

# **PART III**



## PART III

### ADMINISTRATIVE MEASURES ADOPTED BY THE GOVERNMENT AND THE MONETARY BOARD DURING THE YEAR RELATING TO THE FUNCTIONS AND OPERATIONS OF THE CENTRAL BANK AND BANKING INSTITUTIONS IN SRI LANKA

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Our Ref.: 02/17/500/0590/001

08 January 2018

CEOs of Licensed Commercial Banks and Licensed Specialised Banks

**IMPLEMENTATION OF BUDGET PROPOSAL ON USANCE LETTER OF CREDIT FACILITIES**

We write to bring to your attention that the Department of Trade and Investment Policy of the Ministry of Finance and Mass Media has informed the Central Bank of Sri Lanka that all financial institutions should refrain from issuance of Usance Letter of Credit facility for importation of motor vehicles effective from 01.01.2018, as approved by the Parliament under Budget for 2018.

**Director of Bank Supervision**

CC:

1. Director General, Department of Trade and Investment Policy, Ministry of Finance and Mass Media
2. Controller General, Department of Imports and Exports Control
3. Director General, Departments of Customs
4. Commissioner General, Department of Motor Traffic

**Banking Act Directions No. 01 of 2018**

08 February 2018

**LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED  
IN RESPECT OF MOTOR VEHICLES**

Issued under Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, as amended.

The Monetary Board issues Directions as follows for the implementation of loan to value (LTV) ratios in respect of credit facilities granted by licensed commercial banks (LCBs) and licensed specialised banks (LSBs) for the purpose of purchase or utilisation of motor vehicles.

1. Empowerment under the Banking Act 1.1 In terms of Sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such banks is to be conducted.
2. Maximum LTV Ratio 2.1 Commencing 01 January 2018, credit facilities granted by every licensed bank for the purpose of purchase or utilisation of vehicles shall not exceed the following percentages of the market value of such vehicles.
  - (i) In respect of unregistered vehicles and registered vehicles which have been used in Sri Lanka for less than one year after the first registration;

Table 1 – Loan to Value Ratio			
Vehicle Category	Vehicle Class of Department of Motor Traffic	Electric Vehicles	Other
Commercial vehicles	C1, C, CE, D1, D, DE, G1, G, J	90%	90%
Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	90%	50%
Three wheelers	B1	90%	25%
Any other vehicle	A1, A, light trucks & single cabs categorized under B	90%	70%
Hybrid Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	70%	

- (ii) 70 per cent in respect of registered vehicles which have been used in Sri Lanka for more than one year after the first registration.

- |    |                                      |   |
|----|--------------------------------------|---|
| 3. | Exemptions from the Maximum LTV      | <p>3.1 The limits in Direction 2 above will not be applicable to credit facilities granted to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration.</p> <p>3.2 Licensed banks shall have internal limits and adopt adequate risk management procedures in granting credit facilities for this category of vehicles.</p>   |
| 4. | Other Credit Facilities for Vehicles | <p>4.1 A licensed bank shall not grant credit facilities for the purpose of purchase or utilisation of motor vehicles, other than credit facilities granted in accordance with Directions 2 and 3 above.</p>  |
| 5. | Interpretations                      | <p>5.1 Credit facilities shall mean finance leases, hire purchase facilities and all other credit facilities granted for the purpose of purchase or utilisation of vehicles by end-users.</p> <p>5.2 The value of the vehicle shall be the market value. Licensed banks may use the following for the purpose of valuing vehicles:</p> <ul style="list-style-type: none"> <li>i) Brand new vehicles - value given by authorized agents</li> <li>ii) Reconditioned vehicles - valuation considered at customs or invoice value given by the dealer</li> <li>iii) Registered vehicles - value given by a professional valuer</li> </ul> <p>5.3 Licensed banks should ensure that the valuation is obtained at the time of granting credit facilities and provides a true and fair value.</p> <p>5.4 Fleet of vehicles referred to in Direction 3.1 shall mean two or more vehicles.</p> <p>5.5 Company engaged in tourism referred to in Direction 3.1 shall mean a company registered with the Sri Lanka Tourism Development Authority or any other authority to provide services to tourism.</p> <p>5.6 A company engaged in transportation referred to in Direction 3.1 shall mean any business entity registered at any state authority for the purpose of business of transportation of goods or passengers.</p> |
| 6. | Revocation of previous Directions    | <p>6.1 The following Directions are hereby revoked:</p> <ul style="list-style-type: none"> <li>(i) Banking Act Directions No. 01 of 2017 on Loan to Value Ratios for Credit Facilities in respect of Motor Vehicles.</li> <li>(ii) Banking Act Directions No. 02 and No. 04 of 2017 on Amendment to Directions on the Loan to Value Ratios for Credit Facilities in Respect of Motor Vehicles.</li> </ul>   |

Dr. Indrajit Coomaraswamy

**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

**Banking Act Order. 01 of 2018**

14 March 2018

### **BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER**

Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister, under Sections 23, 25 and 26 of the Banking Act, No. 30 of 1988 as amended.

- |    |          |   |
|----|----------|---|
| 1. | Citation | This Order may be cited as the Banking Act, Order No. 01 of 2018. |
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2. Amendment to Clause 5 in the Banking (Off-Shore Banking Business) Order, 2000 issued on 7th April 2000.
- The following new Clause, replaces the Clause 5 of the Banking (Off-Shore Banking Business Scheme) Order, 2000, dated 7th April 2000
- Permitted transactions in an account of a non-resident**
5. An account maintained by a non-resident in an off-shore unit shall be:
- (a) credited with inward remittances, and
  - (b) credited or debited, as the case may be, with transactions that are permitted under the provisions of the Foreign Exchange Act, No. 12 of 2017, in any designated foreign currency.
3. Revocations
- The following are hereby revoked:
- (i) Banking Act, Order No. 1 of 2009 Banking (Off-Shore Banking Business Scheme) Order
  - (ii) Banking Act, Order No. 2 of 2011 Banking (Off-Shore Banking Business Scheme) Order.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

### Banking Act Directions No. 02 of 2018

24 May 2018

#### APPOINTMENT OF AGENTS OF LICENSED BANKS

In terms of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act No. 30 of 1988, as amended, the Monetary Board has implemented the following Directions for the appointment of agents of licensed commercial banks (LCBs) and licensed specialised banks (LSBs) with the objectives of ensuring effective agent oversight, risk management and consumer protection.

- |                     |     |   |
|---------------------|-----|---|
| 1. Empowerment      | 1.1 | In terms of Sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such bank or banks is to be conducted.   |
|                     | 1.2 | In terms of Sections 12(1)(a) and 76(D)(4) of the Banking Act and Directions issued under Section 76J(1), the Monetary Board approval is required for an LCB and an LSB to open/close an agency or to effect a change in the location of any existing place of business.  |
| 2. Definitions      | 2.1 | An LCB or an LSB will hereinafter be referred to as a licensed bank.  |
|                     | 2.2 | Agent/sub-agent is an entity selected by a licensed bank according to its internal policies and approved by the Central Bank of Sri Lanka (CBSL) to provide limited banking business on behalf of the licensed bank as permitted under these Directions.  |
|                     | 2.3 | Agent/sub-agent banking business is limited banking business as permitted under Direction 6 of these Directions, carried out by an agent/sub-agent on behalf of a licensed bank.  |
|                     | 2.4 | Agent/sub-agent is referred to as "agent" and agent/sub-agent banking business is referred to as "agent banking business" unless otherwise specifically stated.   |
| 3. Approval of CBSL | 3.1 | Before implementing agent banking business, a licensed bank shall submit its request including the following information to CBSL for evaluating the request for approval. <ul style="list-style-type: none"> <li>(i) Approval of the Board of Directors of the licensed bank for the implementation of agent banking business.</li> <li>(ii) A confirmation from the Board of Directors of the licensed bank that the following policies/procedures on agent banking business are in place               <ul style="list-style-type: none"> <li>(a) Board approved agent selection policy and risk management framework;</li> <li>(b) consumer protection mechanism;</li> <li>(c) agent management, control and monitoring mechanism; and</li> <li>(d) operating procedures and manuals.</li> </ul> </li> <li>(iii) Certifications by the Chief Executive Officer that the appointment of agents is in accordance with the licensed bank's Board approved agent selection policy and financial viability of the selected agents.</li> </ul> |

- (iv) The details of agents (shall include at a minimum):
      - (a) name of the agent;
      - (b) proposed agent banking business;
      - (c) business registration number;
      - (d) registered address and contact details (including postal address if different from the registered address);
      - (e) core business activity;
      - (f) other business activities;
      - (g) limits per agent/per customer/per day;
      - (h) details of the Board of Directors/partners/owners of the agent including names and National Identity Card numbers (not applicable for sub agent); and
      - (i) any other information as requested by CBSL.
- 3.2 The licensed bank is required to obtain prior approval of CBSL for (i) any new appointment of agents (ii) any discontinuation of approved agents (iii) additions to the outlets of approved agents (iv) change of location of approved agents (v) any amendments to approved agent banking business. In exceptional circumstances based on justifiable reasons, a licensed bank may temporarily suspend any of its agents after applying for approval to CBSL until such time the approval of CBSL is granted for discontinuation.
- 3.3 A licensed bank shall submit its request for approval on appointment of agents within the first ten working days of a quarter.
- 4. Responsibilities of the Licensed Bank
  - 4.1 The Board of Directors of a licensed bank shall:
    - (i) ensure the adherence to these Directions on both agent/sub-agent banking business.
    - (ii) ensure necessary provisions are available in the agreement entered into with an agent by the licensed bank and the agreement entered into with a sub-agent by an agent for compliance with these Directions.
    - (iii) formulate policies, procedures and guidelines on conducting agent banking business;
    - (iv) ensure the agents have adequate resources and expertise to perform the agent banking business;
    - (v) ensure that all risks associated with agent banking business are identified, documented, mitigated, managed and reviewed regularly;
    - (vi) establish systems for consumer protection and complaint measures and relief mechanism for agent banking business;
    - (vii) monitor the activities carried out by agents and accepting the responsibility for all actions and omissions of the licensed bank's agents while performing duties on behalf of the licensed bank; and
    - (viii) ensure adherence to Know Your Customer (KYC) and Customer Due Diligence (CDD) rules, rules on combatting money laundering and terrorist financing activities and licensed bank's internal rules, policies and procedures in this respect.
  - 4.2 In addition, a licensed bank shall:
    - (i) make an explicit, informed and documented decision on the use of agents for the provision of agent banking business to its customers;
    - (ii) assess agents biannually on their viability and make informed decisions on the continuation of agents;
    - (iii) provide agents with operational manuals as needed and ensure proper provision of agent banking business to customers; and
    - (iv) maintain an updated list of agents/database of agents appointed with all relevant details including the below at a minimal and publish the same in the web-site of the licensed bank:
      - (a) name of the agent;
      - (b) business registration number;
      - (c) physical location/address of the agent;
      - (d) contact number of the agent; and
      - (e) agent banking business offered on behalf of the licensed bank.
- 5. Risk Management
  - 5.1 The licensed bank shall:
    - (i) manage all relevant risks including credit risk, operational risk, legal risk, liquidity risk, reputation risk, technology risk and compliance risk;

- (ii) have in place internal controls, systems and personnel to adequately monitor and control agent banking business on an ongoing basis and adequate oversight to address instances of non-compliance by agents with the stipulated obligations;
  - (iii) assess the adequacy of controls by conducting internal audits and through external audits;
  - (iv) ensure that agents have proper security control policies to safeguard the information from both internal and external threats;
  - (v) ensure any sensitive data pertaining to customers is not stored in any server/system/premises, other than licensed bank's server/system/premises; sensitive data includes but is not limited to customer name, account details, credit/debit card details and all other confidential data;
  - (vi) obtain CBSL approval in an exceptional circumstance (applicable only for agents and not for sub-agents) with justifiable reasons for not ensuring (v) above with a certification from a CBSL approved auditor on Information Security Management of the agent related to agent banking business; further, obtain permission from the customer before proceeding with the transaction giving authority to save sensitive data at the selected party;
  - (vii) undertake due assessment of credit worthiness of agents and set limit structures (day limits, customer limits, agent limits) for agent banking business commensurate with this assessment; and
  - (viii) develop a business continuity plan to ensure uninterrupted agent banking business to the customers.
6. Permitted Agent Banking Business
- 6.1 The agent shall provide the following banking products/services only to the existing customers of the licensed bank:
- (i) deposit acceptance;
  - (ii) deposit withdrawal;
  - (iii) receiving loan repayments;
  - (iv) receiving credit card payments;
  - (v) facilitating utility bill payments;
  - (vi) account balance request;
  - (vii) fund transfer within the same licensed bank;
  - (viii) disbursement of inward remittances (Direction 9.1(vii) does not apply); and
  - (ix) any other activity as approved by CBSL.
- 6.2 Cash delivery activities handled by a third party on behalf of the licensed bank where such third party meets the customers of the licensed bank to collect or deliver cash shall be treated under Direction 6.1(ix). Such activities shall be covered under a comprehensive insurance policy and licensed bank shall be able to claim insurance on any risk covering the entire process of cash collection/delivery and storage at third party vault. Direction 9.1(vii) does not apply for such activities.
7. Selection of Agents
- 7.1 The licensed bank shall be responsible for determining the suitability of agents prior to contracting agents, and shall as a minimum consider the selection criteria in Direction 7.2.
- 7.2 The licensed bank shall conduct an assessment and due diligence (Know-Your-Agent) including the following:
- (i) demonstrate integrity and professional standards in its business conduct;
  - (ii) possess adequate resources to support effective implementation of anti-money laundering and combating financing of terrorism measures, record keeping, internal controls and consumer protection measures;
  - (iii) ensure that the agents have not been involved in any illegal/unethical activities;
  - (iv) possess knowledge and competency to conduct high quality agent banking business; and
  - (v) demonstrate the ability to control all risks related to agent banking business.
- 7.3 The licensed bank shall select agents that have a business registration, permanent business premises and an established core business.
- 7.4 Agents may provide agent banking business to multiple licensed banks and have separate contracts with each licensed bank provided that the agents have the capacity to manage transactions for different banks.
- 7.5 The licensed bank seeking to contract agents which have already been contracted by another licensed bank to carry out agent banking business shall assess the capacity of agents to manage transactions for different banks. CBSL may assess the concentration risk of the selected agents at the time of approval.

	7.6	The agreement with the agents shall specifically prohibit them from charging any fee from customers for agent banking business rendered by them on behalf of the licensed bank.
8. Oversight	8.1	<p>CBSL will monitor compliance by the licensed bank with these Directions and may:</p> <ul style="list-style-type: none"> <li>(i) request for any information relevant to any agent from the licensed bank at any time as may be deemed necessary;</li> <li>(ii) carry out inspection of the books and premises of agents, if required;</li> <li>(iii) direct the termination of the agent contract if deemed necessary;</li> <li>(iv) direct the licensed bank to take any action or measure against or on behalf of the agents as appropriate; and/or</li> <li>(v) direct the licensed bank to take any remedial action arising from the conduct of agents as it may deem fit.</li> </ul>
9. Consumer Protection	9.1	<p>The licensed bank shall ensure the following:</p> <ul style="list-style-type: none"> <li>(i) preservation of the confidentiality of customer information by the agent;</li> <li>(ii) mechanisms are in place for its customers to appropriately identify current list of agents and the agent banking business provided through such agents;</li> <li>(iii) educating the public on product features and its terms and conditions;</li> <li>(iv) provision of agent banking business in a language preferred by the customer out of three languages, viz., Sinhala, Tamil and English;</li> <li>(v) validation of customer data with the core banking system data prior to execution of the transaction where applicable;</li> <li>(vi) customers are not unduly induced to buy products/ services of agents;</li> <li>(vii) displaying the following at the premises of the agent: <ul style="list-style-type: none"> <li>(a) the name of the licensed bank it represents and the bank logo;</li> <li>(b) a list of banking business offered by the agent;</li> <li>(c) the dedicated telephone line through which customers can contact the responsible complaint handling officer at the licensed bank; and</li> <li>(d) the name, telephone numbers and location of the licensed bank branch to which the agent reports its agent banking business;</li> </ul> </li> <li>(viii) all transactions involving receipt and payment of cash to or from an account are encouraged to be on real time; the customer shall be informed of the time lag in case of off-line transactions;</li> <li>(ix) issuance of a printed/digital receipt/short message service for all transactions undertaken through agents; and</li> <li>(x) compliance with Direction 5 of Banking Act Directions No. 08 of 2011 on Customer Charter of licensed banks (Annex I).</li> </ul>
10. Complaint Measures and Relief Mechanism	10.1	The licensed bank shall establish a complaint measures and relief mechanism in terms of Direction 6 of Banking Act Directions No. 08 of 2011 on Customer Charter of licensed banks (Annex II) and shall ensure proper communication of this mechanism to customers.
	10.2	Complaints should only be reported to and maintained at the licensed bank and agents are not permitted to handle any complaints on behalf of the licensed bank.
	10.3	The licensed bank shall provide dedicated telephone lines for their customers to lodge complaints. Customers can also use this telephone line to verify with the licensed bank, the authenticity and identity of an agent, its physical location and the validity of its agent banking business.
	10.4	The licensed bank shall ensure safeguarding the interest of the customer, in executing agent banking business via agents, to the extent of facilitating a reversal of an executed transaction, if necessary, under reasonable grounds.
11. CBSL Reporting	11.1	The licensed bank shall prepare a report on agent banking business quarterly as in Annex III.
	11.2	Such details shall be available to be reported to CBSL on request at any time.
12. Compliance with the Direction	12.1	The licensed bank shall commence agent banking business via CBSL approved agents within 6 months from the date of approval. No agents are permitted to commence agent banking business after 6 months from the date of approval.
	12.2	All licensed banks are required to comply with these Directions on Appointment of Agents. Agents already approved by CBSL shall comply within 6 months from the implementation of these Directions and notify CBSL on compliance.
	12.3	Licensed banks currently engaged in cash delivery arrangements specified in Direction 6.2 above shall obtain approval of CBSL under these Directions within 6 months. These cash delivery arrangements will not be covered under outsourcing of business operations.

- 12.4 Licensed banks which appoint its group companies as agents shall ensure adherence to these Directions by its group companies.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

#### Annex I

### EXTRACT FROM BANKING ACT DIRECTIONS NO. 08 OF 2011 ON CUSTOMER CHARTER OF LICENSED BANKS PROTECTION FROM AGENTS

**"Agents shall refrain from doing any of the following.**

- (a) Harassing customers.
- (b) Using abusive debt collection practices.
- (c) Disclosing customer information to others.
- (d) Giving false or misleading information about products/services.
- (e) Unduly influence customers or the general public to buy or get involved in the bank's products/services.
- (f) Engage in getting any security documents signed outside the bank."

#### Annex II

### EXTRACT FROM BANKING ACT DIRECTIONS NO. 08 OF 2011 ON CUSTOMER CHARTER OF LICENSED BANKS

#### Complaint Measures and Relief

"The customers have the right to resolve their complaints with transparency and effectively. In this regard, licensed banks should:

- (a) implement a quick and effective resolution mechanism on disputes between customers and banks by rectifying disputes quickly, handling complaints within a short period, directing to take the complaints forward if the customer is still not satisfied and reversing any charges that applied due to a mistake;
- (b) have in place a written procedure for receiving complaints and steps to be taken to resolve such complaints;
- (c) acknowledge the receipt of any complaint in writing within a reasonably short period of time and inform the complainants of the procedure that will be followed by the bank for the resolution of the complaint and the contact details of the officer/officers handling the complaint;
- (d) facilitate receiving complaints verbally or in writing and the banks shall not insist that complaints be necessarily made only in writing;
- (e) establish a management information system regarding complaints and process of resolution as part of the duties of risk management committee relating to operational risks; and
- (g) advise the customers to seek affordable and efficient recourse through the Financial Ombudsman or in Courts in the event the complaint is not resolved to their satisfaction."

#### Annex III

### REPORT ON AGENT BANKING BUSINESS CARRIED OUT BY A LICENSED BANK

1. Name of Bank:
2. Details of agents/sub-agents

	During the quarter		As at quarter end	
	Agents	Sub-agents	Agents	Sub-agents
No. of approvals granted				
No. of agents commenced agent banking business within 6 months of the date of CBSL approval				
No. of agents failed to commence agent banking business within 6 months of the date of CBSL approval				
No. of agents remaining to be commenced agent banking business before CBSL approval lapses				
No. of discontinued agents				

3. Details on operating agents/sub-agents as at the quarter end

- Name
- Business registration number

- Physical location/address
- Contact number
- Agent banking business offered

#### 4. Performance Review

Type	Transactions (during the quarter)	
	No. of transactions	Value (Rs.)
(i) Deposit acceptance		
(ii) Deposit withdrawal		
(iii) Received loan repayments		
(iv) Received credit card payments		
(v) Utility bill payments		
(vi) Account balance inquiries		
(vii) Fund transfers (within same bank)		
(viii) Disbursement of inward remittances		
(ix) Other		
- Cash delivery activities		
- Any other (specify)		

(Bank shall maintain performance review for each agent/sub-agent)

#### 5. Problems encountered:

- Number of problems and specify the issues
- Reason for the problem
- Actions taken (specify)

#### Banking Act Directions No. 03 of 2018

05 June 2018

#### AMENDMENTS TO DIRECTIONS ON LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES

Banking Act Directions No. 1 of 2018 on Loan to Value ratios for credit facilities granted in respect of motor vehicles are amended by replacing the following Directions.

3. Exemptions from LTV ratio
  - 3.1 The limits in Direction 2 above shall not be applicable to credit facilities granted:
    - (i) to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration; and
    - (ii) for procurement of vehicles for Government Agencies under the finance leasing method specified by the Ministry of Finance and Mass Media.
  - 3.2 Licensed banks shall have internal limits and adopt adequate risk management procedures in granting such credit facilities.

Dr. Indrajit Coomaraswamy

**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

#### Banking Act Directions No. 04 of 2018

21 August 2018

#### FINANCIAL DERIVATIVE TRANSACTIONS FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

The Monetary Board issues the following Directions on Financial Derivative Transactions for Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs).

1. Empowerment under the Banking Act
  - 1.1 In terms of Sections 46(1) and 76J(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such banks is to be conducted.

- |  |     |  |
|--|-----|--|
| 2. Applicability                           | 2.1 | These Directions will cover derivative transactions in foreign currency of LCBs and LSBs which are authorised to offer such derivative transactions in terms of the Foreign Exchange Act of Sri Lanka. The LCBs and LSBs shall hereinafter be referred to as Eligible Banks (EBs).   |
|  | 2.2 | These Directions shall be applicable to the Domestic Banking Units (DBUs) and Off-shore Banking Units (OBUs) of EBs.   |
| 3. Commencement of derivative transactions | 3.1 | LCBs which intend to engage in financial derivative transactions shall notify its interest, prior to the commencement of the initial transaction, to the Director of Bank Supervision (DBS) with a copy to the Director of International Operations Department of the Central Bank of Sri Lanka (CBSL).  |
|  | 3.2 | LSBs shall obtain the written approval of DBS to engage in each derivative specified in 5.2.   |
| 4. Board approved policies and procedures  | 4.1 | EBs shall have in place Board approved policies and procedures on derivative transactions and risk management framework to identify, quantify and evaluate the exposures, manage risk and monitor performances related to derivative transactions.   |
|  | 4.2 | EBs shall ensure that appropriate expertise and capacity building are in place to engage in financial derivative transactions.   |
| 5. General Terms and Conditions            | 5.1 | Derivatives transactions may be entered into for the following purposes: <ul style="list-style-type: none"> <li>a) <b>End User (EU) Deals:</b> Transactions for the purpose of hedging EBs own assets and liabilities (other than the assigned capital and retained earnings) and managing their own risk profile as may be necessary from time to time, however, not for speculative purposes.</li> <li>b) <b>Non Market Maker (NMM) Deals:</b> Transactions executed by EBs with their customers, i.e., any party other than an EB or with another EB with the intention of making a spread. In these transactions an EB shall not take any market risk into its own books and shall cover the transaction on the same day on a back-to-back basis with another EB in Sri Lanka or with a foreign counterparty.</li> <li>c) <b>Derivative Market Maker (DMM) Deals:</b> Transactions executed by EBs with their customers or with another EB while taking the market risk into its own books.</li> </ul> |
|  | 5.2 | Derivatives permitted under these Directions are as follows: <ul style="list-style-type: none"> <li>a) Swaps</li> <li>b) Options</li> <li>c) Forward Rate Agreements</li> <li>d) Forward Contracts</li> <li>e) Swaptions</li> <li>f) Such other instruments as may be specified by the Monetary Board from time to time.</li> </ul>  |
|  | 5.3 | EBs shall ensure the following: <ul style="list-style-type: none"> <li>a) all derivatives offered to customers are based on valid underlying transactions which include current account transactions and permitted capital account transactions;</li> <li>b) the notional principal amount, including any leverage of the derivative shall not exceed the outstanding amount of the underlying transaction/asset or liability or the underlying exposure;</li> <li>c) Directions 5.3 (a) and (b) above shall not be applicable for interbank derivative transactions.</li> </ul>   |
|  | 5.4 | EBs shall use products listed in 5.2 above to enter in to back to back transactions with a foreign counterpart.  |
|  | 5.5 | EBs are permitted to hedge contingent exposures or such risks arising from balance sheet exposures of their customers.   |
|  | 5.6 | EBs may allow importers and exporters to hedge their exposure including a contract based on estimated transaction value. The estimated transaction value shall be determined based on their audited financials or by averaging the preceding three contract values or immediately preceding contract value, whichever is higher, subject to confirmation by an EB.   |
|  | 5.7 | Parties may unwind/sell back a derivative partially or fully, if they consider such a derivative is no longer required, as follows: <ul style="list-style-type: none"> <li>a) all derivative contracts once unwound are eligible to be rebooked, subject to the terms specified in these Directions;</li> </ul>  |

- b) any customer who wishes to unwind a derivative contract before maturity while the underlying transaction still exists may do so with the marked-to-market loss charged to such customer;
  - c) a marked-to-market gain (financial gain) should not be paid to the customer;
  - d) the rate benefit, if any, may be passed to the customer at the time of rebooking.
- 5.8 The cost of a derivative transaction with non-residents shall be paid out of repatriable funds and/or inward remittances through normal banking channels.
- 5.9 All derivatives entered in to by an EB under Directions on Financial Derivative Products issued on 01 August 2009 (Ref: 33/03/001/0029/002) and Directions to Authorized Dealers on Forward Contracts in Foreign Currencies issued on the 11 March 2010 (Ref: 06/04/02/2010) can be continued till the maturity of the underlying transactions, adhering to the previously issued Directions. The unwound derivative contracts entered under previous Directions can be rebooked only under the terms of the new Directions.
- 5.10 Contracts may be entered into with customers whose underlying transactions are established with another authorised dealer provided documentary evidence is furnished by the said authorised dealer on each transaction.
- 6. Prohibited Activities
  - 6.1 EBs shall not engage in facilitating derivative transactions on behalf of any foreign counterpart with resident customers unless the resident customer has obtained specific approval of the Head of the Department of Foreign Exchange of CBSL.
  - 6.2 EBs shall not enter in to derivative transactions in respect of any foreign currency exposures or risks arising from foreign currency deposits or retained earnings, held overseas.
  - 6.3 Derivatives involving making of an upfront payment other than option premiums, in any currency by EB to the customer shall not be permitted.
- 7. International Swap and Derivative Association (ISDA)
  - 7.1 EBs shall sign ISDA Master Agreement with the counterparty for derivatives, unless otherwise both parties agree to refrain from signing ISDA.
  - 7.2 EBs shall obtain a written consent from the counterparty where it was agreed to refrain from signing ISDA. It will not be necessary for EBs to obtain a written consent for inter-bank foreign exchange Forwards and Swaps transactions with a contractual maturity of one year or less.
  - 7.3 EBs shall maintain transaction specific agreements and records.
- 8. Customer Awareness
  - 8.1 EBs shall ensure that the customers clearly understand the risks of the derivative transactions and that the customers have established sufficient measures to monitor and manage the risks arising from the prospective transactions entering into.
  - 8.2 EBs shall provide adequate information on the transaction, especially with regard to the conditions and clauses to be incorporated into the product indicating the relevant benchmarks, fixing rates, strike prices and premium as the case may be, and a detailed risk scenario analysis to ensure the highest level of transparency.
  - 8.3 EBs shall obtain a written confirmation from the customer prior to entering into a derivative transaction that the customer has understood the nature of the products and their inherent risks.
  - 8.4 EBs shall obtain an undertaking in writing from customers that their total value of the derivative transactions with all EBs do not exceed the exposure or the value of underlying transactions.
  - 8.5 EBs shall also satisfy themselves on a professional analysis, of the institutional capacity and the overall suitability of the customer to engage in the derivative products offered by EB prior to entering into such contracts.
  - 8.6 In the case of small value foreign exchange Forwards and Swap transactions with a contractual maturity of one year or less, EBs shall, at a minimum, provide basic information and conditions pertaining to the transaction to the customers. For this purpose, EBs shall internally determine a threshold for small value foreign exchange forwards and swap transactions considering the risk appetite and trading volume of EBs.
- 9. Eligible Currencies
  - 9.1 EBs shall conduct derivative transactions in designated currencies<sup>1</sup> as per the request of the customer and in accordance with internal policies approved by its Board of Directors.

1. Designated currencies determined under the Banking (Off-shore Banking Business Scheme) Orders issued in terms of the Banking Act, from time to time, will be applicable for this Direction.



10. Tenure	10.1	EBs shall ensure that the date of maturity of the derivative contract shall correspond to the maturity date of the underlying transaction and shall not, under any circumstance, extend beyond the date of the underlying transaction, and the maximum maturity period of a derivative transaction shall not exceed ten (10) years.
11. Reference/ Valuation Benchmark	11.1	The parties involved shall be free to use any benchmark with sufficient transparency on mutual agreement for reference and valuation purposes.
12. Reporting	12.1	EBs shall submit to the International Operations Department of CBSL on a monthly basis within 15 days from the end of the month, a statement of the transactions undertaken within the month in the format attached in Annex I.
	12.2	The above requirement shall not be applicable for foreign exchange Forwards and Swap transactions with a contractual maturity of one year or less. However, EBs shall maintain records relating to such transactions with customers.
13. Definition	The following definitions shall be applicable for purposes of these Directions.	
	13.1	<b>Derivative</b> A derivative is a financial instrument or a contract as defined in Sri Lanka Accounting Standards.
	13.2	<b>Foreign Counterpart</b> A foreign counterpart shall mean: a) A bank outside Sri Lanka b) An internationally recognised derivative exchange
	13.3	<b>Permitted Derivative Transactions</b> a) Swaps A swap is a bilateral agreement to exchange cash flows at specified intervals (payment dates) during the agreed-upon life of the transaction (maturity or tenure). Entering into a swap typically does not require the payment of a fee. Under this direction EBs are eligible to enter into interest rate, cross-currency and commodity swaps. b) Options An option is an agreement that gives the buyer, who pays a fee (premium), the right but not the obligation to buy or sell a specified amount of an underlying asset at an agreed upon price (strike or exercise price) on or until the expiration of the contract (expiry). A call option is an option to buy the underlying and a put option is an option to sell the underlying. Under this Direction EBs are eligible to issue options based on an underlying interest rate, currency and commodity. c) Forward Rate Agreements (FRA) A forward rate agreement is an interest rate contract between two parties that allows an entity to position itself in the interest rate market. An FRA is a contract that calls for one party to make a fixed interest payment and the other party to make an interest payment at a rate to be determined at the contract expiration based on a notional principal amount. On the expiration date, the payments are net settled. d) Forward Contract In forward contracts, the contract holders are obligated to buy or sell the currency/ commodity at a specified price, at a specified quantity and on a specified future date. e) Swaptions The option to enter into a swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. Under this direction EBs are eligible to issue swaptions based on an underlying transaction such as interest rate, currency and commodity. f) FX Swaps FX swap is a simultaneous purchase and sale or vice versa of identical amounts of one currency for another with two different value dates.
14. Revocation	14.1	The following Directions are hereby revoked: a) Direction No. 06 of 2017 dated 29 November 2017 on Financial Derivative Transactions for Licensed Commercial Banks and Licensed Specialised Banks; b) Directions on Financial Derivative Products issued on 01 August 2009, Ref: 33/03/001/0029/002 by the Controller of Exchange and the Director of International Operations; and

- c) Directions to Authorized Dealers on Forward Sales and Purchases of Foreign Exchange issued on 02 January 2013, Ref: 06/04/04/2013 by the Controller of Exchange.

15. Implementation 15.1 These Directions shall be effective from the date of the Directions.

Dr. Indrajit Coomaraswamy

**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

Annex I of this Direction is available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Banking\\_Act\\_Direction\\_No\\_4\\_of\\_2018.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Direction_No_4_of_2018.pdf)

### Banking Act Directions No. 05 of 2018

23 August 2018

#### **AMENDMENTS TO DIRECTIONS ON LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES**

Banking Act Directions No. 3 of 2018 on Loan to Value ratios for credit facilities granted in respect of motor vehicles are amended by replacing the following Directions.

3. Exemptions from LTV ratio 3.1 The limits in Direction 2 above shall not be applicable to credit facilities granted:
- (i) to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration;
  - (ii) for procurement of vehicles for Government Agencies under the finance leasing method specified by the Ministry of Finance and Mass Media; and
  - (iii) for credit facilities granted for purchase of motorcycles by field officers in the public service and teachers servicing in difficult areas under the proposed concessionary leasing facility provided by the Government.
- 3.2 Licensed banks shall have internal limits and adopt adequate risk management procedures in granting such credit facilities.

Dr. Indrajit Coomaraswamy

**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

### Banking Act Directions No. 06 of 2018

28 September 2018

#### **MEASURES TO CURTAIL IMPORT OF MOTOR VEHICLES**

Issued under Sections 46(1) and 76(J) (1) of the Banking Act, No. 30 of 1988, as amended.

The Central Bank of Sri Lanka with a view to curtailing imports and the resultant adverse impact on the exchange rate requires licensed commercial banks and licensed specialised banks to adopt the following measures with effect from 01 October 2018.

1. The following will replace Directions 2.1 of the Banking Act Directions No. 01 of 2018 on Loan to Value Ratios for Credit Facilities Granted in respect of Motor Vehicles.
- Credit facilities granted by every licensed bank for the purpose of purchase or utilisation of motor vehicles shall not exceed the following percentages of the market value of such vehicles until further notice.
- (i) In respect of unregistered vehicles and registered vehicles which have been used in Sri Lanka for less than one year after the first registration;

Table 1 – Loan to Value Ratio			
Vehicle Category	Vehicle Class of Department of Motor Traffic	Electric Vehicles	Other
Commercial vehicles	C1, C, CE, D1, D, DE, G1, G, J	90%	90%
Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	90%	50%
Three wheelers	B1	90%	25%
Any other vehicle	A1, A, light trucks & single cabs categorized under B	90%	70%
Hybrid Motor Cars, Vans and SUVs	B (other than light trucks & single cabs)	50%	

- (ii) 70 per cent in respect of registered vehicles which have been used in Sri Lanka for more than one year after the first registration.
- 2. Refrain from opening of letters of credit for importation of motor vehicles under the scheme for issuance of motor vehicle permits on concessionary terms issued by the Government of Sri Lanka until further notice.

Dr. P N Weerasinghe  
**Chief Executive Officer/Senior Deputy Governor  
 of the Central Bank of Sri Lanka**

**Circular No.02 of 2018**

11 October 2018

### **MARGIN REQUIREMENTS AGAINST IMPORTS ON DOCUMENTS AGAINST ACCEPTANCE (DA) TERMS**

The Central Bank of Sri Lanka with a view to curtailing imports and the adverse impact on the exchange rate requires licensed commercial banks to adopt the following measures on imports under DA terms with immediate effect.

1. A 100 per cent cash margin on the invoiced value of the imports under DA terms for items specified in Annex I, shall be placed by the importer at the bank that releases documents, at the time of acceptance of documents by the importer.
2. The 100 per cent cash margin requirement shall be on the total value of the invoice, regardless that the same invoice includes items which are not subject to the margin requirement.
3. Licensed commercial banks shall endorse the invoice to the effect that the margin deposit has been obtained.
4. The margin deposit shall be released on the production of documentary evidence or payments through the banking channels in Sri Lanka and customs documents of clearance of imports.
5. Licensed commercial banks shall not grant any loan facilities to enable importers to place the margin deposits in respect of these imports.

