given on Tuesdays and Thursdays, 10:00 am to noon at the SEC Training Room. (See December 31, 1994 Quarterly Report).

(35) Training of Trainers

Training of trainers which began in February of 1993 will continue through the end of the Financial Markets Project in December of 1995. (See Quarterly Reports for June of 1993, September of 1993, December of 1993, March of 1994, June of 1994, September of 1994, December of 1994 and March of 1995).

FINANCIAL MARKETS PROJECT OVERSEAS TRAINING

January 1, 1993 through June 30, 1995

- (1) **Mr. Arittha Wikramanayake, Director General, Securities & Exchange Commission**
Mr. Rohan Fernando, Listings Manager, Colombo Stock Exchange

Attended the Third Annual Securities & Exchange Commission International Market Development Conference in Washington, D.C., April 26 through May 14, 1993.

Attended Intraday Market Development Conference in Washington, D.C., May 17 through May 28, 1993.

- (2) **Mr. Ravi Peiris, General Manager, Colombo Stock Exchange**
Mr. Jagath Ponnampereuma, Manager, Central Depository System

Attended The Depository Trust Corporation Conference on Clearing and Settlement in New York, May 10 through May 14, 1993.

Attended programs at the New York Stock Exchange and the American Stock Exchange on May 17 through May 19, 1993.

- (3) **Mr. Benny Tissera, Senior Investigation Manager, Securities & Exchange Commission**
Luckshan Wijesundera, Senior States Attorney, Attorney General's Department

Attended Regulatory Training at the New York Stock Exchange and the American Stock Exchange, December 4 through 8, 1993.

Attended Regulatory Training at the Securities & Exchange Commission and the National Association of Securities Dealers in Washington, D.C., December 9 through December 14, 1993.

Attended Regulatory Training at the Pacific Stock Exchange in Los Angeles, December 15 through December 17, 1993.

- (4) **Mr. Isuru Tillekewardene, Trading Manager, Colombo Stock Exchange**
Mr. Jagath Ponnampereuma, Manager, Central Depository System

Attended Trading & Settlement Training at the New York Stock Exchange and the American Stock Exchange in New York, December 11 through December 14, 1993.

Attended Trading & Settlement Training at the Philadelphia Stock Exchange in Philadelphia, December 15 through December 17, 1993.

Attended Trading & Settlement Training at the Chicago Board of Options and the Chicago Stock Exchange in Chicago, December 17 through December 21, 1993.

Attended Trading & Settlement Training at the Pacific Stock Exchange in San Francisco, December 22 through December 24, 1993.

- (5) **Mrs. Surekha Sellahewa, Compliance Officer, Colombo Stock Exchange**
Mrs. Lasinee Serasinghe, Enforcement Manager, Securities & Exchange Commission

Attended Compliance & Surveillance Training at the New York Stock Exchange and the American Stock Exchange in New York, November 14 through November 18, 1993.

Attended Compliance & Surveillance Training at the Chicago Board of Options and the Chicago Stock Exchange in Chicago, November 19 through November 22, 1993.

Attended Compliance & Surveillance Training at the Securities & Exchange Commission and the National Association of Securities Dealers in Washington, D.C., November 23 through November 30, 1993.

Attended Compliance & Surveillance Training at the Pacific Stock Exchange in Los Angeles, December 1 through December 4, 1993.

- (6) **Mrs. Malinie Goonewardena, Legal Manager, Securities & Exchange Commission**
Mrs. Murdu Fernando, Senior States Attorney, Attorney General's Department

Attended Compliance & Surveillance Training at the New York Stock Exchange and the American Stock Exchange in New York, November 22 through November 26, 1993.

Attended Compliance & Surveillance Training at the Securities & Exchange Commission and the National Association of Securities Dealers in Washington, D.C., November 29 through December 2, 1993.

Attended Compliance and Surveillance Training at the Chicago Board of Options in Chicago, December 2 through December 4, 1993.

Attended Compliance and Surveillance Training at the Pacific Stock Exchange in Los Angeles, December 6 through December 7, 1993.

Attended Compliance & Surveillance Training at the Stock Exchange of Thailand in Bangkok, December 10 through December 12, 1993.

- (7) **Mr. Chanaka De Silva, Senior States Attorney, Attorney General's Department**
Mr. A.S.M. Perera, Senior States Attorney, Attorney General's Department

Attended Market Regulation and Enforcement Training at the Pacific Stock Exchange in Los Angeles. March 15 through March 18, 1994.

Attended Market Regulation and Enforcement Training at the Pacific Stock Exchange in San Francisco. March 19 through March 23, 1994.

Attended Market Regulation and Enforcement Training at the New York Stock Exchange and the American Stock Exchange in New York, March 24 through March 28, 1994.

(8) Mr. Rohan Fernando, Deputy General Manager, Colombo Stock Exchange

Attended Listings Training at the Pacific Stock Exchange in Los Angeles, March 4 through March 5, 1994.

Attended Listings Training at the Pacific Stock Exchange in San Francisco, March 7 through March 9, 1994.

Attended Listings Training at the Chicago Board of Options and the Chicago Stock Exchange in Chicago, March 9 through March 11, 1994.

Attended Listings Training at the American Stock Exchange in New York, March 13 through March 18, 1994.

**(9) Mrs. Malinie Goonewardene, Legal Manager, Securities & Exchange Commission
Mrs. Suranganie Fernando, Senior Legal Draftsman, Legal Draftsman's Department**

Attended the Fourth Annual Securities & Exchange Commission International Institute for Securities Market Development Conference in Washington, D.C., April 25 through May 6, 1994.

Attended Internship Training at the National Association for Securities Dealers in Washington, D.C., May 9 through May 13, 1994.

(10) Mr. Arittha Wikramanayake, Director General, Securities & Exchange Commission

Attended Screen-based Trading Review and Demonstration at the New York Stock Exchange, June 16 through June 25, 1994.

Was unable to attend previously scheduled Screen-based Trading Reviews at the NASDAQ Exchange in Washington, D.C., June 6 through June 10 and at Jeffery's & Co. in Los Angeles from June 28 through July 1, 1994 due to program cancellations.

(11) **Mr. Reyaz Mihular, Director, Institute of Chartered Accountants of Sri Lanka**

Attended Accounting Standards Review at the Financial Accounting Standards Board (FASB) in Norwalk, Connecticut, April 17 through April 25, 1995.

Attended a program at the Federal Reserve Bank in New York, April 27 through May 6, 1995.

(12) **Mr. Kithsiri Gunawardena, Training Manager, Securities & Exchange Commission
Mr. Rajeeva Bandaranayake, Trading Manager, Colombo Stock Exchange**

Attended Fifth Annual Securities & Exchange Commission International Institute for Securities Market Development Conference in Washington D.C., April 24 through May 5, 1995.

Attended Internship Training at the NASDAQ Exchange in Washington, D.C., May 8 through May 10, 1995.

Attended Internship Training at the NYSE in New York, May 11 through May 12, 1995.

(13) **Mrs. Surekha Sellahewa, Compliance Officer, Colombo Stock Exchange
Mr. Mahinda Ambahera, Markets Surveillance, Securities & Exchange Commission**

Attended the 1995 Asia Pacific Exchange Technology Conference in Hongkong May 15 through May 17, 1995.

Attended Compliance Program at the Hongkong Stock Exchange in Hongkong, May 18 through May 19, 1995.

PENDING

(1) **Dylan Moldrich, Director General, Colombo Stock Exchange**

Is scheduled to attend the Intradis International Management Group Conference on Modernizing Capital Market Operations and Strengthening the Infrastructure and Improving Regulatory Capabilities. This program is scheduled for October 9 through October 20, 1995 in Washington, D.C. Mr. Moldrich may be unable to get away from Colombo at that time and a different program may have to be selected.

FINANCIAL MARKETS PROJECT CFA PROGRAM CHRONOLOGY

January 1, 1993 through June 30, 1995

1993 CFA Program

(1) Candidate Registration

Placed full page advertisement in the three English language newspapers for interested and qualified CFA candidates. (See June 1993 Quarterly Report).

Received 160 applications. Reviewed each application, interviewed each applicant and selected the 40 best qualified candidates for the 1993 CFA program. (See June 1993 Quarterly Report).

(2) Book Order

Ordered 1993 CFA curriculum books in January and received books in March. (See June 1993 Quarterly Report).

Ordered Study Notes written by the Financial Analyst Review (FAR) of Raleigh North Carolina and they were delivered in April of 1993. (See June 1993 Quarterly Report).

(3) Hiring of Local CFA Instructor Staff

Interviewed and hired 1993 local CFA instructor staff. Seth Isaacs and Susan Martin met with Directors of the Brokerage Firms, Directors of the Merchant and Investment Banks and Deans of the various Universities to meet potential candidates. (See June 1993 Quarterly Report).

(4) Program Orientation

Held CFA orientation for the candidates and local instructors on February 10, 1993 with SEC Chairman, Stanley Jayawardena as guest speaker. (See June 1993 Quarterly Report).

Held CFA practice examination for the candidates on February 20, 1993. This was done to expose the candidates to the CFA curriculum, to give them an early understanding of the type of examination they would be experiencing in June and for me to better understand the strengths and weaknesses of each candidate in each area of the curriculum. (See June 1993 Quarterly Report).

(5) **Classroom Sessions**

Began classes taught by local instructors on Tuesday, March 16, 1993. Classes were held on Tuesdays and Thursdays from 6:00 p.m. to 9:00 p.m. and on alternate Saturdays from 9:00 a.m. to 4:00 p.m. at the Oberoi Hotel. Classes ended on Monday, May 31, 1993. (See June 1993 Quarterly Report).

Began classes taught by expatriate instructors, Pete Morley and Ron Copley on Monday, May 3, 1993. These classes were held daily through out May from 9:00 a.m to 5:00 p.m. (See June 1993 Quarterly Report).

(6) **Study Halls and Tutorials**

Held daily group study halls and individual tutoring sessions on specific portions of the CFA curriculum conducted by Pete Morley, Ron Copley and Seth Isaacs between May 31 and June 4, 1993. (See June 1993 Quarterly Report).

(7) **Training of Trainers**

Began training local CFA training staff. Program was conducted by Pete Morley and Seth Isaacs in June of 1993. (See June 1993 Quarterly Report).

