

National Policy on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) of Sri Lanka

2023 - 2028



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LIST OF ACRONYMS

AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
CDD	Customer Due Diligence
CFT	Countering the Financing of Terrorism
CPF	Countering the Proliferation Financing of Weapons of Mass Destruction
CSTFA	Convention of Suppression of Terrorist Financing Act, No. 25 of 2005
CTRs	Cash Transaction Reports
DNFBPs	Designated Non-Finance Businesses and Professions
DPMS	Dealers in Precious Metals and Precious Stones
EFF	Extended Fund Facility
EFTs	Electronic Fund Transfers
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSRBs	FATF-Styled Regional Monitoring Bodies
FTRA	Financial Transactions Reporting Act, No. 6 of 2006
IMF	International Monetary Fund
LEAs	Law Enforcement Agencies
ME	Mutual Evaluation
MER	Mutual Evaluation Report
ML	Money Laundering
MVTS	Money or Value Transfer Service
NCC	AML/CFT National Coordinating Committee
NPOs	Non-Profit Organizations
NRA	National Risk Assessment
PF	Proliferation Financing of Weapons of Mass Destruction
PMLA	Prevention of Money Laundering Act, No. 5 of 2006
STRs	Suspicious Transaction Reports
TCSPs	Trust or Company Service Providers
TF	Terrorist Financing
UNSCRs	United Nations Security Council Resolutions
VA	Virtual Assets
VASPs	Virtual Asset Service Providers

APPROVAL OF THE CABINET OF MINISTERS

At the Cabinet meeting held on 07.08.2023 the Cabinet of Ministers has approved the adoption of the National Policy on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) of Sri Lanka for 2023 - 2028.



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இலங்கை சனாதிபதி
President of Sri Lanka

The Government of Sri Lanka is committed to ensuring a safe and sound financial system by adopting measures to adequately address the threats posed by Money Laundering (ML) and Terrorist Financing (TF).

In this context, cabinet approval will be obtained for the National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Policy of Sri Lanka for 2023-2028. The Government of Sri Lanka, at the highest political level, is fully committed to implementing the National AML/CFT Policy and Institution-wise Action Plans. Further, Sri Lanka will continue to play a vital role in the global action against illicit financial flows and terrorism financing, and maintain collaborating with the FATF, APG and other development partners, in its efforts to address the deficiencies and risks identified in the country's AML/CFT regime.

It is also noteworthy that, the National AML/CFT Policy will facilitate the successful implementation of the Extended Fund Facility (EFF) program of the International Monetary Fund (IMF), which necessitates Sri Lanka's commitment in fulfilling the obligations under the governance and anti-corruption framework of the country.

Ranil Wickremesinghe
President of the Democratic Socialist Republic of Sri Lanka and
Minister of Finance, Economic Stabilization and National Policies

16.06.2023

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இலங்கை சனாதாயக சோசலிசுக் குடியரசு
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Dr. P Nandalal Weerasinghe

GOVERNOR

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It is with great pleasure I present the National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Policy of Sri Lanka for 2023 – 2028 in a context where successful prevention and combating of Money Laundering (ML) and Terrorist Financing (TF) has been identified as a timely concern for the country.

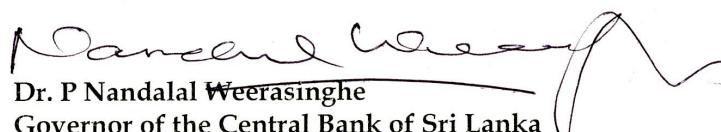
Amidst the challenges faced by the economy, the Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) has had a challenging yet efficacious period with the National Risk Assessment (NRA) which is a self-assessment encompassing a series of recommendations to strengthen the AML/CFT framework of Sri Lanka. The NRA is the key in formulating the National AML/CFT Policy 2023 – 2028 as the policy encapsulates the deficiencies identified and the remedial measures recommended during the risk assessment upon identifying and gauging the ML/TF risks and vulnerabilities faced by the country. The current issuance of the policy for 2023 – 2028 has been developed providing a comprehensive and a cohesive framework for minimizing the underlying ML/TF risks highlighting the importance for a country to have a domestic mechanism ensuring the minimization of ML/TF risks.