A A M Thassim  
**Director of Bank Supervision**

Annex I of this Direction is available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/bsd\\_circular\\_no\\_02\\_of\\_2018.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/bsd_circular_no_02_of_2018.pdf)

**Banking Act Directions No. 07 of 2018**

12 October 2018

### **MEASURES TO CURTAIL IMPORTS OF MOTOR VEHICLES AND NON-ESSENTIAL CONSUMER GOODS**

Issued under Sections 76(J)(1) read with subsection (3) thereof, of the Banking Act No. 30 of 1988, as amended.

The Monetary Board, with a view to curtailing imports and the adverse impact on the exchange rate, issues the following Directions to the National Savings Bank (NSB) with regard to facilitation of imports of motor vehicles and non-essential consumer goods.

- |                                      |  |
|--------------------------------------|--|
| 1. Empowerment under the Banking Act | In terms of Sections 76(J)(1) read with subsection (3) thereof, of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to licensed specialised banks, to any category of licensed specialised banks or to any particular licensed specialised bank regarding the manner in which any aspect of the business of such banks is to be conducted. |
| 2. Refrain from facilitating imports | NSB shall refrain from facilitating importation of motor vehicles other than those items specified in Schedule A and non-essential consumer goods specified in Schedule B through opening of Letters of Credit or other modes of payment until further notice.   |
| 3. Revocation                        | The letter dated 28 September 2018 on Margin Requirement Against Letters of Credit for Importation of Motor Vehicles is hereby withdrawn.  |
| 4. Implementation                    | These Directions shall be implemented with immediate effect.   |

C J P Siriwardana  
**Chief Executive Officer/Senior  
 Deputy Governor of the Central  
 Bank of Sri Lanka**

Schedule A and Schedule B of this Direction are available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Banking\\_Act\\_Direction\\_No\\_7\\_of\\_2018.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Direction_No_7_of_2018.pdf)

**Banking Act Determination No. 01 of 2018**

18 October 2018

**ANNUAL LICENCE FEE OF  
LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

Determination made by the Monetary Board of the Central Bank of Sri Lanka under Sections 8 and 76D(6) of the Banking Act, No. 30 of 1988, as amended.

In terms of Sections 8(l) and 76D(6) of the Banking Act, the Monetary Board has determined that every licensed commercial bank and licensed specialised bank shall pay the licence fee in respect of the calendar years 2019 and 2020 to the Central Bank of Sri Lanka on or before 31st day of January of each year, based on the total assets of such bank as at the end of the previous year, as set out in the table below.

Annual licence fee for years 2019 and 2020	
Total Assets at the end of the previous year (Rs. Bn)	Licence Fee (Rs. Mn)
Above 1000	33
Above 750 to 1000	32
Above 500 to 750	26
Above 200 to 500	23
Above 125 to 200	17
Above 75 to 125	11.6
25 to 75	6
Less than 25	3

Dr. Indrajit Coomaraswamy  
Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka

**Banking Act Directions No. 08 of 2018**

21 November 2018

**NET STABLE FUNDING RATIO  
UNDER BASEL III LIQUIDITY STANDARDS  
FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

In terms of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act No. 30 of 1988, as amended, the Monetary Board issues these Directions for the implementation of Net Stable Funding Ratio (NSFR) for licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) in accordance with "Basel III: the Net Stable Funding Ratio" issued by the Basel Committee on Banking Supervision in October 2014 with the objectives of ensuring a stable funding profile in relation to the composition of assets and off-balance sheet activities.

- |                                     |   |
|-------------------------------------|---|
| 1. Empowerment                      | 1.1 In terms of Sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any licensed bank, regarding the manner in which any aspect of the business of such bank or banks is to be conducted. |
| 2. Scope of Application             | 2.1 These Directions shall be applicable to every licensed bank (i) incorporated in Sri Lanka and (ii) branches of banks incorporated or established outside Sri Lanka, on a standalone basis.  |
| 3. Minimum Net Stable Funding Ratio | 3.1 Commencing 1 January 2019, every licensed bank shall at all times maintain NSFR as indicated below:   |

Effective Date	01.01.2019	01.07.2019
Minimum Requirement	90%	100%

- |                           |   |
|---------------------------|---|
| 4. Disclosure Requirement | 4.1 Every licensed bank shall disclose NSFR as follows: <ul style="list-style-type: none"> <li>(i) NSFR and the minimum requirement for the reporting period and previous reporting period: <ul style="list-style-type: none"> <li>(a) quarterly in the press and website</li> <li>(b) annually in the press, annual report, and website.</li> </ul> </li> <li>(ii) Information reported in Part I of Appendix I of Schedule I for the reporting period and previous reporting period, together with the details of main components:</li> </ul> |
|---------------------------|---|

- (a) quarterly in the website and
- (b) annually in the website and annual report.

5. Regulatory Reporting 5.1 Every licensed bank shall report NSFR as at the last calendar day of each quarter through the web-based off-site surveillance system via the return (BSD-QF-32-1A, BSD-QF-32-2A, BSD-QF-32-3A and BSD-QF-32-3B) within one month after the end of each quarter according to Schedule I hereto.

Dr. Indrajit Coomaraswamy  
Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka

Schedule I, Appendix I and Appendix II of this Direction are available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Banking\\_Act\\_Direction\\_No\\_8\\_of\\_2018.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Direction_No_8_of_2018.pdf)

**Banking Act Directions No. 09 of 2018**

21 November 2018

### AMENDMENTS TO DIRECTIONS ON LIQUIDITY COVERAGE RATIO UNDER BASEL III LIQUIDITY STANDARDS FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

The Appendix I and Appendix II to Annex I referred to in Direction 4 of the Banking Act Directions No. 01 of 2015 on Liquidity Coverage Ratio under Basel III Liquidity Standards are amended as follows:

1. Amendments
  - 1.1 The web-based return codes of 19.3.1.1.2.0, 19.3.4.1.1.0 and 19.4.3.1.0.0 of Appendix I are amended as in Appendix I hereto.
  - 1.2 The web-based return codes of 19.2.1.1.3.1, 19.2.1.1.3.2, 19.2.2.1.1.1, 19.3.1.1.2.0, 19.3.4.1.1.0, 19.4.3.1.0.0 and 19.3.2.0.0.0 of Appendix II are amended as in Appendix II hereto.

Dr. Indrajit Coomaraswamy  
Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka

#### Appendix I

### REPORTING FORMATS FOR RUPEE LIQUIDITY REQUIREMENT (BSD-MF-19-RR) REPORTING FORMATS FOR ALL-CURRENCY LIQUIDITY REQUIREMENT (BSD-MF-19-AR) MONTHLY FINANCIAL RETURN (LKR'000)

#### Part III - Calculation of Total Cash Outflows

Web-based Return Code	Item	Amount	Factor	Weighted Amount
19.3.1.1.2.0	Small and medium enterprises		10%	
19.3.4.1.1.0	Undrawn committed credit & liquidity facilities to retail and small and medium enterprises		5%	

#### Part IV - Calculation of Total Cash Inflows

Web-based Return Code	Item	Amount	Factor	Weighted Amount
19.4.3.1.0.0	Retail and small and medium enterprises		50%	

#### Appendix II

#### Guidelines for Calculation of Liquidity Coverage Ratio

Web-based Return Code	Item
19.2.1.1.3.1	<b>Issued by sovereigns</b> Government of Sri Lanka – rupee claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between AAA to AA-.

<b>19.2.1.1.3.2</b>	<b>Guaranteed by sovereigns</b> Government of Sri Lanka - rupee claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between AAA to AA-.
<b>19.2.2.1.1.1</b>	<b>Issued or guaranteed by sovereigns</b> Government of Sri Lanka - foreign claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between A+ to A-.
<b>19.3.1.1.2.0</b>	<b>Small and medium enterprises</b> Deposits placed with a bank by small and medium enterprises (SME). The total amount of deposits placed with the bank by an SME shall not exceed Rs. 250 million. Qualifying criteria to be classified as an SME are as follows: (i) The annual turnover of the SME shall not exceed Rs.750 million at the time of obtaining the deposit/ granting the facility; (ii) The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year; (iii) The criterion (ii) above shall be applicable if the total amount of deposits placed with the bank by the SME or the total exposure (including off-balance sheet exposure) to the SME is greater than or equal to Rs. 50 million. Otherwise banks may adopt their own internal mechanism to verify the annual turnover of the SME.
<b>19.3.4.1.1.0</b>	<b>Undrawn committed credit &amp; liquidity facilities to retail and small and medium enterprises</b> In the case of an SME, the maximum exposure (including off-balance sheet exposure) of the lending bank to the SME shall not exceed Rs. 250 million.
<b>19.4.3.1.0.0</b>	<b>Retail and small and medium enterprises</b> All payments (including interest payments and instalments) from retail customers and small and medium enterprises on performing facilities that is contractually due within the 30-day horizon. In the case of an SME, the maximum exposure (including off-balance sheet exposure) of the lending bank to the SME shall not exceed Rs. 250 million.
<b>19.3.2.0.0.0</b>	<b>Unsecured wholesale funding</b> Wholesale deposits and other general obligations that are raised from legal entities (incorporated companies excluding SME). Wholesale deposits also include dormant deposits, collateralised customer deposits against lending, margin deposits and insured deposits under the Sri Lanka Deposit Insurance and Liquidity Support Scheme. In case of other general obligations, they shall not be collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.

Banking Act Directions No. 10 of 2018

30 November 2018

### AMENDMENTS TO DIRECTIONS ON APPOINTMENT OF AGENTS OF LICENSED BANKS

The following new Direction shall replace Direction 6 of the Banking Act Directions No. 02 of 2018 on appointment of agents of licensed banks dated 24 May 2018.

- |                                     |   |
|-------------------------------------|---|
| 6. Permitted Agent Banking Business | <p>6.1 The agent shall provide the following banking products/services only to the existing customers of the licensed bank:</p> <ul style="list-style-type: none"> <li>(i) deposit acceptance;</li> <li>(ii) deposit withdrawal;</li> <li>(iii) receiving loan repayments;</li> <li>(iv) receiving credit card payments;</li> <li>(v) facilitating utility bill payments;</li> <li>(vi) account balance request;</li> <li>(vii) fund transfer within the same licensed bank; and</li> <li>(viii) any other activity as approved by CBSL.</li> </ul> |
|-------------------------------------|---|

- 6.2 Cash delivery activities handled by a third party on behalf of the licensed bank where such third party meets the customers of the licensed bank to collect or deliver cash shall be treated under Direction 6.1(viii). Such activities shall be covered under a comprehensive insurance policy and licensed bank shall be able to claim insurance on any risk covering the entire process of cash collection/delivery and storage at third party vault. Direction 9.1(vii) does not apply for such activities.
- 6.3 The agent may also provide the service of disbursement of inward remittances.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

**Banking Act Order No. 02 of 2018**

30 November 2018

### **BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER**

Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister, under Sections 23, 25 and 26 of the Banking Act, No. 30 of 1988 as amended.

1. This Order may be cited as the Banking Act, Order No. 02 of 2018.
2. The following Clauses are inserted immediately after Clauses 2(2) and 4(3) of the Banking (Off-Shore Banking Scheme) Order, 2000, dated 7 April 2000 and shall have effect as Clauses 2(3) and 4(4), respectively.
  - 2.1 Authorised Business 2(3) Foreign currency borrowings made under Section 25(b) of the Banking Act shall be undertaken subject to terms and conditions in Banking Act Directions No. 11 of 2018 dated 30 November 2018 on foreign currency borrowings by licensed banks.
  - 2.2 Authorised Business with Residents 4(4) An off-shore unit shall engage in borrowings with a resident specified in paragraph 4(1) subject to terms and conditions in Banking Act Directions No. 11 of 2018 dated 30 November 2018 on foreign currency borrowings by licensed banks.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

**Banking Act Directions No. 11 of 2018**

30 November 2018

### **FOREIGN CURRENCY BORROWINGS BY LICENSED BANKS**

Foreign currency borrowings are an important source of funding for banks. However, excessive and unregulated foreign capital flows are likely to cause unwarranted macroeconomic and financial stability concerns in a country.

The Monetary Board introduces a policy framework for foreign currency borrowings of licensed banks with the objectives of addressing the high dependence on foreign currency borrowings and the resulting exposure of licensed banks to foreign exchange risk and minimising the pressure on the reserves and exchange rate of the country arising from large borrowings in foreign currency.

Accordingly, the Monetary Board issues Directions to licensed commercial banks (LCBs) and licensed specialised banks (LSBs) as follows:

1. Empowerment under the Banking Act 1.1 In terms of Sections 46(1) and 76J(1) of the Banking Act No. 30 of 1988, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such bank or banks is to be conducted.
2. Applicability 2.1 These Directions shall be applicable to all foreign currency borrowings made from local and foreign sources by LCBs and LSBs, hereinafter referred to as licensed banks, covering Domestic Banking Units and Off-Shore Banking Units.
3. Tenure 3.1 Foreign currency borrowings with a remaining maturity of:
  - (i) 1 year or less will be considered as short-term borrowings; and
  - (ii) more than 1 year will be considered as long-term borrowings.
4. Limits on Foreign Currency Borrowings 4.1 The maximum outstanding amount of foreign currency borrowings obtained by a licensed bank shall be determined as a percentage of total assets as per the latest annual audited accounts or interim accounts certified by the External Auditor of the licensed bank.

- 4.2 The percentage of foreign currency borrowings of a licensed bank shall be based on the sum of scores assigned for each licensed bank based on the external long-term credit rating and the total capital adequacy ratio of the bank as given in Tables 1 and 2 below:

<b>Table 1 – Calculation of the Score</b>		
<b>Bank's Credit Rating</b>	<b>Bank's Total Capital Adequacy Ratio</b>	<b>Score Assigned to Each Cell</b>
AAA to AA- or equivalent	> 14.0%	3
A+ to A- or equivalent	13.6% - 14.0%	2
BBB+ to BBB- or equivalent	12.5% - 13.5%	1
Below BBB-	< 12.5%	0

<b>Table 2 - Borrowing Limits as a Percentage of Total Assets</b>		
<b>Sum of Score</b>	<b>Short-Term</b>	<b>Total</b>
1 - 2	1.5%	5.0%
3 - 4	2.0%	7.5%
5 - 6	2.5%	10.0%

5. Approval of the Monetary Board
- 5.1 Any foreign currency borrowings in excess of limits specified in Direction 4 above shall be undertaken with the prior written approval of the Monetary Board, under exceptional circumstances of national interest.
- 5.2 The Monetary Board may grant such approval to exceed the applicable limits of foreign currency borrowings of a licensed bank by 5% of assets, on a case-by-case basis, subject to terms and conditions it may deem fit, taking into consideration of the macroprudential aspects.
- 5.3 Borrowings approved by the Monetary Board under the Direction 5.2 above shall be undertaken within 3 months from the date of the approval of the Monetary Board.
6. General Terms and Conditions
- 6.1 (i) All foreign currency borrowings of a licensed bank shall be approved by the Board of Directors of the licensed bank or the regional monitoring office or the management committee operating under delegated authority of the Board of Directors of foreign banks.
- (ii) The Board of Directors or the relevant authority as specified above, may establish a pre-approved limit for foreign currency borrowings as an alternative to approving each borrowing.
- 6.2 Licensed banks shall comply with all prudential requirements at all times, including, but not limited to, minimum capital adequacy ratio under Basel III, Statutory Liquid Assets Ratio, Liquidity Coverage Ratio, Net Stable Funding Ratio, and Net Open Position.
- 6.3 Licensed banks shall hedge interest rate and foreign exchange risks and manage the maturity mismatch arising from foreign currency borrowings.
- 6.4 Hedging with an international counterparty is encouraged where the foreign currency borrowed is converted to another foreign currency.
- 6.5 Licensed banks shall put in place internal policies and procedures approved by the Board of Directors for management of foreign currency assets and liabilities along with appropriate foreign currency maturity mismatch limits.
- 6.6 Licensed banks shall prove their ability to service repayments of foreign currency borrowing in a timely manner.
7. Eligible Foreign Currency Borrowings
- 7.1 Lender should have a good track record as a stable financial institution. Possible lenders are:
- (i) Multilateral development banks,
  - (ii) Lending institutions with international repute,
  - (iii) Foreign Government owned or affiliated agencies,
  - (iv) Head Office and branches of foreign banks,
  - (v) Licensed banks in Sri Lanka.
- 7.2 Interest rates (inclusive of all related costs) of the borrowing shall be competitive.
- 7.3 Borrowings shall not be settled prior to the initial specified date of settlement unless the loan agreement provides for an accelerated prepayment mechanism.



- 7.4 Licensed banks shall mitigate the impact of bunching effect.
- 7.5 Borrowings shall not result in excessive credit growth.
8. Utilisation of long-term Foreign Currency Borrowings
- 8.1 Long-term foreign currency borrowings shall be utilised for lending/investment purposes to:
- (i) fund exports, import substitution, infrastructure, government development projects and small and medium enterprises;
  - (ii) settle or retire current foreign currency loans;
  - (iii) invest in Sovereign Debt of the Government of Sri Lanka and fund the Government of Sri Lanka for activities of national importance;
  - (iv) fund viable overseas business expansions of local corporates; and
  - (v) fund viable projects or businesses of overseas entities in Sri Lanka or overseas.
9. Application to be submitted
- 9.1 Licensed banks may submit a written request with the following details to obtain the Monetary Board approval under Direction 5 above:
- (i) Profile of the Lender,
  - (ii) Features of the Loan,
  - (iii) Specific purpose/objectives with targets,
  - (iv) Performance status of existing foreign currency loans,
  - (v) Proposed risk management mechanism.
10. Exclusion from the maximum limits
- 10.1 Foreign currency borrowings from the Head Office or its branches operating outside Sri Lanka of an LCB incorporated outside Sri Lanka will be exempted from the limits specified in Direction 4 above, provided the proceeds are used for the intended purpose the borrowing is obtained.
- 10.2 Borrowings utilised for investments in Securities issued by the Government of Sri Lanka.
11. Interpretations
- 11.1 Total assets shall be the amount as per the latest annual audited accounts or interim accounts certified by the External Auditor of the licensed bank.
- 11.2 Foreign currency shall mean any designated foreign currency.
12. Implementation
- 12.1 These Directions shall come into effect from the date of issue of these Directions.
13. Transitional Arrangement
- 13.1 Any licensed bank which has obtained foreign currency borrowings in excess of the maximum limit specified under Direction 4 above shall not be permitted to borrow further, until such time the outstanding amount of foreign currency borrowings falls below the maximum limit.
14. Revocation
- 14.1 The following Direction and Circular are hereby revoked.
- (i) Banking Act Direction No. 7 of 2017 on Foreign Currency Borrowings by Licensed Banks.
  - (ii) The Circular No. BD/FX/196 dated 13 January 1997 issued by the Chief Accountant.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

**Banking Act Directions No. 12 of 2018**

28 December 2018

### LEVERAGE RATIO UNDER BASEL III FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

In terms of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act No. 30 of 1988, as amended, the Monetary Board issues these Directions for the implementation of Leverage Ratio under Basel III for licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) in accordance with "Basel III: Finalising post-crisis reforms" issued by the Basel Committee on Banking Supervision in December 2017. The aim of these Directions is to introduce a framework with a simple, transparent, non-risk based Leverage Ratio to act as a credible supplementary measure to the risk based capital requirement in order to restrict the build-up of leverage in the banking sector, helping to avoid any destabilising deleveraging processes which can damage the broader financial system and the economy, and reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

1. Empowerment
- 1.1 In terms of Sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any licensed bank, regarding the manner in which any aspect of the business of such bank or banks is to be conducted.

2. Scope of Application
  - 2.1 These Directions shall be applicable to every licensed bank:
    - (a) incorporated in Sri Lanka on a solo and consolidated basis; and
    - (b) branches of banks incorporated or established outside Sri Lanka on a standalone basis.
3. Leverage Ratio Computation
  - 3.1 Commencing 1 January 2019, the minimum Leverage Ratio for licensed banks shall be 3 per cent.
  - 3.2 Leverage Ratio shall be computed as prescribed below:
 
$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}}$$
  - 3.3 The Leverage Ratio to be calculated on a quarterly basis.
4. Capital Measure
  - 4.1 Licensed banks shall use Tier 1 capital (after deductions) as specified in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III as Capital measure for Leverage Ratio computation.
5. Exposure Measure
  - 5.1 The exposure measure is computed as follows:  
 Exposure Measure = On balance sheet exposures (excluding on-balance sheet derivative and Securities Financing Transaction exposures) + Derivative exposures + Securities Financing Transactions exposures + Off balance Sheet exposures
  - 5.2 Licensed banks shall not take account of physical or financial collateral, guarantees or other credit risk mitigation techniques in calculating the exposure measure.
  - 5.3 To ensure consistency, any item deducted from Tier 1 capital according to the Basel III framework and regulatory adjustments other than those related to liabilities shall be deducted from the exposure measure.
  - 5.4 Guidance on calculation of exposure measure is in Schedule I hereto.
6. Steps to Secure Compliance
  - 6.1 Where a licensed bank has failed to comply with the minimum Leverage Ratio, such bank shall not pay dividends or repatriate profits or adopt any other measure that will further deteriorate the regulatory capital position of the licensed bank until such compliance is effected and confirmed by the Director of Bank Supervision.
7. Disclosure Requirements
  - 7.1 The disclosure requirements prescribed in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III shall be applicable in respect of Leverage Ratio.
8. Regulatory Reporting
  - 8.1 Every licensed bank shall report the Leverage Ratio as at the last calendar day of each quarter through the web-based off-site surveillance system via the quarterly return (BSD-QF-36-LR and BSD-QF-36-EM) within one month after the end of each quarter.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

Schedule I of this Direction is available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Banking\\_Act\\_Direction\\_No\\_12\\_of\\_2018.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Direction_No_12_of_2018.pdf)

**Circular No. 03 of 2018**

28 December 2018

**TO - CHIEF EXECUTIVE OFFICER OF NATIONAL SAVINGS BANK**

### **COMPUTATION OF LEVERAGE RATIO UNDER BASEL III FOR NATIONAL SAVINGS BANK**

We refer to Banking Act Directions No.12 of 2018 on "Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks" and inform you the following:

1. Computation of Leverage Ratio Exposure Measure
  - 1.1 The Central Bank of Sri Lanka has decided to permit National Savings Bank to exclude investments in government securities representing sixty per cent of money deposited in savings and deposit accounts of the bank from the exposure measure when calculating the Leverage Ratio.

- 1.2 The amount mentioned in 1.1 shall be deducted from web based return code 36.2.1.1.1.0 in the quarterly return of BSD-QF-36-EM.

A A M Thassim  
**Director of Bank Supervision**

**Circular No. 04 of 2018**

31 December 2018

## **GUIDELINES TO LICENSED BANKS ON THE ADOPTION OF SRI LANKA ACCOUNTING STANDARD - SLFRS 9: FINANCIAL INSTRUMENTS**

The Central Bank of Sri Lanka with a view to establishing consistent and prudent practices on the adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments by licensed banks in Sri Lanka, encloses the Guidelines to licensed banks on the above for immediate implementation.

A A M Thassim  
**Director of Bank Supervision**

### **GUIDELINES TO LICENSED BANKS ON THE ADOPTION OF SRI LANKA ACCOUNTING STANDARD – SLFRS 9: FINANCIAL INSTRUMENTS**

#### **1. Introduction**

- 1.1 The new Sri Lanka Accounting Standard, 'SLFRS 9: Financial Instruments' shall be applicable for financial reporting periods beginning on or after 01.01.2018 and the adoption of SLFRS 9 has a significant impact towards banks and other financial institutions.
- 1.2 While the responsibility of preparation, presentation and disclosure of financial statements in line with the applicable Sri Lanka Accounting Standards is vested with the Board of Directors (BoD) and the senior management of licensed banks, the Central Bank of Sri Lanka (CBSL) promotes consistent and prudent application of SLFRS 9 in the banking sector.
- 1.3 In this respect, discussions were held with the Institute of Chartered Accountants of Sri Lanka, the Panel of Auditors and the banking sector to understand the concerns of licensed banks in the adoption of SLFRS 9.
- 1.4 These guidelines are prepared based on the 'Guidance on Credit Risk and Accounting for Expected Credit Losses' issued by the Basel Committee on Banking Supervision in December 2015, the best practices and guidelines issued by the monetary authorities/regulators on implementation of International Financial Reporting Standards 9: Financial Instruments and taking into consideration the comments received from CA Sri Lanka, Panel of Auditors and licensed banks in this regard.
- 1.5 These Guidelines should be adopted within the requirements of SLFRS 9.

#### **2. Objectives of Issuing Guidelines on Adoption of SLFRS 9**

- 2.1 CBSL expects to establish consistent and prudent practices on adoption of SLFRS 9 by licensed banks in Sri Lanka.
- 2.2 Accordingly, licensed banks are required to adhere to the following Guidelines (in addition to the existing applicable regulations) as a minimum; on classification and measurement of financial assets and financial liabilities, management of credit risk, impairment of financial assets, valuation of collaterals, role of the internal audit, regulatory and reporting requirements; when preparing, presenting and publishing financial statements.

#### **3. Classification and Measurement of Financial Assets and Financial Liabilities**

##### **3.1 Classification and measurement of Financial Assets**

- (a) Business models approved by BoD (overseeing authority in respect of banks incorporated outside Sri Lanka) shall be in place to facilitate classification of financial assets. For this purpose, sufficient documentation on objectives, definitions, characteristics, criteria and operating policies along with adequate procedures and systems for assessing the business models on an on-going basis shall be in place.
- (b) Such operating policies shall include, at a minimum, the decision-making authorities for business model decisions, level of sales to be considered as infrequent and insignificant, time period for near term selling to be considered for trading purposes, election of fair value option for instruments through profit or loss and through other comprehensive income.

- (c) In terms of SLFRS 9, debt instruments shall pass the SPPI test (contractual cash flows to meet Solely Payments of Principal and Interest) and if so such instruments shall be classified as 'financial assets at amortised cost (AC)' or 'financial assets at fair value through other comprehensive income (FVOCI)' based on the outcome of the business model test.
- (d) Licensed banks are required to maintain standardised processes, detailed checklists and decision trees in order to assess and identify SPPI features of their products and contracts.
- (e) Accordingly, broad classification and subsequent measurement of financial assets are given in Table 1 below.

**Table 1 - Classification and Measurement of Financial Assets**

Business Model	Key Characteristics	Classification & Subsequent Measurement
<b>Debt Instruments<sup>1</sup></b>		
Held-to-collect	<ul style="list-style-type: none"> <li>- Hold assets to collect contractual cash flows</li> <li>- Meet SPPI test</li> <li>- Infrequent and insignificant sales</li> </ul>	Amortised Cost
Both held to collect and for sale	<ul style="list-style-type: none"> <li>- Both collecting contractual cash flows and sales</li> <li>- More frequent and significant sales</li> </ul>	Fair value through other comprehensive income
Other business models, including; <ul style="list-style-type: none"> <li>- Trading</li> <li>- Managing assets on a fair value basis</li> <li>- Maximising cash flows through sale</li> </ul>	<ul style="list-style-type: none"> <li>- Neither 'held-to-collect' nor 'held to collect and for sale'</li> <li>- Collection of contractual cash flows is incidental</li> </ul>	Fair value through profit or loss
<b>Equity and Derivative Instruments</b>		
Equity Instruments	<ul style="list-style-type: none"> <li>- Held for trading</li> </ul>	Fair value through profit or loss
	<ul style="list-style-type: none"> <li>- Not for trading and not elected the irrevocable OCI option</li> </ul>	Fair value through profit or loss
	<ul style="list-style-type: none"> <li>- Not for trading and elected the irrevocable OCI option</li> </ul>	Fair value through other comprehensive income
Derivative Instruments		Fair value through profit or loss

### 3.2 Classification and measurement of Financial Liabilities

- (a) Broad classification and measurement of financial liabilities are given in Table 2 below.

**Table 2 - Classification and Subsequent Measurement of Financial Liabilities**

Classification of Financial Liabilities	Subsequent Measurement	Accounting for Fair Value Gain
Financial liabilities held for trading	Fair value	Through profit or loss
Financial liabilities designated at fair value	Fair value	The amount of change in fair value attributable to changes in credit risk in liability presented in other comprehensive income <sup>2</sup> and remaining amount shall be presented in income statement.
Other financial liabilities at amortised cost	Amortised Cost	-

- (b) If a licensed bank is accounting for its financial liabilities as designated through profit or loss, changes in value of such liabilities due to changes in own credit risk are required to be assessed and accounted through other comprehensive income as stated above. Licensed banks are requested to formulate internal guidelines and criteria for this purpose.

<sup>1</sup> In addition to these key characteristics other features of the product, management compensation, risk management aspects, frequency and significance of sales, etc. must also be considered.

<sup>2</sup> If that treatment creates or enlarges an accounting mismatch in profit or loss, an entity shall present all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

### 3.3 Reclassification

- (a) If the objective of the business model of the licensed bank for its financial assets changes and its previous model assessment would no longer apply, reclassification is required between financial assets under the provisions of SLFRS 9.
- (b) In line with the requirements of SLFRS 9, such changes in business models and reclassifications shall be approved by the BoD and shall be notified to the Director of Bank Supervision within 7 working days of the date of such approval.

### 3.4 Measurement at Fair Value

When financial instruments are subsequently measured at fair value, licensed banks shall comply with the requirements given in 'Sri Lanka Accounting Standard - SLFRS 13: Fair Value Measurement' and are required to:

- (a) Use an appropriate valuation technique for which sufficient data is available;
- (b) Apply the selected valuation technique consistently;
- (c) Maximise the use of relevant observable inputs. In exceptional circumstances, unobservable inputs may be used; and
- (d) If inputs under level 3 hierarchy are used in the respective valuation technique, the Chief Risk Officer or most senior officer overseeing the risk management function shall confirm the appropriateness and reliability of such inputs.

## 4. Principles for Sound Credit Risk Management

- 4.1 BoD and the senior management are responsible for ensuring that the licensed banks have appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate impairment allowances in accordance with the policies and procedures of licensed banks, the applicable Sri Lanka Accounting Standards and relevant supervisory guidance.
- 4.2 Licensed banks shall document and adhere to sound methodologies that address policies, procedures and controls for assessing and measuring credit risk on all financial assets. The measurement of impairment allowances should build upon those robust methodologies and result in the appropriate and timely recognition of expected credit losses in accordance with the applicable Sri Lanka Accounting Standards.
- 4.3 The aggregate amount of impairment allowances of licensed banks, regardless of whether allowance components are determined on a collective or an individual basis, should be adequate and consistent with the objectives of the applicable Sri Lanka Accounting Standards.
- 4.4 Licensed banks shall have policies and procedures in place to validate models used to assess and measure expected credit losses.
- 4.5 Licensed banks shall use experienced credit judgment, especially in the robust consideration of reasonable and supportable forward-looking information, including macro-economic factors, to measure the expected credit losses.
- 4.6 Licensed banks should have a sound credit risk assessment and measurement process with the support of adequate systems, tools and data to assess credit risk and to account for expected credit losses.
- 4.7 Licensed bank's public disclosures should promote transparency and comparability by providing timely, relevant and useful information.

## 5. Impairment of Financial Assets

### 5.1 Calculation of Expected Credit Losses

Licensed banks are required to calculate expected credit losses for the following:

- (a) Financial assets measured at AC
- (b) Financial assets mandatorily measured at FVOCI
- (c) Loan commitments when there is an obligation to extend credit (except those measured at Fair Value through Profit or Loss)
- (d) Financial guarantee contracts (except those measured at Fair Value through Profit or Loss)
- (e) Lease receivables within the scope of LKAS 17: Leases
- (f) Contract assets within the scope of SLFRS 15: Revenue from Contracts with Customers

### 5.2 Life-time Expected Credit Losses and 12 Month Expected Credit Losses

- (a) At each reporting date, licensed banks shall measure the loss allowance for financial instruments at an amount equal to life-time expected losses, if the credit risk of a financial instrument has increased significantly since initial recognition (except for the purchased or originated credit-impaired financial assets).

- (b) For purchased or originated credit impaired financial assets, lifetime expected credit losses shall be measured.
- (c) In principle, life time expected credit losses and credit impaired loans are provided on an individual basis. However, due to lack of borrower-specific information, licensed banks may perform the assessment on appropriate groups or portfolios on a collective basis.
- (d) At the reporting date, if the credit risk of a financial instrument has not increased significantly since the initial recognition, licensed banks shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit loss.

### 5.3 Economic Factor Adjustment

- (a) Licensed banks shall use the forecasts and projections published by CBSL, International Monetary Fund and/or World Bank in all instances where such projections are available when adjusting credit provisioning models to reflect the economic conditions and forecasts.
- (b) If the required information is not available through above sources, licensed banks shall use credible alternative sources and shall maintain documentary evidence.
- (c) BoD approved policies shall be available to specify the sources to be used and licensed banks shall not cherry pick sources in their favour.

### 5.4 Significant Increase in Credit Risk

For the purpose of calculating life-time expected losses, as a minimum, if one or more of the following factors/conditions are met, it shall be considered as a significant increase in credit risk:

- (a) When contractual payments of a customer are more than 30 days past due<sup>3</sup> (subject to the rebuttable presumption in the SLFRS 9);
- (b) When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/or when there is a two-notch downgrade in the banks internal rating system. In the event no external credit rating is available, licensed banks are required to map their internal credit risk ratings with the ratings issued by the External Credit Assessment Institutions (ECAI). For this purpose, licensed banks are required to refer the mapping of external credit ratings given in Direction No. 1 of 2016 on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks;
- (c) When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments;
- (d) When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument;
- (e) When the value of collateral is significantly reduced and/or realisability of collateral is doubtful. Limits shall be set and documented by licensed banks;
- (f) When a customer is subject to litigation, that significantly affects the performance of the credit facility;
- (g) Frequent changes in the senior management of an institutional customer;
- (h) Delay in the commencement of business operations/projects by more than two years from the originally agreed date;
- (i) Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.;
- (j) When the customer is deceased/insolvent;
- (k) When the bank is unable to contact or find the customer;
- (l) A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year; and
- (m) Erosion in net-worth by more than 25% when compared to the previous year.

### 5.5 Models for Calculation of Expected Credit Losses

- (a) Licensed banks shall consider all available and relevant internal and external data when estimating expected credit losses, ensuring that the estimates are robust, unbiased and reflective of current exposures.
- (b) Licensed banks shall develop robust models to determine expected credit losses under SLFRS 9. Such models shall be tailored to reflect the bank's risk profile.
- (c) Licensed banks shall ensure that the relevant officers are well trained and competent on understanding the models adopted by them for this purpose.
- (d) When obtaining support from external vendors/consultants in respect of model development, rigorous governance and internal control processes shall be adhered.

<sup>3</sup> Days past due shall be calculated from contractual due date of the payment.

- (e) If different models are used for different portfolios and instruments, licensed banks are required to document the reasons why the selected model is appropriate and all credit models must be reviewed at least annually.
- (f) An effective model validation process shall be established to ensure that the credit risk assessment and measurement methods are able to generate accurate, consistent and unbiased predictive estimates on an ongoing basis.
- (g) Licensed banks are required to desist from making changes in the parameters, inputs and assumptions used for the purpose of profit smoothening. The rationale and justification for any changes in the expected loss models shall be documented and justified by the Chief Risk Officer and approved by the BoD.
- (h) Assumptions concerning the impact of changes in general economic developments on borrower's repayment capacity, shall be made with sufficient prudence.
- (i) In cases where banks incorporated outside Sri Lanka use models developed by head office or regional offices, to ensure appropriateness of the credit models to the Sri Lankan context, the local implementation team should carry out appropriate validation procedures.

**5.6 Further, in respect of impairment of financial instruments, licensed banks shall follow the guidance given in Annex I.**

**5.7 These guidelines are expected to be reviewed in future, looking at the market developments, data quality, model development and capacity within the banking sector.**

## **6. Collateral Valuation**

- 6.1 Expected cash flows from collateral realization shall be based on latest observed reliable market valuations and shall appropriately reflect the inherent uncertainty associated with distressed property liquidation (including the time taken for such realisation).
- 6.2 Any increase in valuations shall be substantiated by solid evidence that such increases are sustainable.