(8) **Examination**

Conducted 1993 CFA Level I examination. 40 candidates were originally registered. 38 candidates completed the program. 36 candidates sat for the examination. 9 candidates successfully passed the examination. (See September 1993 Quarterly Report).

(9) **Program coordination**

Consulted with Pete Morley and Ron Copley on reviewing the 1993 CFA Level I program searching for improvement and on creating the 1994 CFA Level I and Level II programs. (See June 1993 Quarterly Report).

1994 CFA Program

(1) **Candidate Registration**

Placed full page advertisement in the three English language newspapers for interested and qualified CFA candidates. (See September 1993 Quarterly Report).

Received in excess of 200 applications. Reviewed each application, interviewed the top 100 applicants and selected the 15 best qualified candidates for the 1994 CFA Level I

Program. The 1994 Level I Program consisted of 25 returning candidates from 1993, 15 new candidates for a total of 40 Level I candidates paid by USAID and an additional 15 candidates were admitted to the program on a self-payment basis for a total of 55 candidates for Level I in 1994. (See September 1993 Quarterly Report).

Submitted applications for the 9 candidates who successfully completed the 1993 Level I examination and these candidates comprised the 1994 Level II program. (See September 1993 Quarterly Report).

(2) Book Order

Ordered 1994 CFA curriculum books for Levels I & II in December of 1993 and received books in February of 1994. (See December 1993 Quarterly Report).

Ordered 1994 Study Notes from Copley Investment Management (CIM) and they were delivered in February of 1994. (See December 1993 Quarterly Report).

(3) Program Orientation

Held CFA orientation for Levels I & II in December of 1993. (See December 1993 Quarterly Report).

(4) Classroom Schedules

Finalized and distributed local and expatriate classroom schedules for the 1994 program for Level I & II. (See December 1993 Quarterly Report).

(5) Classroom Sessions

Began classes taught by local instructors on Monday, January 10. Level I lectures were held on Monday evenings from 6:00 pm to 9:00 pm at the Marriott Hotel and Level II lectures began on Wednesday, January 12, 1994 and were held on Wednesday evenings from 6:00 pm to 9:00 pm at the Marriott Hotel. (See March 1994 Quarterly Report).

The expatriate lectures conducted by Pete Morley, Ron Copley and Bob Sanborn began on February 1, 1994 for two weeks. March 6, 1994 for two weeks and May 8, 1994 for two and a half weeks. (See March 1994 Quarterly Report).

(6) Study Halls and Tutorials

Held daily group study halls and individual tutoring sessions on specific portions of the CFA curriculum for Levels I & II conducted by Pete Morley, Ron Copley and Seth Isaacs between May 27 and June 3, 1994. (See June 1994 Quarterly Report).

(7) **Training of Trainers**

Continued training of local CFA staff for both Levels I and II and began training of local staff for Level III. This program was conducted by Pete Morley and Seth Isaacs. (See March 1994 Quarterly Report).

(8) **Examinations**

Conducted 1994 CFA Level I Examination. 50 candidates were originally registered. 44 candidates sat for the examination. 7 candidates successfully passed the examination. (See June and September 1994 Quarterly Reports).

Conducted CFA Level II Examination. 9 candidates were originally registered. 8 candidates completed the program. 5 candidates successfully passed the examination. (See June and September 1994 Quarterly Reports).

(9) **Program Coordination**

Consulted with Pete Morley and Ron Copley on reviewing the 1994 CFA Levels I & II programs and began planning the 1995 CFA programs for Levels I, II and III. (See September 1994 Quarterly Report).

1995 CFA Program

(1) **Candidate Registration**

Placed full page advertisements in the three English language newspapers for interested and qualified CFA candidates. (See December 1994 Quarterly Report).

Received in excess of 300 applications. Reviewed each application and interviewed the top 150 applicants. 80 candidates were selected for the 1995 CFA Level I program. 65 of these candidates were admitted to the Level I program on a self-payment basis. (See December 1994 Quarterly Report).

Registered 10 candidates into the 1995 CFA Level II program. 7 new candidates who successfully passed the 1994 Level I examination and 3 returning candidates who were unsuccessful on the 1994 Level II examination. (See December 1994 Quarterly Report).

Registered 5 candidates into the 1995 CFA Level III program. 5 new candidates who successfully passed the 1994 Level II examination. (See December 1994 Quarterly Report).

(2) **Preliminary Classes**

Created training material and conducted a series of preliminary classes to build a foundation for the CFA program. Stocks, Bonds, Mutual Funds, Annuities, Derivatives, Short Selling and Margins were items taught.

(3) **Book Order**

Ordered 1995 CFA curriculum books for Levels I, II and III in November of 1994 and received books in December of 1994. (See December 1994 Quarterly Report).

Ordered study notes for Levels I, II and III written by the Financial Analyst Review (FAR) of Raleigh of North Carolina in July of 1994 and they were delivered in January of 1995. (See December 1994 and March 1995 Quarterly Reports).

(4) **Classroom Schedules**

Finalized and distributed local and expatriate classroom schedules for the 1995 program for Levels I, II and III. (See December 1994 Quarterly Report).

(5) **Classroom Sessions**

Began classes for Level I taught by local instructors on Tuesday, December 6, 1994. Level I classes were held every Tuesday from 6:00 pm to 9:00 pm at the Galadari Hotel. (See March 1995 Quarterly Report).

Began classes for Level II taught by local instructors on Wednesday, December 7, 1994. Level II classes were held every Wednesday from 6:00 pm to 9:00 pm at the Galadari Hotel. (See March 1995 Quarterly Report).

Began classes for Level III taught by local instructors on Thursday, December 8, 1994. Level III classes were held every Thursday from 6:00 pm to 9:00 pm at the Galadari Hotel. (See March 1995 Quarterly Report).

The expatriate lectures conducted by Ron Copley, Charles King and Bob Sanborn began on January 3 for two weeks. March 10 for two weeks and May 8 for two weeks. (See March 1995 Quarterly Report).

(6) **Study Hall and Tutorials**

In the process of holding daily study halls and individual tutoring sessions on specific portions of the CFA curriculum for Levels I, II and III. Ron Copley, Charles King and Bob Sanborn held sessions prior to their departure on May 20, Khush Choksy, Lalith Samarakoon, Nanda Kumar Stenger and Seth Isaacs will hold sessions from May 25 to June 1, 1995. (See June 1995 Quarterly Report).

(7) **Training of Trainers**

Continue training of local CFA staff for Levels I, II and III conducted by Pete Morley, Lalith Samarakoon and Seth Isaacs. This program which has been on-going since June of 1993 has reached a reliable level of sustainability. (See June 1995 Quarterly Report).

(8) **Examination**

Conducted 1995 CFA examinations for Levels I, II and III at the Overseas Childrens School (OCS), Pelawatte Battaramulla at 9:00 a.m. on Saturday, June 3, 1995. 56 candidates sat for the Level I examination, 8 candidates sat for the Level II examination and 5 candidates sate for the Level III examination.

(9) **Program Coordination**

Will continue consulting with Pete Morley, Ron Copley, Khush Choksy and AIMR for the improvement of the CFA program and to prepare for the 1996 CFA program.

(10) **SLASIA**

Working diligently with Khush Choksy and the SLASIA executive committee to prepare them for the eventual management of the CFA program commencing with the August 31, 1995 registration of new Level I candidates for the beginning of the 1996 CFA program. Coordination of local instructors, expatriate instructors, program funding, classroom and examination location, book orders, study guides and study notes and the procedures of AIMR are crucial areas in the process of being finalized. I anticipate assisting SLASIA through out the 1996 CFA program, and turning over actual management of the CFA program to SLASIA before year end 1995.

**Technical Assistance for the Post Trade Automation Component
of the Financial Markets Project**

In addition to the tasks provided for in the FMP work plan, the following additional tasks have been undertaken.

1. A capability to disseminate real-time market information to brokers, television stations, and to data vendors such as Reuters. This transmission took the form of a "scrolling screen".
2. Performance improvements to the originally procured Unisys A1-FX computer system to provide for enhanced trading capacity. These included hardware additions, software modifications, and streamlining operations.
3. A 2-part ticket trading system was introduced to eliminate the bottleneck caused by trading floor managers recording trades. This resulted in more trades being executed in the same time. A study tour was organized to Amsterdam for CSE officials and brokers to see 2-part ticket trading in operation.
4. Implemented several software modifications to the CDS to enhance its capabilities and functionality. These included introducing a two-tier brokerage rate schedule, a more efficient client name search facility to prevent duplicating clients, on line inquiry of client registrations with brokers, generating monthly CDS statements only to active clients and an on-screen facility for brokers to enter client IDs for trades reported, among others.
5. Upgraded the Unisys A1-FX computer system to an Unisys A11-E11 computer system as a stopgap measure until the USAID funded CDS upgrade is in place.
6. Implemented a mechanism whereby shares allotted to successful applicants in initial public offerings (IPOs) can be directly deposited in the CDS thus eliminating the need for share certificates. This has now been extended for rights issues as well.
7. Developed a market data system for real-time dissemination and display of market information. The "scrolling screen" described previously was changed so that data is transmitted a record at a time rather than a screen at a time. This is more in line with international standards.
8. The electronic delivery of orders to the trading floor was facilitated by installing

printers at broker booths. The electronic delivery of concluded trades back to the broker office was also demonstrated. A few of the broker firms are currently utilizing these.

9. The issue of a pledging facility for shares in the CDS was investigated both from an operational (technical) and legal point of view. The legality of this procedure is currently under review.
10. The methods of computation of the All Share Index (ASI), Sensitive Share Index (SSI) and Sectoral indices were reviewed and changes were made so that the calculation of indices is to international standards.
11. The possibility of introducing Delivery vs Payment (DVP) to this market is being investigated. One of the factors inhibiting its implementation is the lack of liquidity.
12. Currently assisting the CSE in planning for the move to the Echelon Square building before year end if schedules permit.
13. Technical assistance to the CSE in acquiring an Automated Trading System. It should be noted that the procurement of the above system is not an activity under the Financial Markets Project. However, providing technical advisory assistance has been approved by USAID. This has been in the form of serving on the evaluation committee as a technical advisor. It also included organizing and conducting a study tour for CEOs of broker firms and CSE officials of some of the South East Asian Stock Exchanges with automated trading, and more recently, accompanying the technical evaluation committee in visiting four reference sites of the short listed vendors who responded to the CSE Request for Proposals (RFP).
(Mr Bill Gorman, short-term computer consultant for the project was contracted separately by the CSE to write the RFP and take the lead in procuring an automated trading system.)