This National AML/CFT policy is a collaborative approach between the related key stakeholders representing key public and private sector agencies and therefore, greater contribution and shared responsibility among domestic agencies including policy makers, enforcement authorities, Financial Institutions, Designated Non-Finance Businesses and Professions (DNFBPs), competent authorities, judiciary, FIU-Sri Lanka and other AML/CFT related public/ private stakeholders, are imperative for the country to progress the effective implementation of the National AML/CFT policy for the next five-year period. In this context, I believe that the necessary institutional commitment, and the prompt and decisive actions by stakeholders are needed in achieving the goals set under the National AML/CFT Policy.

Furthermore, the Extended Fund Facility (EFF) programme of the International Monetary Fund (IMF) entails Sri Lanka to fulfill several obligations and as a country, we have placed a great emphasis on our commitment to reduce corruption vulnerabilities. In view of the above, I believe that the successful implementation of this National Policy will ensure the necessitated commitment in fulfilling the obligations under governance and anti-corruption framework of the country through sustainable efforts to invigorate the AML/CFT framework of the country.

I would like to extend my sincere gratitude to the FIU-Sri Lanka that plays the leading role in completing this national endeavor, and to all stakeholders contributed in the preparation of the National AML/CFT Policy for their unstinted and continuous support extended in extremely trying circumstances.

Going forward, I seek support of all the stakeholders to implement this National AML/CFT Policy successfully to make Sri Lanka a prosperous and safer economy while protecting the integrity of our financial system.



Dr. P Nandalal Weerasinghe
Governor of the Central Bank of Sri Lanka
Chairman of the AML/CFT National Coordinating Committee

16.06.2023

1.0 . INTRODUCTION

Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF) of weapons of mass destruction pose a serious threat to the integrity of the Sri Lankan economy and its financial system as well as to the global financial system. With rapid technological advancements, financial transactions are becoming more complex and simultaneously, financial crimes are also becoming multifaceted, making it challenging for the authorities to prevent, detect, disrupt ML/TF/PF threats and to deprive criminals from illicit proceeds and terrorists from funds in support of terrorism. Combating ML/TF/PF is a shared responsibility of all the players in the financial system, competent authorities including regulators, supervisors, the Financial Intelligence Unit (FIU), Law Enforcement Agencies (LEAs), prosecutors and the judiciary, where better cooperation and coordination among the stakeholders is crucial.

Accordingly, it is vital for a country to have a domestic mechanism in place to mitigate the risks of ML/TF/PF to ensure the effective implementation of the country's Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) and Countering the Proliferation Financing of Weapons of Mass Destruction (CPF) obligations as per the international standards and best practices. In this regard, identifying, assessing, and understanding ML/TF/PF risks that a country is exposed to and implementing AML/CFT/CPF measures to mitigate such risks are essential.

The Financial Actions Task Force (FATF), an inter-governmental body which sets international standards to prevent ML/TF/PF activities, has introduced 40 Recommendations to be implemented by every country in order to combat ML/TF/PF. The FATF through its FATF-styled regional bodies (FSRBs) periodically conducts Mutual Evaluations to assess the technical compliance of each country on FATF 40 Recommendations and effectiveness through 11 immediate outcomes to ascertain how well the country has implemented FATF Recommendations. As a member of the Asia Pacific Group on Money Laundering (APG), the FSRB set-up for Asia and the Pacific region, Sri Lanka is subject to periodic evaluation by the APG to assess the country's compliance with the FATF Recommendations.

FATF Recommendation 2 requires countries to have national AML/CFT/CPF policies, informed by ML/TF/PF risks identified in the country, which should be regularly reviewed. It further requires countries to ensure that policymakers, the FIU, LEAs, supervisors and other relevant competent authorities, at the policymaking and operational levels, have effective mechanisms in place which enable them to cooperate, and, where appropriate, domestically coordinate and exchange information with each other concerning the development and implementation of policies and activities to combat ML/TF/PF.