## **7. Role of Internal Audit**

- 7.1 The Internal Audit function shall independently evaluate the effectiveness of the credit risk assessment, measurement systems and processes of licensed banks and shall ensure the acceptability of credit judgments.
- 7.2 Internal Audit function shall validate and evaluate all credit risk assessment models, inputs and assumptions used along with data smoothening, if any.
- 7.3 Internal audit function shall provide assurance over the adequacy and effectiveness of back testing, in order to ensure that the key drivers have been captured and calibrated accurately.

## **8. Regulatory Requirements**

- 8.1 In line with the international best practices, CBSL is of the view that the existing prudential regulations pertaining to assets classification, measurement and provisioning should be in force.
- 8.2 Accordingly, licensed banks shall submit all periodical information including web based statutory returns to CBSL in accordance with the existing Orders, Determinations, Directions, Guidelines, Circulars and Instructions issued.
- 8.3 Licensed banks shall maintain adequate data/records and systems separately to identify, reconcile and report requirements under the Sri Lanka Accounting Standards and under the existing regulatory framework.
- 8.4 Impact on expected credit loss provisioning is required to be captured when preparing capital planning and stress testing processes of licensed banks.
- 8.5 In order to avoid stress on capital and in line with the guidance given by the Basel Committee on Banking Supervision, licensed banks shall stagger audited additional credit loss provisions arising from SLFRS 09 when compared with credit loss provisions under LKAS 39 as at first day of adoption of SLFRS 9, net of any other adjustment on first day impact to retained earnings and net of tax effects, throughout a transitional period of four years as given below for the purpose of calculating the Capital Adequacy Ratio (CAR) under Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III.

**Table 3 - Staggering of First Day Impact for Capital Adequacy Ratio Computation**

Cumulative Percentage of Absorption of First Day Impact				
01.01.2018	31.12.2018	31.12.2019	31.12.2020	31.12.2021
12.5	25	50	75	100

**9. Regulatory Reporting and Disclosures**

9.1 Licensed banks shall disclose the total amount of first day impact arising from the adoption of SLFRS 9 and its impact to CAR as specified in 8.5 above throughout the transitional period in the financial statements.

9.2 However, the first day impact shall be fully adjusted in the financial statements on the first day of adoption of SLFRS 9.

9.3 Licensed banks are required to report the information set out in Tables 4 and 5 below to the Bank Supervision Department through bsddb@cbsl.lk within 30 days after the end of each quarter, commencing 31.12.2018.

**Table 4 – Probability of Defaults (PD) and Loss Given Defaults (LGD) on Collective Impairment as at .....**

Business Segment/ Product/ Category or any Other Basis	PD			LGD		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3

**Table 5 - Upgrading of Credit Facilities/Exposures for the Computation of Expected Credit Losses for the Quarter Ended as at .....**

<b>Number of Facilities upgraded</b>	
From stage 2 to stage 1	
From stage 3 to stage 1	
From stage 3 to stage 2	
<b>Value of Total Facilities Upgraded</b>	
From stage 2 to stage 1 (Rs.mn)	
From stage 3 to stage 1 (Rs.mn)	
From stage 3 to stage 2 (Rs.mn)	
<b>Total of interest income re-recognised to the income statement on upgrading to Stages 2 and 1. (Rs.mn)</b>	

Annex I

**ADDITIONAL GUIDANCE ON IMPAIRMENT OF FINANCIAL INSTRUMENTS**

The following guidance is provided with a view to improving and maintaining the consistent application and comparability within the banking sector when calculating expected credit losses under SLFRS 9.

**1. Guidance on Minimum Criteria to be met by all licensed banks for categorisation of credit facilities/exposures into stages for computation of expected credit losses is as follows:**

**1.1 Stage 1**

All credit facilities, which are not categorised under Stages 2 or 3 below.

**1.2 Stage 2**

(a) Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9.

(b) All restructured<sup>1</sup> loans, which are restructured up to two times, other than credit facilities/exposures mentioned in 3.2 below.

(c) Under-performing credit facilities/exposures as identified in paragraph 5.4 of the "Guidelines to Licensed Banks on the Adoption of SLFRS 9: Financial Instruments".

<sup>1</sup> Restructured facilities are where the original repayment terms have been amended due to a deterioration in credit quality, while the respective credit facility remained as Performing loans and advances as per CBSL Directions.



### 1.3 Stage 3

- (a) Credit facilities where contractual payments of a customer are more than 90 days past due, subject to the rebuttable presumption as stated in SLFRS 9.
- (b) All restructured loans, which are restructured more than twice, other than credit facilities/exposures mentioned in 3.2 below.
- (c) All rescheduled<sup>2</sup> loans, other than credit facilities/exposures mentioned in 3.2 below.
- (d) All credit facilities/customers classified as non-performing as per CBSL Directions.
- (e) Non-performing credit facilities/customers as identified in the paragraph 5.4 of the "Guidelines to Licensed Banks on the Adoption of SLFRS 9: Financial Instruments".

## 2. Guidance for computation of the Probability of Default (PD) and Loss Given Default (LGD) to be used as a minimum for the calculation of expected credit losses is as follows.

- 2.1 Licensed banks shall use at least five-year data when calculating PDs and any smoothing of data or inputs must be validated by the Risk Management Department.
- 2.2 Licensed banks shall not use proxies to compute PDs and LGDs, unless the bank is a newly incorporated bank with inadequate credit history of less than 5 years.
- 2.3 When the licensed bank is unable to compute LGDs due to lack of data or inputs, such bank is required to use a minimum LGD of 45 per cent for such exposures.
- 2.4 Licensed banks shall use of an LGD of 0 per cent for same currency denominated cash backed loans with a haircut of over 10 per cent and subject to meeting the conditions in section 4(2) of Banking Act Direction No.3 and 4 of 2008 Classification of Loans and Advances, Income Recognition and Provisioning.
- 2.5 With respect to exposures denominated in foreign currencies issued by the sovereigns, following shall be considered:
  - (a) Licensed banks shall compute PDs by using a sovereign PD which is linked to the external credit rating scale.
  - (b) A 20 per cent LGD shall be applied as a minimum when computing expected losses.
- 2.6 When calculating LGD for exposures guaranteed by the Government of Sri Lanka:
  - (a) An LGD of zero can be applied to exposures with the guarantee of the Government provided that the guarantee is fully covered with the interest and reported as liabilities of the Government.
  - (b) LGD for any other form of assurance other than in item 2.6 (a) above shall be computed instead of using a zero LGD.
  - (c) A minimum LGD of 20 per cent shall be applied for Government guarantees denominated in foreign currency.

## 3. Other Guidance

**3.1 Off-balance sheet exposures:** when converting off-balance sheet exposures for expected credit loss calculations, licensed banks may use the values as per the credit conversion factors specified in the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III, if historical data is not available.

**3.2 Upgrading of credit facilities:** when upgrading credit facilities from a higher stage to a lower stage (e.g., from stage 3 to stage 2)

- (a) The upgrading of credit facilities shall only be carried out by Risk Management Department and be independent from the loan review mechanism.
- (b) Such upgrading shall be supported with a BoD approved policy, rationale and with adequate documentation.
- (c) When upgrading restructured facilities, satisfactory performing period of a minimum 90 days must be considered subsequent to the due date of the 1st capital and/or interest installment post-restructure. With respect to upgrading rescheduled facilities, licensed banks must comply with Banking Act Directions No.3/4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning.

**3.3 Internal Rating Based (IRB) credit rating:** A licensed bank shall not use IRB credit information for expected credit loss calculations without complying with the following:

- (a) Pricing mechanism shall be mapped with IRB information;
- (b) Shall have at least five-year IRB based historical data subject to 3.3 (a); and
- (c) BoD approved policies shall be in place and IRB inputs and models needs to be reviewed independently by the Risk Management Department.

<sup>2</sup> Rescheduled facilities are where the original repayment terms have been amended, while the respective credit facility remained as Non-performing loans and advances as per CBSL Directions.

**Circular No. 35/03/019/0026/001****To: All Licensed Commercial Banks and Primary Dealers****OPERATING INSTRUCTIONS ON REPORTING REQUIREMENTS RELATING  
TO "CENTRAL INTEGRATED MARKET MONITOR" (CIMM)**

1. These Operating Instructions (OI) shall come into effect on 01st March 2018. Any previous communications with Licensed Commercial Banks (LCB) and Primary Dealers (PD) issued by Domestic Operations Department (DOD) relating to the Online Money Market Monitoring System and Liquidity Monitoring System including the letters dated 6 January 2006 and 8 September 2006 and captioned 'Online Money Market Monitoring System', are hereby repealed.

For the purposes of these OI, Participating Institutions (PI) shall mean LCBs and PDs.

**2. Reporting Requirements****2.1 For transactions which are not brokered by an Authorized Money Broker (AMB) (hereinafter referred to as Direct Deals);**

- (i) All PIs are required to report to the Central Bank of Sri Lanka (CBSL) all repo transactions effected with a PI through the CIMM in such a way that the lending PI (lender) shall enter the required details within 15 minutes from effecting a transaction and the borrowing PI (borrower) shall authorize the same within 15 minutes from the time of such entry by the lender.
- (ii) All LCBs are required to report to CBSL the inter-bank call money transactions through the CIMM in such a way that the lending LCB (lender) shall enter the required details within 15 minutes from effecting a transaction and the borrowing LCB (borrower) shall authorize the same within 15 minutes from the time of such entering by the lender.

**2.2 For transactions which are brokered by an AMB;**

- (i) All call and repo transactions brokered by an AMB are initially entered to the CIMM by the respective AMB.
- (ii) Regardless of being the lender or borrower, all LCBs shall confirm transactions entered by AMBs to CBSL, through CIMM, within 30 minutes from reporting the same by the AMB.
- (iii) Regardless of being the lender or borrower, all PDs shall confirm transactions entered by AMBs, through the CIMM, within 30 minutes from reporting the same by the AMB.

**3. Reporting Liquidity Estimates**

Each LCB and PD shall inform its estimated daily liquidity position as per the specified format through CIMM before 0830 hrs on each working day. All LCBs and PDs shall take all measures to ensure that a high level of accuracy of the liquidity estimate is maintained at all times. Further, actual liquidity positions of each working day should also be reported before the close of business on the following working day once the required interface is made available to LCBs and PDs.

**4. Reporting of transactions done via Bloomberg (BBG) and Thompson Reuters (TR) trading platforms**

The procedure set out in section 2. 1. above is applicable to all call and repo transactions executed through BBG and TR, until such time the facility to automatically capture details of such transactions to the CIMM is established by TR and BBG.

5. Statements of all call and repo transactions effected with all PIs should be submitted via email to [dod@cbsl.lk](mailto:dod@cbsl.lk) by PIs before 3.00 p.m on each day according to Annex I.

**6. Correction of Errors**

**6.1** Errors in any authorized transaction done via Reuters, Bloomberg, Money Brokers or as a direct deal are permitted to be corrected on the CIMM before 3.30 p.m. on each day.

**6.2** However, a Request for Amendment (RFA) should be emailed to DOD by the party which has entered the transactions initially as soon as the error is detected (auto-submission facility of RFA through CIMM will be made available, with a 'Remarks' field to enter the reasons for RFA).

**6.3** All the errors/amendments will be monitored closely by DOD.

**7. Governance principles for reporting through the CIMM****7.1 Roles and responsibilities of the Board**

The Board of Directors (Board) of LCBs and PDs shall approve the relevant policies, procedures and processes and shall ensure that all Treasury operations and activities are appropriately managed when discharging its obligations under these OI.

**7.2 Roles and responsibilities of the CEO**

- (i) To set clear internal policies and guidelines on the reporting process which includes the following;

- a) The officers responsible for entering the data and the person responsible for approving the same must be authorized by the Board for the said purpose.
  - b) Board approval for the process of reporting through the CIMM.
  - c) Reporting structure with respect to data submission to be established to enable timely reporting to senior officers for appropriate action in the case of any anomalies, potential fraud or misconduct.
  - d) A proper system needs to be introduced to re-check the accuracy of reporting.
- (ii) *Monitoring activities;*
- a) Reporting through the CIMM shall be subject to an internal and external audit of the respective LCBs and PDs.
  - b) An appropriate internal control system to be established to secure compliance with these OI.
  - c) An effective policy to be introduced for early detection of any misconducts or irregularities in the reporting process.
8. An internal guideline for the reporting framework shall be formulated and submitted to the DOD of CBSL within one (1) month from the date of issuing these OI. Any changes to the said framework need to be communicated to DOD within one (1) week from the date of such change.
  9. All documents relating to the transactions and the policies and processes relating to reporting requirements shall be kept for at least 6 years from the date of each transaction or the date of approval of such policies and processes, as the case may be.

#### 10. Consequences of Non Compliance

Failure to comply with the provisions of these OI and/or the furnishing of false or incorrect information or the omission of any information may result in taking of action after an investigation, which may include:

- (a) A warning being issued to the errant LCB or PD' and/or
- (b) A payment of Rs. 500,000 against any instance of failure to comply with these OI' and/or
- (c) A payment of Rs. 500,000 against furnishing of false or incorrect information or the omission of any information;

P.W.D.N.R. Rodrigo.

**Director / Domestic Operations**

**Annex I**

### REPORT ON INTER-BANK MONEY MARKET TRANSACTIONS

Name of the Reporting Counterparty :

Date :

Rs. Million

Counterparty	Lending Amount	Borrowing Amount	Rate	Type of Transaction (Call/Repo)	Money Broker (For broker through deals)	Settlement Date	Maturity Date

The Gazette of the Democratic Socialist Republic of Sri Lanka

**EXTRAORDINARY**

No. 2061/7 – MONDAY, MARCH 05, 2018

(Published by Authority)

**PART I : SECTION (I) — GENERAL**

**Central Bank of Sri Lanka Notices**

**NOTICE OF THE CENTRAL BANK OF SRI LANKA**

REGULATIONS made by the Monetary Board of the Central Bank of Sri Lanka under Section 10 (c) of the Monetary Law Act, No. 58 of 1949 (Chapter 422).

Dr. Indrajit Coomaraswamy,

**Chairman of the Monetary Board and Governor,  
Central Bank of Sri Lanka.**

Colombo,  
05th March, 2018.

**MONEY BROKING REGULATIONS**

Citation and effective date	1. These regulations which will repeal and replace the Money Broking Regulations No. 1 of 2013 published in the Gazette Extraordinary No. 1796/21 of 08 February 2013 as amended by the Money Broking Regulations No. 1 of 2016 published in the Gazette Extraordinary No. 1969/17 of 01 June 2016 shall be cited as the Money Broking Regulations No. 1 of 2018 and shall be effective from 05 March 2018.
Certificate of Authorization	2. No person shall engage in or cause another person to be engaged in the business of money broking except under the authority of a "Certificate of Authorization" issued by the Monetary Board (hereinafter referred to as the "Board") of the Central Bank of Sri Lanka (hereinafter referred to as the "Central Bank").
Eligibility for application	3. Only a limited liability company registered under the companies Act No. 7 of 2007, having a minimum stated capital equivalent to Rs. Ten million (Rs. 10,000,000/-), or such other capital as may be determined by the Board from time to time, shall be eligible to apply for a "Certificate of Authorization" referred to in Regulation (2) above.
Submission of the application	4. In order to be considered for the issue of a "Certificate of Authorization", the applicant company shall make an application for a "Certificate of Authorization" in the form as prescribed in these Regulations, and submit to the Director, Domestic Operations of the Central Bank together with such other documents as prescribed in Regulation (5).
Documents to be submitted with the application	5. The following documents/information, unless otherwise stated, shall be submitted by the applicant company together with the application for the "Certificate of Authorization" in the form as prescribed by the Director, Domestic Operations: <ul style="list-style-type: none"> <li>(a) Copies of the Articles of Association and Certificate of Incorporation and Form 20 certified by the Registrar of Companies;</li> <li>(b) Copy of the feasibility report;</li> <li>(c) Names, national identity card numbers and / or passport numbers, titles, addresses and details relating to the qualifications and experience of all the directors, significant shareholders and persons appointed as key management personnel, including chief executive officer;</li> <li>(d) Affidavits of the chief executive officer, significant shareholders, persons appointed as key management personnel and the directors as in Form: DOD/MB/002 (Schedule I and II);</li> <li>(e) Board resolution which states that the information provided in the application referred to in Regulation (4) above is accurate and the applicant company is empowered to engage in money broking activities as a business of the company, in the event it is not so stated in the Articles of Association;</li> <li>(f) Documentary evidence to prove that the company has met the minimum capital requirement;</li> <li>(g) Copy of the business continuity plan; and</li> <li>(h) Any other information as may be specified by the Director, Domestic Operations.</li> </ul>
Accuracy of information provided	6. Any information in the application for a Certificate of Authorization or in any other document submitted in connection therewith or in the course of any inquiry or investigation conducted to ascertain the suitability of the applicant to be issued with a Certificate of Authorization under these regulations, which is found to be false, incomplete or incorrect, may result in the application being rejected, Certificate of Authorization being cancelled, or subjecting the applicant / Money Broking company to such other measures that the Board may deem appropriate.
Annual certificate fee	7. (a) Every Authorized Money Broking company shall pay an annual certificate fee and any other fees as may be determined by the Board from time to time, to the Central Bank. (b) The fees payable and any other instructions applicable to Authorized Money Broking companies shall be communicated to them by way of circulars issued by the Director, Domestic Operations, from time to time.
Termination of money broking business	8. (a) If an Authorized Money Broking company decides to discontinue its business, such Authorized Money Broking company shall inform the Director, Domestic Operations of the decision to so discontinue, not less than three (3) months prior to the date of termination of the business.

		(b) Such Authorized Money Broking company shall surrender the Certificate of Authorization issued by the Central Bank, not later than three (3) working days after the termination of the business.
Permissible activities	9.	<p>The permissible activities for an Authorized Money Broking company shall include the following:</p> <p>(a) Engage in the business of money broking, foreign exchange broking, inter - bank money broking, as an agent, facilitator or mediator, in respect of transactions of financial products with clients in the money, securities and foreign exchange markets in Sri Lanka and other recognized international markets.</p> <p>(b) Engage in any other money broking related activities which the Board may authorize the Authorized Money Broking company to engage in, from time to time.</p>
Brokerage commissions and fees	10.	An Authorized Money Broking company carrying out money broking transactions shall be entitled to receive brokerage, commission or fees for the services rendered.
Operating arrangements	11.	<p>An Authorized Money Broking company shall:</p> <p>(a) act only as a broker, agent, facilitator or mediator, for the transactions being brokered and not as a principal;</p> <p>(b) adopt the Global FX Code, ACI Model Code and such other Code of Conduct as may be issued by the Director, Domestic Operations Departments;</p> <p>(c) act as a focal point for incoming orders, monitor relevant financial product terms and conditions and keep records of pending and unfulfilled transactions;</p> <p>(d) clearly state the qualifying conditions on which their transactions will be based, (e.g. finding a counterparty for matching a deal), during the preliminary negotiations of transactions and prior to their execution;</p> <p>(e) act professionally at all times and use clear and unambiguous terminology;</p> <p>(f) maintain full and updated records of segregated accounts;</p> <p>(g) divulge the names of the principals only when satisfied that both parties display a serious intention to transact;</p> <p>(h) report to the Director, Domestic Operations, any signs/evidence of malpractices and misdemeanor by any other Authorized Money Broking company and / or any other parties involved in a transaction, if such signs/evidence comes to it's notice;</p> <p>(i) acquire the required level of knowledge of the relevant financial products and be fully conversant and aware of the sources of supply and demand, terms and conditions related to such financial products and relevant market information;</p> <p>(j) comply with the related aspect of the regulations on foreign exchange and money market transactions issued by the Central Bank when sharing information with other counterparties;</p> <p>(k) provide adequate training to operational staff on skills and care required for identification and treatment of sensitive information.</p>
Fit and proper requirement for key officers	12.	<p>(a) Officers performing functions in Authorized Money Broking companies, including but not limited to that of chief executive officer, director or key management person, shall be fit and proper persons to conduct the activities they are responsible for, and shall have the requisite experience, qualifications and competence.</p>
Procedure to be followed in assessing fitness and propriety		<p>(b) Each Authorized Money Broking company, shall obtain from respective officers referred to in 12 (a) above and significant shareholders, affidavits and declarations as in Schedule I, II and III and submit annually before March 31 each year to the Director, Domestic Operations to facilitate assessment of fitness and propriety.</p>
Fit and proper requirement for chief executive officer, significant shareholders, key management persons and directors		<p>(c) No person shall function and participate at Board meetings as director or function as a key management person or chief executive officer or become a significant shareholder of an Authorized Money Broking company until approval has been granted by the Director, Domestic Operations to do so after assessment of fitness and propriety.</p>

Significant shareholder	<p>(d) Any person and his/her related parties having 20 per cent or more of the shareholding of the Authorized Money Broking company is deemed to be a significant shareholder for this purpose. Each Authorized Money Broking company shall notify the Director, Domestic Operations promptly the name / s of the shareholder / s of the company whenever each such shareholder becomes a significant shareholder.</p> <p>(e) Related parties referred to in 12(d) above shall include all parties that have acquired shareholdings as an individual, as a partnership or as a corporate body, either directly or indirectly or through a nominee or acting in concert with any other individual, partnership or corporate body.</p>
Approval of the key officers and significant shareholders	<p>(f) The Director, Domestic Operations may, having regard to the matters specified in Regulation (13), approve or refuse to approve the proposed appointment (or continuation as the case may be) of the person, as a chief executive officer, director, key management person or significant shareholder of the Authorized Money Broking company, and shall within thirty days after receiving the required documents notify the Authorized Money Broking company of such approval or refusal, giving reasons therefor.</p> <p>(g) The Director, Domestic Operations shall notify the Authorized Money Broking company of such approval or refusal and it shall be the duty of the Authorized Money Broking company to communicate such notification to the chief executive officer, director, key management person or significant shareholder concerned and implement the same referred to in 12(f) above.</p>
Subsequent ineligibility to be notified	<p>(h) Every Authorized Money Broking company shall notify the Director, Domestic Operations of any reasonable suspicions or findings to the effect that any chief executive officer, director, key management person or significant shareholder is not a fit and proper person to hold office in the respective Authorized Money Broking company immediately after becoming aware of such suspicion or findings.</p> <p>(i) If circumstances vary, change, render invalid, make inapplicable or falsify the information contained in an affidavit or declaration submitted by the chief executive officer, director, key management person or significant shareholder, such person shall immediately notify the Director, Domestic Operations about the same.</p>
Appeal to the Board	<p>(j) A person aggrieved by the refusal or determination of the Director, Domestic Operations under Regulation 12(f) above may within fourteen days of receipt of the communication sent by the Authorized Money Broking company make an appeal giving reasons in writing to the Board.</p> <p>(k) The Board may, after considering reasons given by the Director, Domestic Operations and the objections of the aggrieved party, decide either to confirm or over-rule the refusal made by the Director, Domestic Operations.</p>
Disqualification from being appointed as key officers and significant shareholders	<p>13. A person shall be disqualified from being elected and/or appointed as a director, chief executive officer, key management person or significant shareholder of an Authorized Money Broking company or from holding such position, if such person:</p> <p>(a) does not possess academic or professional qualifications or effective experience in money broking, finance, law, business or administration or other relevant discipline;</p> <p>(b) has been declared an undischarged insolvent or a bankrupt, by any court in Sri Lanka or abroad;</p> <p>(c) has been convicted by any court for an offence involving moral turpitude;</p> <p>(d) has failed to satisfy any judgement or order of any court to repay a debt;</p> <p>(e) is being subjected to any investigation or inquiry in respect of a fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body, established by law in Sri Lanka or abroad;</p> <p>(f) has been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal or any other body established by law, in Sri Lanka or abroad, at any time during the period of fifteen years immediately prior to being so appointed or elected;</p> <p>(g) has been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive officer, key management person or other officer in any corporate body in Sri Lanka or abroad;</p>

	<ul style="list-style-type: none"> <li>(h) is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;</li> <li>(i) has been declared by a court of competent jurisdiction to be of unsound mind;</li> <li>(j) is a chief executive officer, director or holds any other position of authority in any licensed commercial bank and/or primary dealer.</li> </ul>
Restrictions on control over the money broking businesses	14. A licensed commercial bank and/or primary dealer shall not have equity participation or have control over the directors or principal officers of the Authorized Money Broking company.
Objectives of internal controls	15. Every Authorized Money Broking company shall have a sound internal control system within the organization, in order to ensure: <ul style="list-style-type: none"> <li>(a) efficiency and effectiveness of operations (operational objective);</li> <li>(b) reliability and completeness of financial and management information (information objective); and</li> <li>(c) compliance with applicable laws and regulations (compliance objective).</li> </ul>
Internal controls	16. The internal control system referred to in Regulation (15) above shall include: <ul style="list-style-type: none"> <li>(a) the regular review and/ or update of the internal control system, and an assurance that the operational staff possess sound awareness of the need to comply with the system;</li> <li>(b) the maintenance of proper records of all transactions with clear documentary evidence, electronically or otherwise for a minimum period of six (6) years for purposes of these regulations;</li> <li>(c) the exclusive use of tie lines to carry out activities referred to in Regulation (9);</li> <li>(d) the maintenance of telephone conversation records (voice records) referred to in Regulation 16 (c) above and retaining such records for a period not less than six (6) years from the date of the telephone conversation;</li> <li>(e) the maintenance of a stringent physical access control system in respect of the telephone conversation records;</li> <li>(f) the prohibition of the use of private mobile phones by all employees inside the operational floors.</li> </ul>
Broker Confirmation	17. (a) The Authorized Money Broking company shall confirm all transactions to the counterparties in writing within fifteen (15) minutes of the transaction, and such confirmation shall include the following minimum information: <ul style="list-style-type: none"> <li>i. the transaction time, date and the value date;</li> <li>ii. the names of the counterparties;</li> <li>iii. settlement instructions; and</li> <li>iv. details of any other information, including, where appropriate, the commission charged by the Authorized Money Broking company.</li> </ul> (b) The broker confirmation shall be sent out by the back office, after it is scrutinized for its accuracy, independently of those who initiated the respective transaction.
Reporting Requirements	18. (a) The Authorized Money Broking company shall upload information through the Central Integrated Market Monitor (CIMM) which is the on-line interface provided to such money broking companies by the Central Bank, on; <ul style="list-style-type: none"> <li>i. each quote/bid provided to them by transacting parties every 15 minutes (or mention "no quote" if such quote/bid is not provided within the stipulated reporting time of 15 minutes); and</li> <li>ii. each transaction intermediated through the Authorized Money Broking company, not later than 15 minutes of such transaction.</li> </ul> (b) The chief executive officer and/ or the officer-in-charge of the dealing room of the money broking company shall be responsible for uploading the specified information stated herein within the specified time period. (c) Information on bids/ quotes and transactions sent by faxes shall be entertained only in the event of a failure of the CIMM. However, such information should be uploaded into the system once the system is revived.

- (d) Monitoring activities on CIMM ;
    - i. Reporting through CIMM shall be subject to an internal and external audit of the respective Authorized Money Broking companies;
    - ii. An appropriate internal control system should be established to secure compliance with these regulations;
    - iii. An effective policy to be introduced for early detection of misconduct or irregularities in the reporting process.
  - (e) An internal guideline for reporting through CIMM shall be formulated and submitted to the Director, Domestic Operations of the Central Bank within one month from the date of these regulations. Any changes to the said framework need to be communicated to Director, Domestic Operations within one (1) week from the date of such change.
  - (f) The Authorized Money Broking company shall submit a performance report on a monthly basis to the Director, Domestic Operations, not later than five (5) working days of the following month in the form prescribed in the "Schedule IV" attached hereto, via e-mail. All quarterly financial statements (statement of cash flow, statement of comprehensive income and statement of financial position) and audited financial statements shall be submitted to the Director, Domestic Operations before one month following the respective period. Until facilities are provided in the CIMM, all documents shall be submitted via email to the Director, Domestic Operations.
- communicating quotes      19. When communicating quotes (prices/rates) in the foreign exchange market, Authorized Money Broking company shall :
- (a) not communicate quotes with the intention of distorting the exchange rate;
  - (b) not communicate quotes where the principal or authorized persons have no intention of honoring, and which are quoted merely to mislead other market participants;
  - (c) communicate the relevant rates in a Foreign Exchange Swap transaction based on the prevailing market rates and interbank term transactions.
- Examination of Books      20. (a) The Director, Domestic Operations may, at any time, examine or authorize any officer of his Department to examine the books of accounts and other records/activities of any Authorized Money Broking company. An Authorized Money Broking company shall provide any information as may be requested by the Director, Domestic Operations or such officer authorized by the Director, Domestic Operations at all times in order to facilitate such examination.
- (b) in addition to examination by the Director, Domestic Operations, Director, International Operations may also examine or authorize any officer of his Department to examine the records/ activities relating to the foreign exchange operations of any Authorized Money Broking company as and when required. An Authorized Money Broking company shall provide any information relating to the foreign exchange operations as may be requested by the Director, International Operations or such officer authorized by the Director, International Operations at all times in order to facilitate such examination. In addition to the instructions communicated by the Director, Domestic Operations to Authorized Money Brokers, instructions on foreign exchange operations may be communicated to them by way of circulars issued by the Director, International Operations from time to time.
- Failure to comply with these regulations      21. Failure to comply with the provisions of these regulations and/or the furnishing of false or incorrect information or the omission of any material information, will result in the Board taking any of the following action after an investigation.
- (a) A warning being issued to the errant Authorized Money Broking company;
  - (b) A payment of Rs. 500,000 against any instance of failure to comply with Regulations (17) and (18);
  - (c) A payment of Rs. 500,000 against furnishing of false or incorrect information or the omission of any information;
  - (d) The disqualification of the errant Authorized Money Broking company from carrying out certain money broking activities referred to in Regulation (9);
  - (e) The revocation of the Certificate of Authorization issued by the Board;
  - (f) Any other action deemed fit by the Central Bank.



- |                   |  |
|-------------------|--|
| Saving provisions | 22. Any directions, guidelines, actions or investigations issued/carried out under the Regulations repealed hereby shall be valid and effective as if they were issued/carried out under these regulations.  |
| Definitions       | <p>23. In these regulations unless the context otherwise requires—</p> <ul style="list-style-type: none"> <li>(a) “ACI Model Code” shall mean the self-governing model code adopted by the Association Cambiste International (ACI) or the Financial Market Association;</li> <li>(b) “Authorized Money Broking company” shall mean, a company holding a Certificate of Authorization issued by the Monetary Board of the Central Bank of Sri Lanka, under these regulations;</li> <li>(c) “Board” shall mean the Monetary Board of the Central Bank of Sri Lanka established under the Monetary Law Act, (Chapter 422);</li> <li>(d) “Certificate of Authorization” shall mean the Authorization granted by the Monetary Board for a company to engage in money broking business under these regulations;</li> <li>(e) “Clients” shall mean licensed commercial banks and any other institution permitted by the Central Bank of Sri Lanka to trade in foreign currency, licensed specialized banks, primary dealers, fund management companies, pension funds, unit trust companies, insurance companies, corporate treasuries, government institutions and other financial institutions accredited by the Central Bank of Sri Lanka;</li> <li>(f) “Company” shall mean a company formed and registered as a private or public limited company under the Companies Act, No. 07 of 2007;</li> <li>(g) “Director, Domestic Operations” shall mean the Head of the Department of Domestic Operations of the Central Bank of Sri Lanka established under the Monetary Law Act, (Chapter 422);</li> <li>(h) “Director, International Operations” shall mean the Head of the Department of International Operations of the Central Bank of Sri Lanka established under the Monetary Law Act, (Chapter 422);</li> <li>(i) “Financial Products” shall mean wholesale local and foreign currency bank deposits, spot and forward foreign exchange (any currency against Sri Lanka rupees and cross currencies, outright or otherwise), currency swaps, interest rate swaps, currency options and futures, fixed income securities including government and corporate bonds, repurchase and reverse repurchase agreements, call money and term money, debentures, commercial papers, promissory notes, securitizations, any combination of such instruments or any other financial product approved by the Board;</li> <li>(j) “Global FX Code” shall mean a set of global principles of good practice in the foreign exchange market (Global Code) which is being developed to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market (FX Market). It is intended to promote a robust, fair, liquid, open and appropriately transparent market in which a diverse set of Market Participants, supported by resilient infrastructure, are able to confidently and effectively transact at competitive prices that reflect available market information in a manner that conform to acceptable standards of behavior;</li> <li>(k) “Internal Control System” shall mean the entire system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records;</li> <li>(l) “Key management person/ personnel” shall mean those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity;</li> <li>(m) “Money Broking” shall mean the business of arranging transactions between buyers and sellers in the money, government securities and foreign exchange markets with brokers acting as an intermediary in consideration of brokerage or commission fees paid or to be paid;</li> <li>(n) “Operational Staff” shall mean employees of the Authorized Money Broking company who are directly engaged in those activities referred to in Regulation (9);</li> </ul> |

- (o) "Principal" shall mean a party to a transaction, acting as a buyer or a seller, who buys or sells for its own account and risk;
- (p) "Primary Dealer" shall have the same meaning as given in the Registered Stock and Securities Ordinance No. 7 of 1937;
- (q) "Securities" shall mean a negotiable financial instrument representing financial value, including debt securities and derivative contracts;
- (r) "Stated Capital" shall have the same meaning as set out in The Companies Act, No. 07 of 2007;
- (s) "Tie Line" shall mean a dedicated communications link between an Authorized Money Broking company and the respective principal.

**SCHEDULE I**

Form: DOD/MB/002

**AFFIDAVIT TO BE SUBMITTED BY DIRECTORS, CHIEF EXECUTIVE OFFICER, KEY MANAGEMENT PERSONNEL AND SIGNIFICANT SHAREHOLDERS IN THE APPLICANT COMPANY/AUTHORIZED MONEY BROKING COMPANY**

Name of the Applicant Company/Name of the Authorized Money Broking Company: .....

**AFFIDAVIT**

I, ..... holder of National  
 (full name)  
 Identity Card No./Passport No. .... of .....  
 (address)

..... being a Buddhist/Hindu/Muslim/Christian/Catholic  
 do hereby solemnly, sincerely and truly declare and affirm/make oath and state<sup>1</sup> as follows:

1. I am the affirmitant/deponent above named and I am a/the .....  
 (designation)  
 of .....  
 (name of the company)
2. I affirm/state that I possess the following academic and/or professional qualification/s:
3. I affirm/state that the effective experience I possess in money broking, finance, business or administration or of any other relevant discipline is as follows:
4. I affirm/state that I am not subjected to any disqualifications given in Schedule II, annexed hereto as part and parcel of this Affidavit.

The averments contained herein were read over to the affirmitant/ deponent who having understood the contents hereof and having accepted same as true, affirmed/ swore to and placed his/her signature at

.....  
 on this ..... day of .....

Affix Stamps as  
applicable

Before me  
 Justice of the Peace/  
 Commissioner for Oaths

<sup>1</sup> Strike out the inapplicable words Buddhists, Hindus, Muslims and persons following any other religion must solemnly, sincerely and truly declare and affirm, Christians and Catholics must make oath and state.

**SCHEDULE II**

**DISQUALIFICATIONS UNDER REGULATION (13) OF THE MONEY BROKING  
REGULATIONS NO. 1 OF 2018.**

A person shall be disqualified from being elected and/or appointed as a director, chief executive officer, key management person or significant shareholder of an Authorized Money Broking company or from holding such position, if such person;

- (a) does not possess academic or professional qualifications or effective experience in money broking, finance, law, business or administration or other relevant discipline;
- (b) has been declared an undischarged insolvent or a bankrupt, by any court in Sri Lanka or abroad;
- (c) has been convicted by any court for an offence involving moral turpitude;
- (d) has failed to satisfy any judgement or order of any court or to repay a debt;
- (e) is being subjected to any investigation or inquiry in respect of a fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body, established by law, in Sri Lanka or abroad;
- (f) has been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, at any time during the period of fifteen years immediately prior to being so appointed or elected;
- (g) has been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive officer, key management person or other officer in any corporate body in Sri Lanka or abroad;
- (h) is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;
- (i) has been declared by a court of competent jurisdiction to be of unsound mind;
- (j) is a chief executive officer, director or holds any other position of authority in any license commercial bank and / or in any primary dealer.