The following lists some of the additional assistance provided by Mr Bill Gorman under Financial Markets Project auspices.

1. Assisted certain member firms in developing a mechanism for printing customer orders on the trading floor, thus speeding up order entry while simultaneously reducing the frequency of errors.
2. Assisted one firm in developing more efficient systems test procedures.
3. Showed certain member firms how to streamline the reporting of trades from the trading floor to their offices and ultimately to their customers.

4. Provided several member firms with suggestions on how to take advantage of automation at low cost.
5. Offered suggestions to several member firms on how to provide their various department (e.g. institutional, retail via phone, retail via customer gallery) with the information needed to trade. Assisted in the planning for more efficient market data handling.
6. Conducted lectures on market data dissemination.
7. Conducted lectures on automated trading and how to prepare for it.
8. Assisted certain members in planning their customer galleries.
9. Wrote a technical description of a customized Local Area Network (LAN) for the Securities and Exchange Commission.
10. Suggested to the SEC how electronic "imaging" could be used to capture and make publicly available company filings.
11. Showed how to consolidate the printing of broker-to-broker contract Notes. This saved about 6.5 Rupees per trade, reduced paper waste, saved computer time and made the entire process more efficient.
12. Offered suggestions on how multi-media could be used to capture the lectures and presentations being given by various USAID sponsored trainers for future use. Helped devise an optimum multi-media equipment list for use by the CSE and the SEC.

USAID Contract No. 383-0100-C-00-3036

(January 1993 – July 1996)

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>1. IMPROVING THE RELIABILITY OF MARKET INFORMATION</p>		
<p>A. Regulation and Self Regulation</p> <ul style="list-style-type: none"> - Assist the development and implementation of rules and regulations to guide market activities. - Specific activities: <ul style="list-style-type: none"> - Licensing of brokers, dealers and other intermediaries; - Improve regulatory compliance, regulations, codes, enforcement; - Enhance organization and structure; and - A public relations plan to promote market activities. 	<p>SEC Licensing of Brokers, Dealers and Other Intermediaries:</p> <ul style="list-style-type: none"> - Revision and Publication of Consolidated Sri Lanka Securities Laws and Regulations; - Review of draft amendment to the SEC of Sri Lanka Act; - SLASIA established as independent professional body for market intermediaries with SEC and CSE support. <p>Regulatory Compliance, Regulations, Codes:</p> <ul style="list-style-type: none"> - Draft Companies Takeover & Merger Code completed; - Review of current scheme for regulating Unit Trust; - Workshop on Regulation of Securities Market. <p>Organization and structure of the SEC and CSE:</p> <ul style="list-style-type: none"> - Draft Compensation Fund Rules completed. <p>Public Relations Plan:</p> <ul style="list-style-type: none"> - Draft brochures on the New Takeover Code completed; - Presentation on Credit Rating Agencies for Law Society & Trust. 	<p><u>Remaining</u></p> <p>Enforcement:</p> <ul style="list-style-type: none"> - Procedures Manuals for Surveillance, Compliance and Enforcement, and Audit Training for the SEC and CSE in progress. <p><u>Progress of unanticipated outputs.</u></p> <ul style="list-style-type: none"> - Development of Colombo as regional market center for South Asia. Consensus reached in Colombo to achieve objective and work underway to explore listing of other South Asian companies in CSE. Several regulatory and fiscal hurdles have to be overcome in the next 9-12 months. - High cost of transactions in Sri Lanka is addressed by study which will focus on competitiveness issues as well as recommendations for reducing such costs.

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>B. Financial Reporting</p> <ul style="list-style-type: none"> - Assistance to ICASL to bring financial reporting up to international standards. - Specific Activities: <ul style="list-style-type: none"> - Accounting & Auditing Standards; - Compliance & Monitoring; - Public Awareness & Study Tours. 	<ul style="list-style-type: none"> - Recommendations on structure and governance of Financial Accounting Standards Monitoring Board and review of draft legislation completed; - Review of Audit Working Papers of all large audit firms completed; - Assistance to Urgent Issues Committee on dissemination of rulings, etc; - Arranged ICASL study tour to determine US practice in dealing with emerging issues in collaboration with FASB and AICPA. 	<p>Activities planned and in progress:</p> <ul style="list-style-type: none"> - Accounting and Auditing Standards: review exposure draft of Accounting and Audit Standards; - Work program and recommendations for small audit firms; - Assistance to Financial Accounting Standards Monitoring Board (legislation pending). <p>Postponed: Public Awareness Program.</p>
<p>C. Post Trade Automation and Central Depository Systems (PTA-/CDS)</p> <ul style="list-style-type: none"> - Assist the maintenance and upgrading of the automated trading and clearance system. - Specific Activities: <ul style="list-style-type: none"> - Assist the procurement process of the back-up system; - Testing of the system; - Assist Debt Trading; - Assistance to implement Screen Based Trading. 	<ul style="list-style-type: none"> - Technical assistance to migrate from the current CDS application to an open systems architecture based computer system in choosing the CDS back-up system. - Technical expertise and recommendation provided on Electronic Delivery of Order System, New Market Data System, Delivery vs Payment and Screen Based Trading System. - Additional assistance provided to CBSL to use the CDS for debt trading activities until Funds and Securities Transfer (FAST) system is designed. - Study tours conducted for SEC and CSE executives to visit regional, European and U.S. sites with automated trading systems. - Numerous applications to improve trading system and back office operations of brokers. 	<ul style="list-style-type: none"> - Additional activities not anticipated in the workplan completed to eliminate the bottlenecks in the existing system: introduction of a 2-part ticket trading system, enhancement to software and hardware, improvement to data dissemination through a rolling screen basis and a display monitor. - Unanticipated assistance to migrate from the existing system to an open architecture system. - Additional, yet unanticipated, assistance in moving to a screen based trading system.

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>2. INCREASING THE AVAILABILITY OF FINANCIAL INSTRUMENTS</p>		
<p>A. Development of Second-tier and Quoted Debt Securities Markets</p> <p>- Specific Assistance:</p> <ul style="list-style-type: none"> - Assist the establishment of a Second Tier Market; - development of markets for secondary government and corporate securities. 	<p>Establishment of a Second Tier Market:</p> <ul style="list-style-type: none"> - The needs assessment conducted by ISTI Consultant recommended the establishment of a second tier market but identified several constraints that needed to be addressed initially; - SEC and CSE leadership put off further action on developing a second tier market indefinitely; - Presentations to companies that are potential candidates for listing on the CSE. Forty plus candidates have been solicited through intermediaries and presentations. <p>Debt Securities Market:</p> <ul style="list-style-type: none"> - Assistance provided to CBSL on eight areas: strengthen accountability of Primary Dealers; legislation to free captive investors; policy recommendations to improve primary and help develop secondary markets for Government securities; legislation concerning long-term Treasury Securities; and a Fund and Security Transfer (FAST) System for debt trading. <p>Additional Assistance:</p> <ul style="list-style-type: none"> - Design a securitization of leases for a financial institution; and - Develop a medium term debenture issue. 	<p>Second Tier Market Activities</p> <p><u>Remaining</u></p> <ul style="list-style-type: none"> - The progress of the Second Tier Market activities has been slow as the participants need to address constraints such as public awareness. <p>Debt Market Activities</p> <ul style="list-style-type: none"> - Activities on establishing a secondary government securities market completed as scheduled. - Removal of withholding tax on government debt security transactions is a bonus. - Activities on corporate debt securities in progress.

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>3. IMPROVING THE ANALYTICAL CAPABILITY OF MARKET PARTICIPANTS</p>		
<p>A: Industry Training</p> <ul style="list-style-type: none"> - Develop a Chartered Financial Analysts (CFA) Training Program and other training programs to enhance local professional competency in market participants. - Specific Assistance: <ul style="list-style-type: none"> - Train and certify ten Certified Financial Analysts; - Develop a mechanism to sustain the CFA program in Sri Lanka. 	<p>CFA Training:</p> <ul style="list-style-type: none"> - CFA training conducted in all three level by 1995 with an improved pass rate. A total of 140+ students trained and registered for the CFA exam since the inception of the program; and - Established Sri Lanka Association of Securities and Investment Analysts (SLASIA) to sustain the CFA program beyond end of project in December 1995. 	<p>Missed Targets</p> <ul style="list-style-type: none"> - Anticipates to certify only 5 CFAs by current PACD. - If project is extended to July 1996, an additional 5 CFAs are expected to receive charter.
<p>B. Overseas Tours</p> <ul style="list-style-type: none"> - Provide opportunities for key market participants such as Central Bank officials to observe the operations of developed financial markets. 	<p>Study Tours:</p> <ul style="list-style-type: none"> - Seven overseas study tours for 7 participants conducted under FMP; - A total of 11 programs conducted under the Development and Studies Program; and - Additional programs conducted by CBSL and CSE with the assistance of the project. 	<p>Targeted outputs completed.</p>

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>C. Assistance to Emerging Financial Institutions - Provide technical assistance and in-country training for local emerging financial institutions such as unit trusts, pension funds, and venture capital companies.</p> <p>Specific Activities - Conduct workshops, seminars and discussions; - Technical Assistance to Unit Trust, Pension Funds and Venture Capital Companies.</p>	<p>Training Needs Assessment - Fifteen technical assistance needs were recommended by the Training Needs Assessment but seven selected: development of new financial instruments; IPO training in due diligence, valuation and analysis; documentation of financial instruments; establishment of a national securities analysts' society (SLASIA), training of traders, Unit trust marketing and public awareness campaign and corporate treasury operations.</p> <p>The following training programs were conducted. From the total of 513 trained 200 were women.</p> <ul style="list-style-type: none"> - Regulatory Training for the SEC, CSE and Attorney General's Office; - Judiciary Training to address the legal community and judiciary in the financial market place; financial market integrity; surveillance and prosecution; - Market Participant Training: 16 Workshops and seminars held on securities regulation and surveillance; brokerage training; fixed income securities and CDS related issues; - Investor Training: A program on financial market instruments for a brokerage firm; - University Training: A symposium and conference conducted for Professors to address the financial markets in curricular; - Other: General Public Training and Student Training. 	<p><u>In Progress</u></p> <p>Exceeded outputs:</p> <ul style="list-style-type: none"> - Training for investment research and analysis with 85 participants representing 30+ institutions for 6 weeks. - Targeted outputs completed.