In line with this requirement, Sri Lanka developed its second National Policy on AML/CFT for 2023 - 2028 based on the findings of the National Risk Assessment (NRA) conducted in 2021/2022. This National Policy on AML/CFT is expected to address the threats, vulnerabilities and risks identified in the NRA and the effective implementation of the same in the next five years would be imperative for a robust AML/CFT/CPF regime in Sri Lanka.

2.0 . NATIONAL POLICY ON AML/CFT (2023 - 2028)

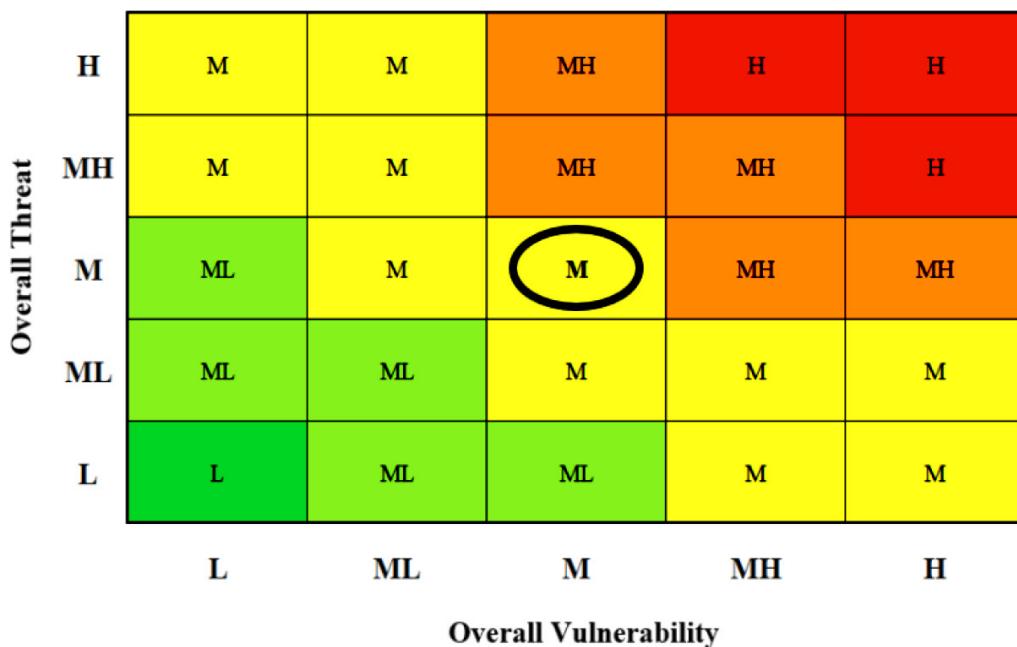
The development and publication of the National Policy on AML/CFT (2023 - 2028) is a major step towards Sri Lanka's fight against ML/TF. The Policy is based on the findings of the NRA on ML/TF of Sri Lanka conducted in 2021/2022 and is meant to address the major structural weaknesses, vulnerabilities and strategic deficiencies within Sri Lanka's AML/CFT regime.

2.1 NATIONAL RISK ASSESSMENT (NRA) ON ML/TF

The NRA was conducted based on a self-assessment by Sri Lankan authorities, using the ML/TF Risk Assessment Tool developed and provided by the World Bank. Sri Lanka's NRA is a government wide activity with the cooperation of the private sector aiming at better understanding of the ML/TF risks faced by the country. The FIU, as the AML/CFT regulator in the country, coordinated the NRA process under the ambit of the AML/CFT National Coordinating Committee (NCC), while stakeholders representing key government and private sector institutions participated in the NRA.

The ML risk is considered to be a function of ML threat and vulnerability. As per the NRA, the overall ML threat and vulnerability of Sri Lanka has been assessed as Medium. Accordingly, the ML risk level in the country has been rated as Medium, and in a similar manner, the TF risk of Sri Lanka has also been assessed as Medium.