**SCHEDULE III**

**DECLARATION TO BE SUBMITTED BY DIRECTORS, CHIEF EXECUTIVE OFFICER, KEY  
MANAGEMENT PERSONNEL AND SIGNIFICANT SHAREHOLDERS  
(WITH ENCLOSURES AS APPROPRIATE AS OF .....)**

Name of Authorized Money Broking Company/ Name of the Applicant Company: .....

**1. Personal Details**

- 1.1 Full name : .....
- 1.2 National Identity Card Number : .....
- 1.3 Passport Number : .....
- 1.4 Date of birth : .....
- 1.5 Permanent address : .....
- 1.6 Present address : .....

**2. Appointment – Director/ Chief Executive Officer/ Key Management Person**

- 2.1 Date of appointment to the board/ present position : .....  
(please attach a certified copy of the appointment letter in the case of an officer performing executive functions)
- 2.2 Designation : .....

2.3 Local or expatriate : .....

2.4 Annual remuneration (with details): .....

### 3. Details of Significant Shareholding

3.1 Date you became a significant shareholder : .....

3.2 Do you function as a director of the company : .....

3.3 Do you hold any executive position of the company : .....

3.4 Do you participate in the day to day operations of the company : .....

3.5 Do you contribute to major decisions of the company : .....

### 4. Personal Details of Relatives (Spouse, children etc.)

Full Name	Relationship	NIC No./ Passport No.

### 5. Background and Experience with Financial and Non -Financial Institutions

	Name of the institution	Period of Office	Designation
A	Financial Institutions (Licensed Commercial Banks, Finance Companies, Primary Dealers.)		
B	Non-Finance Institutions		

### 6. Shareholdings in Financial Institutions and their Related Institutions

Name of the Institution	No. of Shares	Percentage of Holding

Share ownerships in financial institutions, their subsidiaries and associates, if any, presently held:

### 7. Appointments, Shareholdings and Business Transactions of Relatives

7.1 Any relative presently employed as a director, chief executive officer or key management person in any financial institution.

	Name of the Financial Institution	Full Name of the Relative	Position of Held
1.	Licensed Commercial Banks		
2.	Licensed Specialized Banks		
3.	Licensed Financial Companies		
4.	Specialized Leasing Companies		
5.	Primary Dealers		
6.	Other		

7.2 Direct or indirect significant share ownership in a financial institution, if any, presently held by any relative.

Full name of the relative	No. of Shares		Percentage of Holding	
	Direct	Indirect	Direct	Indirect

## 7.3 Any business transaction, a relative currently has with the Authorized Money Broking company, if any.

Full name of the relative	Nature of business transaction	Date of transaction	Limit as at ..... (Rs. mn)	Outstanding as at ..... (Rs.mn)	Type and value of Collateral	% of Authorized Money Broker's paid-up capital

**DECLARATION:**

I confirm that the above information is to the best of my knowledge and belief, true and complete. I undertake to keep the Authorized Money Broking company and the Director, Domestic Operations of the Central Bank duly informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above. I state that I am not prevented by any Statute from being appointed to the above post.

Date: .....

Signature of Director, Chief Executive Officer,  
Key Management Person or  
Significant Share Holder in the Authorized  
Money Broking company

**TO BE COMPLETED BY THE CHIEF EXECUTIVE OFFICER WITH REFERENCE TO DIRECTOR OR KEY MANAGEMENT PERSON**

Additional explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of Director or Key Management Person in the Authorized Money Broking Company.

Date: .....

Signature of Chief Executive Officer  
and the official stamp

**TO BE COMPLETED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS WITH REFERENCE TO THE CHIEF EXECUTIVE OFFICER OR SIGNIFICANT SHAREHOLDER**

Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the person performing the function of the chief executive officer or significant shareholder of Authorized Money Broking company.

Date: .....

Signature of Chairman of the Board of Directors

**SCHEDULE IV****MONTHLY PERFORMANCE REPORT**

Name of Authorized Money Broking company : .....

Month : .....

	Transaction Volume* (Face Value)		Revenue	
	USD Equivalent	LKR	USD Equivalent	LKR
(1) Foreign Exchange Transactions				
USD/LKR Outright				
Forward				
SWAPS				
Cross Currency				
Deposits				
(2) Inter-bank Transactions				
Call Money				
Term Money				

(3) Government Securities				
Outright				
Repo/Reverse Repo				
(4) Other Financial Products				
Commercial Papers				
Debentures				
(5) Other Services (Please Specify)				

*\*Please take only one side of the transaction- buy or sell.*

#### Other Information:

a.	Capital Reserves	
b.	Profit After Tax	
c.	Number of Employees	
d.	Key Management Personnel	1.
		2.
		3.
		4.
		5.
e.	Board of Directors	1.
		2.
		3.
		4.
		5.
f.	Significant Shareholders with percentage of Shareholding by each	1.
		2.
		3.
		4.
		5.

Circular No. 35/01/005/0006/36

12 April 2018

To: All Licensed Commercial Banks and Primary Dealers

### OPERATING INSTRUCTIONS PERTAINING TO THE PROVISION OF THE INTRA-DAY LIQUIDITY FACILITY (ILF) AGAINST SCRIPTLESS GOVERNMENT SECURITIES ON LANKASETTLE

These Operating instructions (OI) shall come into effect on 12th April 2018 and may be amended or varied by the Central Bank of Sri Lanka (CBSL) from time to time with reasonable notice to the Participating Institutions (PIs). OI pertaining to the provision of the ILF by the CBSL against eligible collateral are outlined below.

As provided for in the LankaSettle System Rules, CBSL may, at its discretion, provide funds under the ILF to PIs of the LankaSettle System with a view to facilitating the smooth operation of the Real Time Gross Settlement (RTGS) System.

1. Ordinarily, all Dealer Direct Participants on LankaSettle other than Designated Non-Dealer Bidders are eligible for using the ILF. For the purposes of these OI;
  - i. LankaSettle System Rules (hereinafter referred to as System Rules) are the rules issued by the CBSL for the operations of the LankaSettle System in terms of the Monetary Law Act, which may be amended from time to time.
  - ii. PIs are the participants as defined under the general provisions of the System Rules. In order to become eligible for using the ILF, a PI shall sign an ILF Agreement in a prescribed form with the CBSL as required in rule 7.1 of volume 2 of the System Rules; and
  - iii. Eligible securities shall have the same meaning as defined in section 7.2 of volume 2 of the System Rules.
2. No encumbered security or a security owned by a third party shall be used by a PI as collateral to avail the ILF. In the event a PI was found to have used such security, the payments applicable to such use as specified in section 11.3 of volume 3 of the System Rules will be imposed.

3. Funds under ILF are provided free of interest upon the PI transferring eligible securities to the CBSL in accordance with these OI on the condition that the said securities shall be repurchased by the PI by repaying the outstanding amount obtained under the ILF on or before the time specified for repayment of such amount in the daily operating schedule in the System Rules.
4. Substitution of securities provided as collateral for ILF shall not be permitted.

#### **Procedure to drawdown funds under the ILF**

5. The CBSL will provide funds under the ILF only to the extent of the value of the Eligible Securities available in the ILF account of the PI at a given time. The value of Eligible Securities calculated based on the Official Prices determined by the CBSL for such purpose will be credited to each PI's Settlement Account in the RTGS.
6. Eligible Securities available in the ILF account of the PI at the end of the previous business day will be automatically transferred to the CBSL's ILF account at the time of opening of the System for business.
7. PIs may carry out multiple ILF drawdowns and repayments at their discretion within a business day, as and when an Intra-day liquidity requirement arises, by initiating a request through the System. A PI who wishes to obtain funds under the ILF shall reposition a sufficient quantity of Eligible Securities in its ILF account in the LankaSecure in order to avail the ILF.

#### **Official Prices of Securities**

8. The Official Prices of Eligible Securities shall be determined by the CBSL on a daily basis, based on the latest available current market prices and market developments. A haircut is applied in arriving at the official prices depending on the type of the security and tenor. Such Official Prices are recorded in the LankaSecure System and in the Online Electronic Bidding System (OEBS) used for Open Market Operations (OMO).

#### **Settlement of funds obtained under the ILF at the end of the business day**

9. PIs may return the funds borrowed under the ILF fully or partially and regain whole or part of the securities used as collateral before the time specified for repayment of funds borrowed under the ILF in the daily operating schedule issued in terms of the System Rules.
10. All outstanding ILF balances should be settled by the PIs before the close of business as specified in the daily operating schedule issued in terms of the System Rules. For this purpose, PIs must ensure that sufficient funds are available in their Settlement Accounts in the RTGS at the time of reversal of ILF balances to enable CBSL to recover any outstanding ILF balances.
11. The process of recovery of outstanding ILF balances is initiated through the system at the time specified for the same in the daily operating schedule issued in terms of the LankaSettle system rules. A settlement request will be submitted to RTGS on DVP terms which will transfer securities from the CBSL's ILF Account to the ILF Account of the PI, subject to availability of funds in the respective RTGS account. The reversal of ILF balances will be done at the original price and the original transaction value.

#### **Default of funds borrowed under the ILF**

12. If a PI fails, for any reason whatsoever, to settle in full to CBSL, the amount outstanding under the ILF at the time specified in clause 10 above, the PI shall be deemed to be in default for the full sum so outstanding and shall become liable to pay default interest as set out in clause 16 below. Such default interest shall be debited to the PI's Settlement account with the CBSL on the next business day.
13. Where a PI is deemed to be in default as set out above, such PI should repay in full, the amount in default and the default interest before the close of business on the next business day.
14. The system will revalue the securities in the custody of the CBSL and generate the reversal payment amount on the next business day based on the official prices relevant for the next business day. If the revalued amount is higher than the total amount of default and default interest, CBSL will repay the excess amount to the credit of the PI's settlement account in the RTGS. If the revalued amount is lower than the total amount of default and the default interest, CBSL will charge the difference by debiting the PI's settlement account in the RTGS.
15. The PI should ensure the availability of sufficient funds in its Settlement Account in the RTGS for the repayment of the revalued amount in default and the default interest on or before the close of business on the next Business Day. In the event the PI fails to settle the amount set out above before the end of business on the next Business Day, CBSL shall retain the securities against which such funds were provided and deal with them as CBSL deems fit.
16. On the first occasion of default of ILF, a PI shall be charged default interest at a rate of 5 per cent per month or part thereof. On each succeeding occasion of default during a calendar year, such default interest rate shall be increased by

100 basis points, provided that where such default occurs more than once within a 30 day period from the preceding default, CBSL shall have the right to retain the securities against which ILF was granted and to deal with them as CBSL deems fit, in addition to the right to charge default interest as stipulated in this clause. In the event of repeated default, the CBSL may withdraw the availability of the ILF to the PI for a period of time determined by the CBSL.

17. Notwithstanding the other provisions of the ILF agreement or Operating Instructions and notwithstanding the fact that default has not occurred more than once within the preceding 30 day period, the CBSL may, at its sole discretion, taking into consideration the circumstances of a default, decide to retain the securities, and to deal with them as the CBSL deems fit.
18. As set out in clause 2 above, if a PI is found to have used third party securities for availing of ILF, such PI will be considered to have violated both the System Rules and these OI. Following payments specified in the said rules shall be imposed for such violations.

<b>Table 1: Payments for violation of rules relating to the ILF</b>	
<b>Amount borrowed against third party securities (Rs. million)</b>	<b>Rates charged per day (%)</b>
Up to 1,000	2.0
Above 1,000	2.5

19. Notwithstanding the other provisions of these OI, CBSL may at its sole discretion, taking into consideration the circumstances of a default or use of third party securities, withdraw the availability of the ILF to a PI permanently or for a period of time determined by the CBSL.
20. Operating instructions issued in terms of circulars captioned 'Operating Instructions on provision of Intra-Day Liquidity Facility (ILF) Against Scripless Government Securities on LankaSettle' bearing no. 35/01/005/0006/5 dated 27 January 2004, no. 35/01/005/0006/07 dated 3 May 2004 and no. 35/01/005/0006/29 dated 24 March 2011 are hereby rescinded.
21. In the event of any discrepancy between these operating instructions and the ILF agreement, the ILF agreement prevails.

Sgd./P W D N R Rodrigo  
**Director/Domestic Operations**

**Circular No. 35/03/021/0013/001**

23 August 2018

**To: All Standalone Primary Dealers (SPDs)**

### **OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA**

With effect from 25 September 2018, the Central Bank of Sri Lanka will conduct its transactions under Open Market Operations with licensed commercial banks only.

However, access to the Standing Facilities for SPDs will remain unchanged.

**Actg. Director/Domestic Operations**

**Circular No: 35/01/005/0010/20**

19 September, 2018

**To: All Licensed Commercial Banks**

### **MARGIN REQUIRMENTS AGAINST LETTERS OF CREDIT FOR IMPORTATION OF MOTOR VEHICLES**

Licensed Commercial Banks (LCBs) are hereby informed that with immediate effect Letters of Credit (LCs) should not be opened by LCBs for the importation of motor vehicles other than those items specified in Schedule A (attached), unless such LCs are covered by a minimum cash margin of 100 per cent of import value deposited with the LC opening LCBs at the time of such LCs are opened.

Following conditions are applicable for the motor vehicles covered by this circular,

1. In the case of existing LCs covering the importation of motor vehicles, no increase in the value of such LCs should be permitted by LCBs except on the terms prescribed in the above paragraph.
2. LCBs should not grant any advances to their import customers for the purpose of enabling such customers to meet the minimum margin requirement imposed by this circular.
3. Banks should endorse the relevant invoice to the effect that the margin deposit as per this circular has been obtained.

**Director / Domestic Operations**

Schedule A of the Direction is available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/DOD\\_Circular\\_No\\_35\\_01\\_005\\_0010\\_20\\_e.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/DOD_Circular_No_35_01_005_0010_20_e.pdf)



**OPERATING INSTRUCTIONS NO. 35/01/005/0007/10**

19 September, 2018

**To : All Licensed Commercial Banks****RESERVE REQUIREMENTS**

Your attention is invited to the notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Regulation "D" published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No. 2089/28 of 19 September, 2018 on the above subject.

A. The Licensed Commercial Banks are hereby informed that in accordance with the said notification, they should maintain minimum reserve amounting to:

- (i) hundred per centum (100%) of margin kept against Letters of Credit specified in the Circular No. 35/01/005/0010/20 dated 19 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles', and
- (ii) seven point five per centum (7.5%) of total other deposit liabilities denominated in Sri Lanka Rupees.

B. Schedule A of Operating Instructions No. 35/01/005/007/06 of 22 April, 2013 is replaced by attached 'Schedule A'.

The above amendment takes effect from 16 October 2018. All other instructions contained in our Operating Instructions Nos. 35/01/005/007/06 and 35/01/005/007/07 of 22 April, 2013 will continue to apply.

C. A. Abeysinghe  
Director / Domestic Operations

**SCHEDULE A****FORM OF REPORT****REPORT OF DAILY AVERAGE DEPOSIT LIABILITIES**

Name of the Bank : .....

For the period from (.....) to (.....)

Date

Date

To : Director,  
Domestic Operations Department,  
Central Bank of Sri Lanka,  
Colombo 01.

The average amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Banks at the close of business of each day of the period specified above.

(i) Demand Deposits	(ii) Time and Savings Deposits	(iii) Margins against Letters of Credit	(iv) All other Deposit Liabilities <sup>1</sup>

<sup>1</sup> In the case of Certificate of Deposits the amount declared should be the paid up value.

**REQUIRED RESERVES**

For the period commencing .....

Item	In Sri Lankan Rupees
1. 100% of Average daily total Margins against Letters of Credit specified under the circular No. 35/01/005/0010/20, dated 19 September 2018 on 'Margin Requirements'	
2. 7.5% of Average daily total Rupee Deposit Liabilities excluding (1) above	
3. Average of Sri Lanka Currency Notes and Coins held over and above 2% of (1) and (2) above, but not exceeding 4%	
4. Total reserves required to be maintained over the reserve maintenance period (1+2-3)	

We/I hereby certify that the above statement is correct and in accordance with the book of this bank and that the figures shown above are in accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date : .....

.....  
Official Signature

Note –

- (a) Deposits and placements made by any institution other than licensed commercial banks, shall be accounted for maintenance of required reserves at prescribed ratios.
- (b) All amounts should be shown to the nearest rupee.

**Circular No: 35/01/005/0010/21**

29 September 2018

**To: All Licensed Commercial Banks**

### **MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT FOR IMPORTATION OF MOTOR VEHICLES AND NON-ESSENTIAL CONSUMER GOODS**

Licensed Commercial Banks (LCBs) are hereby informed that with effect from 01 October 2018,

1. Letter of Credit (LCs) should not be opened by LCBs for the importation of motor vehicles other than those items specified in Schedule A (attached), unless such LCs are covered by a minimum cash margin of 200 per cent of import value deposited with the LC opening LCB at the time of such LCs are opened.
2. LCs should not be opened by LCBs for the importation of items specified in Schedule B (attached), unless such LCs are covered by a minimum cash margin of 100 per cent of import value deposited with the LC opening LCB at the time of such LCs are opened.

Following conditions are also applicable for the items covered by this circular,

3. In the case of existing LCs covering the importation of above items, no increase in the value of such LCs should be permitted by LCBs except on the terms prescribed in the above 1. and 2.
4. LCBs should not grant any advances to their import customers for the purpose of enabling such customers to meet the minimum margin requirement imposed by this circular.
5. Banks should endorse the relevant invoice to the effect that the margin deposit as per this circular has been obtained.

Banks are required to comply with this direction until further notice. The Circular No. 35/01/005/0010/20 on Margin Requirements against Letters of Credit for Importation of Motor Vehicles is hereby revoked.

C.A.Abeysinghe  
**Director / Domestic Operations**

Schedule A and Schedule B of this Direction are available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/DOD\\_Circular\\_No\\_35\\_01\\_005\\_0010\\_21\\_e.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/DOD_Circular_No_35_01_005_0010_21_e.pdf)

**OPERATING INSTRUCTIONS NO. 35/01/005/0007/11**

01 October 2018

**To : All Licensed Commercial Banks**

### **RESERVE REQUIREMENTS**

Your attention is invited to the notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Regulation "D" published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No. 2091/2 of 01 October 2018 on the above subject.

- A. The Licensed Commercial Banks are hereby informed that in accordance with the said notification, they should maintain minimum reserve amounting to hundred per centum (100 %) of margins against letters of credit specified in
  - i Circular No. 35/01/005/0010/20 dated 19 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles' or
  - ii Circular No. 35/01/005/0010/21 dated 29 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles and Non-Essential Consumer Goods',

B. Schedule A of Operating Instructions No. 35/01/005/007/10 of 19 September 2018 is replaced by attached 'Schedule A'. The above amendments will take effect from 16 October 2018. All other instructions contained in our Operating Instructions Nos. 35/01/005/007/06 and 35/01/005/007/07 of 22 April, 2013 will continue to apply.

C. A. Abeyasinghe  
Director / Domestic Operations

**SCHEDULE A**  
**FORM OF REPORT**  
**REPORT OF DAILY AVERAGE DEPOSIT LIABILITIES**

Name of the Bank : .....

For the period from (.....) to (.....)

Date

Date

To : Director,  
Domestic Operations Department,  
Central Bank of Sri Lanka,  
Colombo 01.

The average amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Banks at the close of business of each day of the period specified above.

(i) Demand Deposits	(ii) Time and Savings Deposits	(iii) Margins against Letters of Credit	(iv) All other Deposit Liabilities <sup>1</sup>
<sup>1</sup> In the case of Certificate of Deposits the amount declared should be the paid up value.			

**REQUIRED RESERVES**

For the period commencing .....

Item	In Sri Lankan Rupees
1. 100% of Average daily total Margins against Letters of Credit specified in;  (i) Circular No. 35/01/005/0010/20 dated 19 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles' or  (ii) Circular No. 35/01/005/0010/21 dated 29 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles and Non-Essential Consumer Goods' as the case may be.	
2. 7.5% of Average daily total Rupee Deposit Liabilities excluding (1) above	
3. Average of Sri Lanka Currency Notes and Coins held over and above 2% of average deposit liabilities covered in 1. and 2., but not exceeding 4%	
4. Total reserves required to be maintained over the reserve maintenance period (1+2-3)	

We/I hereby certify that the above statement is correct and in accordance with the book of this bank and that the figures shown above are in accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date : .....

.....

Official Signature

Note –

- (a) Deposits and placements made by any institution other than licensed commercial banks, shall be accounted for maintenance of required reserves at prescribed ratios.
- (b) All amounts should be shown to the nearest rupee.

## OPERATING INSTRUCTIONS NO. 35/01/005/0007/12

12 October 2018

To : All Licensed Commercial Banks

### RESERVE REQUIREMENTS

Your attention is invited to the notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Regulation “D” published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No. 2092/62 of 12 October 2018 on the above subject.

- A. The Licensed Commercial Banks (LCBs) are hereby informed that in accordance with the said notification, they shall maintain minimum reserve amounting to hundred per centum (100 %) of margin against
  - a. Letters of credit specified in -
    - (i) Circular No. 35/01/005/0010/20 dated 19 September 2018 on ‘Margin Requirements against Letters of Credit for importation of Motor Vehicles’ or
    - (ii) Circular No. 35/01/005/0010/21 dated 29 September 2018 on ‘Margin Requirements against Letters of Credit for importation of Motor Vehicles and Non-Essential Consumer Goods’ and
  - b. Imports on Document against Acceptance (DA) Terms specified in Circular No. 02 of 2018 dated 11 October 2018 issued by the Bank Supervision Department, as the case may be.
- B. Schedule A of Operating Instructions No. 35/01/005/007/11 of 01 October 2018 is replaced by attached ‘Schedule A’.

The above amendments will take effect from 16 October 2018. All other instructions contained in our Operating Instructions Nos. 35/01/005/007/06 and 35/01/005/007/07 of 22 April, 2013 as amended from time to time will continue to apply.

C. A. Abeysinghe

Director / Domestic Operations

### SCHEDULE A

#### FORM OF REPORT

#### REPORT OF DAILY AVERAGE DEPOSIT LIABILITIES

Name of the Bank : .....

For the period from (.....) to (.....)

Date

Date

To : Director,

Domestic Operations Department,

Central Bank of Sri Lanka,

Colombo 01.

The average amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Banks at the close of business of each day of the period specified above.

(i) Demand Deposits	(ii) Time and Savings Deposits	(iii) Margins against Letters of Credit/DA Terms	(iv) All other Deposit Liabilities <sup>1</sup>
1 In the case of Certificate of Deposits the amount declared should be the paid up value.			

### REQUIRED RESERVES

For the period commencing .....

Item	In Sri Lankan Rupees
1. 100% of Average daily total Margins against a. Letters of Credit specified under  (i) Circular No. 35/01/005/0010/20 dated 19 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles' or  (ii) Circular No. 35/01/005/0010/21 dated 29 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles and Non-Essential Consumer Goods' and  b. Imports on Document against Acceptance (DA) Terms specified in Circular No. 02 of 2018 dated 11 October 2018 as the case may be	
2. 7.5% of Average daily total Rupee Deposit Liabilities excluding (1) above	
3. Average of Sri Lanka Currency Notes and Coins held over and above 2% of average deposit liabilities covered in 1. and 2, but not exceeding 4%	
4. Total reserves required to be maintained over the reserve maintenance period (1+2-3)	

We/I hereby certify that the above statement is correct and in accordance with the book of this bank and that the figures shown above are in accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date : .....

.....

Official Signature

Note –

- (a) Deposits and placements made by any institution other than licensed commercial banks, shall be accounted for maintenance of required reserves at prescribed ratios.
- (b) All amounts should be shown to the nearest rupee.

**OPERATING INSTRUCTIONS No.35/01/005/0007/13**

14 November, 2018

**To : All Licensed Commercial Banks**

### RESERVE REQUIREMENTS

Your attention is invited to the notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Regulation "D" published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No. 2097/15 of 14 November 2018 on the above subject.

2. The Licensed Commercial Banks are hereby informed that in accordance with the said notification, they should maintain reserves against deposit liabilities denominated in Sri Lankan Rupees at an amount equal to six per centum (6.00%) of the total of such deposit liabilities.
3. Schedule A of Operating Instructions No. 35/01/005/007/12 of 12 October 2018 is replaced by attached 'Schedule A'.
4. The above amendment will take effect from 16 November 2018. All other instructions contained in our Operating Instructions No. 35/01/005/007/06 and 35/01/005/007/07 of 22 April, 2013 as amended from time to time will continue to apply.

C. A. Abeysinghe  
Director / Domestic Operations

**SCHEDULE A**  
**FORM OF REPORT**  
**REPORT OF DAILY AVERAGE DEPOSIT LIABILITIES**

Name of the Bank : .....

For the period from (.....) to (.....)

Date

Date

To : Director,  
Domestic Operations Department,  
Central Bank of Sri Lanka,  
Colombo 01.

The average amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Banks at the close of business of each day of the period specified above.

(i) Demand Deposits	(ii) Time and Savings Deposits	(iii) Margins against Letters of Credit/DA Terms	(iv) All other Deposit Liabilities <sup>1</sup>
<small><sup>1</sup> In the case of Certificate of Deposits the amount declared should be the paid up value.</small>			

**REQUIRED RESERVES**

For the period commencing .....

Item	In Sri Lankan Rupees
1. 100% of Average daily total Margins against a. Letters of Credit specified under (i) Circular No. 35/01/005/0010/20 dated 19 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles' or (ii) Circular No. 35/01/005/0010/21 dated 29 September 2018 on 'Margin Requirements against Letters of Credit for importation of Motor Vehicles and Non-Essential Consumer Goods' and b. Imports on Document against Acceptance (DA) Terms specified in Circular No. 02 of 2018 dated 11 October 2018 as the case may be	

2. 6% of Average daily total Rupee Deposit Liabilities excluding (1) above	
3. Average of Sri Lanka Currency Notes and Coins held over and above 2% of average deposit liabilities covered in 1. and 2, but not exceeding 4%	
4. Total reserves required to be maintained over the reserve maintenance period (1+2-3)	

We/I hereby certify that the above statement is correct and in accordance with the book of this bank and that the figures shown above are in accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date : .....

.....  
Official Signature

Note –

- (a) Deposits and placements made by any institution other than licensed commercial banks, shall be accounted for maintenance of required reserves at prescribed ratios.
- (b) All amounts should be shown to the nearest rupee.

**Circular No: 35/01/005/0010/22**

26 November 2018

**To: All Licensed Commercial Banks**

### **MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT FOR IMPORTATION OF MOTOR VEHICLES AND NON-ESSENTIAL CONSUMER GOODS**

This refers to the Circular No. 35/001/005/0010/21 dated 29 September 2018 on the above subject.

Licensed Commercial Banks (LCBs) are hereby further informed that the minimum cash margin applicable for opening of Letters of Credit (LCs) through foreign currency for the importation of motor vehicles and non-essential goods will be 100 per cent.

Following conditions are also applicable at the time of opening LCs through foreign currency;

1. The import bill shall be settled in foreign currency utilising the margin deposit maintained with the bank
2. There shall be no under-invoicing when LCs are opened
3. Conditions specified in the Circular No. 35/001/005/0010/21 dated 29 September 2018

Banks are required to comply with this Circular with effect from 26 November 2018 until further notice.

**Director / Domestic Operations**

### **CODE OF CONDUCT FOR AUTHORIZED MONEY BROKING COMPANIES MARKET CONDUCT AND PRACTICES FOR AUTHORIZED MONEY BROKERS**

#### **1.0 Scope of the Code of Conduct**

- 1.1 With a view to further strengthening the market conduct and practices of the Authorized Money Broking Companies (AMBs), the Central Bank of Sri Lanka (CBSL) intends to issue a code of conduct (hereinafter, the Code) to ensure that operations of AMBs are carried out with high standards of integrity and professionalism in line with the international best practices. These measures are expected to further develop the money broking industry through enhanced mutual trust and confidence between AMBs and its clients.
- 1.2 This is issued under the section 10(C) of the Monetary Law Act No. 58 of 1949. In the event of any discrepancy between this Code and the Money Broking Regulations No. 01 of 2018 (MBR), MBR shall prevail.
- 1.3 The proposed framework shall apply to all AMBs which have been issued a Certificate of Authorization by the Monetary Board under the Regulation 2 of the MBR. In addition, AMBs shall also be bound by ACI Model Code and Global FX Code.
- 1.4 Violations and breaches of the Code shall be subject to regulatory sanction specified in Regulation 21 of MBR.
- 1.5 AMBs shall put in place required monitoring mechanisms to ensure enforcement of the Code.

## 2.0 The principles of the Code

The principles of the Code developed to provide a common set of guidelines to promote effective functioning and good practice of the AMBs. The Code is organized around four leading principles namely ethics and standards of conduct, general dealing principles, risk management principles and level of standards.

### 2.1 Ethics and standards of conduct

- (i) Market conduct
- (ii) Confidentiality
- (iii) Dealing for personal (own) account
- (iv) Entertainments, gifts and favours
- (v) Bets and gambling;

### 2.2 General dealing principles

- (i) Recording of deal conversations
- (ii) After-hours and off- premises dealing
- (iii) Cancellation of deals
- (iv) Keeping records of all money broking activities
- (v) Existence of Business Continuity Planning

### 2.3 Risk management principles

- (i) Segregation of duties
- (ii) Internal audit function

### 2.4 Level of standards

- (i) Professionalism and knowledge level
- (ii) Required qualifications

## 3.0 Ethics and standards of conduct

### 3.1 Market conduct

- (i) AMBs shall demonstrate a high standard of personal and professional integrity in their conduct.
- (ii) AMBs shall implement internal policies and procedures which prohibit all forms of market misconduct and management shall observe the same at all times.
- (iii) AMBs shall exercise skill, care and diligence, and act in good faith in money broking activities.
- (iv) AMBs shall not engage in manipulative or deceptive conduct or any form of conduct which would give other users of the market or the regulator a false or misleading impression on prevailing market conditions, including but not limited to price, yield rate, supply or demand.
- (v) AMBs shall exercise extreme care when in possession of non-public, price sensitive information and shall ensure that they do not deal for their own account or induce another party to so deal, on the basis of such information.
- (vi) AMBs shall not willfully spread rumors or disseminate false or misleading information or shall not misuse or manipulate price discovery mechanism.
- (vii) AMBs shall immediately report to the Director of Domestic Operations/Director of International Operations, any undue influence from the member of the Board or a shareholder of the respective companies to execute a transaction based on the non-public market information available with such parties.
- (viii) AMBs shall not provide any information on market developments to media anonymously and should disclose their identity with the statement.
- (ix) AMBs shall report to the Director of Domestic Operations/Director of International Operations, any signs/evidence of malpractices and misdemeanor by any other AMBs and/ or any other parties involved in a transaction, if such signs/evidence comes to it's notice.



### 3.2 Confidentiality

- (i) As specified in Regulation 11(g) of MBR, AMBs shall not divulge the information of deals to any party, other than those permitted by MBR.
- (ii) AMBs shall preserve, and aid in preserving, confidentiality in all matters including information of dealing counterparties. They shall share an equal responsibility for preserving the integrity of the market through the proper maintenance of confidentiality.
- (iii) AMBs shall train their staff to identify and treat non-public sensitive information and establish suitable policies and procedures to ensure that confidential materials are handled appropriately.
- (iv) AMBs shall not use non-public sensitive information of counterparties for their benefit, or for the benefit of their representative or known party, or induce another party to perform on the basis of such non-public information.
- (v) AMBs shall be cautious not to discuss the affairs of the counterparties in public places including through mobile phones or any other media and shall not leave in public places any documents, electronic media or personal computers which contain confidential information.
- (vi) AMBs shall not, in any way, pressure anyone by inducement, threat or promise, or any improper method to divulge information. AMBs shall similarly reject any request from their counterparties to divulge confidential information and shall immediately report any such incidents to their management, the Director, Domestic Operations and Director, International Operations.

### 3.3 Dealing for personal (own) account

- (i) No AMB or an employee of an AMB shall act on its own behalf as a counterparty to a client or as a principal for transactions of financial products as specified in Regulation 9 of MBR.
- (ii) No AMB or an employee of an AMB is allowed to deal/ trade for immediate family or friends or others related parties, in any of the products specified in Regulation 9 of MBR.
- (iii) There shall be a full disclosure and transparency requirement ensuring that the employees give their full attention to their money broking business without being distracted by personal financial concerns.
- (iv) AMBs shall identify actual and potential conflicts of interest that may compromise or be perceived to compromise the ethical or professional judgement of AMBs. AMBs shall disclose such conflicts and take immediate action to avoid them.

### 3.4 Entertainments, gifts and favours

- (i) Although gifts and entertainment may be offered in the normal course of business, employees shall never offer inappropriate inducements to conduct business, nor solicit them from the personnel of other institutions.
- (ii) Management shall monitor the form, frequency and cost of entertainment/gifts that employees receive and have a clearly articulated policy towards the giving/receipt thereof, ensuring such policy is observed properly.
- (iii) Management shall establish procedures for dealing with gifts judged to be excessive but which cannot be declined without causing offence and ensure the transparency of all entertainment received or provided.
- (iv) AMBs shall not solicit any undue favours from counterparties for their family, relatives or any known party, if such favours conflict with customary standards of fairness and integrity.

### 3.5 Bets and gambling

- (i) Gambling or betting amongst market participants has obvious dangers and should be strictly prohibited.

## 4.0 General dealing principles

### 4.1 Recording of deal conversations

- (i) The voice recording system of the AMBs shall be capable of recording and storing each deal conversation in serially numbered order along with the phone number, date and time of the deal conversation.
- (ii) AMBs shall formulate internal policies in line with international best practices to ensure that they comply with appropriate data and tape recording requirements.

- (iii) AMBs shall ensure that telephone conversation records are stored independently from the office premises and access to such records whether in use or in store, is strictly controlled so that they cannot be tampered with.
- (iv) AMBs shall periodically test the recording system to ensure that the recording system works properly.
- (v) AMBs shall maintain agreements for the voice recorder, and other services obtained from external parties.

#### 4.2 After-hours and off-premises dealing

- (i) Transactions carried out off premises cannot be allowed and management should list the employees, who are authorized to do after hours transactions and stipulate a procedure for the prompt reporting and recording of such transactions.
- (ii) Reporting should be submitted in written format. In the case of verbal reporting, voice-mail equipment should be installed and located in such a way that reported transactions cannot be erased subsequently without Board approval.
- (iii) Board should issue clear written guidelines to employees regarding the limit and type of any deals that may be permitted outside of normal hours.

#### 4.3 Cancellation of deals uploaded through the Central Integrated Market Monitor

- (i) Cancellation of deals reported shall be carried out only where all the parties to the trade agree to such cancellation. AMBs shall report full details of such cancelled transaction, on the date of such cancellation, via email to the Director of Domestic Operations/Director of International Operations of the Central Bank of Sri Lanka.
- (ii) AMBs shall subsequently check whether erroneous deals have been corrected in the Central Integrated Market Monitor.

#### 4.4 Keeping records of all money broking activities

- (i) AMBs shall maintain and preserve documentary evidences, electronically or otherwise, with regard to transactions with counterparties for a period stipulated by the Regulation 16 of MBR, and forward such documents to Regulator as and when required.
- (ii) AMBs shall ensure to properly maintain books of accounts and other records/activities for a time period stipulated under Regulation 16 of MBR and AMBs are also responsible to provide such documents to the regulator as and when required.

#### 4.5 Existence of Business Continuity Planning (BCP)

- (i) AMBs shall define a BCP strategy and a detailed BCP plan in their Operational Manuals.
- (ii) The BCP procedures should be updated and tested at least yearly.

### 5.0 Risk management principles

#### 5.1 Segregation of duties

AMBs shall ensure proper physical and functional segregation of duties between the front and back offices of the money broking activities.

#### 5.2 Internal audit function

- (i) AMBs shall ensure that their Internal Audit function conduct periodic reviews on internal controls and risk management processes relating to money broking activities in order to ensure their integrity, accuracy and compliance with the prescribed processes.
- (ii) The reviews shall ensure effective control over money broking activities, including the accuracy and completeness of recording of transactions, effective segregation of duties, accurate reporting of exceptions, payments of performance linked remuneration, daily backup procedures, and all relevant internal controls.