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>4. PROGRAM MANAGEMENT AND POLICY</p>		
<p>A. Management Information System (MIS) - Develop a computerized system for tracking market indicators and monitoring.</p>	<ul style="list-style-type: none"> - Assistance provided to SLASIA on strengthening the membership, ethics and program committee and interaction with other similar bodies in region. - To evaluate the development of the Colombo Stock Exchange and the role the FMP in this process, the project track several quantitative indicators on a periodic basis. Some of these indicators are tracked by the CSE to measure market development. Descriptions of these MIS indicators that are followed and presented to project counterparts on a periodic basis are: <ul style="list-style-type: none"> - Number of Individual Holding Shares Through the CSE: Indicates the breadth of ownership of shares in CSE listed companies and is also a proxy for public interest and participation in the share market - If the development efforts of the capital market are to be sustained in the long-term, it is important to ensure that the stock market has a positive impact on a large number of people who become stakeholder in the system. The number of individuals holding shares has risen from approximately 49,000 at the beginning of the project to nearly 138,000 as at March 3, 1995. 	

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
	<ul style="list-style-type: none"> - Number of Listed Companies: measures the number of companies presently listed on the CSE. - Total Capital Raised: collected data on debt and equity capital. An important indicator as successful stock exchanges serves as a mechanism through which companies may raise new capital cost-effectively. The total equity capital raised during January 1, 1987 through March 31, 1995 was Rs. 23,326 million; in comparison Rs. 5,565 million was raised during January 1, 1987 to December 31, 1992. - Secondary Market for T-bills: This indicator tracks the development of the market for government securities. Since treasury bills serve as the benchmark indicator for interest rates and the development of a secondary market may allow the government to more cost effectively raise capital, the development of an active secondary market in T-bills is important. - Number of New Financial Instruments Introduced: Indicates the number of new financial instruments introduced in the market. - System Capability Indicators: System reliability and capacity are monitored through tracking Average Terminal Response Time, Average Daily Trade Transactions and Average Daily Central Depository System Transactions. 	

TARGETED CONTRACT OUTPUTS	OUTPUTS ACHIEVED	OUTPUTS EXCEEDED/REMAINING
<p>B. Policy research and analysis relevant to financial sector development.</p> <p>- Specific Activities: - Fourteen studies planned</p>	<ul style="list-style-type: none"> - Fourteen studies on following subjects, as anticipated in first Workplan, were completed: margin rule; compensation fund update; capital requirement, broker profitability; market liquidity; public listing issues; intermediary rules; discretionary investment management; new issues underwriting; stock option plan; and insider dealing. - additional studies completed are statistics on the Sri Lanka Stock Market; Colombo Stock Exchange Statistical Data; and Data on Emerging Markets in Asia - A system for Project Technical Reports developed with three categories: FMP Report Series (12 reports); FMP Study Series (4 studies); and FMP Discussion Papers and Notes Series (3 papers and notes). 	
<p>C. Public Awareness Program to promote the project's objectives.</p>		<p>- Targeted outputs completed.</p>

Task No.	Task Heading	Status
1.0.0.00	IST1299.PJ	
1.1.0.00	A. MARKET INFORMATION	
1.1.1.00	REGULATION	
1.1.1.01	Regulation Specialist	Completed.
1.1.1.02	Contingent Reg Spec	N/A.
1.1.1.03	SEC/CSE Organization	Completed. Ref. Bishop Reports of 1990 and 1993 and Second Work Plan, Page 3.
1.1.1.04	Inspection Procedures	Completed. As per above.
1.1.1.05	Company Act Review	Completed. Ref. Consolidation of Sri Lankan Securities Law.
1.1.1.06	Policy Implementation	Completed. As per above.
1.1.1.07	Tang/Bishop Selection	Completed. Ref. 4th Quarterly Report, 1994, Page 11.
1.1.1.08	Define Law Changes	Completed. Ref. Second Work Plan Page 3.
1.1.1.09	Tang/Bishop Implement	Completed. Ref. 4th Quarterly Report, 1994, Page 11
1.1.1.10	SEC Act Implementation	Amendments pending parliament approval. Reference Second Work Plan Page 2
1.1.1.11	Takeover & Merger Reg	A code is being finalized by the SEC. The FMP provided input.
1.1.1.12	Agent Qualifications	Ref. Bishop Reports of 1990 and 1993 for FMP input given to SEC.
1.1.1.13	Unit Trust Regulations	Unit Trust Code pending official approval. Reference Second Work Plan Page 3.
1.1.1.14	Publish Regulations	Completed.
1.1.1.15	Regulation Status Rpt	Completed. Reference Second Work Plan, Page 3
1.1.1.16	Broker Return Format	Completed. 1993 Bishop Report
1.1.1.17	CSE Articles	CSE Articles reviewed/updated with FMP assistance.
1.1.1.18	Investor Complaints	Completed. 1990 and 1993 Bishop Reports.
1.1.1.19	Complaint Procedures	Completed. As per above.
1.1.1.20	Advertising Rules	Completed. As per above.
1.1.1.21	Surveillance Handbook	Report by Tang/Litteau (ISTI consultants) is pending.
1.1.1.22	Fiduciary Guidelines	Ref. Bishop Reports of 1990 and 1993.
1.1.1.23	Broker Supervision Rules	Completed.

Task No.	Task Heading	Status
1.1.1.24	Public Relations Plan	Ref. Isaacs, Training Report, May 1995.
1.1.1.25	Delisting Procedures	Completed. Ref. Bishop Reports of 1990.
1.1.1.26	Monthly Reporting	As per above.
1.1.1.27	Listed Co. Reporting	Completed. Second Work Plan, Page 3. Tang & Litteau Report (Pending)
1.1.1.28	Practice Guidelines	Second Work Plan, Page 3. Tang & Litteau Report (Pending)
1.1.1.29	Audit Unit Methods	Completed. Tang/Litteau Report. Second Work Plan, Page 3. Tang & Litteau Report (Pending)
1.1.1.30	Investigation Procedure	Completed. Second Work Plan, Page 3. Tang & Litteau Report (Pending)
1.1.1.33	Consolidate Laws	Completed. Consolidation of Sri Lanka Securities Law, Sept. 1994
1.1.1.34	Licensing Handbook	Completed. Broker Training Manual, issued August 1994.
1.1.1.35	Certification Program	Completed.
1.1.2.00	PTA/CDS DEVELOPMENT	PTA/CDS enhancement and back-up development in process.
1.1.2.01	Computer Specialist	Completed.
1.1.2.02	Gather data for spec	Completed.
1.1.2.03	PTA/CDS Tech Assist.	Seneviratne/Gorman consultancy continuing.
1.1.2.04	Decide open sys. issue	Completed.
1.1.2.05	Develop Proc. Specs.	Completed. Output-Request for Proposals (RFP) document.
1.1.2.06	Obtain USAID Approval	Completed.
1.1.2.07	Method of Procurement	Completed. Method of procurement to be competitive and not GSA based.
1.1.2.08	Computer Procurement	Completed. See Notes.
1.1.2.09	Select Backup Site	Completed. A back-up site was selected.
1.1.2.10	Site Preparation	Completed. The partitioning, raised flooring, air-conditioning, and power wiring was completed in mid February 1995.
1.1.2.11	Backup Hardware Inst.	Completed. See Notes.
1.1.2.12	Datacomm Installation	Partially completed. The data communications lines between the production and back-up sites have been installed. It is a 64 kbps radio link.
1.1.2.13	Test Datacom Lines	Partially completed. The data communications lines between the production and back-up sites have been tested.

Task No.	Task Heading	Status
1.1.2.14	Cold back-up test	To be completed by August '95 (estimated).
1.1.2.15	Warm back-up test	To be completed by September '95 (estimated).
1.1.2.16	Trans. to New Comp. Sys.	To be completed by October '95 (estimated).
1.1.2.17	Backup Test TA	Will be carried out during August - September '95 time frame.
1.1.2.18	Backup Operational	To be completed by 10/95.
1.1.2.19	Debt Trading Sys Mods	See Notes at the end of this document.
1.1.2.20	OTC System Mods	See Notes at the end of this document.
1.1.3.00	FINANCE & ACCOUNTING	
1.1.3.01	Public Awareness	Covered under SEC P/A program. See 1st Quarterly Report June, 1993 Page 2; 4th Quarterly Report 1994 Page 2; and Second Work Plan Page 4.
1.1.3.02	Compliance Monitoring	Completed. Covered under SEC P/A program. See 1st Quarterly Report June, 1993 Page 2; 4th Quarterly Report 1994 Page 2; and Second Work Plan Page 4.
1.1.3.03	Accounting Standards	Completed. As per above.
1.1.3.04	Auditing Standards	Completed. As per above.
1.1.3.05	Policy Sub-agenda 1	N/A - Not in Scope of Work.
1.1.3.06	Technical Asst 1993	Ken Stringer/Jim Kirtland. Covered under SEC P/A program. See 1st Quarterly Report June, 1993 Page 2; 4th Quarterly Report 1994 Page 2; and Second Work Plan Page 4.
1.1.3.07	Pacter 1 - 1993	As per above.
1.1.3.08	Pacter 2 - 1993	As per above.
1.1.3.09	Stringer 1 - 1993	As per above.
1.1.3.10	Stringer 2 - 1993	As per above.
1.1.3.11	Core Staff Trained	See 1st Quarterly Report 1992 Page 2; 4th Quarterly Report 1994 Page 2; and Second Work Plan Page 4.
1.1.3.12	ICASL T&R Unit Setup	As per above.
1.1.3.13	Auditing Seminars '93	As per above.
1.1.3.14	8 Seminars Complete	As per above.
1.1.3.15	Standards Notes 1993	As per above.
1.1.3.16	ICASL Grant Assistance	Completed. See 1st Quarterly Report 1992 Page 2; 4th Quarterly Report 1994 Page 2; and Second Work Plan Page 4.