Figure 1: Overall ML/TF Risk in Sri Lanka



As per the NRA, ML threat levels emanating from each major predicate offence are listed below with the rating:

Figure 2: ML Threat Level of Predicate Offences

	Predicate Offence	ML Threat
1	Drug trafficking	Medium High
2	Bribery and Corruption	Medium High
3	Customs related offences including laundering of trade-based proceeds	Medium High
4	Fraud	Medium
5	Robbery (includes housebreaking, extortion, and theft)	Medium
6	Environmental and natural resource crimes	Medium
7	Illegal, Unreported and Unregulated (IUU) fishing and related unlawful activities (trafficking and smuggling)	Medium Low
8	Human smuggling/ trafficking	Medium Low
9	Tax offences	Medium Low
10	Counterfeiting of currency	Low

Also, the sectoral ML Threat, vulnerability and ML Risk are identified as follows:

Figure 3: Sectoral ML Threat, ML Vulnerability and ML Risk

	Sector		ML Threat	ML Vulnerability	ML Risk
1	Banking		Medium High	Medium	Medium High
2	Other Financial Institutions Sector	Finance Companies	Medium High	Medium	Medium High
		Money or Value Transfer Service (MVTs) Providers	Medium	Medium	Medium
		Informal (Hawala/Hundi) Remitters	High	High	High
3	Securities	Stockbrokers	Medium Low	Medium	Medium
		Primary Dealers	Medium	Medium	Medium
4	Insurance		Medium Low	Medium Low	Medium Low
5	Designated Non-Finance Businesses and Professions (DNFBPs):	Casinos	Medium	Medium	Medium
		Real Estate Agents	Medium High	Medium	Medium High
		Dealers in Precious Metals and Precious Stones (DPMS)	Medium	Medium	Medium
		Lawyers	Medium Low	Medium	Medium
		Notaries	Medium		
		Accountants	Medium Low	Medium Low	Medium Low
		Trust and Company Service Providers (TCSPs)	Medium Low	Medium Low	Medium Low

The NRA 2021/2022 has identified the following strategic deficiencies in the Sri Lanka's AML/CFT regime:

- a. Gaps in the legal and institutional framework (Beneficial Ownership, asset recovery and management, Non-Profit Organizations (NPOs), informal money remittance, Virtual Assets (VA) and Virtual Asset Service Providers (VASPs))
- b. Low level of ML/TF investigations, prosecutions, convictions, and asset recovery
- c. Lack of statistics/databases on ML/TF
- d. Poor inter-agency/domestic coordination and international cooperation
- e. Inadequate resources, capacity, skills and expertise to effectively combat ML/TF
- f. Non-existence of a centralized legal framework and a regulatory authority for the real estate sector, non-existence of a regulator for casino sector.

2.2 APPROACH

The NRA has identified priority areas and made a series of recommendations to strengthen the AML/CFT framework of Sri Lanka. In the NRA process, a gap analysis was conducted in consultation with all key stakeholder institutions to assess the current AML/CFT regime by taking into consideration the legal and institutional framework. This led to the formulation of strategic objectives and goals that would help mitigate the ML/TF risks and address the identified deficiencies which would further strengthen the AML/CFT regime of Sri Lanka.

Figure 4: Approach



The National Policy on AML/CFT (2023 - 2028) was developed based on the threats, vulnerabilities and risks identified in the NRA, and was formulated on seven (7) key objectives which would be implemented over a period of five years (2023 - 2028).

2.3 OBJECTIVES OF THE NATIONAL POLICY ON AML/CFT

In line with the recommendations made in the NRA conducted in 2021/2022, Sri Lanka would focus on following 7 key objectives during the period 2023 - 2028 interdepending on ML/TF threats vis-à-vis AML/CFT regime in place in the country.

Figure 5: Objectives of the National Policy on AML/CFT



OBJECTIVE 1: Strengthen the Legal and Institutional Framework in the fight against ML/TF and other Financial Crimes

Goals:

1. Amend/ introduce relevant legislations to meet international standards and best practices, specifically to address the gaps identified in the NRA
2. Enhance the transparency of legal persons and arrangements and beneficial ownership requirements
3. Develop regulatory mechanism on VA/VASPs

OBJECTIVE 2: Improve the effectiveness of ML/TF Investigations, Prosecution and Asset Recovery

Goals:

1. Increase ML/TF investigations & prosecutions, especially, in relation to threats identified in the NRA
2. Develop policy guidelines to enhance the confiscation of proceeds of crime.
3. Build the capacity of the Investigators, Prosecutors, Judiciary and the FIU on ML/TF
4. Establish a proper mechanism and an Asset Management Office for Asset Recovery