### 6.0 Level of standards

#### 6.1 Professionalism and knowledge level

- (i) AMBs shall maintain a consistently high level of awareness and understanding of market practices and conduct so as to strengthen the overall professional standards of the market. AMBs shall maintain a high level of awareness and understanding of the local and international markets and regulatory developments and systematically update and upgrade their professional knowledge through structured training and development.

## 6.2 Required qualifications

- (i) Dealers of AMBs shall possess the following minimum qualification/s:
  - (a) Money Broking Certificate offered by Institute of Bankers of Sri Lanka.
  - (b) Certificate program on Treasury and Foreign Exchange Operations offered by Center for Banking Studies of Central Bank of Sri Lanka.
  - (c) any other relevant professional qualification acceptable to the Director of Domestic Operations / Director of International Operations of the Central Bank.
  - (d) In addition to above minimum qualifications, AMBs may possess any other additional qualifications in related subject areas.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

### **Directions No. 01 of 2018 Under Foreign Exchange Act, No. 12 of 2017**

10 October 2018

#### **DIRECTIONS ISSUED TO AUTHORIZED DEALERS ON PAYMENTS FOR IMPORTS MADE ON ADVANCE PAYMENT (CASH-IN-ADVANCE) TERMS**

In terms of Section 9 (1) of the Foreign Exchange Act, No. 12 of 2017 (the Act), Authorized Dealers are hereby informed that with effect from 10 October 2018, Authorized Dealers are not permitted to release foreign exchange which involves conversion of Sri Lanka Rupees for making payments for the importation of listed non-essential consumer goods\* under the advance payment (Cash-in-Advance) terms.

- 2. Authorized Dealers should apprise customers (i.e., importers of goods) on this requirement and are required to comply with this direction until further notice.

**Director-Department of Foreign Exchange**

\* This list is available in the official web site of the Department of Foreign Exchange ([www.dfe.lk](http://www.dfe.lk)).

### **DIRECTIONS No. 02 of 2018 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017**

21 December 2018

#### **DIRECTIONS ISSUED TO AUTHORIZED DEALERS ON INWARD INVESTMENT ACCOUNTS (IIAs)**

Authorized Dealers are hereby granted permission to facilitate transactions related to investments by Foreign Institutional Investors (FII) subject to the following terms and conditions in addition to the terms and conditions specified in Directions No. 13 of 2017 dated 20th November 2017 issued in terms of the Foreign Exchange Act, No. 12 of 2017.

- i. The funds to the credit of an IIA of an FII is permitted to be routed via an account maintained in Sri Lanka by a Non-Resident Intermediary (NRI) as follows;
  - a) In the event an NRI is a bank that is incorporated outside Sri Lanka or a branch of such bank established outside Sri Lanka, the account referred to above shall be a Vostro Account or an IIA;
  - b) In the event of any other NRI, the account referred to above shall be an IIA.
- ii. Sale or maturity proceeds and returns received on the investments made out of the funds received under paragraph i above may be repatriated via the Vostro account or an IIA following the same way that the investment was routed.
- iii. Authorized Dealers shall not extend any accommodation to an NRI for the purpose of funding the Vostro Account or IIA of such NRI.
- iv. All transactions related to above investments which are effected through Vostro Accounts/ IIA shall be reported to the Department of Foreign Exchange in accordance with the reporting requirement specified in paragraph 6 of Directions No. 13 of 2017.
- v. Authorized dealers shall take appropriate measures to mitigate any risk such as settlement, counterparty, etc., that may arise in relation to permitted transactions.

**Director - Department of Foreign Exchange**

**The Gazette of the Democratic Socialist Republic of Sri Lanka  
EXTRAORDINARY**

No. 2063/12 - MONDAY, MARCH 19, 2018

(Published by Authority)

**PART I : SECTION (I) — GENERAL  
Government Notifications  
FOREIGN EXCHANGE ACT, NO. 12 OF 2017**

REGULATIONS made under Section 29 read with Section 7 of the Foreign Exchange Act, No. 12 of 2017.

The Government of Sri Lanka is hereby permitted to issue International Sovereign Bonds in 2018 and to make any payments in relation to such issuance, for non-resident investors.

RANIL WICKRAMASINGHE,  
**Minister of National Policies and Economic Affairs**

Colombo,  
16th March, 2018.

**Ref: 037/05/002/0018/017**

11 January 2018

**Guideline No. 01/18**

To: CEO's of All Financial Institutions

**GUIDELINES ON MONEY LAUNDERING & TERRORIST FINANCING RISK MANAGEMENT  
FOR FINANCIAL INSTITUTIONS, NO. 01 OF 2018**

The above Guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No.06 of 2006 and the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016.

This guideline shall be treated as minimum instructions and indications to identify and assess the risk of Money Laundering & Terrorist Financing (ML & TF) in their businesses and take effective measures to mitigate the identified risk. It is important that all financial institutions will prepare their own risk assessment and mitigation report in line with this guideline.

**Director/Financial Intelligence Unit**

Cc: Compliance Officer

**GUIDELINES ON MONEY LAUNDERING & TERRORIST FINANCING RISK MANAGEMENT  
FOR FINANCIAL INSTITUTIONS, NO. 01 OF 2018**

**Introduction**

1. The Financial Intelligence Unit of Sri Lanka (FIU), acting within the powers vested with it under the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA), issued the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016 by Gazette Extraordinary No. 1951/13, dated January 27, 2016; effective from the date of issue, applicable to institutions which engage in "finance business" as defined under Section 33 of the FTRA.
2. As applicable under Rule 3 of the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016, the rules introduce, inter alia, provisions requiring financial institutions identified under the rules to take measures specified therein for the purpose of identifying, assessing, and managing Money Laundering (ML) and Terrorist Financing (TF) risks posed by its customers and business activities.

**Risk Management**

3. Every Financial Institution should identify and analyze ML/TF risks present within the financial institution and design and effective implementation of policies and procedures that are commensurate with and that mitigate the identified risks to ensure sound ML/TF risk management.
4. In conducting a comprehensive risk assessment to evaluate ML/TF risks, every financial institution should consider all the relevant risk factors present in its customer base, products, delivery channels and services offered (including products under development or to be launched) and the jurisdictions within which it or its customers do business.
5. Risk assessments should be based on specific operational and transactional data and other internal information collected by the financial institution as well as external sources of information such as national risk assessments conducted by Sri Lanka

and by governmental agencies of foreign jurisdictions where the financial institution has business relationships, either through customers or branch/subsidiary networks, country reports from reliable international and regional organizations, such as reports and reviews prepared by the Financial Action Task Force (FATF), FATF-style regional bodies such as the Asia/Pacific Group on Money Laundering (APG), International Monetary Fund (IMF) and World Bank publications, and information from reliable commercial intelligence providers.

6. Financial Institutions are required to have a risk management framework to address ML/TF risks. Such a framework includes policies, controls and procedures that enable them to identify, measure, monitor, control and mitigate effectively the ML/TF risks that have been identified.

## **Risk Management Framework**

### **Corporate Governance**

7. The FIU expects financial institutions to establish a robust and effective corporate governance framework that ensures transparency, accountability and high ethical conduct in all aspects of their operations. Institutions should adopt a Code of Ethics that promotes consistently high standards of ethical conduct by all employees. A sound corporate governance framework includes the use of effective policies and procedures, monitoring and reporting mechanisms and internal controls. Measures that ensure appropriate separation of functions and the avoidance of conflicts of interests are essential hallmarks of an effective corporate governance regime. The Board of Directors (BoD) is ultimately responsible for establishing a corporate vision, strategy and business model and for overseeing an institution's corporate governance culture and is expected to develop mechanisms including board committees to achieve this objective. Senior management is responsible for ensuring the effective functioning of the corporate governance framework on a day-to-day basis.

#### **I. Board of Directors (BoD)**

8. Members of the BoD should have a good understanding of the institution's business model and operations and the general business climate in which it operates. They should have the qualifications and experience necessary to understand the institution's business model and operations and how these relate to Sri Lanka's general economic and social environment. The BoD should ideally be comprised of both executive and non-executive directors to ensure a desirable level of independence from the institution's management function.
9. The BoD should establish the institution's overall risk appetite and should ensure that mechanisms are in place to effectively mitigate risk. The BoD must ensure that appropriate policies, procedures and controls are in place to manage such risks and should also ensure that arrangements are in place for the effective reporting on all issues related to the functioning of the risk management framework. The BoD is ultimately responsible for the institution's operations, its management of the risk to which it is exposed and its compliance with all laws, regulations and guidelines to which it is subject.

#### **II. Senior Management**

10. An institution's senior management is responsible for implementing the corporate vision, strategy and business model approved by the BoD. Senior management should demonstrate a firm understanding of all aspects of the institution's business model and is responsible for developing the components of the risk management framework. Senior management is responsible for ensuring that the institution has all the resources necessary to effectively manage risk. They are also responsible for ensuring that effective communication and reporting arrangements are in place to support good risk management practices. This includes ensuring that all staff members are aware of the requirements of the risk management framework and their specific roles and responsibilities. Senior management is responsible for ensuring that internal reporting mechanisms, including reports to be sent to the BoD, are developed to provide accurate and timely information relevant to the effective management of risks.

### **The Risk Management Function**

11. The FIU expects institutions to develop an effective risk management function. The risk management function responsible for ensuring that the institution effectively identifies, measures, monitors, and controls and mitigates risks. From a day-to-day operational perspective risk management supports senior management and the BoD to achieve the ML/TF risk management objectives discussed in this guidance note. The risk management function should be commensurate with the, size, nature and complexity of the institution's business model and operations.

### **Policies and Procedures**

12. The FIU expects the senior management to develop policies and procedures to effectively manage the ML/TF risks that arise from an institution's operations. Policies and procedures developed by senior management should be approved by the BoD. Policies and procedures should set out the day-to-day measures that should be employed to ensure that

the institution effectively identifies, measures, monitors and controls ML/TF risks. They should therefore be developed to reflect the risks implicit in an institution's customers, products and services, delivery channels and geographic regions. Policies and procedures should be comprehensively documented and communicated to all staff. They should also be subject to periodic review to ensure they are appropriate in light of changes to the institution's ML/TF risk profile.

13. Policies and procedures should clearly set out lines of responsibility and accountability for the execution of the risk management function and should also establish effective reporting lines for all persons and business units involved in the management of ML/TF risks.
14. An effective risk management framework should establish limits in the context of the institution's stated appetite for ML/TF risk and the overall effective implementation of the risk management system. Policies and procedures should limit, for example, an institution's exposure to the ML/TF risks arising from exposure to specific types of customers, products and services, delivery channels and geographic regions. An effective ML/TF risk management framework should include a mechanism to report incidents where established limits have been breached and the frequency of such events.

### Internal Controls

15. An on-going system of internal controls is an essential component of a risk management framework. Institutions are expected to employ measures on an on-going basis to ensure adherence to established policies and procedures as well as relevant laws, regulations and guidelines.
16. Arrangements should be in place to reinforce the "four eyes" principle and avoid conflicts of interest. Measures should be employed, for example, to ensure adequate separation between operational and control functions such as front office and back office activities.
17. Institutions are expected to develop effective internal audit arrangements. The internal audit function should be an independent function with a direct reporting line to the Board Audit Committee. The internal audit function should periodically assess the effectiveness of the institution's ML/TF risk management framework and practices paying specific attention to the institution's adherence to established policies procedures and limits and applicable laws, regulations and guidelines.
18. Institutions are also expected to ensure that their ML/TF risk management framework and practices are subject to external audit review.

### The Compliance Function

19. The FIU expects institutions to develop an effective compliance function as a component of its ML/TF risk management framework. The compliance function should be commensurate with the, size, nature and complexity of the institution's business model and operations. The compliance function is separate from the internal audit function as it is a component of an institutions day-to-day operational activity. The compliance function should on an-ongoing basis assess the extent to which the institution is complying with established policies, procedures and limits and obligations arising from applicable laws, regulations and guidelines. The effectiveness of the compliance function rests heavily on the effectiveness with which the Management Information System (MIS) generates accurate and timely reports related to the management of ML/TF risks. Compliance officer should possess sufficient seniority and knowledge and be up to date with recent laws and regulations

### Risk Monitoring and Reporting

20. To effectively control and mitigate risk, institutions may need to develop MIS systems that provide reliable data on the quantity and nature of ML/TF risks and the effectiveness with which risks are being mitigated. The MIS system used by an institution should be commensurate with the size, nature and complexity of its business model and operations. Such systems should constantly measure ML/TF risks, changes to the nature of such risks and should also report on adherence to the policies and procedures designed to mitigate risks. The system should, for example, not only identify instances in which policies and procedures have been breached but should maintain a record of all such incidents. The system should provide timely reports to all business units and senior management to allow them to make judgments on the measures necessary to manage risks. Reports should also be prepared and submitted to senior management and the BoD indicating how well the institution is managing risk and highlighting instances of breaches of risk management policies, procedures and limits and obligations arising from applicable laws, regulations and guidelines.

### Training

21. The FIU expects institutions to have effective arrangements in place to train their staff on all issues related to their AML/CFT regime. It is important that staff understand the institution's inherent ML/TF risks and the nature of the measures that have been developed to mitigate these risks. Training must be provided for all staff upon joining the institution and should

be an ongoing activity. Apart from general training provided to all staff, targeted training programs should be developed for specific categories of staff in light of the nature of their work in the context of ML/TF risks. AML/CFT awareness raising programs should be conducted for members of the BoD.

### Assessing ML/TF Risk – Some Guidance

22. The following guidance sets out a methodology for the conduct of an assessment of ML/TF risks by a financial institution. It is not mandatory to follow this methodology, however, the FIU requires that each financial institution should undertake a comprehensive assessment of its ML/TF risks and develop appropriate risk management processes.

#### I. Identification of Vulnerabilities:

23. Financial Institutions are required to take appropriate steps to identify aspects of their business activities, including types of customers and transactions, which may be vulnerable to ML/TF and should in doing so, take into account the findings of the National Money Laundering and Terrorist Financing Risk Assessment of Sri Lanka<sup>1</sup>. Financial institutions should consider the following areas when identifying risk factors of their business that make them susceptible to ML/TF.

##### i. The nature, size and complexity of the business

The size and complexity of a financial institution plays an important role in how attractive or vulnerable it is for ML/TF. For example, a large financial institution is less likely to know its customers personally and this could offer a greater degree of anonymity to customers than a smaller financial institution.

Similarly, a financial institution that conducts complex transactions across international jurisdictions could offer greater opportunities for ML/TF than a purely domestic business.

##### ii. The products and services the business offers

Some products and services are more attractive for ML/TF. When considering whether the products and services the business offers could be susceptible or attractive for ML/TF, the following is a list of indicators (not exhaustive) that identifies ML/TF risk arising from products and services that are commonly offered by financial institutions.

- private banking services such as prioritized or privileged banking
- credit/ debit and other top-up cards
- non- face-to-face business relationship or transaction
- payment received from unknown or unrelated third parties
- any new product & service developed
- services to walk-in customers
- mobile banking
- single premium insurance policy

##### iii. The types of customers the financial institution deals with

Listed below are some indicators (not an exhaustive list) to identify ML/TF risk arising from customers.

Categories of customers pose a higher risk of ML/TF can include:

- new customers that wish to carry out a large transaction(s)
- non face-to-face customer on-boarding
- customers involved in occasional or one-off transactions above the threshold (either specified in the FTRA, the Customer Due Diligence (CDD) Rules or the financial institution's internal limits)
- customers who use complex business structures that offer no apparent financial benefits
- customer or a group of customers making numerous transactions to the same individual or group
- customers who are Politically Exposed Persons (PEPs)
- customer who has a business which involves large amounts of cash
- customer whose identification is difficult to check
- customer who bring in large amounts of used notes and/or small denomination notes.
- customers conducting their business relationship or transactions in unusual circumstances for example: significant and unexplained geographic distance between the financial institution and the location of the customer, frequent and unexplained movement of accounts to different institutions, frequent and unexplained movement of funds between institutions in various geographic locations
- non- resident customers

<sup>1</sup> A copy of this report can be found at the FIU's website,  
[http://www.fiusrilanka.gov.lk/docs/Other/Sri\\_Lanka\\_NRA\\_on\\_ML\\_2014\\_-\\_Sanitized\\_Report.pdf](http://www.fiusrilanka.gov.lk/docs/Other/Sri_Lanka_NRA_on_ML_2014_-_Sanitized_Report.pdf)

- corporate customers whose ownership structure is unusual and excessively complex
  - customers whose origin of wealth and/or source of funds cannot be easily verified or where the audit trail appears to be broken and/or unnecessarily layered
  - customers that are non-profit organizations
  - customers who conduct business through or are introduced by “gatekeepers” such as accountants, lawyers, or other professionals
  - customers of a type that have been identified in National or Sector Risk Assessments as higher risk
- iv. the countries that the financial institution deals with
- Financial institutions should give consideration to the following factors as indicators of higher risk for ML/TF:
- any country subject to United Nations sanctions embargoes or similar measures
  - any country identified by credible sources such as the FATF as lacking adequate AML and CFT system
  - any country which is identified by credible sources as having significant level of corruption, tax evasion, and other criminal activity
  - any country identified by credible sources as supporting TF
  - any country that are identified by credible sources as tax havens
- v. the business delivery methods or channels

The way the financial institution delivers its products and services affects its vulnerability to ML/TF.

The following are some indicators (not an exhaustive list) that may help to identify ML/TF risk involved with business delivery methods or channels

- non-face-to-face customers (via post, telephone, internet,) that pose challenges for verifying the identity of the account holder/customer.
- indirect relationships with customers (via intermediaries, gatekeepers, pooled accounts)

## II. Risk Assessment

24. Having identified the threats involved, financial institutions need to assess and measure ML/TF risk in terms of the likelihood (chance of the risk event occurring) and the impact (the amount of loss or damage if the risk event occurs). The risk associated with an event is a combination of the likelihood that the event will occur and the seriousness of the damage it may do.

### Likelihood scale

25. A likelihood scale refers to the potential of an ML/TF risk occurring in the business for the particular risk being assessed. Three levels of likelihood of ML/TF risk are shown below, but financial institutions can have as many scales as are necessary for their circumstances.
- i. Very likely - Almost certain;
  - ii. Likely- High probability;
  - iii. Unlikely- Low probability, but not impossible.

### Impact scale

26. An impact refers to the seriousness of the damage that is likely to be caused if the ML or TF occurs. In assessing the possible impact or consequences, the assessment should be made from a range of viewpoints relevant to the business. Those set out below are not exhaustive. The impact of ML/TF occurring could, depending on the individual financial institution and its business circumstances, be rated or looked at from the point of view of:
- i. how it may affect the business in terms of financial loss relating to market perceptions (for example loss of investor confidence) and reputation or through fines or other sanctions (such as loss or suspension of business licenses) imposed by a regulator
  - ii. the risk that a particular transaction may be seen to contribute to the activities of a terrorist or terrorist organizations.
  - iii. the risk that a particular transaction may result in funds being used for any unlawful activity as defined in Section 33 of the FTRA
  - iv. how it may affect the reputation of the financial institution if it is found to have aided, investigated, prosecuted or otherwise implicated in an illegal act, which may lead to loss of important commercial relationships (such as correspondent accounts) or being shunned by the community of customers or shareholders/investors
27. Three levels of impact of an ML/TF risk to financial institutions are shown below as an example. However, the FIU encourages financial institutions to develop their own ML/TF risk processes and assessments for dealing with certain customers/undertaking transactions in the way that best suits their business model/activities.



- i. Major- significant consequences, that inflict substantial damage, possibly resulting in the closure of the financial institution, cessation of business activities, regulatory sanctions being imposed or financial/reputational damage being experienced by the financial institution which will have a significant impact on business activities.
  - ii. Moderate- moderate impact, involving substantial damage to the business and its reputation.
  - iii. Minor- minor or negligible consequences or effects upon the financial institution.
28. Based on the likelihood and impact scale, it is suggested that financial institutions should assess an overall risk score. The risk rating may be used to aid decision making and help in deciding what action to take in view of the overall risk. A suggested risk rating derivation can be seen in the risk matrix (Annex 1). However, institutions are encouraged to adopt their own approach to assessing, identifying and quantifying ML/TF risk. Irrespective of the methodology adopted, the FIU requires institutions to develop a framework and implement practices to effectively identify, measure, monitor, control and mitigate ML/TF risks as required by the FTRA and CDD Rules.
- i. Extreme - risk almost certain to happen and/or to have very serious consequences on the financial institution, including its financial standing and reputation.  
Response: Do not allow transaction to occur/or customer relationship to be established or reduce the risk to acceptable level through risk mitigation, such as enhanced due diligence.
  - ii. High - risk likely to happen and/or to have serious consequences.  
Response: Do not allow transaction/establishment of customer relationship until risk reduced through risk mitigation, such as enhanced due diligence.
  - iii. Medium - possible this could happen and/or have moderate consequences.  
Response: Mitigate risk; normal CDD and other requirements apply.
  - iv. Low - unlikely to happen and/or have minor or negligible consequences.  
Response: Mitigate risk: simplified CDD and other requirements apply.

### III. Risk Mitigation

29. Once the financial institution assesses the ML/TF risk of individual customer, product/service, delivery channel and risks related to geographic region, it should develop strategies policies and procedures to manage and mitigate the risk. Examples of a risk reduction or mitigation are:
- i. Setting transaction limits for high-risk products or delivery channels
  - ii. Having a management approval process for higher risk customers, products, services, or deliver channels
  - iii. Risk rating customers and applying different requirements for high or low risk customers including applying different identification and verification methods and enhanced customer due diligence requirements
  - iv. Not accepting customers who wish to transact with a high-risk country or customers that are considered to be higher risk based on the institution's board-approved customer acceptance policy.

### Risk Management Strategies

30. Financial institutions shall adopt the following components, among others, as part of their risk management strategy:
- i. Develop and implement ML/TF risk management objectives at the board and senior management level of the financial institution and monitoring progress of implementation of objectives.
  - ii. Implement clearly defined management responsibilities and accountabilities regarding ML/TF risk management.
  - iii. Provide adequate staff resources to undertake functions associated with ML/TF risk management.
  - iv. Introduce staff reporting lines from the ML/TF risk management system level to the board or senior management level, with direct access to the board members or senior managers responsible for overseeing the system.
  - v. Implement procedural controls relevant to particular services and products, customers, and delivery channels that have been identified as being vulnerable to ML/TF.
  - vi. Documenting all ML/TF risk management policies and ensuring that these are kept up to date and reviewed regularly reflecting both the scope and nature of the institution's activities and the findings of risk assessments conducted by authorities. Such policies should also identify processes relating to non-compliance, including reporting of suspicious transactions to the FIU.
  - vii. Provide appropriate training programs for staff to develop expertise in the identification of ML/TF risks across the financial institution, including reporting of suspicious transactions.
  - viii. Develop an effective information management system which produce detailed and accurate financial, operational and compliance data relevant to ML/TF risk management.

### Enhanced and Simplified Due Diligence Measures

31. There are circumstances where the risk of ML/TF is higher and enhanced CDD measures must be taken and, where the risks of ML/TF are lower, simplified CDD measures may be taken. These enhanced and simplified measures are outlined below:

#### Enhanced due diligence measures for high risk customers/transactions

32. Every financial institution should examine and document, as far as reasonably possible, the background and purpose of all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or lawful purpose. Where the risks of ML/TF are higher, financial institutions should be required to conduct enhanced due diligence (EDD) measures for higher-risk business relationships which may include:
- Obtaining and verifying additional information on the customer (e.g. occupation, volume of assets, information available through public databases, internet search, etc.)
  - Updating more regularly the identification data of customer and beneficial owner
  - Obtaining and verifying additional information on the intended nature of the business relationship
  - Obtaining and verifying information on the source of funds or source of wealth of the customer
  - Obtaining and verifying information on the reasons for intended or performed transactions
  - Obtaining and verifying the approval of senior management to commence or continue the business relationship
  - Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination
  - Requiring the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards.

#### Simplified CDD measures for low risk customers/transactions

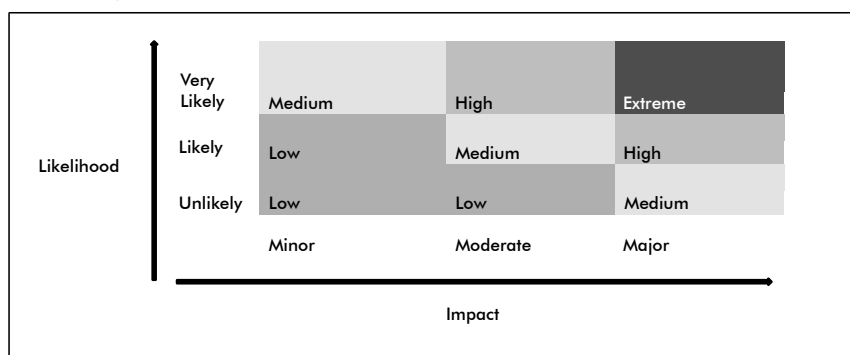
33. Where the risks of ML/TF are lower, the financial institutions are, subject to the regulations, allowed to conduct simplified CDD measures, which should take into account the nature of the lower risk. The simplified measures should be commensurate with the lower risk factors (e.g. the simplified measures could relate only to customer acceptance measures or to aspects of ongoing monitoring).

Examples of possible measures are:

- Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship (delayed verification)
  - Reducing the frequency of customer identification updates
  - Reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold
  - Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established
34. Simplified CDD measures are not acceptable whenever there is a suspicion of ML/TF, or where specific higher-risk scenarios apply.

### Annex I

Overall AML/CFT Risk



Ref: 037/08/001/0005/017

18 April 2018

Guideline No. 02/18

To: CEO/ General Manager

## **GUIDELINES ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM COMPLIANCE OBLIGATIONS FOR CASINOS AND GAMBLING HOUSES, NO. 02 OF 2018**

The above Guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 06 of 2006 and the Designated Non-Finance Business (Customer Due Diligence) Rules No. 01 of 2018.

Director/Financial Intelligence Unit

Cc: Compliance Officer

## **GUIDELINES ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM COMPLIANCE OBLIGATIONS FOR CASINOS AND GAMBLING HOUSES, NO. 2 OF 2018**

### **PART I**

#### **Introduction**

1. The Financial Intelligence Unit (FIU) acting within the powers vested with it under the Financial Transactions Reporting Act, No. 6 of 2006 (hereinafter referred to as "FTRA"), issued the Designated Non-Finance Business (Customer Due Diligence) Rules No. 1 of 2018 (hereinafter referred to as "CDD Rules") by Gazette Extraordinary No 2053/20 dated 2018.01.10 which is applicable to institutions carrying out non-financial businesses and professions.
2. As described in the CDD Rules these Guidelines shall apply to casinos, gambling houses or conducting of a lottery, including to a person who carries on such a business through the internet when their customers engage in financial transactions (hereinafter referred to as "Institution(s)").
3. These Guidelines are issued for the purpose of identifying, assessing and managing Money Laundering (ML) and Terrorist Financing (TF) risks.
4. For the purpose of these Guidelines, unless the context otherwise requires:

**AML/CFT** means Anti-Money Laundering and/or Countering the Financing of Terrorism as recommended by the Financial Action Task Force;

**CDD** means Customer Due Diligence;

**EFT** means Electronic Fund Transfer;

**FATF** means Financial Action Task Force, the global policy setter against money laundering and financing of terrorism

**FIU** means the Financial Intelligence Unit which is designated for the purposes of the Financial Transactions Reporting Act, No 6 of 2006 [ Gazette (Extraordinary) No: 1437/24 dated 23.03.2006], and charged with the implementation and administration of the provisions of said Act;

**ML** means the offence of money laundering, which was penalized in terms of Section 3 of the Prevention of Money Laundering Act, No 5 of 2006;

**ML/TF** means money laundering and or terrorist financing;

**PEPs** means Politically Exposed Persons, including individuals in Sri Lanka or abroad who are, or have been, entrusted with prominent public functions. For example: heads of state or of government, politicians, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials. The family members and close associates of PEPs are also considered to be PEPs by virtue of business relationships that involve reputational risks similar to those of the relevant PEPs themselves. This is not intended to cover middle ranking or more junior officials in the foregoing categories;

**STRs** means Suspicious Transaction Reports filed in terms of Section 7 of the Financial Transactions Reporting Act, No 6 of 2006;

**TF** means the offence of terrorist financing, which was penalized in terms of Section 3 of the Convention on the Suppression of Terrorist Financing Act, No 25 of 2005;

**UNSCR** means the United Nations Security Council Resolutions.

## PART II

### Compliance

#### Compliance Officer

5. Each Institution is required to appoint a Compliance Officer. The appointed officer should be responsible for the implementation of the Institutions' AML/CFT compliance requirements. The Compliance Officer should have the authority and the resources necessary to discharge his or her responsibilities effectively.
6. According to the management structure of the Institution, the Compliance Officer should report on regular basis to the board of directors or senior management or to the owner or chief executive officer of the Institution. The Compliance Officer should be from the senior management level and have direct access to higher management or the board of directors.
7. For consistency and ongoing attention to the AML/CFT requirements, the Compliance Officer may choose to delegate certain duties to other employees of the Institution. However, where such a delegation is made, the Compliance Officer remains responsible for the implementation of the AML/CFT compliance requirement.

#### AML/CFT Compliance Policies and Procedures

8. Each Institution must establish written policies and procedures to assess ML/TF risks. These policies and procedures must be implemented in an effective manner to prevent, detect and remedy instances of non-compliance. It is important that the policies and procedures are communicated, understood and adhered in a timely manner within the Institution. These policies and procedures should be communicated to those who work in the areas relating to customer interactions.
9. Each Institution's AML/CFT compliance policies and procedures must include an assessment of risks related to ML/ TF. The assessment must be conducted in a manner that is appropriate to the nature of the Institution's business. This ML/ TF risk assessment must be conducted notwithstanding any existing policies and procedures on customer identification, record keeping and reporting requirements.
10. The extent and level of detail of each Institution's AML/CFT compliance policies and procedures will depend on the specific needs and the complexity of the Institution, as well as the Institution's assessed risk to ML/TF.
11. The Institution's AML/CFT compliance policies and procedures must be approved by senior management and/or board of directors of the Institution. The AML/CFT compliance policies and procedures must include, at a minimum, ML/TF risk assessment and risk mitigation measures, customer identification and verification, record keeping, submission of mandatory reports to the FIU and ensuring independent audits of the Institutions' compliance policies and procedures. For example:
  - (a) In the case of reporting obligations relating to any suspicion of TF, the compliance policies and procedures of the Institution should include the screening of customers against UNSCR and other lists which are available on the FIU website (<http://fiusrilanka.gov.lk>) and elsewhere.
  - (b) Institutions should apply an enhanced level of caution when dealing with transactions involving countries or territories that have not yet established adequate AML/CFT measures that consistent with international standards. Institutions may refer the FATF website (<http://fatf-gafi.org>) and other sources for this information.
12. Board of directors and senior management are required to understand the statutory duties on AML/CFT compliance vested upon the board of directors, the staff and the Institution. Senior management and the board of directors are ultimately responsible for making decisions related to policies, procedures and processes that mitigate and manage the risks of ML/TF within the business.
13. The Institution should have a screening policy when hiring employees to ensure high standards.

#### Compliance with United Nations Security Council Resolutions

14. The Institution should cross-check whether any customer or beneficiary appears on any designated list issued in compliance with United Nations Act, No. 45 of 1968, with respect to any designated list on targeted financial sanctions related to terrorism, terrorist financing and proliferation of weapons of mass destruction and its financing (UNSCRs 1267 , 1373, 1718, 1540) and any other subsequent Resolutions.
15. It is required to immediately freeze funds, financial assets or economic resources of individuals and entities who are designated by the United Nations Security Council based on such person's/entity's connections with terrorism, terrorist financing and proliferation of weapons of mass destruction and its financing. The Institution should have measures in place to identify and immediately freeze funds, financial assets or economic resources, of such designated persons and entities.
16. Upon freezing or lifting of such freezing of funds, other financial assets and economic resources of designated individuals and entities, or upon the occurrence of an attempted transaction by or for designated individuals or entities, Institutions shall, not later than 24 hours from the time of finding out such customer, inform to the Competent Authority with a copy to the FIU.

17. The Institution should ensure that no funds, financial assets or economic resources are made available to or for the benefit of such designated persons or entities or their beneficiaries.

### **Risk-Based Approach**

18. A risk-based approach is a process that allows the Institution to identify, assess the risks of ML/TF, to develop controls to mitigate the identified ML/TF risks and ongoing monitoring of those controls. Each Institution must use their own judgment, knowledge and expertise to develop an appropriate risk-based approach for their particular organization, structure and business activities.
19. In the context of ML/TF, the risk-based approach is a process that encompasses the following steps:
- (A) Identify the ML/TF risk;
  - (B) Assess the ML/TF risks;
  - (C) Design and implement controls to manage and mitigate the ML/TF risks;
  - (D) Monitor and improve the effective operations of the risk based controls.

#### **(A) Identify the ML/TF Risk**

20. The Institution must be aware of ML/TF risks inherent to the business activities. As a first step of the risk-based approach, the Institution should identify the ML/TF related risks that may arise from customers, countries or geographical areas and products, services, transactions or delivery channels, as well as from proposed innovations thereof. A second step may be to identify all entry and exit points for funds used by customers. Such entry and exit points are potentially useful to a money launderer during the placement and integration stages of the money laundering process.
21. Each institution must identify the ML/TF risks that may be associated with the products and services that are offered by the Institution based on their utility for ML/TF. For example, any financial service offered by an Institution that converts the form of funds or ownership of funds is potentially useful to a money launderer during the layering phase of the money laundering process such as a person who exchanged Rupees 1,000,000 for chips, and passes the chips to another person has effectively transferred ownership. If that person then exchange the chips for a casino cheques the form has also been converted.

#### **(B) Assess the ML/TF Risks**

22. A risk assessment is an analysis of potential threats and vulnerabilities of ML/TF to which the Institution is exposed. The complexity of the assessment depends on the nature, size and ML/TF risks faced by the Institution.
23. When conducting a risk assessment, the Institution must consider and document the following factors:
- (a) types of customers and customer relationships;
  - (b) types of products and services and the delivery channels through which they are offered;
  - (c) the geographic origins and locations of the customers;
  - (d) other factors related to the Institution's business activities;
  - (e) whether the customer's name is appearing in any UNSCR designated list.
24. The risk assessment requires detailed knowledge of business operations and sound judgment exercised by the assessors so the risks for ML/TF can be determined according to each individual factor as well as combinations of factors. The risk assessment will continuously change over time as the various risk factors evolve.

#### **(C) Design and Implement Controls to Manage and Mitigate the ML/TF Risks**

25. Risk mitigation is about implementing controls to address risk factors that are the source of the risk (i.e. threats, vulnerabilities) in a timely manner which is tolerable to the Institution is achieved. Controls should be in the form of written policies and procedures.
26. The Institution may develop and implement the following different types of mitigation measures through the Institution's compliance policies, procedures and internal controls:
- (a) reducing or avoiding the risk; for example, if a casino identifies and assesses as unacceptably risky wire transfers from jurisdictions that are known to have ineffective AML/CFT controls or high levels of corruption, then the risk can be reduced by putting a cap on the size and frequency of such transfers for individual customers or the risk can be eliminated by refusing to accept such transfers.
  - (b) controlling the risk; for example, building on the wire transfer example, the casino can apply enhanced due diligence to verify the legitimate source of funds and/or require that any winnings or cash-outs be returned to the customer exclusively through a wire transfer to the account from which the original wire transfer was received (Appendix 1 contains sample EFT controls). The casino can also apply enhanced monitoring to the gambling activities of the customer to ensure the absence of money laundering indicators.

- (c) transferring the risk; for example, again, building on the wire transfer example, the risk of funding accounts in some jurisdictions is sometimes transferred to licensed junket operators, which provide funds transfer services to their customers and with whom the casino may develop a relationship, subject to proper controls.

#### **(D) Monitor and Improve the Effective Operations of the Risk Based Controls**

27. The effective management of risk is a continuous and dynamic process. The Institution should ensure that the process of managing the risks of ML/TF is subject to regular review and is updated as new or emerging risks are identified, whether caused by changes in the scale or nature of operations, new products, new services, new customer types, etc.

#### **Development of Training and Awareness Programmes**

28. The Institution is required to provide training on AML/CFT compliance to board of directors, senior management, employees, agents or any other individuals authorized to act on behalf of the Institution.
29. Such training should consist of raising awareness of the internal policies and procedures for preventing ML/TF. The training programme should provide a clear understanding of Institution's AML/CFT compliance policies and procedures and the related individual's responsibilities.