Task No.	Task Heading	Status
1.1.3.17	Funded USA Visit 1993	Completed.
1.1.3.18	Study Tour Complete	Completed.
1.1.3.19	ICASL Grand Review	Completed.
1.1.3.20	Technical Asst 1994/1	Completed.
1.1.3.21	Funded USA Visit 1994	Completed.
1.1.3.22	Compliance Review	Completed.
1.1.3.23	Compliance Report	Completed.
1.1.3.24	Accounting Seminars '94	To be done in 1995.
1.1.3.25	Auditing Seminars '94	To be done in 1995.
1.1.3.26	Technical Asst 1994/2	Completed.
1.2.0.00	B. FINANCIAL INSTRUMENTS	
1.2.1.00	SECOND TIER MARKET	
1.2.1.01	OTC Feasibility Study	Ref. Brad Warner & Khursheed Choksy, Second-Tier Market Study. Also Ref. 4th Quarterly Report, 1994 Page 8 and 1st Quarterly Report, 1995, Page 9.
1.2.1.02	Evaluation Report	As per above.
1.2.1.03	Second Tier Development	As per above.
1.2.1.04	Second Tier TA	3 seminars organized for companies that are potential candidates for listing on the CSE. See Notes at the end of this document.
1.2.2.01	B&B Draft Report	Completed. Ref. Debt Securities Action Plan Study Sept. 1993, Mortgage Securitization Study October 1994, Study, and 1st Quarterly Report 1995; Page 6.
1.2.2.02	B&B Report Comments	As per above.
1.2.2.03	B&B Final Report	As per above.
1.2.2.04	Develop Legal Changes	As per above.
1.2.2.05	Laws Modified	Amendments cleared through CBSL & Legal Draftsman's Office.
1.2.2.06	Promote Market	Completed.
1.2.2.07	Develop Investor Pgm	Completed. 2 seminars with primary dealers and CBSL.

Task No.	Task Heading	Status
1.2.2.08	Develop Dealer Pgm	Completed. 2 seminars with primary dealers and CBSL.
1.2.2.09	Product Supply	Completed. As per above.
1.2.2.10	Financing Facility	Completed. As per above.
1.2.2.11	Communications	Completed. As per above.
1.2.2.12	Refine Clearing	Custodial repo system estab. Hong Kong Bank.
1.2.2.13	Long-term Quoted Debt	In process. Ref. 1st Quarterly Report, 1995, Page 6.
1.2.2.14	Withholding Tax	W/H tax on T-Bills eliminated 6-30-94. FMP achieved withholding tax elimination.
1.2.2.15	Open Debt Sec. Mkt.	Completed.
1.2.2.16	Secondary Market	Completed.
1.2.2.17	Corporate Market	Consultancy completed for securitization of leases for Vanik, Inc. Rs. 100 mm notes placed.
1.2.2.18	Debt Short Term TA 1	Completed.
1.3.0.00	C. ANALYTIC CAPABIL'Y	
1.3.1.00	CFA PROGRAM	
1.3.1.01	Specialist in Colombo	Completed.
1.3.1.02	Coordination	Completed.
1.3.1.03	CFA Launched	Completed.
1.3.1.04	CFA Level 1 Promotion	CFA Program now in 3rd year. Currently there are 80 level 1, 10 Level 2 and 5 level 3 candidates. Expat and local trainers are involved and a society established to ensure CFA continuity after FMP.
1.3.1.05	CFA Student Action 1	Same as per 1.3.1.04
1.3.1.06	CFA Level 1 Training	As per above.
1.3.1.07	CFA Level 1 Exam	As per above.
1.3.1.08	CFA Quality Assurance	As per above.
1.3.1.09	CFA Level 2 Promotion	As per above.
1.3.1.10	CFA Student Action 2	As per above.
1.3.1.11	CFA Level I & II training	As per above.
1.3.1.12	CFA Level I & II Exam	As per above.

Task No.	Task Heading	Status
1.3.1.13	Two CFA Exams Held	Three exams held.
1.3.2.00	TA & TRAINING	Ref. Isaacs, Training Report, May 1995, for all TA and Training.
1.3.2.01	Training Needs & TA	Ongoing
1.3.2.02	Short Term TA - T&TA	Ongoing
1.3.2.03	SEC Training - 1993/1	Ref. Isaacs, Training Report, May 1995, Page 1
1.3.2.04	Regulation Seminars	Completed. Ref. Isaacs, Training Report, May 1995, Page 1, Page 6 and Page 7.
1.3.2.06	SEC/CSE O'seas study	Completed. Ref. Isaacs, Training Report, May 1995, Page 1, Page 6 and Page 7.
1.3.2.07	Series 7 Exam Update	Completed. Ref. Isaacs, Training Report, May 1995, Page 1 and Page 3.
1.3.2.08	Brokerage Examination	Completed. Ref. Isaacs, Training Report, May 1995, Page 1 and Page 3.
1.3.2.10	SEC/CSE O'seas study	Completed. Ref. Isaacs, Training Report, May 1995, Page 9 and Page 12.
1.3.2.11	4 officials funded	Completed. Ref. Isaacs, Training Report, May 1995, Page 9 and Page 12.
1.3.2.12	PTA Overseas 1	As per above.
1.3.2.13	PTA Overseas 2	As per above.
1.3.2.14	3 PTA tours complete	As per above.
1.3.2.15	CBSL O'seas Visit 1993	As per above.
1.3.2.16	Training Seminars	Ongoing Ref. Isaacs, Training Report, May 1995.
1.3.2.18	Trainer Training 1993	Ongoing, Ref. Isaacs, Training Report, May 1995, Page 8.
1.3.2.19	Judiciary Training 93	Ongoing, Ref. Isaacs, Training Report, May 1995, Page 1, Page 6 and Page 8.
1.3.2.20	Journalist Training 1	Completed. Ref. Isaacs, Training Report, May 1995, Page 2.
1.3.2.21	Faculty Training 1993	Completed. Same as above
1.3.2.22	SEC Training - 1993/2	Completed. Ref. Isaacs, Training Report, May 1995, Page 1, Page 5, Page 6, Page 7 & Page 8.
1.3.2.23	Journalist Training 2	Completed. Ref. Isaacs, Training Report, May 1995, Page 4.
1.3.2.24	20 Journalists Trained	Completed. Ref. Isaacs, Training Report, May 1995, Page 2 and Page 4.
1.3.2.25	Agent Training	To be done.

Task No.	Task Heading	Status
1.3.2.27	SEC Training - 1994/1	Ref. Isaacs, Training Report, May 1995, Page 8.
1.3.2.28	Regulator O'seas 1994	Ongoing See Isaacs Training Report, May 1995, Page 10 and 11.
1.3.2.29	Trainer Training 1994	Ongoing See Isaacs Page 8, 10 and 11.
1.3.2.30	Judiciary Training 94	Completed
1.3.2.34	CBSL O'seas Visit 1994	Completed
1.3.2.35	3 CBSL officials	Completed.
1.4.0.00	D. MANAGEMENT & POLICY	
1.4.1.00	POLICY & RESEARCH	
1.4.1.01	Data Collection	Completed.
1.4.1.02	Margin Market Rules	Completed. Study issued March, 1994 (Ref. Second Work Plan, Page 17).
1.4.1.03	Compensation Fund	Completed. Study issued March 22, 1994 (Ref. Second Work Plan, Page 17).
1.4.1.04	Crossing Quoted Equity Parcels	Completed. Study issued November 1994 (Ref. 4th Quarterly Report 1994).
1.4.1.05	Pooling Study	Completed. Study issued November 1994 (Ref. 4th Quarterly Report 1994).
1.4.1.06	Capital Requirements	Completed. Study issued as Bishop Report, 1993 (Ref. Second Work Plan, Page 17).
1.4.1.07	Broker Profitability	Completed. Study issued as Bishop Report, 1993 (Ref. Second Work Plan, Page 17).
1.4.1.08	6 Studies Completed	
1.4.1.09	Market Liquidity	Completed. Part of Second Tier Market Study (Ref. Second Work Plan, Page 17).
1.4.1.10	Public Listing Study	Completed. Part of Second Tier Market Study (Ref. Second Work Plan, Page 17).
1.4.1.11	intermediary Rules	Completed. Study issued as Bishop Report (Ref. Second Work Plan, Page 17).
1.4.1.12	Discretionary Inv. Mgt.	Completed. Study issued as Bishop Report (Ref. Second Work Plan, Page 17).
1.4.1.13	New Issue Underwriting	Completed. Study issued as Bishop Report (Ref. Second Work Plan, Page 18).
1.4.1.14	Stock Option Plans	Completed. Stock Option Plan Study, November 1993.
1.4.1.15	Share Ownership Plans	As per above.
1.4.1.16	Insider Dealings	Completed. Study issued as Bishop Report (Ref. Second Work Plan, Page 18).
1.4.1.19	CBSL Secondary Market	Completed. Study issued as Bishop Report (Ref. Second Work Plan, Page 18).

Task No.	Task Heading	Status
1.4.1.20	CBSL Monetary Policy	Ongoing
1.4.1.21	GSL Security Regs	Completed.
1.4.1.22	Withholding Tax	W/H tax on T-Bills estimated 6-30-94. FMP achieved withholding tax elimination.
1.4.1.23	CB/Dealer Relations	See "Privileges and Responsibilities of "Primary Dealers"
1.4.1.24	Interbank Calls	Ongoing.
1.4.1.25	Securities Lending	Ongoing.
1.4.1.26	Banking System	N/A.
1.4.2.00	PROJECT MGT & OPERATN	
1.4.2.01	COP in Colombo	Completed. G.Macdaniel arrived October 3, 1993.
1.4.2.02	CGO in Colombo	N/A. Not in Scope of Work.
1.4.2.03	General Coordination	Completed.
1.4.2.04	Mobilization	Completed.
1.4.2.05	Operations Guidelines	Completed.
1.4.2.06	Planning Meeting	Completed.
1.4.2.07	Office Equipment	Completed.
1.4.2.08	Draft Work Plan	Completed.
1.4.2.09	Work Plan to AID	Completed.
1.4.2.10	MIS Analysis	See Notes at the end of this report.
1.4.2.11	MIS Operation	See Notes at the end of this report.
1.4.2.12	Policy Agenda	Completed.
1.4.2.13	Public Awareness	Completed.
1.4.2.14	Quarterly Report 1	See Quarterly Reports
1.4.2.15	Quarterly Report 2	Completed. See Quarterly Reports
1.4.2.16	Quarterly Report 3	Completed. See Quarterly Reports

Task No.	Task Heading	Status
1.4.2.17	Quarterly Report 4	Completed. See Quarterly Report.
1.4.2.18	Quarterly Report 5	Completed. See Quarterly Report.
1.4.2.25	Semi-annual review 93	Completed. See Second Work Plan.
1.4.2.26	Planning Meeting 1994	Completed. See Second Work Plan.
1.4.2.27	Annual work plan 1994	Completed. See Second Work Plan.
1.4.2.30	Establish baselines	Completed. See 4th Quarterly Report, 1994 and Quarterly Reports from thereon.
1.4.2.31	CSE Indicators 1993	Completed. See 4th Quarterly Report, 1994 and Quarterly Reports from thereon.
1.4.2.32	Other Indicators 1993	Completed. See 4th Quarterly Report, 1994 and Quarterly Reports from thereon.