OBJECTIVE 3: Improve Risk-based AML/CFT Supervision

Goals:

1. Strengthen risk-based AML/CFT supervision and monitoring on Financial Institutions and DNFBPs
2. Improve risk-based supervision capacity of Regulatory and Supervisory Bodies
3. Establish a feedback and collaboration mechanism between the FIU, regulators, and reporting institutions

OBJECTIVE 4: Strengthen Domestic and International Cooperation

Goals:

1. Promote international cooperation
2. Promote domestic coordination and cooperation
3. Promote exchange of information and intelligence to support ML/TF investigations and prosecution
4. Strengthen feedback and case monitoring mechanism among LEAs in order to enhance information sharing on ML/TF investigations and prosecution
5. Launch a regular consultative forum/mechanism to facilitate communication between supervisors and the private sector

OBJECTIVE 5: Strengthen Capacity and Enhance Awareness on ML/TF amongst Reporting Institutions, specifically DNFBPs, Regulators, FIU, LEAs, Prosecutors, Judiciary and Private Sector

Goals:

1. Stakeholders to allocate resources in line with the threats, vulnerabilities and risks identified in the NRA
2. Develop skills/ building capacity giving due consideration to the findings of the NRA
3. Deepen AMLCFT awareness among stakeholders including the general public
4. Enhance the identification and reporting of ML/TF related Suspicious Transaction Reports (STRs)

OBJECTIVE 6: Develop and Maintain a National AML/CFT Database/Statistics

Goals:

1. Develop a methodology for all LEAs and Competent Authorities to collect and maintain accurate AML/CFT related statistics, electronically or in a promptly accessible manner
2. Develop / upgrade comprehensive ML/TF databases accessible to the FIU and other Competent Authorities
3. Ensure information security and confidentiality of all AML/CFT statistics
4. Enhance the identification and reporting of ML/TF related STRs.

OBJECTIVE 7: Facilitate the implementation of the National Financial Inclusion Strategy to achieve inclusive financial integrity

Goals:

1. Promote sustainable financial inclusion and increase financial literacy
2. Increase the availability and usage of innovative financial products and services
3. Identify low risk financial inclusion products and target groups
4. Encourage launching financial inclusion products to low-risk groups
5. Introduce simplified Customer Due Diligence (CDD) framework for financial inclusion products/low risk groups

2.4 PRINCIPLES DRIVING THE NATIONAL POLICY ON AML/CFT

The National Policy on AML/CFT and Action Plan are driven by the following strategic principles:

- i. Aggressively implement all international standards, relating to combating ML/TF set by the FATF and UNSCRs including targeted financial sanctions addressing terrorism and proliferation of weapons of mass destruction.
- ii. Optimize and integrate inter-agency AML/CFT policy and operational coordination and cooperation through deployment of technology and formal processes and mechanisms.
- iii. Proactively assist and engage with other jurisdictions through formal and informal channels in initiating, supporting and responding to AML/CFT inquiries and investigations
- iv. Deploy the Supervisory and Regulatory Authorities, the FIU, LEAs and the Judiciary to address financial crime and corruption in accordance with identified risks.
- v. Implement a preventive regulatory program across all sectors including the DNFBP sector that employs strong licensing, robust reporting requirements, strict AML/CFT regulations, and risk-based supervision.
- vi. Develop and deliver a program of education for private sector stakeholders to enhance understanding of ML/TF risks and promote a culture of compliance.
- vii. Enhance the capacity of LEAs in the investigation, prosecution and increased conviction of ML/TF cases.

3.0 LEGAL FRAMEWORK

Sri Lanka's AML/CFT regime mainly comprises the following three pieces of legislations:

- i. Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSFTA), as amended.
- ii. Prevention of Money Laundering Act, No. 05 of 2006 (PMLA), as amended.
- iii. Financial Transactions Reporting Act, No. 06 of 2006 (FTRA)

4.0 NATIONAL COORDINATION

The AML/CFT National Coordinating Committee (NCC) provides policy directions on the matters relating to the AML/CFT regime of the country. The NCC comprises of the following members.