### **PART III**

## **CUSTOMER DUE DILIGENCE**

#### **Identification and Verification of Customer and Beneficial Owners**

30. Each Institution is required to conduct CDD on customers and beneficial owners, including occasional and one-off customers, when they engage in inward and outward financial transactions that aggregate in either direction to the equivalent of United States Dollars 3,000 or more, regardless of the actual currency of the transaction(s), in a single business day. For this purpose, a "business day" is defined as any continuous 24-hour period that an Institution uses for keeping its business books and records. Institutions may use only one definition of a "business day" and must consistently apply the definition across all customers and customer activity when aggregating transactions to determine CDD requirements. For this purpose, a "financial transaction" includes all inward transfers of funds from the customer to Institution and all outward transfers of funds from Institution to the customer. Such transfers may include, but are not limited to, the purchase or sale of gambling chips or any other gambling instrument, purchase of casino cheques, or cashing of customer cheques, purchase or redemption of lottery tickets, inbound and outbound wire transfers, purchase and redemption of "ticket-in/ticket-out" documents. For example, if a casino patron buys the equivalent of United States Dollars 1,000 in casino chips using Sri Lankan Rupees and subsequently redeems the equivalent of United States Dollars 4,000 in casino chips for Sri Lankan Rupees then that customer does not need to be identified prior to completing the purchase. However, it is required to identify the customer prior to completing the redemption in accordance with these guidelines described herein. Likewise, a customer purchasing the equivalent of United States Dollars 3,000 in casino chips the Institution is required to conduct CDD prior to completing the purchase.
31. Due to the difficulties inherent in aggregating the value of a customer's transactions on a business day, an Institution may wish to identify all customers as a condition of extending services of the Institution (perhaps through the issuance of player/membership cards).
32. If the Institution cannot satisfactorily apply due diligence measures in relation to a customer and/or beneficial owner, the Institution shall not carry out a transaction for that customer. Further, the Institution may also consider submitting an STR to the FIU.
33. If the actions of a customer appear as designed to deliberately avoid CDD requirements, then the Institution should consider submitting an STR to the FIU. For example, a customer who purchases the equivalent of United States Dollars 2,000 in chips just prior to the expiration of a business day and then purchases the same amount just after commencement of a new business day, without making meaningful wagers in the interim period, may be structuring his transactions to avoid CDD requirements.
34. Customers and beneficial owners that are identified as high risk should be subject to enhanced due diligence measures such as additional scrutiny and verification of identification information and source of funds.

#### **High Risk Customers/Transactions**

35. There are customers / types of transactions / products which may pose higher ML/TF risk to the Institution. In such a situation, the Institution is required to take additional measures. As examples:
- (a) any customer who has links with countries which do not or which insufficiently comply with the recommendations of the FATF (For High Risk and Non-Cooperative Jurisdictions please refer to FATF website; (<http://fatf-gafi.org>);

- (b) any customer linked with a country that has been identified by a national authority as a jurisdiction of concern for drug trafficking, human trafficking, money laundering, terrorism or illicit financing;
- (c) any country that has been identified by a reputable organization as having high levels of public corruption;
- (d) any customer who conducts complex or unusual transactions, (whether completed or not), unusual patterns of transactions for the customer profile, transactions that match patterns associated with unlawful activity, and transactions which have no apparent lawful purpose;
- (e) domestic and foreign PEPs, to include their family members and close associates;
- (f) any customer or transaction, product type that the Institution has identified as posing a higher risk to the business. For example, gambling games that allow customers to play opposite sides of a bet (e.g. odd vs even numbers in roulette), such that the net bet is very low risk and the pure intention may not be to gamble, are at higher risk of ML. In this case, an unusually low "hold percentage" of a game might be an indicator of activity that is intended to place funds with little or no risk;
- (g) customers that have a sudden unexplained increase in their gambling activity or method of funding their gambling activity are higher risk.

### Specific Customer Due Diligence Requirements

#### Casinos

- 36. The CDD requirement shall be carried out at all entry or exit points for funds, including the following;
  - (a) when customers exchange cash for gambling chips and/or playing chips at the gaming tables;
  - (b) when customers exchange cash and/or vouchers for chip warrants at the cashier counters;
  - (c) when customers request cheques or wire transfers for payments of winnings and/or capital; or
  - (d) when customers use their membership cards or temporary or casual cards (if any) in respect of the e-cash out facility at the cashier counters or cash dispenser machines or gaming tables.
- 37. In relation to bank intermediated transactions, CDD shall be conducted prior to customers being allowed to use the funds.
- 38. The casino is also required to carry out CDD on junket operators and its customers.

#### Gambling Houses

- 39. Gambling houses are required to obtain and check the accuracy of the following information;
  - (a) ticket number;
  - (b) registration number and address of the outlet where the winning ticket was purchased; and
  - (c) winning amount.
- 40. Gambling houses are required to conduct CDD on the third party when the winner requesting for payment to a third-party account.

### Identification of Third Parties

- 41. The Institution must take reasonable measures to determine whether the customer is acting on behalf of a third party, where the customer is an agent of the third party who is the beneficiary and/or who is providing the funds for the transaction. In cases where a third party is involved, the Institution must obtain information on the identity of the third party and their relationship with the customer, for CDD purposes.

## PART IV REPORTING

### Duty of Submitting Suspicious Transactions Reports

- 42. In making the assessment to submit an STR, an Institution may refer to the list of red flags as mentioned in **Appendix II**. Industry-specific indicators would also help the Institution to better identify suspicious transactions whether completed or attempted. Some examples of ML using casinos and gambling houses are given in **Appendix III**.
- 43. Each Institution must pay attention to attempted suspicious transactions. If a customer attempts to conduct a transaction, but for whatever reason that transaction is not completed, and if the Institution determines that the attempted transaction is suspicious, the Institution must report it to the FIU.
- 44. The Institution shall submit STRs using the format as prescribed in Suspicious Transactions (Format) Regulations of 2017, Gazette (Extraordinary) No: 2015/56 dated April 21, 2017 (Schedule V).

45 The Compliance Officer should maintain a register of STRs.

### Reporting of Cash and Electronic Transactions

46 Every Institution is required to adhere to the requirements stipulated in Financial Transactions Reporting Regulations No. 1 of 2008, Gazette (Extraordinary) No: 1555/9 dated June 25, 2008.

## PART V RECORD KEEPING

47 The Institution shall take appropriate steps to put in place and maintain a system for record keeping as stipulated in the FTRA, which allows data to be retrieved easily and quickly whenever required, or when requested by the FIU.

## PART VI PENALTIES FOR NON-COMPLIANCE

48 Failure to comply with the legislative requirements shall lead to penalties. In addition, there may be other actions including regulatory and disciplinary measures against the Institution.

Issued on 18 April 2018

### Appendix I

#### Sample casino internal controls for Electronic Fund Transfers

- Electronic Fund Transfers (to include wire transfers) will not be accepted, or will be immediately reversed, from any jurisdiction that is identified by the FATF as a High Risk and Non-Cooperative Jurisdiction or that is believed by the Institution to be a country with unacceptable jurisdictional risk.
- Electronic Fund Transfers may not be redeemed for cash, neither in whole nor in part, and may only be used to fund gambling and entertainment activities offered by the casino to the customer.
- Unused balances from Electronic Fund Transfers, including winnings from gambling activities funded by such transfers to the extent that they do not exceed the size of the transfer, must be returned to the customer via the identical channel and to the identical account from which it was received. No other type of redemption (e.g. cash, cheque, third party transfer) is permissible.

### Appendix II

#### Anti-Money Laundering/Countering Financing of Terrorism suspicious indicators (red flags) for casinos and gambling houses

- Customers purchasing and redeeming chips or depositing and withdrawing funds with no gambling or minimal gambling;
- Customers requesting multiple payments of winnings and capital to the account of a third party;
- Multiple players requesting for payments to the same beneficiary;
- Gamblers who appear to be cooperating by placing offsetting bets against each other;
- Structuring the purchase or redemption of chips or other instruments to avoid triggering CDD requirements or other reporting requirements (whether real or perceived);
- "Bill stuffing" by feeding currency to gambling devices that accept cash and then cashing out (e.g. by receiving a TITO ticket or other such instrument) with minimal or no actual gambling;
- Customers befriending/attempting to befriend casino employees;
- Dramatic or rapid increase in size and frequency of transactions for an established customer;
- Gambling activity that is inconsistent with the financial situation and/or known occupation of the person gambling;
- Purchase of winning tickets from punters (gamblers);
- Purchasing of winning jackpots or winning lottery tickets at a premium;
- Exchanging large amount of small denomination bank notes for larger denominations without gambling;
- Frequent claims for winning jackpots;
- Customers watching/hanging around jackpots sites but not participate in gambling;
- Customers passing significant values in chips or TITO tickets to other customers;
- Loaning funds for gambling to customers with repayment of the funds being a discounted amount;
- Gambling patterns that appear designed to wager large sums at low risk over a period time, thus achieving a predictable low rate of loss prior to cashing out.
- Customers reluctant to provide information to complete CDD requirements, or that provide doubtful or unverifiable identification information, or who in any other way appear to deliberately impede the Institution's CDD process.



### Appendix III

#### Examples of ML using casinos and gambling houses –

#### Cases taken from Financial Action Task Force Report, October 2010

##### Case 1 - Proceeds of drugs trafficking used to purchase chips and claim funds as winnings

Offence: Drug importation  
 Jurisdiction: Australia  
 Technique: Chip purchase and cash out  
 Mechanism: Casino  
 Instrument: Casino chips, chip to cash transfer, casino cheques

A cargo consignment addressed to a person contained approximately 3.4 kilograms of black opium resin, concealed within the contents. The person was arrested when attempting to collect the consignment. Further investigation revealed the person to be a regular customer of a casino, having conducted approximately 50 betting transactions, predominantly chip cash-outs totaling AUD 890000. Very little casino gaming play was recorded for the person and it was assumed that he used the proceeds from previous importations to purchase chips and claim the funds as winnings.

##### Case 2 – Proceeds from bank hold up laundered through book-makers

Offence: Money Laundering  
 Technique: low risk bets, playing games with low return and high win, betting on favourites  
 Mechanism: Bookmakers, multiple bank accounts  
 Instruments: Cash, cheques

During police investigations into armed robberies, it came to light that another individual has been placing a vast number of bets at various book-makers within one city. He always followed a similar pattern whereby the stakes were high and the odds low. In other words, he bet on “favourites” who were likely to win, although this likelihood meant that the sum received by the bet maker if he did win was relatively small. Consequently, he made a 7% net loss over a long period of time. This would be quite a serious loss for a professional gambler. He never received his winnings personally, but had cheques made out to a total of 14 different bank accounts in the names of 10 third parties. It was discovered that several of the cheques were issued in the names of the armed robbers and their immediate families. The link between the money launderer and the original criminals was established. The former was convicted of money laundering and sentenced to 5 years imprisonment. He had laundered approximately USD 3.3 million through the system.

##### Case 3 – Overseas nationals purchase winning jackpots with illegal proceeds

Offence: Drug trafficking & money laundering  
 Technique: Buying winning lottery tickets  
 Mechanism: Winning jackpots, cash  
 Indicators: purchasing winning jackpots; depositing winning cheques followed by immediate withdrawal

AUSTRAC referred a matter relating to a group of overseas nationals buying winning jackpots at various clubs in Sydney from legitimate winners. The suspects deposited approximately AUD 1.7 million in winning cheques within a year, immediately withdrawing money in cash afterwards. The source of funds used to buy winning jackpots was suspected to be from illegal means. This matter was referred to partner agencies for further investigation.

\*Appendices I-III include contents from publicly available AML/CFT resources

Ref: 037/08/001/0006/018

18 April 2018

Guideline No. 03/18

To: CEO/ General Manager/ Proprietor

#### **GUIDELINES ON ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM COMPLIANCE OBLIGATIONS FOR DEALERS IN REAL ESTATE, PRECIOUS METALS, PRECIOUS AND SEMI- PRECIOUS STONES, NO. 03 OF 2018**

The above Guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 06 of 2006 and the Designated Non-Finance Business (Customer Due Diligence) Rules No. 01 of 2018.

**Director/ Financial Intelligence Unit**

Cc: Compliance Officers

## GUIDELINES ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM COMPLIANCE OBLIGATIONS FOR DEALERS IN REAL ESTATE AND PRECIOUS METALS, PRECIOUS AND SEMI-PRECIOUS STONES NO. 3 OF 2018

### PART I

#### Introduction

1. The Financial Intelligence Unit (FIU) acting within the powers vested with it under the Financial Transactions Reporting Act, No. 6 of 2006 (hereinafter referred to as "FTRA"), issued the Designated Non-Finance Business (Customer Due Diligence) Rules No. 1 of 2018 (hereinafter referred to as "CDD Rules") by Gazette Extraordinary No. 2053/20 dated 2018.01.10 which is applicable to institutions carrying out non-financial businesses and professions.
2. As described in the CDD Rules, these Guidelines shall apply to following Designated Non-Finance Businesses (DNFBs, hereinafter referred to as "Institution(s)").
  - **Real estate agents**, when they are involved in transactions for their customers in relation to the buying and selling of real estate
  - **Dealers in precious metals and dealers in precious and semi-precious stones**, including but not limited to, metals and stones covered by the National Gem and Jewellery Authority Act, No. 50 of 1993
3. These Guidelines are issued for the purpose of identifying, assessing and managing Money Laundering (ML) and Terrorist Financing (TF) risks.
4. For the purpose of this Guideline, unless the context otherwise requires:
  - **AML/CFT** means Anti-Money Laundering and/or the Countering the Financing of Terrorism as recommended by the Financial Action Task Force
  - **CDD** means Customer Due Diligence;
  - **FATF** means the Financial Action Task Force (The global policy setter against Money Laundering and Financing of Terrorism);
  - **FIU** means the Financial Intelligence Unit which is designated for the purposes of the Financial Transactions Reporting Act, No. 6 of 2006 [ Gazette (Extraordinary) No: 1437/24 dated 23.03.2006], and charged with the implementation and administration of the provisions of the said Act;
  - **ML** means the offence of money laundering, as defined in and punishable under Section 3 of the Prevention of Money Laundering Act, No 5 of 2006
  - **ML/TF** means Money Laundering/Terrorist Financing
  - **PEPs** mean Politically Exposed Persons, including individuals in Sri Lanka or abroad who are, or have been, entrusted with prominent public functions. For example: heads of state or of government, a politician, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials. The family members and close associates of PEPs are also considered to be PEPs by virtue of business relationships that involve reputational risks similar to those of the relevant PEPs themselves. This is not intended to cover middle ranking or more junior officials in the foregoing categories;
  - **STRs** means Suspicious Transactions Reports filed in terms of Section 7 of the Financial Transactions Reporting Act, No 6 of 2006;
  - **TF** means the offence of terrorist financing, which was penalized in terms of Section 3 of the Convention on the Suppression of Terrorist Financing Act, No 25 of 2005
  - **UNSCR** means the United Nations Security Council Resolutions

### PART II

#### COMPLIANCE

##### Compliance Officer

5. Each Institution is required to appoint a Compliance Officer. The appointed officer should be responsible for the implementation of the Institution's AML/CFT compliance requirements. The Compliance Officer should have the authority and the resources necessary to discharge his or her responsibilities effectively.
6. According to the management structure of the Institution, the Compliance Officer should report on a regular basis to the board of directors or senior management, or to the owner or chief executive officer of the Institution. The Compliance

Officer should be from the senior management level and have direct access to higher management or the board of directors.

7. For consistency and ongoing attention to the AML/CFT requirements, the Compliance Officer may choose to delegate certain duties to other employees of the Institution. For example, the Compliance Officer may delegate an employee in a branch to ensure that compliance procedures are properly implemented at that branch. However, where such a delegation is made, the Compliance Officer remains responsible for the implementation of the AML/CFT compliance requirement.

#### **AML/CFT Compliance Policies and Procedures**

8. Each Institution must establish written policies and procedures to assess ML/TF risks. These policies and procedures must be implemented in an effective manner to prevent, detect and remedy instances of non-compliance. It is important that the policies and procedures are communicated, understood and adhered in a timely manner within the Institution. These policies and procedures should be communicated to those who work in the areas relating to customer interactions.
9. Each Institution's AML/CFT compliance policies and procedures must include an assessment of risks related to ML/TF. The assessment must be conducted in a manner that is appropriate to the nature of the Institution's business. This ML/TF risk assessment must be conducted notwithstanding any existing policies and procedures on customer identification, record keeping and reporting requirements.
10. The extent and the level of details of each Institution's AML/CFT compliance policies and procedures will depend on the specific needs and the complexity of the Institution, as well as the Institution's assessed risk to ML/TF.
11. The Institution's AML/CFT compliance policies and procedures must be approved by the senior management and/or board of directors (if any). The AML/CFT compliance policies and procedures must include, at a minimum, ML/TF risk assessment and risk mitigation measures, customer identification and verification, record keeping, submission of mandatory reports to the FIU and ensuring independent audits of the Institution's compliance policies and procedures. For example:
  - a) In the case of reporting obligations relating to any suspicion of TF, the compliance policies and procedures of the Institution should include the screening of customers against UNSCR and other lists which are available on the FIU website (<http://fiusrilanka.gov.lk>) and elsewhere.
  - b) Institutions should apply an enhanced level of caution when dealing with transactions involving countries or territories that have not yet established adequate AML/CFT measures that consistent with international standards. Institutions may refer the FATF website (<http://fatf-gafi.org>) and other sources for this information.
12. Board of directors and senior management are required to understand statutory duties on AML/CFT compliance vested upon the board of directors, the staff and the Institution. Senior management and the board of directors are ultimately responsible for making decisions related to policies, procedures and processes that mitigate and manage the risks of ML/TF within the business.
13. The Institution should have a screening policy when hiring employees to ensure high standards.

#### **Compliance with United Nations Security Council Resolutions**

14. The Institution should cross-check whether any customer or beneficiary appears on any designated list issued in compliance with the United Nations Act, No. 45 of 1968, with respect to any designated list on targeted financial sanctions related to terrorism, terrorist financing and proliferation of weapons of mass destruction and its financing (UNSCRs 1267, 1373, 1718, 1540) and any other subsequent Resolutions.
15. It is required to immediately freeze funds, financial assets or economic resources of individuals and entities who are designated by the United Nations Security Council based on such person's/entity's connections with terrorism, terrorist financing and proliferation of weapons of mass destruction and its financing. The Institution should have measures in place to identify and immediately freeze funds, financial assets or economic resources, of such designated persons and entities.
16. Upon freezing or lifting of such freezing of funds, other financial assets and economic resources of designated individuals and entities, or upon the occurrence of an attempted transaction by or for designated individuals or entities, Institutions shall, not later than 24 hours from the time of finding out such customer, inform to the Competent Authority with a copy to the FIU.
17. The Institution should ensure that no funds, financial assets or economic resources are made available to or for the benefit of such designated persons or entities or their beneficiaries.

## Risk-Based Approach

18. A risk-based approach is a process that allows the Institution to identify, assess the risks of ML/TF, to develop controls to mitigate the identified ML/TF risks and ongoing monitoring of those controls. Each Institution must use their own judgment, knowledge and expertise to develop an appropriate risk-based approach for their particular organization, structure and business activities.
19. In the context of ML/TF, the risk-based approach is a process that encompasses the following steps:
  - A. Identify the ML/TF risk;
  - B. Assess the ML/TF risks;
  - C. Design and implement controls to manage and mitigate the ML/TF risks;
  - D. Monitor and improve the effective operations of the risk based controls.

### (A) Identify the ML/TF Risk

20. The Institution must be aware of ML/TF risks inherent to the business activities. As the first step of the risk-based approach, the Institution should identify the ML/TF related risks that may arise from customers, countries or geographical areas and products, services, transactions or delivery channels as well as from proposed innovations thereof. An example of a checklist for their own ML/TF risk identification and assessment is given in Appendix I. By looking at this example, Institutions can prepare a checklist for their own ML/TF risk identification and assessment. This may be not the exact check list for identification of ML/TF risks in every institution. Therefore, Institutions can prepare an own risk identification checklist according to the requirements and the nature of its business.
21. The Institution has to identify the ML/TF risks that may be associated with the products and services that are offered by Institutions due to its vulnerability to ML/TF risks.

### (B) Assess the ML/TF Risks

22. A risk assessment is an analysis of potential threats and vulnerabilities of ML/TF to which the institution is exposed. The complexity of the assessment depends on the nature, size and ML/TF risks face by the Institution.
23. When conducting a risk assessment, the Institution has to consider and document the following factors;
  - a) Types of customers and business relationships the Institution having with them;
  - b) Types of products and services and the delivery channels through which they are offered;
  - c) The geographic origins and locations of the customers;
  - d) Other relevant factors related to the business activities;
  - e) Whether the Customer's name is appearing in UNSCR designated list.

It is advised to follow the given example for ML and TF risk identification and assessment at the Appendix I. If your answer is "Yes" for any of those items in the example checklist, the Institutions should consider that fact as a high risk for ML/TF.
24. The risk assessment requires detailed knowledge of the business operations and sound judgment exercised by the assessors so the risks for ML/TF can be determined according to each individual factor as well as a combination of factors. The risk assessment will continuously change overtime as the various risk factors evolve.
25. Where the Institution's dealings with a customer are limited to a single transaction (one-off transaction), it is not considered to be an ongoing business relationship. However, the Institution is required to complete a risk assessment of such customer. If the Institution suspects that the transaction is related to an ML/TF offence, then such transactions have to be reported to the FIU as an STR. Please refer part IV for further information.

### (C) Design and Implement Controls to Manage and Mitigate the ML/TF Risks

26. Risk mitigation is about implementing controls to address risk factors that are the source of the risk (i.e. threats, vulnerabilities) in a timely manner which is tolerable to the Institution is achieved. Controls should be in the form of written policies and procedures.
27. The Institution may develop and implement the following different types of mitigation measures through the Institution's compliance policies and procedures and internal controls.
  - a) Informing senior management about compliance initiatives, identified compliance deficiencies and corrective actions taken;

- b) Ensuring the continuation of the AML/CFT compliance policies and procedures without any disruptions due to changes in management, employees or the structure of the business;
- c) Focusing on complying with mandatory record keeping and reporting requirements including STRs, and adhering to regulations, rules and guidelines issued by the FIU;
- d) Incorporating AML/CFT compliance into job descriptions;
- e) Monitoring employees who handle cash transactions, attend to mandatory reports of AML/CFT measures, suspicious transactions or engage in any other activity that forms part of the AML/CFT policies and procedures;
- f) Increasing awareness of high risk situations within the business;
- g) Increasing the frequency of reviewing ongoing business relationships; and

#### **(D) Monitor and Improve the Effective Operations of the Risk Based Controls**

28. The effective management of ML/TF risk is a continuous and dynamic process. The Institution should ensure that the process of managing the risks of ML/TF is subject to regular review and is updated as new or emerging risks are identified, whether caused by changes in the scale or nature of operations, new products, new services, new customer types, etc.

#### **Development of Training and Awareness Programmes**

29. The Institution is required to provide training on AML/CFT compliance to board of directors, senior management, employees, agents or any other individuals authorized to act on behalf of the Institution.
30. Such training should consist of raising awareness of the internal policies and procedures for preventing ML/TF. The training programme should provide a clear understanding of Institution's AML/CFT compliance policies and procedures and the related individual's responsibilities.

### **PART III**

#### **CUSTOMER DUE DILIGENCE**

##### **Identification and Verification of Customer and Beneficial Owners**

31. Each Institution is required to conduct CDD on customers and beneficial owners, including occasional and one-off customers, when they engage in transactions.
32. If the Institution cannot satisfactorily apply due diligence measures in relation to a customer and/or beneficial owner, the Institution shall not carry out a transaction for that customer. Further, the Institution may also consider submitting an STR to the FIU.
33. If the actions of a customer appear as designed to deliberately avoid CDD requirements, then the Institution should consider submitting an STR to the FIU.
34. Customers and beneficial owners that are identified as high risk should be subject to enhanced due diligence measures such as additional scrutiny and verification of identification information and source of funds.

##### **CDD Measures for Dealers in Precious Metals and Dealers in Precious and Semi-Precious Stones**

35. The Dealers in precious metals and dealers in precious and semi-precious stones are required to conduct CDD when the dealer engages in any cash transaction with a customer in Sri Lankan Rupee or in any foreign currency equivalent to or above United States Dollars 15,000.
36. These cash transactions include domestic gemstone/jewellery sale or purchase, gemstones/jewellery imports or exports and, gemstone/jewellery sale or purchase using auctions and exhibitions.
37. CDD in general will be conducted as a minimum requirement. However, when it comes to situations where a customer is identified as of high risk with respect to ML and TF, the Institution should apply enhanced due diligence measures.

##### **CDD Measures for Agents in Real Estate Transactions**

38. The real estate agents are required to conduct CDD when they engage in transactions with customers in buying and selling of a real estate property.
39. Real estate agents should be extra cautious about customer/s identity as well as ultimate beneficial owner/s when conducting CDD as there is a possibility of using a front person for buying properties.
40. CDD should be conducted at the time of making an initial deposit or paying an advance for the property.

41. CDD should be conducted for all customers and beneficial owners who will be involved in the same property transaction. Ex. If there is a transfer of the sales agreement or selling that property to another customer or a buyer after making an advance/deposit or any other payment, CDD should be conducted for the new customer/s and beneficial owner/s who appear as new customer/buyer of the property and this should be continued until finalizing the property transaction by registration of the deed.

### High Risk Customers/Transactions

42. There are customers / types of transactions / products which may pose higher ML/TF risk to the Institution. In such a situation, the Institution is required to take additional measures. As examples;
- a) Any customer who has links with countries which do not or which insufficiently comply with the recommendations of the FATF (for High Risk and Non-Cooperative Jurisdictions please refer to FATF website (<http://fatf-gafi.org>);
  - b) Any customer linked with a country that has been identified by a national authority as a jurisdiction of concern for drug trafficking, human trafficking, money laundering, terrorism or illicit financing;
  - c) any country that has been identified by a reputable organization as having high levels of public corruption;
  - (a) Any customer who conducts a complex or unusual transactions, (whether completed or not), unusual patterns of transactions for the customer profile, transactions that match patterns associated with unlawful activity, and transactions which have no apparent lawful purpose;
  - d) Domestic and foreign PEPs to include their family members and close associates;
  - e) Any customer, transaction or product type that the Institution has identified as posing a higher risk to the business.

### Identification of Third Parties

43. The Institution must take reasonable measures to determine whether the Customer is acting on behalf of a third party, where the customer is an agent of the third party who is the beneficiary and/or who is providing the funds for the transaction. In cases where a third party is involved, the Institution must obtain information on the identity of the third party and their relationship with the customer, for CDD purposes.

## PART IV REPORTING

### Duty of Submitting Suspicious Transactions Reports

44. In making the assessment to submit an STR, the Institution may refer to the list of red flags as mentioned in Appendix II – for dealers in precious metals and stones/ Appendix IV – dealers in real estate. Industry-specific indicators would also help the Institution to better identify suspicious transactions whether completed or attempted.
45. Each Institution must pay attention to attempted suspicious transactions. If a customer attempts to conduct a transaction, but for whatever reason that transaction is not completed, and if the Institution determines that the attempted transaction is suspicious, the Institution must report it to the FIU.
46. The Institution shall submit STRs using the format as prescribed in Suspicious Transactions (Format) Regulations of 2017, Gazette (Extraordinary) No: 2015/56 dated April 21, 2017 (Schedule V).
47. The Compliance Officer should maintain a register of STRs.

### Reporting of Cash and Electronic Transactions

48. Every Institution is required to adhere to the requirements stipulated in Financial Transactions Reporting Regulations No. 1 of 2008, Gazette (Extraordinary) No: 1555/9 dated June 25, 2008.

## PART V RECORD KEEPING

49. The Institution shall take appropriate steps to put in place and maintain a system for record keeping as stipulated in the FTRA, which allows data to be retrieved easily and quickly whenever required, or when requested by the FIU.

## PART VI PENALTIES FOR NON-COMPLIANCE

50. Failure to comply with the legislative requirements shall lead to penalties. In addition, there may be other actions including regulatory and disciplinary measures against the Institution.

**Issued on 18 April 2018**

## APPENDIX I

**An Example of a Checklist for Institution's ML and TF Risk Assessments**

The following checklist is intended to provide an example of how to assess risk for your customers, products, services, delivery channels and geographic locations. This is only a starting point and your institution should customize the checklist according to your business. If you already use another risk assessment tool, you can continue to use it or enhance it as necessary.

If you answer yes to any of the questions below, you should consider it as higher risk for money laundering or terrorist financing. Risk-mitigation steps should be taken where appropriate.

	YES	NO	MITIGATION MEASURES
<b>Customer Risk</b>			
Do you have clients that:			
operate in a cash intensive business?			
reside outside Sri Lanka?			
are intermediaries or "gatekeepers" such as professionals that hold accounts for clients where the identity of the underlying client is not disclosed to you?			
are located in a known high crime rate area?			
the nature of their business makes it difficult to identify the true owners or controllers?			
are politically exposed persons?			
do not have an address or who have several addresses without justified reason?			
have a criminal record?			
have links to organized crime?			
<b>Product/Service Risk</b>			
Do you offer products or services that:			
make it difficult to fully identify clients?			
assist in the establishment of a company?			
	YES	NO	N/A
Do you:			
perform tasks for the purpose of concealing the client's beneficial owner?			
perform tasks of real estate transfer between clients in an unusually short time period without visible legal, economic or other justified reason?			
provide services linked with establishing, operating or managing of a shell company, company in nominal ownership?			
<b>Delivery Channels/Business Relationships Risk</b>			
Do you:			
conduct non-face-to-face transactions?			
Do you have business relationships that:			
involve complicated financial transactions?			
involve payments towards/from third persons and cross-border payments?			
involve high risk real estate transactions?			
involve cash payments?			
<b>Geographical Risk</b>			
Do you or your clients operate or undertake activities in			

the following countries:			
Any country subject to sanctions, embargoes or similar measures issued by the United Nations (UNSCR)?			
Any country identified as a financial secrecy haven or jurisdiction?			
Any country identified by the Financial Action Task Force (FATF) as non-cooperative in the fight against money laundering or terrorist financing or subject to a FATF statement?			
Any country identified by credible sources as lacking appropriate money laundering or terrorist financing laws and regulations or as providing funding or support for terrorist activities?			
Any country that is known to have significant levels of corruption, or other criminal activity?			

## APPENDIX II

### Anti-Money Laundering/Countering Financing of Terrorism Suspicious Indicators (Red Flags) for Gem and Jewellery Dealers

#### Customer and customer behavior:

- i. Customer executes transaction/transactions which is/are not consistent with his usual profile.
- ii. A frequent customer, who buy/sell precious stone/metal or jewellery products makes a transaction/transaction inconsistent with his usual financial status/profile.
- iii. Customer does not appear properly concerned about the value, size, quality and/or colour of the precious stone/metal or jewellery product.
- iv. Customer pays the value of the precious stone/metal or jewellery producing an unusual payment method.
- v. Customer conducts large or frequent transactions using foreign currency without any economic rationale.
- vi. Frequent transactions by a customer especially over a short period of time below the regulatory threshold for customer due diligence, however the total of such transactions is substantial.
- vii. Payments received for a purchase of a precious stone/metal or jewellery product from a third party who is not the owner of the funds, without any legitimate business purpose.
- viii. Customer is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping documents.
- ix. Customer is unusually concerned and/or makes inquiries about the AML/CFT requirements and internal compliance policies, procedures or controls.
- x. Customer attempts to maintain a high degree of secrecy with respect to transactions, for example by requesting not to keep normal business records.
- xi. Customer avoids answering questions related to the source of money to buy the precious stone/metal or jewellery product.
- xii. Customer is known to have a criminal/terrorism background.
- xiii. Customer appears to be related to a country or entity that is associated with ML/TF activities



**Supplier and supplier behaviour:**

- i. Supplier under/over invoice the value of the precious gemstone/metal.
- ii. Supplier uses third parties in transactions related to precious gemstones/metals. Ex: funds paid to a third party who is not related to the supplier without any legitimate business purpose
- iii. Precious stones/metals/jewellery products delivered from a third party who is not related to the supplier, without any legitimate business purpose.
- iv. Supplier is unable to provide information for due diligence and record keeping purposes
- v. Supplier is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping purposes.
- vi. The origin of the precious stones/metals/jewellery products appears to be fictitious
- vii. Supplier is unusually concerned with the AML/CFT requirements.
- viii. Supplier attempts to maintain a high degree of secrecy with respect to the transactions and requests not to keep the normal business records
- ix. Supplier is not willing to disclose beneficial owners or controlling interests.
- x. For Diamonds:
  - a. Rough Diamonds are not accompanied by a valid Kimberley Process (KP) certificate, or broadly recognized equivalent scheme for certification
  - b. Ex: No KP certificate attached to the shipment of rough diamonds
  - c. The KP Certificate is/appears to be forged
- xi. Supplier appears to be related to a country or entity that is associated with ML/TF activities or a person that has been designated as terrorist
- xii. Supplier transports precious stones/metal through a country which is associated with ML/TF activities, for no apparent economic reason.

**APPENDIX III****Case Studies as Examples of ML & TF through Dealing in Precious Metals and Precious and Semi Stones:****Case study 1 - Trading gold to legitimize the proceeds of drug trafficking**

The police of "country A" investigated that the illicit proceeds gained through drug trafficking has been used to purchase gold from "M Jewellers" by a drug dealer. These gold purchases were being done by a criminal organization and they have been buying gold from various gem and jewellery dealers using the illicit proceeds earned from the sale of drugs. Thereafter the acquired gold has been sold to many other jewellery shops.

The proceeds of the sale of this gold have been transferred to a third party of "country D" that had links to drug trafficking. By transferring these funds the drug dealer laundered his illicit proceeds by completing the money laundering cycle of placement, layering and integration.

**Case study 2 - Sale of Gems to another jurisdiction to fund terrorist activities**

It was observed that the "company A" operating in country D has been frequently sending representatives to "country M" offering purchases of precious gemstones above the local market prices. As a result, fund transfers have been observed from country D to country M with very large volumes. The purpose of the transaction indicated was purchase of gemstones. The funds were then withdrawn in the "country M" either as cash or cheque withdrawals immediately after the fund transfers. Later it was revealed that persons who withdrawn funds from "country M" had links with a known terrorist group and the funds has been used to fund terrorist activities.

## APPENDIX IV

### Anti-Money Laundering/Countering Financing of Terrorism Suspicious Indicators (Red Flags) for Real Estate Agents: (Red flags copied from relevant typologies)

#### Case study 1 - Trading gold to legitimize the proceeds of drug trafficking

- a) Customer procurements/purchases property in the name of a nominee such as an subordinate or a relative (other than a spouse), or in the name of minors or incapacitated persons or other persons who do not have the economic capacity to carry out such purchases.
- b) Customer does not want to put their name on any document that would connect them with the property or submit different names on offer letters to purchase, or closing documents and deposit receipts.
- c) Customer tries to hide the identity of the beneficial owner or requests that the transaction be structured to hide the identity of the beneficiary.
- d) Purchaser is a shell company and a representative of the company who do not like to disclose the identity of the beneficial owner.
- e) Address given by customer is unknown, believed to be false, or simply a correspondence address.
- f) Customer does not satisfactorily explain the last-minute substitution of the purchasing party's name.
- g) Customer pays substantial down payment in cash and balance is funded by an unusual source or offshore bank.
- h) Customer purchases property without inspecting it. It realizes that the customer needs to fund for the property and not much worries about the location or any other characteristic of the property.
- i) Customer purchases many properties in a short time period, and seems to have few concerns about the location, condition and anticipated repair costs, etc., of each property.
- j) Customer is known to have paid large remodeling or home improvement invoices with cash, on a property for which property management services are provided.
- k) Transaction does not match the business activity known to be carried out by the customer.
- l) Transaction is entered at a value significantly different (much higher or much lower) from the real or market value of the property.
- m) Property is sold in a series of successive transactions each time at a higher price between the same parties.
- n) Buyer takes on a debt significantly higher than the value of the property.
- o) Customer suddenly cancels / aborts transaction and requests refund either back to himself /herself / itself or to a third party.
- p) Customer pays for the purchase entirely in cash (to include electronic funds transfers), especially when such a purchase is large or does not match the known profile of the customer, and especially when the purchase funds are transferred from an offshore jurisdiction.