NOTES

References made to :

Robert Bishop, "Consolidated Sri Lanka Securities Regulation," December 1990.

Robert Bishop, "Improving Colombo Stock Exchange Regulations," 1990.

Robert Bishop, "1993 Securities Regulation" in Sri Lanka, December 1993.

ISTI, Inc. "Financial Markets Project, Second Work Plan," July 1, 1994 - December 31, 1995."

Seth Isaacs "Training Report prepared for FMP - Review Team," May 1995.

ISTI, Inc. "Broker Training Manual," August 1994 (ISTI/FMP Series No. 8).

Brad Warner and Khursheed Choksy "Second-Tier Market Pre-Feasibility Study," July 1994 (FMP Report Series No. 5).

Michael Bevier, "Debt Securities Action Plan Study," September, 1993.

Joe Abed, "Feasibility Study of Mortgage Securitization in Sri Lanka, October, 1994 (ISTI/FMP Series No. 10).

1.2.1.04 Second-Tier TA

Following the completion of the Second-Tier Market Study, the CSE and SEC considered the pros and cons of establishing a second market window. Although there was a consensus that the potential exists for a second-tier market, the subsequent downturn in the CSE and significant drop in new applications for listings made the CSE and SEC delay implementation of the Report recommendations. However, the FMP Research and Operations Manager has worked closely with the Directors' General of the CSE and SEC in holding three presentations to companies on the benefits of seeking a listing on the Colombo Stock Exchange. Research conducted as part of the Second-Tier Market Study was drawn upon in identifying candidates for listing.

The presentations, held in October, 1994, December 1994 and March 1995 and were attended by 117 senior executives representing 56 companies.

- 1.1.2.08 Computer equipment procurement for CDS back-up completed. A contract was signed with the successful vendor, Sun Microsystems and its authorized distributor in Sri Lanka, Computerland on October 5, 1994. The vendor was selected from a short list of three vendors by an evaluation committee comprised of USAID, CSE, and ISTI.
- 1.1.2.11 Delivery and installation of equipment (production and back-up). Partially completed. The essential components of the system have been installed. It is not possible to install all workstations since the CSE has not moved to its new premises. It is anticipated that the new building will be available for occupancy in October '95.

Most all equipment to be procured under the contract was delivered by March '95.

1.1.2.19 Debt Trading System Modifications

The scope of this task has been changed considerably since the first work plan meeting. It is now proposed that the Central Bank have their own computer system (named FAST) to provide for clearing and settlement of Government Debt instruments rather than utilizing the existing infra-structure of the CDS. No firm plans have been made for the implementation of the FAST system. USAID will not be involved in funding the procurement but technical assistance in this area is probable.

1.1.2.20 OTC System Modifications

Indefinitely postponed since currently it is not envisaged that a second tier market will be created as decided by the CSE and SEC. However, if it is decided to have the second-tier market as a second board on the existing trading floor, this would only require modest changes to the CDS software.

- 1.4.1.02 Khursheed Choksy, Seth Isaacs and Debra Kertzman, "Margin Rules Study," March 1994, (ISTI/FMP Research Study Series No. 11)
- 1.4.1.03 Khursheed Choksy and Debra Kertzman "Compensation Fund : A Study Update," March 1994 (ISTI/FMP Discussion Papers and Notes Series No. 1).
- 1.4.1.04 Khursheed Choksy "Crossing of Large Parcels & Trading of Share Lots Pooled to Form Large Parcels," November 1994.
- 1.4.1.05 Khursheed Choksy "Crossing of Large Parcels & Trading of Share Lots Pooled to Form Large Parcels," November 1994.
- 1.4.1.13 Khursheed Choksy, "Stock Option Plan Study," November 1993.
- 1.4.1.14 Khursheed Choksy, "Stock Option Plan Study," November 1993.

1.4.2.10 Purpose Level Target Indicators are followed and presented in Quarterly Report. In addition, statistics are provided to CSE of SEC
& Management as needed. These have included :

1.4.2.11

Khursheed Choksy, "Colombo Stock Exchange Statistical Data," (ISTI/FMP Discussion Papers and Notes Series No. 2).

Khursheed Choksy, "Data on Emerging Markets in Asia" (ISTI/FMP Discussion Papers and Notes Series No. 3).

ISTI, Inc., "Statistics on Sri Lanka Stock Market," May 1994.

LIST OF REPORTS/STUDY SERIES/DISCUSSION PAPERS

ISTI/FMP REPORT SERIES

- #1. **Debt Securities Action Plan.** Mr Michael Bevier and Mr John Biasucci, September 1993
- #2. **Recommendations and Activity Report, Training Courses for Financial Journalists and Seminars for Policy and Opinion Makers.** Dr. Hannan Ezekiel, October 1993.
- #3. **1993 Securities Regulation in Sri Lanka.** Mr. Robert Bishop. November 1993
- #4. **Legislative Review and Training.** Mr. Jeswald Salacuse and Mr Joel Trachtman, December, 1993
- #5. **Technical Assistance and Training needs Assessments for Financial Institutions.** Mr Bradford A Warner Jr. February 1994
- #6. **Second-Tier Market Research Study.** Mr. Khursheed Choksy and Mr Bradford A Warner, Jr. July 1994
- #7. **Study for the Establishment of an Association of Securities and Investment Analysts.** Mr. Thomas R Tiff and Mr S S Jayewickrema, August 1994
- #8. **Broker Training Manual** Mr. John R Buehler, August 1994
- #9. **Consolidation of Sri Lanka Securities Law.** Ms. Debra Kertzman, September 1994
- #10. **Feasibility Study of Mortgage Securitization in Sri Lanka.** Mr. Joseph K Abed, October 1994

ISTI/FMP STUDY SERIES

- #1. **Stock Option Plan Study.** Mr. Khursheed Choksy with Mr Robert Bishop, November 1993.
- #2. **Margin Rules Study** Mr Khursheed Choksy. Mr. Seth Isaacs and Ms. Debra Kertzman, March 1994

ISTI/FMP DISCUSSION PAPERS AND NOTES SERIES

- #1. **Compensation Fund: A Study Update.** Ms. Debra Kertzman and Mr Khursheed Choksy, March 1994
- #2. **Colombo Stock Exchange Statistical Data.** Dr. Khursheed Choksy, June 1994
- #3. **Data on Emerging Markets in Asia** Mr. Khursheed Choksy, June 1994
- #4. **Crossing of Large Parcels & Trading of Share Lots Pooled to Form Large Parcels.** Mr Khursheed Choksy, November 1994

USAID/SRI LANKA
STRATEGIC FRAMEWORK

MISSION GOAL	STRATEGIC OBJECTIVES & INDICATORS	PROGRAM OUTCOMES & INDICATORS	ACTIVITIES
A "Green" Democratic Sri Lanka with broad-based sustainable development	ECONOMIC GROWTH	1. Increased private sector participation in the economy	PL, MAA, MIA, MIB
	1. Increased private sector employment and income	1. Value of targeted govt. assets transferred to private control	MIA, MIB, MIB
	1. Change in total employment in targeted enterprises*	2. Value of private sector inv. in economic infrastructure	PII
	2. Employment generated by companies raising new capital on the Stock Exchange*	3. % share of staple food trade by the private sector	PL, MIA, MIB
	3. Prevalence of audits and waiting among pre-school children*	4. % change in FDI investments	
		2. Adoption of improved technologies	
		1. Value of investments in new technologies	PII, MIA, MIB, MIB
		2. Value of exports by targeted enterprises	PII, MIA, MIB
		3. Value of domestic sales by targeted enterprises	PII, MIA, MIB
		3. More accessible and effective financial markets	
		1. # of below median income households receiving housing loans*	PII
		2. # of shareholders of publicly traded equity*	PII
	3. Value of capital raised through private equity & debt finance*	PII	
	4. Value of loans to targeted micro & small enterprises including small farmers	MIA, MIB, MIB	
	ENVIRONMENT	1. Improved environmental institutions, policies and plans	
	2. Improved environmental practices to support sustainable development	1. % implementation of the National Environmental Action Plan	MIA, MIB
	1. Expanded hectares of targeted land with agricultural conservation practices		
	2. % of industries implementing pollution prevention/control measures		
	3. % of municipal solid waste disposed through environmentally sound systems	1. # of households with secure land tenure/natural resource rights*	MIA, MIB, MIB
	4. # of people benefited by adoption of environmentally sound practices*	2. # of user groups with total responsibility for management of natural resources*	MIA, MIB, MIB
	DEMOCRACY	1. Increased effectiveness of local institutions	
	3. Greater empowerment of people to participate in democracy	1. # of targeted NGOs & local gov'ts achieving a defined rating	MIA, MIB
	1. % increase in exp. by local governments	2. # of community groups achieving a defined rating	MIA, MIB, MIB
	2. % of people with access to legal services and information*	3. # of development projects jointly implemented by local government & NGOs	MIA, MIB
		2. More responsive and responsible media	
		1. # of electronic media & publications with multi-source reporting	MIA, MIB
		2. % of citizens with information on national and local issues*	MIA, MIB
		3. Increased effectiveness of dispute resolution systems	
		1. # of backlog cases in courts of appeal	MIA, MIB
		2. # of people using mediation boards*	MIA, MIB
		3. % of mediation board cases resolved	MIA, MIB

