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Regulation & Supervision

Central Bank of Sri Lanka supervises and regulates major financial entities. Through regulation, the Central Bank sets standards or policies that it financial institutions to meet. In supervision, the Central Bank assesses the risks that financial institutions pose to financial system stability and necessary, takes action to reduce them.

Major regulatory requirements include;

- (i) Minimum ratio of capital to total value of risk based assets
- (ii) Minimum ratio of liquid assets to liabilities
- (iii) Limit on volume of lending to a single borrower
- (iv) Provision for bad and doubtful debts
- (v) Submission of annual audited financial statements within a stipulated period

The regulatory requirements are intended to serve as prudential standards that help the institutions to mitigate some of the risks inherent in banking or business. Such regulations are determined in terms of the provisions of the relevant statutes. The supervision involves; oversight of financial institutions off-site surveillance and on-site examinations.

Off-site surveillance is the examination of information received periodically (monthly, quarterly, half-yearly, etc.) from the institutions relating performances and financial status with a view to identifying early warnings of impending problems which can be resolved by taking early remedial action.

On-site examinations; under this, the Central Bank examiners periodically visit the institutions for examination of their books and accounts with a view to an assessment of the operations of the institutions by verifying the compliance with prudential and regulatory requirements and assessing the various recedit risk, liquidity risk, market risk and operational risk and risk management capacity of the institutions. On the basis of the findings of these exam the Central Bank continuously communicates with the management of the institutions and requires them to initiate prompt actions to address the problem weaknesses observed.

Macroprudential Surveillance

Macroprudential policy aims at increasing the resilience of the financial system as a whole to reduce the build-up of systemic risk (risks affecting th market) that can threaten the financial system stability. Macroprudential policy is set by identifying, monitoring and assessing risks jeopardising stabili financial system in order to prevent or mitigate risks and ensure maintenance of stability in the overall financial system. For this purpose the Cent observes the financial and monetary system and the use of a specific set tools to limit systemic risks and disruptions to vital financial services req carrying out of economic activities.

The analysis done for this purpose is known as macroprudential analysis. This is a method of economic analysis which assess the financial system as to identify severe imbalances that arise in or are amplified by the financial system and the risks and vulnerabilities resulting from such occurrences.

Resolution of failing financial Institutions

Although no Central Bank or a government could guarantee safety of all transactions or institutions in the financial system, the Central Bank's atten ensure that the financial system as a whole remain stable. If there is any non-viable institution, the Central Bank as the regulator intervenes to reso institution safely, minimising the impact of possible adverse consequences of such institution failure on the broader economy. In financial crises there many bail outs of failing institutions at the expense of tax payers' money. Resolution attempts to change the burden of possible institutional failures payers to shareholders and unsecured creditors of the failing institution.

Financial Market Infrastructure Supervision

Financial Market Infrastructure (FMIs) play a key role in the smooth functioning of the economy and promote wider financial stability. Proper functioning market and the financial stability is dependent on the continued orderly functioning of the services provided by financial infrastructure. Hence, managing and mitigating risk is a primary responsibility of financial market infrastructure providers.

Main types of infrastructure include;

- a) Payment systems involving financial institutions
- b) Securities settlement systems
- c) Others such as central counterparties (currently there is no such entity falling under the purview of the Central Bank)

Functioning markets rely on the ability of the market infrastructure providers to ensure continued availability of required services. Payment systems businesses and other market participants to send and receive money as payments whether they are for goods and services they consume, money they

borrow or in making mere transfer payments. Securities settlement systems enable exchange of investments in equity or debt securities. Central count offer guarantees for participants against defaults by the original counterparty.

Financial Safety Nets

Deposit insurance is one of the key components of a financial safety net, along with supervision, resolution and lender of last resort facilities. In international developments, the Central Bank has taken steps to introduce a mandatory Deposit Insurance System, "Sri Lanka Deposit Insurance and Support Scheme (SLDILSS)" with effect from 01.10.2010. The purpose of establishing SLDILSS is to create a mechanism to protect depositors from the 1 financial institutions and thereby to promote the stability of financial institutions and the financial system of the country as a whole by maintaining c confidence.

The member institutions (MIs) of SLDILSS is comprised of all licensed commercial banks, licensed specialised banks and licensed finance companies. In event a licence of a MI is cancelled by the Monetary Board, eligible depositors will be compensated up to a maximum of Rs. 1,100,000 per depositor, per institution by SLDILSS effective from 01.04.2021. However, the liability will be limited to the funds available or raised in SLDILSS.

Subject to the terms and conditions of the Monetary Board, in case of an emergency liquidity distress of a MI, a liquidity support facility is available for N under SLDILSS.

Environmental and Social Commitment Plan (ESCP)

Stakeholder Engagement Plan (SEP)

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