NB: The above list is only indicative and not complete or thorough.

## APPENDIX V

#### Case study 1: Real Estate Investments with Criminal Proceeds

Real estate transactions can be used by the money launders in every stage of the money laundering process.

Money laundering is a three-stage process of placement, layering and integration. The following case study is relevant to laundering money by placing proceeds of criminal activities in real estate activities.

An individual called X formed two firms in different countries called Firm A and Firm B in country C and D. X's intend was to conceal his involvement in these firms. Therefore, he used a person as front line and a trust to serve as legal representatives to hide his ownership. One of these firms was in real estate operations and the person appointed as the front line led the firm. By arranging a hedging facility (a back-to-back loan) to hedge against currency fluctuations in two countries he used illegally earned, drug proceeds to operate in these real estate investments. Also, he arranged a bank guarantee between two banks in case of a default of the loan. A banking guarantee was provided by a bank based on the pledged deposit of one of his companies as the collateral for the loan facility. The investigations revealed that the funds deposited for the guarantee was generated by X's drug trafficking activities.

Indicators and methods identified in the case:

- Unwillingness to provide information of the borrower and collateral provider was the main doubt for this case.
- The complex nature of loan arrangements and hedging instruments were involved to conceal layering of criminal proceeds.
- Different complex arrangements to conceal the real ownership of the firms.
- An unexpected loan default by the borrower built up the suspicious of real requirement of having a financial facility.

**Case study 2: Misuse of a real estate agent to gain introduction to a financial institution, possible link to terrorist financing**

A trustee for a trust established in abroad approached a real estate agent to buy a property in country X.

The real-estate agent made inquiries with the bank M to ask whether a loan could be granted. The bank rejected the application, as the use of trusts and non-financial professional services appeared to be purposely done to disguise the identity of the beneficial owner or the real owner. Based on this suspicion, the bank M submitted a suspicious transaction report (STR) to the Financial Intelligence Unit.

At the investigations it was found, one of the members of the board of the trust was found to be related to a bank with suspected links to a terrorist organization.

Indicators and methods identified in the scheme:

- Real estate transactions using trusts.
- Demanding for loan/mortgage facilities.
- Trying to use institutional setups such as bank, trust, real-estate agent.

*\*Appendices I-V include contents from publicly available AML/CFT resources*

Ref: 037/07/006/0004/018

19 April 2018

Guideline No. 04/18

To: CEO's of All Financial Institutions

### **GUIDELINES ON IDENTIFICATION OF BENEFICIAL OWNERSHIP FOR FINANCIAL INSTITUTIONS, NO. 04 OF 2018**

The above Guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 06 of 2006 and the Financial Institutions (Customer Due Diligence) Rules No. 01 of 2016.

**Director/ Financial Intelligence Unit**

Cc: Compliance Officers

### **GUIDELINES FOR FINANCIAL INSTITUTIONS ON IDENTIFICATION OF BENEFICIAL OWNERSHIP, NO. 04 OF 2018**

#### **Introduction**

1. This Guideline is issued pursuant to section 15(1)(i) of the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA).
2. The Financial Intelligence Unit of Sri Lanka (FIU), acting within the powers vested with it under the FTRA, issued the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016 (CDD Rules) by Gazette Extraordinary No. 1951/13, dated January 27, 2016, effective from the date of issue, applicable to institutions that engage in "finance business" as defined under Section 33 of the FTRA.
3. Rules 28-31, 48-50 of the CDD Rules established, inter alia, provisions requiring Financial Institutions (FIs) identified under the Rules to take appropriate measures to identify and verify the natural person(s) who are the ultimate "beneficial owners" of a customer that is a legal person or legal arrangement, as defined in Rule 99 of the CDD Rules.
4. This Guideline is provided as an aid to interpret and apply CDD Rules. The Guideline is not intended to be exhaustive and it does not impose legally binding practices on any FIs, and it does not constitute legal advice from the FIU. Nothing in this Guideline should be construed as releasing FIs from any of their obligations under the CDD Rules or the FTRA.

#### **II. Background/Context**

##### **Who is a beneficial owner?**

5. As per the Rule 99 of the CDD Rules, the "beneficial owner" of the legal person or legal arrangement is a natural person who ultimately owns or controls a customer or the person on whose behalf a transaction is being conducted including the person who exercises ultimate effective control over a legal person or a legal arrangement. According to Rule 49, controlling ownership interest means an interest acquired by providing more than ten percent (10%) of the capital of a legal person.

6. It is an FI's obligation to determine the natural person(s) who is/are the ultimate beneficial owner(s). The ultimate beneficial owner must be a natural person and cannot be a company, an organization or a legal arrangement. There may be more than one beneficial owner associated with a customer.
7. If the customer is a natural person, the person can be treated as the beneficial owner unless there are reasonable grounds to show that he is acting on behalf of another or if another person is the beneficial owner of the property of the customer.

#### **Why is it important to identify the beneficial owner?**

8. Corporate entities such as companies, trusts, foundations, partnerships, and other types of legal persons and arrangements conduct a wide variety of commercial and entrepreneurial activities. However, despite the essential and legitimate role that corporate entities play in the economy, under certain conditions, they have been misused for illicit purposes, including money laundering (ML), bribery and corruption, insider dealings, tax fraud, terrorist financing (TF), and other unlawful activities. This is because, for criminals trying to circumvent anti-money laundering (AML) and countering the financing of terrorism (CFT) measures, corporate entities provide an attractive avenue to disguise the ownership and hide the illicit origin.
9. Various studies conducted by Financial Action Task Force (FATF), World Bank, United Nations Office on Drugs and Crime (UNODC) have explored the misuse of corporate entities for illicit purposes, including for ML/TF. In general, the lack of adequate, accurate and timely beneficial ownership information facilitates ML/TF by disguising:
  - a) the identity of known or suspected criminals,
  - b) the true purpose of an account or property held by a corporate entities, and/or
  - c) the source or use of funds or property associated with a corporate entities.

#### **Ways in which beneficial ownership information can be hidden/obscured**

10. Beneficial ownership information can be obscured through various ways, including but not limited to;
  - a) use of shell companies<sup>1</sup> (which can be established with various forms of ownership structure), especially in cases where there is foreign ownership, which is spread across jurisdictions,
  - b) complex ownership and control structures involving many layers of ownership, sometimes in the name of other legal persons and sometimes using a chain of ownership that is spread across several jurisdictions,
  - c) bearer shares and bearer share warrants,
  - d) use of legal persons as directors,
  - e) formal nominee shareholders and directors where the identity of the nominator is undisclosed,
  - f) informal nominee shareholders and directors, such as close associates and family,
  - g) trust and other legal arrangements, which enable a separation of legal ownership and beneficial ownership of assets,
  - h) use of intermediaries in forming legal persons, including professional intermediaries such as accountants, lawyers, notaries, trust and company service providers,

### **III. Establishing the Beneficial Owner**

#### **A) Beneficial owner of Legal Persons**

11. As per Rule 99 of the CDD Rules, "legal person" means any entity other than a natural person that is able to establish a permanent customer relationship with a financial institution or otherwise owns property and includes a company, a body corporate, a foundation, a partnership or an association.
12. In the process of identifying beneficial owner(s) of a legal person, FIs have to consider three main elements:
  - a) Which natural person(s) owns or controls more than ten percent (10%) of the customer's equity?
  - b) Which natural person(s) has "effective control" of the legal person?
  - c) On behalf of which natural person(s) the transaction is being conducted?
13. The beneficial owner(s) of a customer (legal person) may satisfy one or more of the three elements identified above. Accordingly, it would not be sufficient to simply apply only the ownership element in determining beneficial ownership.

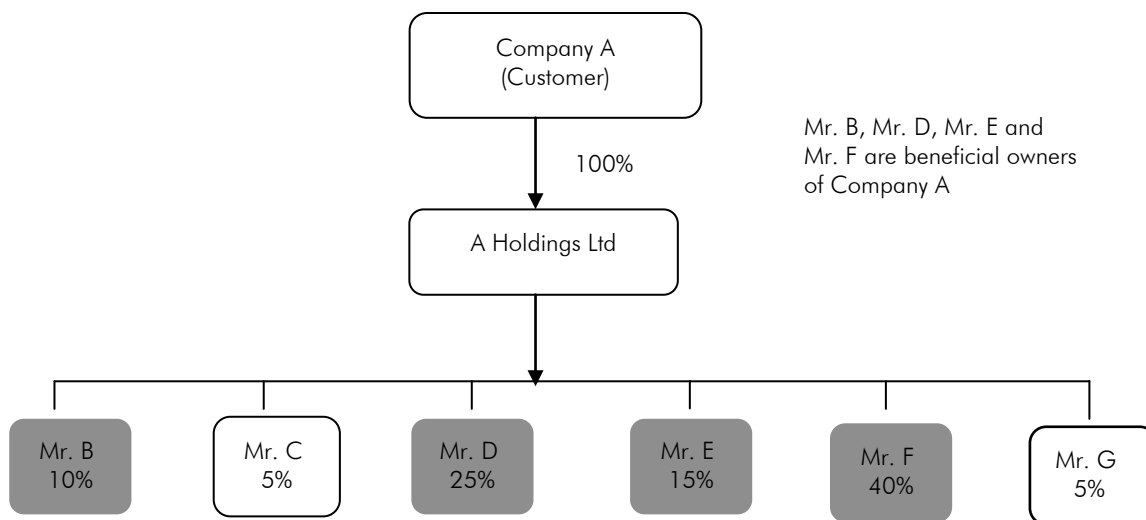
#### **Ownership**

14. As per Rules 28 and 48, FIs are required to understand the ownership and control structure of their customers when the customer is not a natural person. According to Rule 49, the prescribed threshold for controlling interest is interpreted

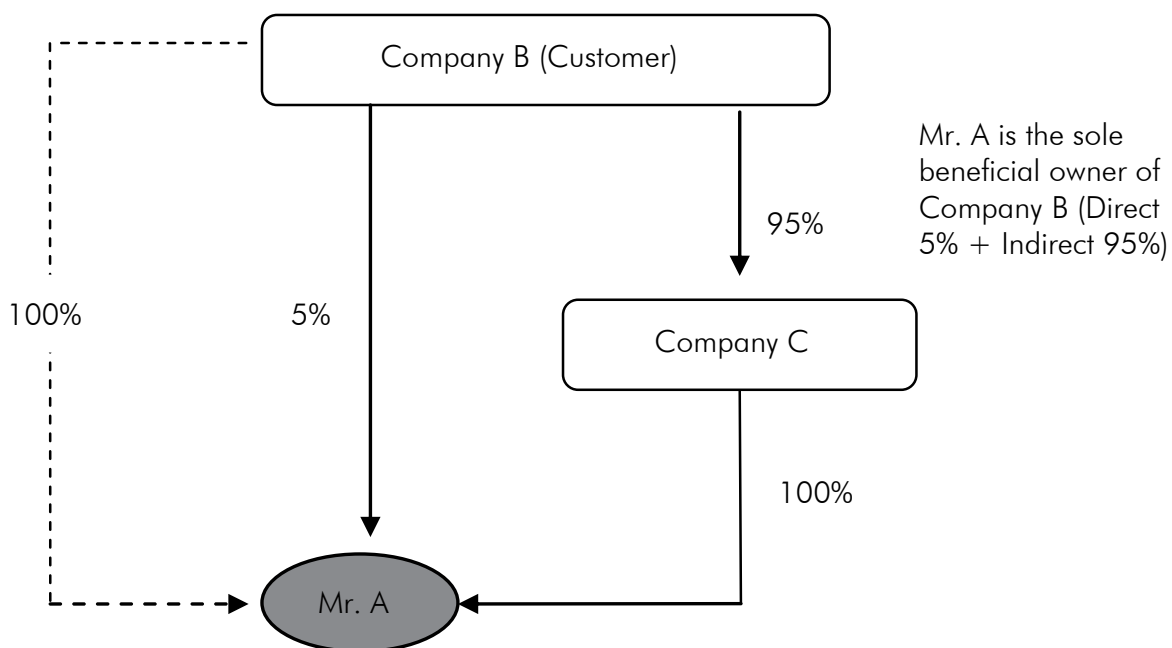
<sup>1</sup> Shell companies are companies that are incorporated with no significant operations or related assets, including an absence of physical presence

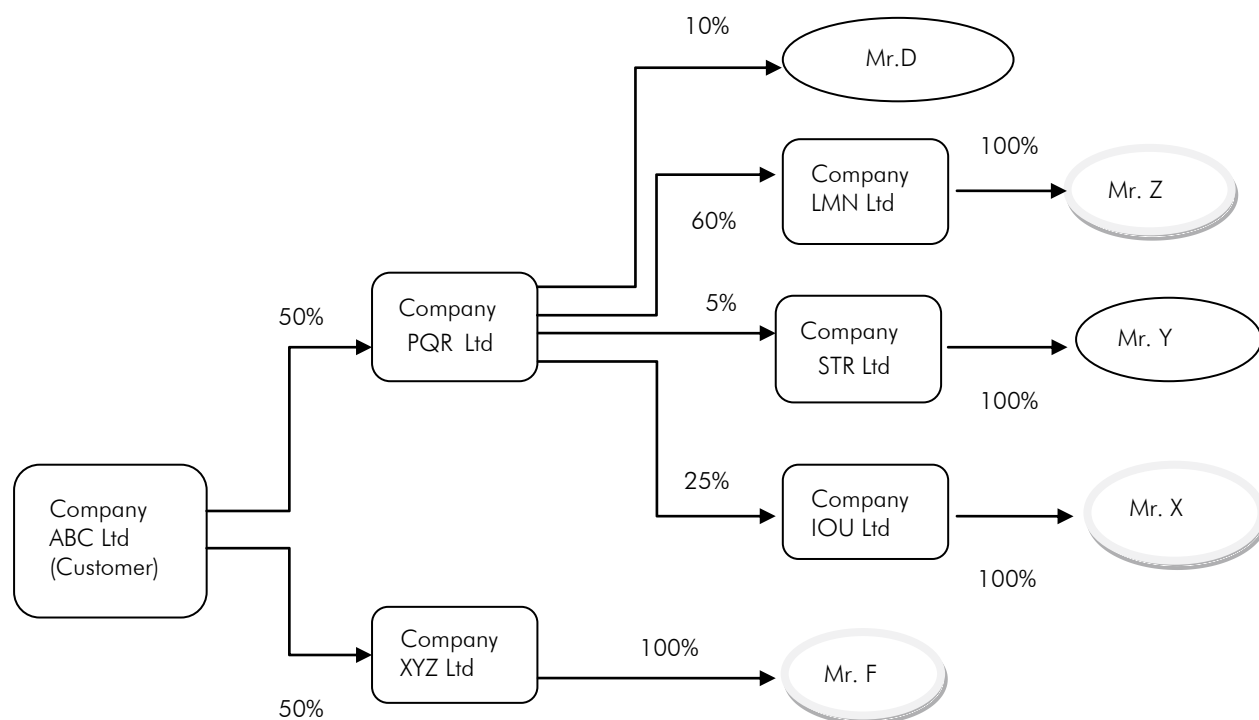
as owning more than ten percent (10%) of the customer. The ownership could be direct as well as indirect through aggregated ownership as illustrated below.

**Figure 1: Simple Indirect Shareholding**



**Figure 2: Direct and Indirect Share Holdings**



**Figure 3: Multi-level indirect shareholdings**

Mr. F, Mr. X and Mr. Z are beneficial owners of Company ABC through indirect shareholding

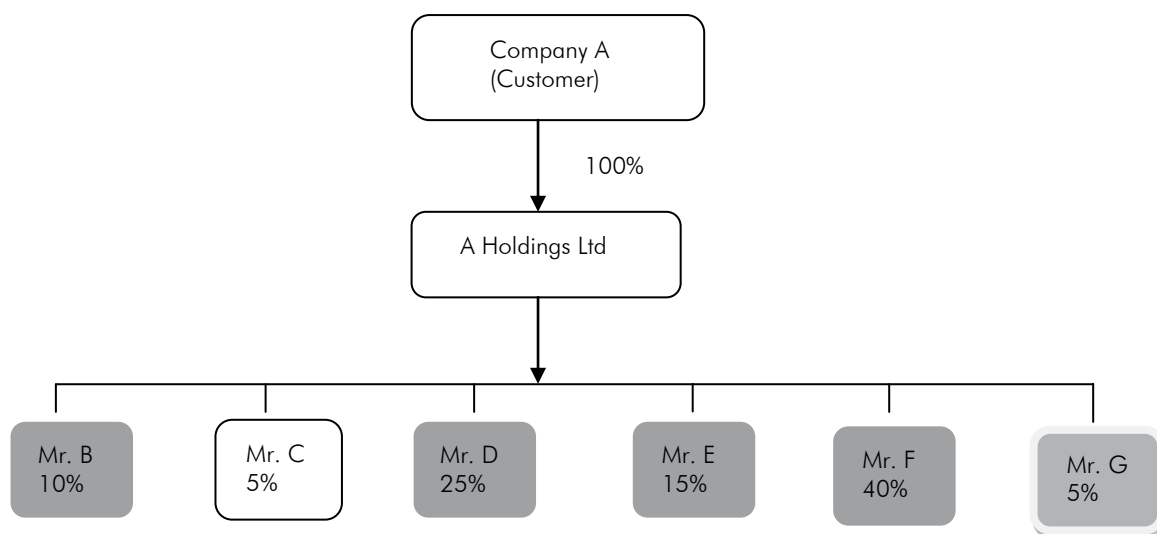
15. A natural person that exercises control over a controlling portion of equity interest, either directly, via nominees or via family members or close associates (whether disclosed or undisclosed) who nominally own or control the shares, can be considered as a beneficial owner. A majority shareholder or a majority formed by some combination of shareholders that are nominees for a natural person is also a beneficial owner.
16. For some customers, ownership may be spread over a large number of individuals with all individual owning less than ten percent (10%). In such instance, because no individual(s) owns more than ten percent (10%), the effective control element outlined below would be more appropriate to determine the beneficial owner(s)/controller(s).

### Effective Control

17. Effective control of a legal person is an important component that determines the beneficial ownership. Such control can be direct or indirect, formal or informal. At a direct and formal level, it is essential to understand the customer's governance structure as an aid in identifying those natural persons that exercise effective control over the customer. In deciding the effective controller(s) in relation to a customer, FIs should consider,
  - a) a natural person who can hire or terminate a member of senior level management;
  - b) a natural person who can appoint or dismiss Directors;
  - c) Senior managers who have control over daily/regular operations of the legal person/arrangement (e.g. a CEO, CFO or a Managing Director).
18. Natural persons may also control the legal person through other means such as:
  - a) Personal connections to persons in positions such as Executive Directors/ CEOs/ Managing Director or that possess ownership;
  - b) Significant authority over a legal person's financial relationships (including with financial institutions that hold accounts on behalf of a legal person) and the ongoing financial affairs of the legal person;
  - c) Control without ownership by participating in the financing of the enterprise, or because of close family relationships, historical or contractual associations, or if a company defaults on certain payments;

- d) Use, enjoyment or benefiting from the assets owned by the legal person even if control is never exercised.

**Figure 4 : Effective Control**



Mr. G is the managing director of the ABC Bank, which is the main financing source of the company A. In such a situation even if Mr. G holds less than ten percent (10%) of Company A, he has effective control over the company A through ABC Bank and should be considered as a beneficial owner through effective control.

#### Person on whose behalf a transaction is being conducted

19. Another aspect of the definition of beneficial ownership is a person on whose behalf a transaction is conducted. This may be the individual who is an underlying client of the customer. An example is, if a FI knows that person 'A' is conducting an occasional transaction on behalf of person 'B', and then person 'A' and person 'B' should be identified and verified along with any other beneficial owners that may be a party to transaction.
20. Acting on behalf of the customer is when a person is authorized to carry out transactions or other activities on behalf of the customer. However, 'Authority to act' should not be confused with effective control.
21. There are instances where persons are acting on behalf of a customer may not necessarily be the beneficial owners of that customer.
22. As per Rule 29, the FI has to identify the natural persons that act on behalf of the customer and verify the identity of such persons. The authority of such person to act on behalf of the customer also should be verified through documentary evidence including specimen signatures of the persons so authorized.

#### B) Beneficial owner of legal arrangements

23. As defined under Rule 99, legal arrangement includes an express trust, a fiduciary account or a nominee.
24. All trusts have the common characteristic of causing a separation between legal ownership and beneficial ownership. Legal ownership always rests with the trustee. Beneficial ownership can rest with the author of trust, trustees or beneficiaries, jointly or individually.
25. As per Rule 50, FIs should identify and take reasonable measures to verify information about a trust, including, the identities of the author of the trust, the trustees, the beneficiary or class of beneficiaries and any other natural person exercising ultimate effective control over the trust (including those who control through the chain of control or ownership).
26. FIs are required to obtain trust documents (e.g. deed of trust, instrument of trust, trust declaration, etc.) and the provisions of the trust document must be fully understood within the context of the laws of the governing jurisdiction. The FIs should take reasonable measures to verify trust document through independent means (e.g. Registry of Trust, Notary)

**Example:**

Person 'A' is the author of a trust for the benefit of his child. The trustee seeks to establish a relationship with a financial institution to help manage the assets of the trust. Even though the trustee is the controller of the assets of the trust he may not be the ultimate beneficial owner and the main focus of CDD should include person 'A' as well.

**IV. Identification and Verification of beneficial ownership information**

27. As per Rule 30, FIs should obtain information to identify and take reasonable measures to verify the identity of the beneficial owner(s) of the customer using relevant information or data obtained from a reliable source, adequate for the FIs to satisfy itself that it knows who the beneficial owner(s) is.
28. Accordingly, the identification of beneficial owner is mandatory. Once the FI establishes who the beneficial owner(s) of a customer is/are, the FI must collect at least the following information in relation to each individual beneficial owner:
  - a) full name;
  - b) official personal identification or any other identification number;
  - c) permanent/ residential address.
29. As per Rule 31, FI is required to verify the identity of the beneficial owner before or during the course of entering into a business relationship with, or conducting a transaction for an occasional customer.
30. Accordingly, once the identity is established, the FIs have to take reasonable measures to verify the identity of the beneficial owner(s). The reasonable measures for verification should be determined subject to the risk and complexities of the ownership and control structure of the legal person or arrangement.
31. Simplified verification procedures can be applied for verification of beneficial ownership of legal persons that are already subject to rules regarding corporate governance and transparency such as those that apply to firms with shares that publicly trade on a well-regulated exchange, or with simple and locally-familiar ownership structures or legal persons who are expected to conduct low risk transactions.
32. For the verification of beneficial ownership, some of the documentation that FIs can rely on may include (but not limited to) the following:
  - a) Share register,
  - b) Annual Returns,
  - c) Trust deed,
  - d) Partnership agreement,
  - e) The constitution and/or certificate of incorporation for an incorporated association,
  - f) The constitution of a registered co-operative society,
  - g) Minutes of the board of directors meetings,
  - h) Information available through open-source search or commercially available databases.
33. In case of foreign legal persons and arrangements FIs may also has to take additional measures such as verification through mother company or branches, correspondence bank, other agents of the bank, corporate registries etc.
34. As per Schedule I of the CDD Rules, in the case of companies listed on the Stock Exchange of Sri Lanka licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 or any other stock exchange subject to disclosure requirements ensuring adequate transparency of the beneficial ownership, FIs can use relevant identification information available from reliable sources (e.g. a public register) to identify the Directors and major Shareholders.
35. As per Rule 49 (d), FIs have to identify the natural persons holding senior management positions as beneficial owners when FIs are unable to determine the beneficial owner as there is no person owning more than ten percent (10%) of the customer's equity or no individual exercising control over the customer.

**Periodic Review of Information**

36. As per Rule 40, FIs should periodically review the adequacy of information obtained in respect of beneficial owners to ensure that the information is up to date. The review period and procedures thereof should be decided by each FI in its internal AML/CFT Policy according to the risk-based approach.
37. Any material/significant change in customer circumstances may necessitate a review of beneficial ownership. Some examples of material/significant changes include:
  - a. a public company is taken private;



- b. a shareholder or group of shareholders takes effective control of voting shares;
- c. a new partner is added, or an existing partner is removed;
- d. change in management positions;
- e. new trustees are appointed;
- f. a trust is dissolved;
- g. a new account is opened for the same customer;
- h. transactions are attempted that are inconsistent with the customer's profile.

#### **Delayed Verification**

38. As per Rules 31 and 32, FIs are allowed to delay the verification of identity of beneficial owners when,
- a. risk level of the customer is low and verification is not possible at the point of entering into the business relationship,
  - b. there is no suspicion of money laundering or terrorist financing risk involved,
  - c. delay will not interrupt the normal conduct of business.
39. As per Rule 33, when delayed verification is allowed, FIs should adopt risk management procedures relating to the conditions under which the customer may utilize the business relationship prior to verification. These procedures should include a set of measures, such as a limitation of the number, types and/or amounts of transactions that can be performed and the monitoring of large or complex transactions being carried outside the expected types of transactions for that relationship.
40. As per Rule 36, FIs should not establish a business relationship or conduct any transaction with a customer who poses a high money laundering and terrorist financing risk, prior to verifying the identity of the beneficial owner.
41. As per Rule 35, when an FI is unable to comply with CDD measures as required in CDD Rule including identification and verification of beneficial ownership information, the FI should not enter into the business relationship or perform the transaction with new customers and terminate the business relationship with existing customers and consider making a suspicious transaction report in relation to the customer.

#### **V. Other Requirements**

##### **Declaration of beneficial ownership by the customer**

42. FIs may obtain beneficial ownership information either by obtaining the required information on a standard certification form (Certification Form (Appendix I) or by any other means, up to the satisfaction of the FIs with regard to the identification of the beneficial owner(s).
43. Use of the form is optional and FI may substitute this form with a version that is suitable, whether paper or electronic, so long as the required information is collected, protected, preserved and made available to competent authorities upon request and records are maintained in accordance with the CDD Rules and FTRA.
44. FIs are required to document the procedure to be followed in the identification and verification of beneficial ownership requirements relating to legal persons and arrangements in the AML/CFT Policy approved by the Board of Directors.

##### **Record Keeping Obligations**

45. The FIs are required to maintain records of identification and verification information relating to beneficial ownership as prescribed under Part V of the CDD Rules and FTRA.

##### **Beneficial owners who are Politically Exposed Persons (PEPs)**

46. As per Rule 59, FIs are required to implement appropriate internal policies, procedures and controls to determine if the beneficial owner is a politically exposed person. Through such process if the FI identifies any beneficial owner as a PEP, the relationship should be considered as high risk and subject to enhanced due diligence as required in the CDD Rules.

##### **Sanctions**

47. Failure to comply with the beneficial ownership requirements as required under the CDD Rule will be a violation of the Section 2 (3) of the FTRA and will be punishable under Section 19 of FTRA.

#### **VI. Examples**

##### **Example 1: Record for ownership and control structure of a legal person**

ABC Company Ltd. is a private limited liability company registered under the Companies Act, No. 7 of 2007. Mr. A owns 25% of the shares and BC Company Ltd. owns the balance 75% of shares of ABC. Mr. S is Managing Director of ABC Company

and; the Board of Directors consists with his wife, Mrs. S, ABC's Chief Financial Officer; and their three children.

In this example, FIs required to record:

- the ownership of the Company - shared by Mr. A (25% of the shares) and BC Company Ltd. (75% of the shares);
- the ownership structure of the entity - ABC Company Ltd. is a privately traded.
- the identification of all members the Board of Directors (Mr. S's Family) as they are having effective control;
- Identification of Mr. A as he is having more than 10% of ownership
- identification of all of the individuals who own or control, directly or indirectly, 10% or more of the shares of BC Company Ltd since it owns 75% of the shares, it also exercises control. However, in a case like this, FI must research further to determine whether any individual owns enough shares of BC Company Ltd. that would constitute 10% of ABC Company Ltd., or until FI determine that there is no such individual;
- the manner in which FI obtained this information; and
- the measures taken to verify accuracy of information.

#### Example 2 : Record for ownership and control structure of partnership

Rainbow Property Developers is a partnership engaged in buying and selling of real estate in Western Province owned by two partners (Mr. T and Mr. J). Mr. T and Mr. J have signed a partnership agreement stating that Mr. T will invest Rs. 5,000,000 in the partnership to rent space for the Rainbow Property Developers and other administrative expenses, and Mr. J will be solely responsible for operations of the business. All decisions related to the partnership must be unanimous; in case of a disagreement, either partner can decide to end the partnership. Mr. T & Mr. J will split the profits from the business 50/50. If they decide to end the partnership, Mr. T will get 55% of the proceeds of the sale of the business assets, while Mr. J will get 45%.

In this example FI, is required to record:

- the ownership structure of the entity, including the details of the partnership between Mr. T & Mr. J;
- identification of Mr. T and Mr. J as both control the partnership;
- the manner in which, the FI obtained this information; and
- the measures taken to confirm accuracy of information.

Note: The business structure is important in this example as the ownership and control of the partnership is shared between Mr. T & Mr. J. The FI needs to retain a copy of the partnership agreement to meet record keeping requirements as well as confirm the accuracy of the beneficial ownership information obtained. In the absence of such agreement it should be recorded that the partnership exists between Mr. T and Mr. J without having a written agreement.

Issued on April 19, 2018

## APPENDIX I - Beneficial Ownership Form

Declaration of Beneficial Ownership	
<i>This form has been issued under the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 issued in terms of the Section 2(3) of the Financial Transactions Reporting Act No 6 of 2006. This form, or an approved equivalent, is required to be completed by customers of financial institutions designated under the Act to the best of their knowledge. The original completed and signed and witnessed version of this form must be retained by the financial institution and available to the competent authorities upon request.</i>	
<b>Customer Identification:</b>	
Name and Designation of Natural Person Opening Account	
Name, Reg. No. and Address of Legal person for Which the Account is Being Opened	
Name, Deed No., Trustee and Address of Legal arrangement for Which the Account is Being Opened	
I declare that I:	
<input type="checkbox"/>	am the sole beneficial owner <sup>2</sup> of the customer for this account.

<sup>2</sup> beneficial owner as "a natural person who ultimately owns or controls a customer or the person on whose behalf a transaction is being conducted and includes the person who exercises ultimate effective control over a person or a legal arrangement."

<input type="checkbox"/> am not the beneficial owner* of the customer of this account. Complete identifying information for all beneficial owners that own or control 10% or more of the customer's equity, beneficial owners on whose behalf the account is being operated, and at least one person who exercises effective control of the legal entity regardless of whether such person is already listed.					
Name	NIC or Passport # /Country of Issue/Country of Citizenship	Date of Birth	Current Address	Source of Beneficial Ownership (1=Equity (indicate %), 2=Effective Control, 3=Person on Whose Behalf Account is Operated)	Check if Politically Exposed Person (PEP) <sup>3</sup>
					<input type="checkbox"/>
					<input type="checkbox"/>
					<input type="checkbox"/>
					<input type="checkbox"/>
<b>Details of the Natural person Authorized to Act on Behalf of the Customer</b>					
Name :					
NIC/Passport :					
Date of Birth :					
Signature : (By signing you attest to the veracity of all information contained herein)					
<b>Verification of Beneficial Ownership</b>					
<b>Authorized Financial Institution Official</b>					
Name :					
Title :					
Date :					
Signature and Seal: (by signing, you attest that you have identified the Customer whose signature is on this form and have witnessed said signature)					

Ref: 037/06/001/0001/016

26 April 2018

**Circular – 01/18**

To: Chief Executive Officers of Licensed Banks/Licensed Finance Companies

Dear Sir/Madam,

**PROCEDURE OF CONDUCTING RISK BASED ONSITE EXAMINATIONS**

The Financial Intelligence Unit (FIU) has taken measures to strengthen the process of AML/CFT supervision in order to rectify the gaps identified in Mutual Evaluation Report of 2015. Accordingly, onsite examinations of licensed banks and licensed finance companies will be conducted under risk based approach in terms of the Financial Institutions (Customer Due Diligence) Rules, No.1 of 2016 and the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA). The following steps will be adopted with regard to the said examinations.

- a) The Director FIU will inform the Chief Executive Officer of the relevant financial institution in writing about the commencement of an examination in terms of Section 15(1) (e) read with Section 18 of the FTRA.

3. "politically exposed person" means an individual who is entrusted with prominent public functions either domestically or by a foreign country, or in an international organization and includes a Head of a State or a Government, a politician, a senior government officer, judicial officer or military officer, a senior executive of a State owned Corporation, Government or autonomous body but does not include middle rank or junior rank individuals

- b) Examiners will visit the head office/ selected branches of the financial institution to conduct the onsite examination.
- c) Supervisory concerns, if any, will be communicated to the financial institution after completing the examination.
- d) Failure to comply the provisions of the FTRA and Directions, Regulations and Rules issued thereunder will be dealt with in accordance with the Section 19 of the FTRA.

Circular No. -01/17 issued on 17.01.2017 is hereby revoked without prejudice to anything previously done thereunder.

Yours faithfully,

**Acting Director  
Financial Intelligence Unit**

**cc : Compliance Officers of All Licensed Banks and Licensed Finance Companies**

**Ref: 037/04/010/0002/017**

18 May 2018

**Guideline No. 05/18**

To: CEO / General Managers of All Financial Institutions and Designated Non-Finance Businesses and Professions

### **GUIDELINES NO. 5 OF 2018 ON IMPLEMENTING UNITED NATIONS (SANCTIONS IN RELATION TO DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA) REGULATIONS OF 2017**

The above Guideline will come into force with immediate effect and shall be read together with the United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017, Financial Institutions (Customer Due Diligence) Rules No.01 of 2018 issued under Section 2(3) of the Financial Transactions Reporting Act No 06 of 2006.

**Acting Director  
Financial Intelligence Unit**

Cc: Compliance Officers

### **GUIDELINES, NO. 5 OF 2018 ON IMPLEMENTING UNITED NATIONS (SANCTIONS IN RELATION TO DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA) REGULATIONS OF 2017**

#### **Introduction**

- (1) The Minister of Foreign Affairs, acting within the powers vested with him under the United Nations Act, No 45 of 1968, issued the United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017 by Gazette Extraordinary No. 2039/32, dated October 06, 2017 (hereinafter referred to as DPRK Regulations), effective from the date of issue, applicable to Institutions which engage in "finance business" and "designated non-finance businesses" as defined under Section 33 of the Financial Transactions Reporting Act, No. 6 of 2006 (hereinafter referred to as Institutions).
- (2) The present guidelines are issued by the Financial Intelligence Unit (FIU) to be adhered by Institutions, in accordance with the provisions of the DPRK Regulations, to facilitate their compliance with the provisions of the DPRK Regulations, and the effective implementation of the same in Sri Lanka.
- (3) These guidelines will come into force with immediate effect and are required to be read together with the Financial Transactions Reporting Act, No. 06 of 2006 and the DPRK Regulations.
- (4) DPRK Regulations restrict any individual or entity located in Sri Lanka, or Sri Lankan individuals and entities located within or outside the jurisdiction of Sri Lanka, from carrying out financial transactions and providing financial services for a list of 'designated individuals and entities' (hereinafter referred to as designated persons), as well as for any individual or entity who may be involved in activities defined under the 'Prohibited Activities' of DPRK Regulations.

#### **Setting up a Screening Mechanism for Designated Persons, Designated Items and Luxury Items**

- (5) Institutions are required to follow a two stage approach to comply with the DPRK Regulations.
  - (i) First stage is the screening of their customers against the consolidated list of designated persons, and any person (natural or legal) acting on behalf of designated persons.
  - (ii) Second stage is identifying transactions and financial services which are related to designated items, luxury items and prohibited activities.

- (6) As per DPRK Regulation 19 (3), the Competent Authority has published the first list of designated persons by Extraordinary Gazette No. 2067/14 dated April 19, 2018. It contains 70 individuals and 54 entities which are designated by the UN Security Council and the Security Council Committee Established Pursuant to Resolution 1718 (hereinafter referred to as the DPRK Committee). This list is frequently updated by the DPRK Committee, and the consolidated updated list is available in DPRK Committee's web site <https://www.un.org/sc/suborg/en/sanctions/1718/materials> (as PDF, XML or HTML). As per DPRK Regulation 19 (4), the FIU will inform the Institutions by email, whenever there is an update to the consolidated designated list. The link to the updated list is also available in the 'UN Sanction -> Sanctions on Proliferation' section of the FIU web site.
- (7) Institutions are required to maintain a complete, accurate and up to date customer details database in electronic form (computer based) to ensure effective screening process.