- i. Governor of the Central Bank of Sri Lanka (Chairman)
- ii. Secretary to the Ministry of Finance
- iii. Secretary to the Ministry of Justice
- iv. Secretary to the Ministry of Foreign Affairs
- v. Secretary to the Ministry of Defence
- vi. Attorney General
- vii. Legal Draftsman
- viii. Inspector General of Police
- ix. Controller General of Department of Immigration and Emigration
- x. Controller General of Department of Import and Export Control
- xi. Chairman of Board of Investment of Sri Lanka
- xii. Director General of Securities and Exchange Commission of Sri Lanka
- xiii. Director General of Sri Lanka Customs
- xiv. Registrar General of Companies
- xv. Director General of Accounting and Auditing Standard Board
- xvi. Director General of National Secretariat for Non-Governmental Organizations
- xvii. Chairman of National Dangerous Drug Control Board
- xviii. Commissioner General of Inland Revenue
- xix. Commissioner General of Department of Excise
- xx. Director General of the Commission to Investigate Allegations of Bribery or Corruption
- xxi. Director of Department of Foreign Exchange

5.0 REGULATORY FRAMEWORK

The following institutions have the authority to regulate:

i. **Financial Sector Regulators**

- a. Central Bank of Sri Lanka
 - 1. Bank Supervision Department
 - 2. Department of Supervision of Non-Bank Financial Institutions
 - 3. Department of Foreign Exchange
 - 4. Payment and Settlements Department
- b. The Financial Intelligence Unit
- c. Securities and Exchange Commission of Sri Lanka
- d. Insurance Regulatory Commission of Sri Lanka

ii. **DNFBP Sector Licensing/Registration Authorities**

- a. Ministry of Finance
- b. National Gem and Jewellery Authority
- c. Institute of Chartered Accountants of Sri Lanka
- d. Self-Regulatory Bodies (Bar Association of Sri Lanka)
- e. Registrar of Companies
- f. Construction Industry Development Authority
- g. Condominium Management Authority

6.0 LAW ENFORCEMENT FRAMEWORK

The following agencies have the authority to enforce law and order:

i. **Sri Lanka Police**

- a. Criminal Investigation Department
- b. Counter Terrorism and Investigation Division
- c. Financial and Commercial Crime Investigation Division
- d. Illegal Assets Investigation Division
- e. Computer Crime Investigation Division
- f. Children & Women Bureau
- g. Colombo Crimes Division

- h. Homicide and Organized Crime Investigation Division
 - i. Human Trafficking, Smuggling Investigations & Maritime Crime Investigation Division
 - j. Police Narcotics Bureau
 - k. Special Task Force
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- ii. Commission to Investigate Allegations of Bribery or Corruption
 - iii. Excise Department of Sri Lanka
 - iv. Inland Revenue Department
 - v. Department of Immigration and Emigration
 - vi. Sri Lanka Customs