Cluster designation 1844p-01

LIST OF PERSONS INTERVIEWED

<p>Daniel Lounberg Manager Barents Group LLC 2001 M Street N.W. Washington DC 20036</p> <p>Tel: 202 467 5226 Fax: 202 728 0546</p>	<p>Lee Ann Ross Chief-Strategic Planning & Analysis Div. - Bureau for Asia & Near East - USAID SA-2 Suite 102, 515-22nd St,NW Agency for International Dev., Dept of State, Washington DC(USA) 20523-0219</p> <p>Tel: 202 863 2615 Fax: 202 663 2643</p>
<p>Gretchen Bloom MA., M.Phil. Gender/WID Advisor Health & Child Survival Fellows Program USAID/ANE/SEA/SPA, Dept. of State SA-2 Suite 102, 515-22nd St., NW Washington DC 20523-0219</p> <p>Tel: 202 663 2592 Fax: 202 663 2643 Email: gbloom@usaid.gov</p>	<p>Paul Heytens Economist International Monetary Fund Washington DC 20431</p> <p>Tel: 202 623 4311 Fax: 202 623 4661</p>
<p>Rakesh Nangia Operations Officer PSD & Finance Division Country Dept - South Asia Region</p> <p>Tel: 202 458 2392 Fax: 202 522 1775 Tlx: MCI 248423 WORLDBANK Internet: RNANGIA@WORLDBANK, ORG X400: G-Rakesh, S-Nangia C-US, A-MCI, P-WORLDBANK</p>	<p>Jayant S Tata Head-Int'l Securities Group Int'l Finance Corporation 1850 (Eye) St., NW Washington DC 20433 - USA</p> <p>Tel: 202 473 8828 Fax: 202 676 1086 Tlx: MCI 248423 WORLDBANK</p>
<p>Jon D Lindberg Private Enterprise Officer USAID 356 Galle Road, Colombo-03 Sri Lanka</p> <p>Tel: 574333 Fax: 94 1 574264 Tlx: 21305 AMEMB CE Internet: jlindborg@usaid.gov</p>	<p>Prasad Kariyawasam Minister Embassy of Sri Lanka 2148 Wyoming Avenue NW Washington DC 20008</p> <p>Tel: 202 234 9705 Fax: 202 232 7181</p>

<p>Thomas R Tiff Senior Associate 1655 M.ft.Myer Drive 300 Arlington VA 22209</p> <p>Tel: 803 807 2080 Fax: 803 807 1126</p>	<p>Ronald J Ivey Director Privatisation & Restructuring Coopers & Lybrand Consulting 1530 Wilson Road Arlington VA 22209-2447</p> <p>Tel: 703 908 1764 Fax: 703 908 1556</p>
<p>Michael C Apel Managing Associate Private & Restructuring Coopers & Lybrand Consulting 1530 Wilson Road Arlington VA 22209-2447</p> <p>Tel: 703 908 1764 Fax: 703 908 155</p>	<p>Larry K Mellinger Trinity International Partners Suite 2000,815 Connecticut Av.NW Washington DC 20006</p> <p>Tel: 202 833 3800 Fax: 202 833 7924</p>
<p>S Sockalingam Technical Director/Consultant Institute of Chartered Accountants of Sri Lanka 30A Malalasekera Mawatha Colombo - 07, Sri Lanka.</p> <p>Tel: 594118 Direct 586256/500265/585451 Fax: 94 1 594118</p>	<p>Nivard A L Cabraal Executive Director Renuka Hotels Group of Companies 328 Galle Rd., Colombo-03 Sri Lanka</p> <p>Tel: 573598-9/573600-2 Fax: 94 1 574137 Tlx: XPOINT CE 22291 Att:Hotel Renuka</p>
<p>S Jeyavarman Investment Manager National Asset Management Ltd DFCC Bldg, 73/5 Galle Road Colombo - 03, Sri Lanka</p> <p>Tel: 445912/445914/445917/336810 Fax: 94 1 445903/440376 Tlx: 21681 Delcey CE</p>	<p>Nihal S Dissanayake General Manager National Asset Management Ltd DFCC Bldg, 73/5 Galle Road Colombo - 03, Sri Lanka</p> <p>Tel: 445911/445912/445914 Fax: 94 1 445903/440376 Tlx: 21681 Delcey CE</p>

<p>Mr V Kailasapillai Deputy Chairman John Keells Holdings 130 Glennie ST, Colombo - 02 Sri Lanka</p> <p>Tel: 448024/421101 Fax: 447087 Tlx: 21389 KEELLS CE</p>	<p>S Easparathanan Deputy Governor Central Bank of Sri Lanka 34-36 Janadhipathi Mawatha Colombo - 01</p> <p>Tel: 327539 Fax: 446092 Tlx: 21176 CENBANK CE</p>
<p>Abhaya Wijeratne Senior Vice President Vanik Incorporation Ltd 108 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 331462-10 lines Fax: 330815 Tlx: 21665 Forbes CE</p>	<p>D Justin Meegoda President & CEO Vanik Incorporation Ltd 108 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 331472 Direct/331462-70 Fax: 330815 Tlx: 21665 Forbes CE</p>
<p>Manjula de Silva Investment Manager CTC Eagle Insurance Co Ltd 75 Kumaran Ratnam Rd Colombo - 02, Sri Lanka Tel: 421670/421679-81/437090-6 437725 Fax: 447620 Tlx: 22489 CTCE CE Cables: EAGLE HOUSE</p>	<p>C Jayaratne Managing Director 75 Kumaran Ratnam Rd Colombo - 02, Sri Lanka Tel: 421670/421679-81/437090-6 437725 Fax: 447620 Tlx: 22489 CTCE CE Cables: EAGLE HOUSE</p>
<p>Viren Perera Director Asia Capital Ltd 108 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 423903 Fax: 331756</p>	<p>Kumara Dewapura Chairman Tri Star Apparel Exports (Pte)Ltd 182 Galle Rd Colombo - 04, Sri Lanka</p> <p>Tel: 503256/503934/503949/508163 508936 Fax: 576445-6 Tlx: 22347 TRISTA CE</p>

<p>Gibbs Macdaniel Jr Chief of Party Financial Markets Project International Science & Technology Institute Inc. 1129, 20th St., NW, Washington DC 20036</p> <p>Tel: 202 785 0831 Fax: 202 223 3865</p>	<p>Financial Markets Project International Science & Technology Institute Inc. 108 W A D Ramanayake Mawatha 1st Floor Colombo - 02, Sri Lanka</p> <p>Tel: 331013-6/439144-8 Fax: 337026</p>
<p>Khursheed K Choksy Research & Operations Manager International Science & Technology Institute Inc. 108 W A D Ramanayake Mawatha 1st Floor Colombo - 02, Sri Lanka</p> <p>Tel: 331013-6/439144-8 Fax: 337026</p>	<p>Satyajit Seneviratne Computer Systems Analyst International Science & Technology Institute Inc. 108 W A D Ramanayake Mawatha 1st Floor Colombo - 02, Sri Lanka</p> <p>Tel: 331013-6/439144-8 Fax: 337026</p>
<p>Dylan Moldrich Director General Colombo Stock Exchange 2nd Floor-Mackinnons Bldg York St., Colombo-01, Sri Lanka</p> <p>Tel: 441062/078 44464 Mobile Fax: 94 1 445279</p>	<p>Rohan Fernando Deputy General Manager Colombo Stock Exchange 2nd Floor-Mackinnons Bldg York St., Colombo-01, Sri Lanka</p> <p>Tel: 440396(Direct)446581/325804 Fax: 94 1 445279</p>
<p>Aneela de Soysa Consultant Econsult (Pvt) Ltd 11/3A Turner Road Colombo - 08, Sri Lanka</p> <p>Tel/Fax: 689290</p>	<p>Nissanka Weerasekera Manager-Financial Markets Project Private Sector Development USAID 356 Galle Road Colombo - 03, Sri Lanka</p> <p>Tel: 574333 Fax: 574264/574500 Email:nweerasekera@usaid.gov</p>

<p>Arittha R Wikramanayake Director General Securities Exchange Commission 73 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 437086 Direct/439144-8 Fax: 439149</p>	<p>R S Wanasundera Chairman Securities Exchange Commission 73 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 438250 Direct/439144-8 Fax: 439149</p>
<p>G C B Wijeyesinghe Senior Partner 32A Sir Mohamed Macan Marker Mawatha, Colombo - 03, Sri Lanka.</p> <p>Tel: 343105/445871-4-5-6-8 Fax: 445872/541249</p>	<p>Vajira Kulatilaka Chief Executive Officer CKN Fund Management (Pvt) Ltd 148 Vauxhall Street Colombo - 02, Sri Lanka</p> <p>Tel: 337644 (Direct)/332507-12 Fax: 436522</p>
<p>H V B Nicholas Chairman Econsult (Pvt) Ltd 11/3A Turner Road, Colombo - 08 Sri Lanka</p> <p>Tel/Fax: 689290</p>	<p>Manohan Nanayakkara Director/Chief Executive Officer CF Venture Management Co Ltd 14A Third Floor-16th Lane Colombo-03, Sri Lanka</p> <p>Tel: 566634-5 Fax: 576514</p>
<p>R Bruce Neuling Economic Officer & Commercial Aide United States Embassy 210 Galle Rd, Colombo - 03 Sri Lanka</p> <p>Tel: 448007 Fax: 437345</p>	<p>Mohan A Abeynaike President Institute of Chartered Accountants of Sri Lanka 30A Malalasekera Mawatha Colombo - 07, Sri Lanka</p> <p>Tel: 585451/586256/500265 Fax: 588783</p>
<p>Parakrama R Gamage Chief Manager-Treasury Commercial Bank of Ceylon Ltd Commercial House, 21 Bristol St Colombo - 01, Sri Lanka</p> <p>Tel: 330406 (Direct) 328193-5 336700/445010-5/430420 Fax: 449889 Tlx: 22384/21520/21274/21898</p>	<p>J Mohan Alles Chief Executive Officer Lanka Ventures Ltd Ocean Lines Bldg, 46/12 Navam Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 439201-2 Fax: 439203 Tlx: 21681 DELCEY CE</p>

<p>M R Mihular Partner KPMG Ford, Rhodes, Thornton & Co 32A Sir Mohamed Macan Markar Mawatha, Colombo - 03, Sri Lanka</p> <p>Tel: 445871-4-5-6-8/446058 Fax: 445872/541249/446058 Tlx: 21569 CHURCH CE</p>	<p>Ajit D Gunewardene Managing Director Waldock Mackenzie 80 Navam Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 342451-60 Fax: 334993</p>
<p>Ralph de Lanerolle Director Waldock Mackenzie 80 Navam Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 342451-60 Fax: 334993</p>	<p>Charitha P de Silva Chairman Lanka Orix Leasing Co Ltd 1001/1 Sri Jayewardenepura Mawatha, Rajagiriya, Sri Lanka</p> <p>Tel: 865603(Direct)/865604-11 Fax: 865602</p>
<p>Rajeeva Bandaranaike Manager Trading Colombo Stock Exchange 2nd Floor, Mackinnons Bldg, Colombo - 01, Sri Lanka</p> <p>Tel: 446581/3258054 Fax: 445279 Tlx: 21124 MAKINON CE</p>	<p>Changa J Samaraweera Managing Director Merchant Bank of Sri Lanka 189 Galle Rd, Colombo - 03 Sri Lanka</p> <p>Tel: 423800(Direct)/421277/337222 Fax: 423799 Tlx: 23245 MERBANK CE</p>
<p>Kim M Kertson Program Officer USAID 356 Galle Rd, Colombo - 03 Sri Lanka</p> <p>Tel: 574333/575827 Fax: 574264/574500</p>	<p>Tennyson Rodrigo Managing Director Capital Development and Investments Co Ltd 65C Dharmapala Mawatha Colombo - 03</p> <p>Tel: 327189/326624/423124-5 Fax: 423126</p>
<p>Arjan Perera Investment Manager HDF Securities (Pvt) Ltd 27-1/1 York Arcade Bldg Colombo - 01, Sri Lanka</p> <p>Tel: 331075-82 Fax: 431848-9</p>	<p>Devapriya Ellepola Deputy General Manager Operations HDF Securities (Pvt) Ltd 27-1/1 York Arcade Bldg Colombo - 01, Sri Lanka</p> <p>Tel: 331085 (Direct)/331075-82 Fax: 431848-9</p>

<p>Dr Mrs Rane Jayamaha Senior Executive/Advisor Financial Sector Monitoring Committee-Ministry of Finance 58 Sri Jayawardenepura Mawatha Rajagiriya, Sri Lanka</p> <p>Tel: 867383 Fax: 867386</p>	<p>Mangala Boyagoda Union Bank Hotel Galadari Lotus Road, Colombo - 01</p> <p>Tel: 544544</p>
<p>Ms Beulah Wijemanne Moonesinghe Chairperson Agromart Outreach Foundation 38 Iswari Road Colombo - 05</p> <p>Tel: 587823/582486 Fax: 587823</p>	<p>Ms Surekha Sellahewa Manager Surveillance and Enforcement Colombo Stock Exchange 2nd Floor, Mackinnons Bldg, York St, Colombo - 01, Sri Lanka</p> <p>Tel: 440541(Direct)/446581/325804 Fax: 445279</p>
<p>Ms Rebecca Maestri USAID, Department of State SA-2 Suite102, 515-22nd St., NW Washington DC 20523-0219</p> <p>Tel: 202 663 2592 Fax: 202 663 2643</p>	<p>David Cohen Mission Director USAID 356, Galle Road, Colombo -03 Sri Lanka</p> <p>Tel: 574333/575827 Fax: 574264/574500</p>
<p>N U Jayawardena 17, Cambridge Place Colombo - 07 Sri Lanka</p>	<p>Stanley Jayawardena 69, Conniston Place Colombo - 07 Sri Lanka</p>
<p>Rajan Asirwarham Chairman Bank of Ceylon Janadhipathi Mawatha Colombo - 01</p> <p>Tel: 544322</p>	<p>A S Jayawardena Secretary - Ministry of Finance Treasury Colombo - 01</p>
<p>Moksevi R Preli General Manager/Director Development Finance Corporation of Ceylon 73/5 Galle Road, Colombo - 03 Sri Lanka</p> <p>Tel: 440364 (direct)/440366 Fax: 440376</p>	<p>M T L Fernando Partner Earnst & Young 201, De Saram Place P O Box 101, Colombo Sri Lanka</p> <p>Tel: 697363-7 Fax: 697369</p>

<p>Hiran M Perera Managing Director Prudential Investment Corp. Ltd 100/1 Sri Jayawardenapura Mawatha Rajagiriya, Sri Lanka</p> <p>Tel: 868649/867626 Fax: 867627</p>	<p>Roberto Bentjerodt Resident Representative The World Bank 73/5 Galle Road Colombo - 03</p> <p>Tel: 448070-71/432282 Fax: 440357</p>
<p>Ms Malini Gunewardena Manager Legal Securities & Exchange Commission of Sri Lanka 73 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 439144-8 Fax: 439149</p>	<p>Ms Cathy Rawson Consultant Colombo Stock Exchange Listings & International Science & Technology Institute Inc. 1st Fl, 108 W A D Ramanayake Mawatha Colombo - 02, Sri Lanka</p> <p>Tel: 331013-6/439144-8 Fax: 337026</p>
<p>William Gorman Computer Specialist Colombo Stock Exchange 2nd Floor, Mackinnons Bldg, York St, Colombo - 01, Sri Lanka</p> <p>Tel: 446581/325804 Fax: 445279</p>	<p>Ajith M de S Jayaratne Chairman-Colombo Stock Exchange C/o Forbes & Walker Ltd 46/38 Navam Mawatha, Colombo - 02 Sri Lanka</p> <p>Tel: 435455 (direct)/327961-7 Fax: 437149</p>
<p>Ranjit Fernando Director/General Manager National Development Bank 40, Navam Mawatha, Colombo - 02 Sri Lanka</p> <p>Tel: 448889/437701-7/437350-3 Fax: 440262</p>	<p>Sanjiva Senanayake Assistant General Manager National Development Bank 40, Navam Mawatha, Colombo - 02 Sri Lanka</p> <p>Tel: 437701-7/437350-3 Fax: 440262</p>
<p>Mahendra Jayasekera Manager Research CT Smith Stockbrokers (Pvt) Ltd 1st Floor, Cargills Bldg, 40 York St, Colombo - 01, Sri Lanka</p> <p>Tel: 434021 (Direct)/433958/433973 433982 Fax: 434038</p>	<p>Mrs Cecilia Muttukumaru Executive Director CT Smith Stockbrokers (Pvt) Ltd 1st Floor, Cargills Bldg, 40 York St, Colombo - 01, Sri Lanka</p> <p>Tel: 433958/433973/433982 Fax: 434038</p>



PROPOSED SURVEILLANCE ACTIVITIES AT AND SEC SL AND THE CSE

Colombo 2, SRI LANKA
Tel: 331013-6 Fax: 337026

MEMORANDUM

Date: June 7, 1995

To: Russell Diehl, FMP Evaluator

From: Gibbs Macdaniel, COP, FMP 

Subject: **Surveillance, Compliance and Enforcement of SEC and CSE Rules and Regulations**

I am happy to respond to your inquiry regarding the subject. ISTI consultants, Ms. Estella Tang and Mr. Paul Litteau, started work on training manuals for both the SEC and CSE, with Tang primarily responsible for a procedures manual for the SEC covering surveillance, compliance and enforcement. Litteau has concentrated on a manual for the CSE to include audit training and procedures. Both consultants' work product has been delivered to ISTI in Arlington, VA for editing and compilation, and the final report is due shortly. The reasons for the delay have already been discussed.

As the Second Workplan indicates, we have programmed at least two additional person/months for a compliance and enforcement refresher, but we also need to contract a surveillance expert to teach both the SEC and CSE the art of surveillance techniques. We anticipate that the CSE will have chosen a vendor by mid-July for its new screen-based trading system and then we will have a clear understanding of the scope of training the supplier can deliver on the subject. The FMP, in concert with the SEC and CSE, will want to coordinate the additional T/A with that of the supplier training to enhance benefit to the counterparts. Accordingly, we anticipate ISTI specialists on the subject to be in Sri Lanka most probably during September/October, 1995 to provide this most vital technical assistance, for which ample resources remain in the Project.

Hopefully, the foregoing will assist you in the evaluation effort. Please call if I can be of further help.

cc: Jon Lindborg, Chief, PSD&H, USAID
Nihal Goonewardene, CEO, ISTI

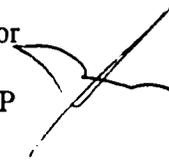


PROPOSED ACTIVITIES AT ICASL

c/o Securities and Exchange Commission of Sri Lanka
1st Floor, 108, W A D Ramanayake Mawatha
Colombo 2, SRI LANKA
Tel: 331013-6 Fax: 337026

MEMORANDUM

Date: June 6, 1995
To: Russell Diehl, FMP Evaluator
From: Gibbs Macdaniel, COP, FMP
Subject: ICASL



I am happy to respond to your inquiry regarding project implementation with ICASL. But, first, bear with me for a moment while I ruminate about foreign economic development. From my personal viewpoint, USAID projects that last several years are really dynamic entities that frequently evolve from conceptual plans, in this case the PSPS, Project Paper Supplement of May 25, 1992, to a more focused scope of work as set forth in the FMP Second Workplan, July 1, 1994 - December 31, 1995. As one can well appreciate, the reason plans change is the same reason that implementation often becomes delayed, e.g., new policy direction from either government, changes in key personnel with differing priorities and/or perspectives, matters of force majeure, not to mention the Sri Lankan experience of political assassinations, bombings, civil insurrections, etc. In any case, when changes are required there is new consensus/agreement between the parties, i.e., USAID, ISTI and the counterparts.

With respect to ICASL, some early delays were encountered stemming from some of the above, but also due perhaps to some philosophical and cultural differences. Currently, the cooperative effort with ICASL is excellent and project implementation is proceeding in accordance with the Workplan. I think it would be helpful for you to have a copy of the Report on Audit Working Paper Review (attached), which includes as Appendix A, the ICASL Scope of Work that was established in late 1994. We have completed Phase 1, Phase 2: Review of Audit Working Papers, and are mobilizing a series of audit seminars for August, 1995 as part of Phase 2; Accounting and Auditing Standards. When the Accounting Standards Monitoring Board comes into being soon, we have identified, with ICASL's help, an excellent consultant in London that can deliver valuable technical assistance to this new Board. The ICASL Vice President, Mr. Reyaz Mihular, has just completed a study tour to the U.S. where highly productive meetings were held with FASB in Norwalk, CT and the AICPA in New York City. In the course of the remaining months of the FMP life we will implement Phase 3, with particular emphasis on the Urgent Issues Task Force and the establishment of a Technical Helpline.

Hopefully, the above will be helpful in your evaluation efforts. Please call if I can be of further assistance.

cc: Nihal Goonewardene, CEO, ISTI

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