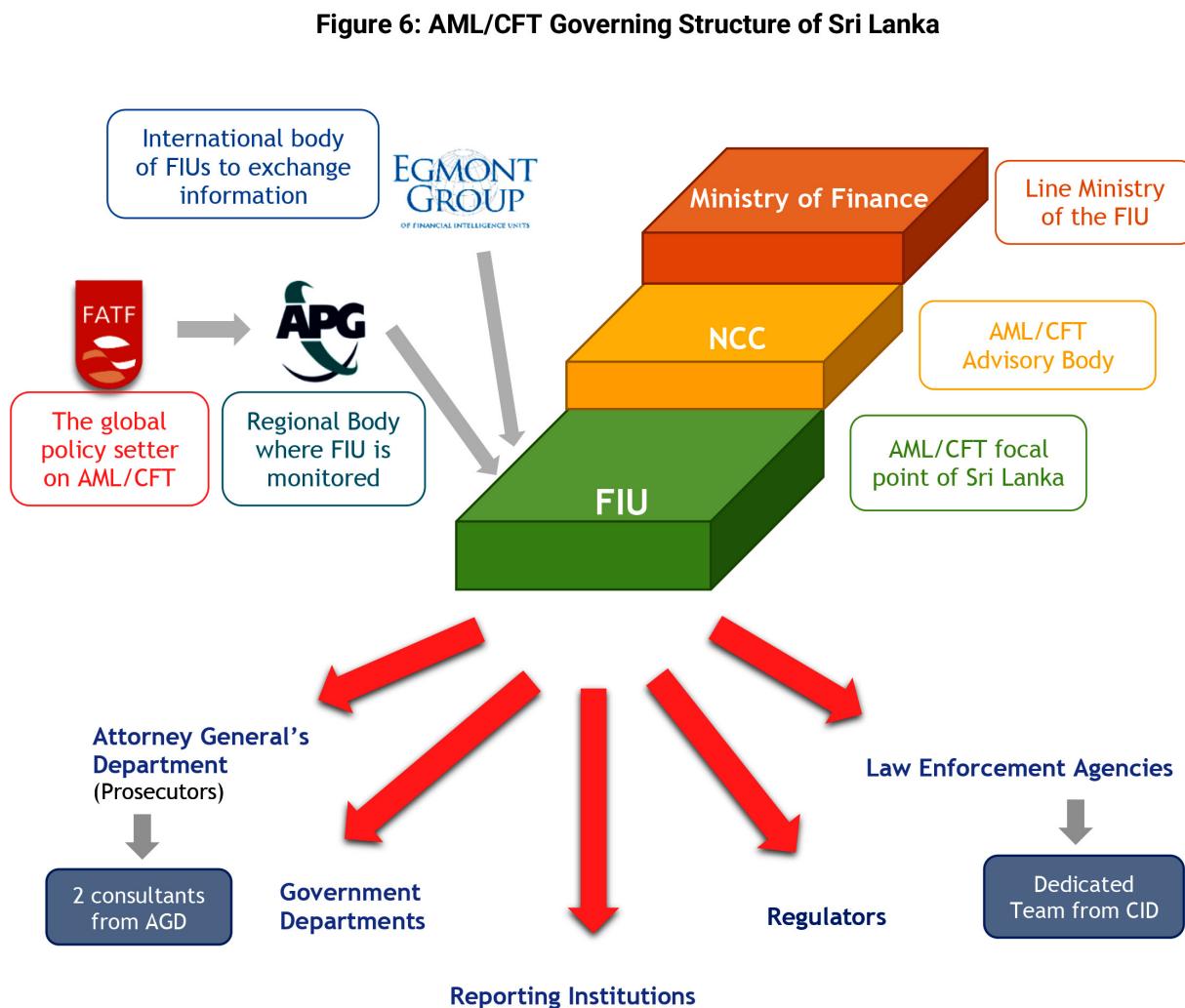
7.0 REPORTING INSTITUTIONS

The FIU has extended its reporting requirements for Cash Transaction Reports (CTRs) and Electronic Fund Transfers (EFTs) to the following Institutions;

- i. **Financial Institutions**
 - a. Licensed Commercial Banks
 - b. Licensed Specialized Banks
 - c. Licensed Finance Companies
 - d. Stockbrokers
 - e. Insurance Companies
 - f. Money or Value Transfer Service Providers
 - g. Restricted Dealers
- ii. **Designated Non-Financial Businesses and Professions**
 - a. Gem and Jewellery Dealers
 - b. Real Estate Agents
 - c. Casinos
 - d. Lawyers and Notaries and other independent legal professionals
 - e. Accountants
 - f. Trusts or Company Service Providers

Further, all Institutions engaged in finance business and designated non finance business within the meaning of the FTRA are required to report Suspicious Transaction Reports in terms of the FTRA.

8.0 AML/CFT GOVERNING STRUCTURE OF SRI LANKA



9.0 CONCLUSION

The National Policy on AML/CFT was developed under the auspices of the NCC. The NCC has the overall responsibility to coordinate, monitor and evaluate the implementation of this policy.

All relevant institutions identified are required to ensure that the objectives and goals of the National Policy on AML/CFT have been incorporated into their institutional policy/strategy and are being achieved effectively ensuring the soundness of Sri Lanka's AML/CFT regime.