#### **Screening of Customer Base against Designated Persons List**

- (8) Whenever there is a notification by the FIU on updates to the designated persons list, Institutions are required to obtain the updated list from the DPRK Committee's web site, and perform a full screening of their customer base against the list. Institutions are advised to utilize a combination of name, date of birth, nationality, passport/NIC number and address for the search process. As there could be subtle differences between the list contents and customer data in Institutions' database, a phonetic search is recommended for an effective search.
- (9) Institutions are required to regularly obtain the updated designated persons list from the DPRK Committee's web site, and use it for screening process. Whenever there is a new account opening for a new customer, the details of that customer are required to be screened against the designated list, and the Institutions are required to ensure that the customer is not a designated person. Similarly, whenever a transaction is carried out for any customer, Institutions are required to screen the sender and receiver of the transaction against the designated list, and ensure that no designated persons are involved.
- (10) Institutions are required to develop processes to identify the beneficiaries of their accounts, and apply the same procedure described in these guidelines 8 and 9, to ensure that no designated persons are beneficiaries of the funds, accounts or other assets. Such processes are required to be developed so as to identify the beneficiaries wherever possible, and the Institutions are required to be able to demonstrate, if required, that the best efforts within the capacity of Institutions have been made to identify the beneficiaries of the funds, accounts or other assets.

#### **Identification of Transactions and Financial Services related to Designated Items, Luxury Items and Prohibited Activities**

- (11) As per DPRK Regulation 4 (2), the Competent Authority has published the first list of designated items and luxury items by Extraordinary Gazette No. 2067/14 dated April 19, 2018. Similar to the designated persons list, FIU will inform the updates to the designated and luxury items list to Institutions by email. The link to the updated list is also available in the 'UN Sanctions -> Sanctions on Proliferation' section of the FIU web site. When doing trade transactions, Institutions are required to ensure that no designated item or luxury item is involved in a trade transaction where DPRK individual or entity (regardless of whether they are designated or not, including the government of DPRK) is a party or beneficiary. For that, Institutions are required to be vigilant of transactions where trade is from/to DPRK or its neighboring countries, and get more information regarding the trade.
- (12) Institutions are required to pay special attention to DPRK Regulation 10 and obtain more details about the end users when providing financial services or transferring financial assets or other assets to any person or entity, to ensure that such services or transfers are not related to ballistic missile related or other Weapons of Mass Destruction (WMD - chemical, biological, radioactive and nuclear) related activities, or prohibited activities defined in DPRK Regulations.
- (13) As per DPRK Regulation 11, Institutions are required not to provide public and private financial support to a person engaged in any trade with DPRK individuals or entities (regardless of designated or not, including government of DPRK). Furthermore, Institutions are required to not establish any correspondence relationships with DPRK financial institutions.

#### **Freezing of Funds, Accounts and Other Assets**

- (14) The Competent Authority has issued the freezing order by the Extraordinary Gazette No. 2071/03 dated May 14, 2018 to freeze the funds, accounts and other assets of designated persons. Accordingly, Institutions are required to screen their customers regularly and immediately freeze such funds, accounts and other assets maintained with the Institutions, upon identifying designated persons.
- (15) In order to ascertain whether a customer is a designated person, Institutions are required to utilize the customer identification information obtained under Customer Due Diligence (CDD), as well as other publicly available information.

- (16) If Institutions cannot determine whether a customer is a designated person, due to the lack of information available in the designated list for that individual or entity, Institutions may contact FIU to obtain more details.
- (17) After freezing the funds and other assets of designated persons, Institutions are required to immediately inform the Competent Authority and the FIU about the freezing actions including customer details and nature of the funds. After that, Institutions are required to make reasonable efforts to inform the customer immediately about the freezing of assets.
- (18) Institutions can allow deposits to the frozen accounts, provided that such deposits are also frozen in the account. Competent Authority may issue an order to lift the freeze of an asset for specific situations, and the Institutions are required to immediately adhere to such order.
- (19) If a customer whose assets are frozen, claims that he has been falsely identified as a designated person due to identical identity, Institutions are required to direct such customer to make a request to the Competent Authority and the FIU to lift the freeze.
- (20) If Institutions identify a designated person in a transaction or financial service who is not a customer of Institutions (hence no assets to be frozen), Institutions are required to not carry out the transaction or financial service, and inform the Competent Authority about the particulars of such activity, and submit an STR to the FIU regarding the same.

#### Miscellaneous

- (21) If Institutions has doubts whether a particular customer is a designated person, and require additional details from the customer to ascertain that, Institutions are required to get such information from the customer in a way that would not 'tip off' the customer. Such inquiry from the customer is required to be made after applying procedures to secure the funds, account or other asset to prevent the flight of assets.
- (22) Institutions are required to make efforts to make their staff aware of above requirements, especially on how to identify trade transactions related to proliferation of WMD.
- (23) Any person who contravenes the provisions in DPRK Regulations related to assets freezing and other prohibited activities shall be guilty of an offence and shall, on conviction by the High Court, be liable to imprisonment for a period of two to five years, and/or to a fine not exceeding rupees one million.
- (24) Any person who contravenes the provisions in DPRK Regulations related to providing notices to the Competent Authority, FIU and customers of frozen assets, shall be guilty of an offence and shall, on conviction by the High Court, be liable to imprisonment for a period not exceeding one year, and/or to a fine not exceeding rupees five hundred thousand.

Ref: 037/03/011/0001/018

06 August 2018

#### Guideline No. 06/18

To: CEO's of All Financial Institutions

### GUIDELINES FOR FINANCIAL INSTITUTIONS ON SUSPICIOUS TRANSACTIONS REPORTING, NO. 06 OF 2018

The above mentioned Guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 06 of 2006 and the Suspicious Transactions (Format) Regulations of 2017.

**Director**  
**Financial Intelligence Unit**

Cc: Compliance Officers

### GUIDELINES FOR FINANCIAL INSTITUTIONS ON SUSPICIOUS TRANSACTIONS REPORTING, NO. 06 OF 2018

#### Introduction

1. These Guidelines are issued pursuant to section 15(1)(i) of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) applicable to Financial Institutions that engaged in or carrying out "finance business" as defined in Section 33 of the FTRA.
2. Suspicious Transactions (Format) Regulations of 2017 was issued on dated April 21, 2017 by Gazette Extraordinary No. 2015/56 applicable to Institutions which include institutions that engaged in or carrying out "finance business" as defined in Section 33 of the FTRA. These Guidelines are provided as an aid to interpret and apply Suspicious Transactions

(Format) Regulations of 2017. These Guidelines are not intended to be exhaustive and do not constitute legal advice from the Financial Intelligence Unit (FIU). Nothing in these Guidelines should be construed as relieving Financial Institutions from any of their obligations under the Suspicious Transactions (Format) Regulations of 2017 or the FTRA.

3. The quality of a Suspicious Transaction Report (STR) is important in increasing the effectiveness of the quality of analysis and investigations undertaken by FIU and law enforcement agencies relating to such STR which would assist in preventing abuse of the Sri Lankan financial system by criminals and terrorists. Quality, in this sense, means reports should be based on results from an AML/CFT programme that is effectively implemented and that the content in reports are complete, accurate and latest. This guideline aims at assisting Financial Institutions in improving the quality of STRs submitted.

### Legal Obligation

4. Section 7 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) requires:  
Where an Institution—
  - (a) has reasonable grounds to suspect that any transaction or attempted transaction may be related to the commission of any unlawful activity or any other criminal offence; or
  - (b) has information that it suspects may be relevant—
    - (i) to an act preparatory to an offence under the provisions of the Convention on the Suppression of Financing of Terrorism Act, No. 25 of 2005;
    - (ii) to an investigation or prosecution of a person or persons for an act constituting an unlawful activity, or may otherwise be of assistance in the enforcement of the Money Laundering Act, No. 5 of 2006 and the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005,

the Institution shall, as soon as practicable, after forming that suspicion or receiving the information, but no later than two working days therefrom, report the transaction or attempted transaction or the information to the Financial Intelligence Unit.

Such reports are herein referred to as Suspicious Transaction Reports (STR).
5. As stated above as per the section 7 of the FTRA all “Institutions”, should report suspicious transactions to the FIU. Institution means, any person or body of persons engaged in or carrying out any finance business or designated non-finance business as defined in the Section 33 of the FTRA.
6. As per Section 14 (1) (b) (iv) of the FTRA every institution is required to establish and maintain procedures and systems to implement the reporting requirement under Section 7 of the FTRA. Further, Section 14 (1) (d) requires every Institution to train its officers, employees and agents to recognize suspicious transactions.
7. As per Rule 15 of the Financial Institutions Customer Due Diligence Rule, No 1 of 2016, the internal AML/CFT Policy approved by the Board of Directors should include policies, procedures on the detection and internal reporting procedure of unusual and suspicious transactions and the obligation to report suspicious transactions to the Financial Intelligence Unit.

### Prerequisites for Development of Suspicion

8. Reporting of suspicious transactions is a major functionality in the operation of an effective institutional AML/CFT programme. For the AML/CFT function to be meaningful, they must result from a Financial Institution’s effective implementation of the FTRA, including all rules and instructions issued in relation to the FTRA. Financial Institutions without such effective implementation either tend to submit STRs that are inaccurate, incomplete or inappropriate or they may fail to report suspicious transactions entirely. Such failures expose the financial institution to regulatory, reputational, operational, and legal risks. In some cases, such failures may also expose both natural and legal persons to criminal liability.
9. For all but the very smallest institutions with the most intimate customer relationships, information about customers and transactions should be captured in a systematic manner and incorporated into their compliance and risk management processes. For larger Financial Institutions, this almost always means an electronic information system. Such systems typically operate based on rules, scenarios and profiles that seek to measure and assess deviance of observed patterns from expected patterns, or seek to measure and assess conformity of observed patterns to known patterns of abuse of the financial system. Such systems need to be carefully configured to reflect the specific assessed risks of the Financial Institution. Such systems need to be continually evaluated and adjusted to maximize effectiveness, need to be continually updated with new operational and third-party information and need to be fully integrated into the Financial Institution’s risk management process. When such systems generate alerts, it is important that the alerts are reviewed by the Financial Institution’s Compliance Officer. While such system-generated alerts may be the cause for an STR, such alerts are not by themselves likely to form a complete STR in accordance with these guidelines and are not an acceptable substitute for such an STR.

Systems that operate in isolation are not effective. A system can only operate based on the information that is available to it. Systems are not generally capable of intuition or inference or human levels of perception. As such systems operate based on rules, scenarios and profiles that are designed by humans. For these reasons, Financial Institutions should not rely exclusively on systems to the exclusion of human involvement.

10. Whatever the source of customer and transaction knowledge, and whatever the technical sophistication of the AML/CFT system there must be an institutional will to make the system work. That is, there must be a will to detect suspicious transactions, to recognize in good faith such suspicious transactions for what they are when detected, and fully and accurately report such transactions, when recognized. Such institutional will is most effectively created by a commitment from those at the Senior Management including the Board of Directors of the Financial Institution and propagated through concrete actions and demonstrations (e.g. development of effective internal policies, processes and training programmes, compliance audits, investment in systems, consistent, fearless and disciplined exercise of judgment) to the rest of the staff of the Financial Institution.

## Suspicion

11. Financial Institution must develop its own operating definition for suspicion. A Financial Institution's operating definition of suspicion should incorporate elements of unresolved and unsubstantiated but persistent feelings of doubt about an objective set of facts and circumstances relating to a behaviour, to a single transaction, to a series of transactions, attempted transaction or to any combination thereof. It can be a feeling that something is not as it was expected to be, or as it was explained to be, given the totality of knowledge of the circumstances in which that something exists. The feeling of doubt cannot be relieved by proof, one way or another, since no proof is available. The definition should allow formation of a belief that is not firmly grounded or perfectly clear. At the same time, the definition should not allow these beliefs to be fanciful or fleeting. Certainly, the definition should count as suspicious behaviours and activities that are unusual for the circumstances and not adequately or believably explained.

The operating definition for suspicion must pass a test of reasonableness. If the definition is too narrow or rigid, it may exclude generation of reports that concern unknown or unanticipated unlawful circumstances (i.e. "false negatives") and may also result in avoidance behaviour by criminals. On the other hand, a definition that is too broad or flexible might result in large number reports that are insufficiently analyzed and that do not reflect unlawful circumstances (i.e. "false positives" or "over compliance"). For Financial Institutions where electronic information systems are integrated into their processes, operating definitions are partially implemented by the triggers, profiles, scenarios and rules defined by the Financial Institution. Suspicious indicators and typologies may also be elements of such definition. The concept of "unusual" patterns of behaviour and transactions should also reflect in these definitions.

A non-exhaustive and unofficial list of suspicious indicators for transactions and behaviours is provided in Appendix I. The Financial Institution should complement this list with the Financial Institution's own indicators. When using indicators, it should be remembered that these indicators are not formulae and they do not necessarily indicate the presence of criminality. Conversely, the lack of known indicators does not necessarily mean the absence of criminality, in part because criminals may adjust behaviour to avoid such indicators. Instead, indicators, and especially combinations of indicators, should cause increased scrutiny that may lead to the formation of suspicion.

12. Financial Institutions being over compliance or malicious compliance will not generate expected quality of the STR. Overcompliance and malicious compliance are strongly discouraged.

Over compliance results when Financial Institutions submit a large volume of reports that are inadequately analyzed or that fail to meet a reasonable standard of suspicion. Over compliance can be viewed as an attempt to transfer risk management from the Financial Institution to the FIU.

Malicious compliance is when an Financial Institution submits reports that, although they may contain some superficial elements of suspicion, are known by the Financial Institution to not actually of suspicious nature.

13. If after consideration of facts and circumstances available to the Financial Institution in good faith and within the context of the Financial Institution's own understanding of suspicion and risks for the Financial Institution, and after gaining a thorough understanding of the FTRA and its implementing rules, regulations, circulars and guidelines, the Financial Institution has doubts about whether a behaviour or activity should be reported as suspicious, the best course of action is to report.

## Reporting of STRs

14. **When Financial Institutions are provided with access to the LankaFIN system:** All reports must be submitted via LankaFIN online system or a successor system designated by the FIU followed by the signed hard copy of the STR submitted to the FIU by delivery or post.



15. **When Financial Institutions are not provided with access to the LankaFIN system:** Signed hard copy of the STR should be submitted to the FIU by delivery or post.
16. The Financial Institutions may submit STRs through other forms such as by way of email, fax or telephone in urgent situations to be followed by submission through LankaFIN and/or signed hard copy as appropriate within twenty-four hours.

### Timing of Reporting

17. The FTRA requires suspicious reports to be submitted to the FIU as soon as practicably possible but no later than two working days of formation of suspicion. This means that, regardless of the Financial Institution's processes, procedures and steps after the initial formation of suspicion, the suspicion itself must be reported even if the Financial Institution's process has not completed. The Financial Institution's process for dealing with suspicion may proceed concurrently with the reporting of suspicion.

For example, if the Financial Institution has a customer that receives a wire transfer in circumstances that the Financial Institution immediately considers to be suspicious, the Financial Institution must report the suspicious circumstances of that transaction as soon as practicable but within two working days even while the Financial Institution may continue with the internal processes that to verify the authenticity and details of the wire transfer.

18. If, after sending the report, the Financial Institution discovers additional facts and circumstances to either support or refute the Financial Institution's initial suspicion, then the Financial Institution should inform the FIU appropriately.

### Content of Reporting

19. **Completeness:** A single STR must stand alone and contain complete information about the suspicion. A STR should provide a full picture of the suspicion itself as well as the objective facts and circumstances that gave rise to and support that suspicion. Where multiple transactions and/or behaviours are connected with a suspicion, a single report should be filed capturing all of these.
20. **Form Narrative:** The narrative portion of the report is most important. This is particularly true with respect to LankaFIN since other form fields capture only a limited amount of information. This is the Financial Institution's chance to fully describe the suspicion and the objective facts and circumstances that gave rise to and support the Financial Institution's suspicion. In any case the Financial Institution is unable to provide the full detailed narrative through LankaFIN, the Financial Institution may provide the narrative in a separate document and submit to the FIU along with the signed hard copy of the STR. In such cases, the Financial Institution should mention a brief summary of the narrative in the LankaFIN system and explicitly mention that a full narrative will be sent with the hard copy. The narrative should attempt to answer to the extent possible the basic descriptive questions of **what, who, when, where, why and how**.

Financial Institutions should refrain from providing vague details of suspicions such as 'several high value third party deposits from several branches around the country'. Instead, Financial Institutions should provide clear quantitative and qualitative data such as '10 number of third party deposits having values between LKR 75,000 – 90,000 from Jaffna, Trincomalee, Kandy, Matara, Galle, Kataragama and Badulla branches during September, 2017' and provide relevant supporting documents (e.g. account statement for September 2017 including the details of third party depositors / deposits).

Some of the questions that the narrative should attempt to answer, if possible, include:

- What is the nature of the suspicion?
- What offenses may have been committed?
- What transactions, attempted transactions, behaviours, facts, belief and circumstances are involved and relevant to the suspicion?
- Who are the natural and legal persons involved?
- Who are the beneficial owners?
- What are their identifiers such as names, ID numbers, registration numbers, etc.?
- What are their addresses?
- What are their occupations or lines/types of business?
- Who are their employers?
- What political exposure do they have, if any?
- How are they connected with each other and with the transactions?
- What were their roles in the transactions?
- What property is involved?
- What is the nature and disposition and estimated value of involved property?
- When and where did the transactions or attempted transactions or behaviours occur?

- How, if at all, do the timing or location of the transactions contribute to the Financial Institution's suspicion?
- Why do these facts and circumstances support the suspicion?
- How was the suspicion formed?
- What triggers or indicators are present?
- What actions have been taken by the reporting Financial Institution?
- What related STRs have the Financial Institution already submitted?
- What red flags are present?
- What deviations from expected activities have taken place?

Financial Institutions are required to provide reasonable grounds for the suspicion and are requested to refrain from citing unjustifiable reasons such as 'relationship between customers cannot be derived with the surnames', 'funds from African countries', etc.

The narrative should be structured in a logical manner so that information can be conveyed to the FIU analyst as efficiently, completely and accurately as possible. Essay formats could be used for STR narratives i.e. having an introduction, a body, and a conclusion. Paragraph breaks can be used to divide the narrative into logical units and enhance readability. Within the body, information could be presented in a chronological manner when attempting to demonstrate possible causal links along a timeline. It is advised to minimize the use of Financial Institution's internal jargon and acronyms brandings, product names by using generic descriptors instead. For example, use "six-month term deposit account" rather than "Mega-Six Platinum Elite Plus Super Saver Account." Use punctuation and sentence case. Narrative should not be so brief as to compromise the goals of the narrative. It is advised to avoid words that do not contribute to the meaning of a sentence and to refrain from using too generic narratives such as 'the transaction pattern does not match with the customer profile'.

21. **Accuracy:** It is imperative that factual information provided in the report is accurate. This is particularly true for identifiers such as names, ID numbers, registration numbers, etc. All spellings and transcriptions of identifiers should be double checked. A single inaccurate digit in a passport number or an NIC, or a misplaced or transposed character in a name, can make the difference between a successful and an unsuccessful analysis. Identifiers for legal entities (e.g. company / business registration number, registered name of company) should be exactly identical in every respect to those found on the official registration documents.

### Submission of Supporting Documents

22. Financial Institutions are required to submit relevant supporting documents along with the STR. If the Financial Institution is unable to submit the supporting documents via LankaFIN, the Financial Institution should submit the relevant supporting documents through email and/or along with the signed hard copy of the STR. In such cases, Financial Institutions should mention in LankaFIN that additional supporting documents are submitted via email or through post.
23. Supporting documents should support rather than replace the STR contents, including the narrative. It is not acceptable to only refer to a supporting document in the narrative when information from the supporting document can be directly included in the narrative. For example, if the suspicion involves a letter of credit, all the details from the letter of credit that are related to the suspicion should be included in the narrative. A copy of letter itself can then be provided as a supporting document.
24. An indicative and non-exhaustive list of supporting documents along with corresponding scenarios are given below for reference.

Scenario	Indicative list of Supporting documents
Third party deposits	Bank Statements List of third party deposits Details of third party depositors
Foreign inward remittance	Bank statement Copy of SWIFT message
Suspicion regarding forged / altered identity (NIC/ Passport / Driving license)	Copy of the document
Suspicion related to a company	Registration documents Director details

## Miscellaneous

### Confidentiality

25. As per the Section 9 of the FTRA Financial Institutions are not allowed to inform any person, including the customer, about the contents of an STR and even that the Financial Institution has filed such a report to the FIU.
26. As per Rule 46 of the Financial Institutions Customer Due Diligence Rule, No. 1 of 2016, where a Financial Institution forms a suspicion of money laundering or terrorist financing risk relating to a customer and where the Financial Institution reasonably believes that conducting the process of CDD measures would tip off the customer, then the Financial Institution should terminate conducting the CDD measures and proceed with the transaction and immediately file an STR.

### Breach of Confidentiality

27. If any customer is being tipped off about the reporting of STRs by any officer of the Financial Institution it would consider as a violation under the FTRA Section 9 and 10. This is described as the offence of 'tipping off' and is an offence punishable with a fine not exceeding five hundred thousand rupees or imprisonment of either description for a term not exceeding two years, or to both such fine and imprisonment.

### Protection for Persons Reporting STRs

28. As per Section 12 of the FTRA:

No civil, criminal or disciplinary proceedings shall lie against —

- (a) a such Institution, an auditor or supervisory authority of an Institution ; or
- (b) a director, partner, an officer, employee or agent acting in the course of that person's employment or agency of an Institution, firm of auditors or of a supervisory authority, in relation to any action by the Institution, the firm of auditors or the supervisory authority or a director, partner, officer, employee or agent of such Institution, firm or authority, carried out in terms of the FTRA in good faith or in compliance with regulations made under this Act or rules or directions given by the Financial Intelligence Unit in terms of the FTRA.

### Failure to Report STRs

29. If a Financial Institution fails to submit STRs when reasonable grounds exist to suspect that a transaction is related to money laundering or terrorist financing, such is considered as non-compliance with the FTRA. As per Section 19 of the FTRA such non-compliances are liable to penalties up to one million rupees (Rs. 1,000,000.00) or double this for subsequent failures to report.

### Should a reporting entity continue a business relationship with a customer about whom a STR has been reported?

30. The FTRA does not prohibit Financial Institutions from continuing business relationships with customers about whom STRs has been reported or suspicion has been formed. Especially Financial Institution's behaviour toward the customer should not amount to any tipping off subject to the provisions of the Section 3 of the FTRA.

### Obligations of Financial Institutions which has submitted an STR in relation to a customer and is continuing the business relationship

31. After the submission of an initial STR, the Financial Institution should continue to comply with all relevant provisions of the FTRA in all future dealings with that customer, which may include a requirement to submit additional STRs /information on further suspicions identified / further developments.

### Further Information Requests

32. Where the FIU has requested further information regarding any STR, the Financial Institution should take all necessary measures to provide such information promptly to the FIU.

## Appendix I

### SUSPICIOUS INDICATORS

This appendix contains a list of indicators related to customer behaviours and activities. This list is necessarily non-exhaustive and incomplete and should be modified and supplemented as necessary by each Financial Institution. Indicators are not formulae and they do not always indicate the presence of criminality. Conversely, the lack of indicators does not mean the absence of criminality. **However, the presence of an indicator, and especially the presence of multiple indicators, should cause increased scrutiny by the Financial Institution and such scrutiny may lead to the formation of suspicion.**

**General Indicators**

- Any behaviour unusual for the circumstances.
- Any activity unusual for the customer.
- Any activity unusual in itself.
- Any knowledge that leads the Institution to believe that unlawful activity may be involved.
- Any unresolved and persistent feelings of doubt related to customers and their transactions and attempted transactions.

**General Behavioural/Customer Indicators**

- Customer talks about or hints about involvement in criminal activities, even if in a humorous way.
- Customer does not want correspondence sent to home address.
- Customer appears to have accounts with several financial institutions for no apparent reason.
- Customer repeatedly uses an address but frequently changes the names involved.
- Customer uses addresses in close proximity of each other.
- Customer is accompanied and watched when visiting the Financial Institution.
- Customer shows unusual curiosity about internal systems, controls and policies.
- Customer has only vague knowledge of the amount of a deposit.
- Customer presents confusing or inconsistent details about the transaction.
- Customer over justifies or explains the transaction.
- Customer tries to convince Financial Institution staff to alter or omit reporting data.
- Customer is secretive and reluctant to meet in person.
- Customer is nervous, not in keeping with the transaction.
- Customer insists that a transaction be done quickly.
- Customer attempts to develop a close rapport with staff.
- Customer offers money, oversized commissions, gratuities or unusual favours for the provision of services.
- Customer has unusual knowledge of the law in relation to suspicious transaction reporting.
- Customer jokes about needing or not needing to launder funds.
- Customer has no apparent ties to the community.
- Customer has irregular work/travel patterns.

**Account Opening/Identity Indicators**

- Customer provides doubtful or vague information.
- Customer produces seemingly false identification or identification that appears to be counterfeited, altered or inaccurate.
- Customer refuses to produce personal identification documents.
- Customer only possesses copies of personal identification documents.
- Customer wants to establish identity using something other than his or her personal identification documents.
- Customer's supporting documentation lacks important details.
- Customer unnecessarily delays presenting corporate documents.
- All identification presented is foreign or otherwise unreasonably difficult to verify.
- All identification documents presented appear new or have recent issue dates.
- Customer is unemployed, or is an independent consultant, or switches jobs frequently.
- Customer conspicuously displays large amount of cash.

**Indicators for a Businesses**

- Lack of regular business hours.
- Unusually profitable business.
- Profitable business in a failing industry.
- Business receipts and incomes above industry norms.

- Cash intensive business.
- Use of high cost or inconvenient methods when lower cost or more convenient methods are available.
- Apparent lack of in-depth knowledge of his own business or industry.

#### **General Transaction Indicators**

- Transaction is unusual for the customer.
- Transaction is unusual for the country.
- Transaction is unusual for the industry.
- Transaction is unusual for any other reason.
- Transaction seems to be inconsistent with the customer's apparent financial standing or usual pattern of activities.
- Sudden unexplained increase in wealth.
- Transaction appears to be out of the ordinary course for industry practice or does not appear to be economically advantageous for the customer.
- Transaction uses account(s) that have been dormant.
- Transaction is unnecessarily complex for its stated purpose.
- Activity is inconsistent with what would be expected from declared business.
- Transaction involves non-profit or charitable organization for which there appears to be no logical economic purpose or where there appears to be no link between the stated activity of the organization and the other parties in the transaction.

#### **Cash Transaction Indicators**

- Customer suddenly starts conducting frequent cash transactions in large amounts when this has not been a normal activity for the customer in the past.
- Customer frequently exchanges small bills for large ones.
- Customer uses notes in denominations that are unusual for the customer, when the norm in that business is much smaller or much larger denominations.
- Customer presents notes that are packed or wrapped in a way that is uncommon for the customer.
- Customer deposits musty or extremely dirty bills.
- Customer makes cash transactions of consistently rounded-off large amounts.
- Customer consistently makes cash transactions that are just under the reporting threshold amount in an apparent attempt to avoid the reporting threshold.
- Customer consistently makes cash transactions that are significantly below the reporting threshold amount in an apparent attempt to avoid triggering the identification and reporting requirements.
- Customer presents uncounted funds for a transaction. Upon counting, the transaction is reduced to an amount just below that which could trigger reporting requirements.
- Customer conducts a transaction for an amount that is unusual compared to amounts of past transactions.
- Customer frequently purchases traveler's checks, foreign currency drafts or other negotiable instruments with cash when this appears to be outside of normal activity for the customer.
- Customer asks the Financial Institution to hold or transmit large sums of money or other assets when this type of activity is unusual for the customer.
- Shared address for individuals involved in cash transactions, particularly when the address is also for a business location, or does not seem to correspond to the stated occupation (for example, student, unemployed, self-employed, etc.).
- Stated occupation of the customer is not in keeping with the level or type of activity (for example a student or an unemployed individual makes daily maximum cash withdrawals at multiple locations over a wide geographic area) .
- Customer consistently claims that source of funds is gambling winnings with no evidence of corresponding losses.

#### **Indicators Involving Loans**

- Loans secured by pledged assets held by third parties unrelated to the borrower.
- Loan secured by deposits or other readily marketable assets, such as securities, particularly when owned by apparently unrelated third parties.

- Borrower defaults on a cash-secured loan or any loan that is secured by assets which are readily convertible into currency.
- Loans are made for, or are paid on behalf of, a third party with no reasonable explanation.
- To secure a loan, the customer purchases a certificate of deposit using an unknown source of funds, particularly when funds are provided via currency or multiple monetary instruments.
- Loans that lack a legitimate business purpose; provide the bank with significant fees for assuming little or no risk; or tend to obscure the movement of funds (e.g., loans made to a borrower and immediately sold to an entity related to the borrower).
- Customer claims true ownership of assets used for collateral, even though assets held in a different name.

#### **Trade Financing Indicators**

- Items shipped are inconsistent with the nature of the customer's business (e.g., a steel company that starts dealing in paper products, or an information technology company that starts dealing in pharmaceuticals).
- Customers ship items through high-risk jurisdictions, including transit through countries recognized as non-compliant with AML/CFT requirements.
- Customers involved in potentially high-risk activities, including activities that may be subject to export/import restrictions.
- Obvious over- or under-pricing of goods and services.
- Obvious misrepresentation of quantity or type of goods imported or exported.
- Transaction structure appears unnecessarily complex and designed to obscure the true nature of the transaction.
- Customer requests payment of proceeds to an unrelated third party.
- Shipment locations or description of goods not consistent with letter of credit.
- Documentation showing a higher or lower value or cost of merchandise than that which was declared to customs or paid by the importer.
- Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment.

#### **Transactions with Overseas or Offshore Jurisdictions**

- Accumulation of large balances, inconsistent with the known turnover of the customer's business, and subsequent transfers to overseas or offshore account(s).
- Frequent requests for travelers checks, foreign currency drafts or other negotiable instruments.
- Loans secured by obligations from offshore banks.
- Loans to or from offshore companies.
- Offers of multimillion-value deposits from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank.
- Transactions involving an offshore bank whose name may be very similar to the name of a major legitimate institution.
- Unexplained electronic funds transferred by customer to/from offshore jurisdictions on an in-and-out (pass through) basis.
- Use of letter-of-credit and other method of trade financing to move money between countries when such trade is inconsistent with the customer's business or with national trade patterns.
- Use of a credit card issued by an offshore bank.

#### **Suspicious Patterns involving Multiple Transactions**

- Round trip transactions where funds are transferred to one destination, and then return in roughly the same amount from a different origin.
- Structured transactions that break transactions into smaller amounts to avoid reporting.
- Distributer/collector transactions where multiple accounts funnel into one, or one funnels into multiple without adequate explanation. This is an especially strong indicator when accounts may be controlled by single beneficial owner.

#### **Transactions Involving Proxies**

- Transactions where a person who is matched by two attributes (e.g. name and address, or name and birthday, or birthday and address) appears to maintain multiple accounts with variations in one of these parameters.
- Transactions with multiple accounts at the same address.
- Transactions where the address does not exist in public records.

- Transactions where the name does not exist in public records.
- Transactions where the account holder is a PEP.
- Transactions where the account holder is a relative or close associate of a PEP.
- Transactions where the account holder shares an address with a PEP.
- Large transactions by people with low-income jobs, especially when employed by or related to high wealth individuals.
- Transactions in the name of very young people.
- Transactions in the name of dead people.
- Transactions in the name of people living in areas where such wealth would be abnormal.

### Red Flag Indicators for Specific Sectors

#### Securities Sectors

- Accounts that have been inactive suddenly experience large investments that are inconsistent with the normal investment practice of the client or their financial ability.
- Any dealing with a third party when the identity of the beneficiary or counter-party is undisclosed.
- Client attempts to purchase investments with cash.
- Client wishes to purchase a number of investments with money orders, traveller's cheques, cashier's cheques, bank drafts or other bank instruments, especially in amounts that are slightly less than the reporting threshold, where the transaction is inconsistent with the normal investment practice of the client or their financial ability.
- Client uses securities or futures brokerage firm as a place to hold funds that are not being used in trading of securities or futures for an extended period of time and such activity is inconsistent with the normal investment practice of the client or their financial ability.
- Client wishes monies received through the sale of shares to be deposited into a bank account rather than a trading or brokerage account which is inconsistent with the normal practice of the client.
- Client frequently makes large investments in stocks, bonds, investment trusts or other securities in cash or by cheque within a short time period, inconsistent with the normal practice of the client.
- Client makes large or unusual settlements of securities in cash.
- The entry of matching buying and selling of particular securities or futures contracts (called match trading), creating the illusion of trading.
- Transfers of funds or securities between accounts not known to be related to the client.
- Several clients open accounts within a short period of time to trade the same stock.
- Client is an institutional trader that trades large blocks of junior or penny stock on behalf of an unidentified party.
- Unrelated clients redirect funds toward the same account.
- Trades conducted by entities that you know have been named or sanctioned by regulators in the past for irregular or inappropriate trading activity.
- Transaction of very large value.
- Client is willing to deposit or invest at rates that are not advantageous or competitive.
- All principals of client are located outside of Sri Lanka.
- Client attempts to purchase investments with instruments in the name of a third party.
- Payments made by way of third party cheques are payable to, or endorsed over to, the client.
- Transactions made by your employees, or that you know are made by a relative of your employee, to benefit unknown parties.
- Third-party purchases of shares in other names (i.e., nominee accounts).
- Transactions in which clients make settlements with cheques drawn by or remittances from, third parties.
- Unusually large amounts of securities or stock certificates in the names of individuals other than the client.
- Client maintains bank accounts and custodian or brokerage accounts at offshore banking centres with no explanation by client as to the purpose for such relationships.
- Proposed transactions are to be funded by international wire payments, particularly if from countries where there is no effective anti-money-laundering system.

**Money/ Currency Changers**

- Customer requests a transaction at a foreign exchange rate that exceeds the posted rate.
- Customer exchanges currency and requests the largest possible denomination bills in a foreign currency.
- Customer is reluctant to divulge the source of currency
- Customer is unable to produce relevant documents to support transaction
- Customer requests that a large amount of foreign currency be exchanged to another foreign currency.
- Customer instructs that funds are to be picked up by a third party on behalf of the payee.

**Mobile Money Service Providers**

- Customer used multiple names/identities, in conjunction with providing multiple addresses, making it difficult to ascertain the true identity of the customer.
- The frequency of the customer's visits was excessive, and also involved the use a wide range of agent locations.
- The purpose of the transactions, and the relationship between the beneficiary and the ordering customer, does not appear to make business sense.
- Multiple senders transferring funds to a single individual
- Currency notes used are in "used notes" and/or small denominations ("used notes" may imply that notes are worn, dirty, stained, give off unusual smell, etc.)
- Customer attempts to send money to a person on a sanctions list
- Customer fails to provide verifiable identity information or refuses to provide verifiable identity information either for the customer and/or for the beneficiary
- Customer attempts to use or uses unusual or suspect identification documents.
- The customer wishes to engage in transactions that are inconsistent with the customer's stated purposes when the account was initially set-up.
- The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
- Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds
- The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.

Ref: 037/04/010/0003/017

10 September 2018

**Guideline No. 07/18**

To: CEOs / General Managers of All Financial Institutions and Designated Non-Finance Businesses and Professions

**GUIDELINES, NO.7 OF 2018 ON IMPLEMENTING UNITED NATIONS  
(SANCTIONS IN RELATION TO IRAN) REGULATIONS NO. 01 OF 2018**

The above Guidelines, will come into force with immediate effect and shall be read together with the United nations (Sanctions in relation to Iran) Regulations, No. 1 of 2018 published in the Gazette Extraordinary No. 2080/34 dated July 17, 2018 and its amendments published in the Gazette Extraordinary No. 2085/11 dated August 21, 2018, Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 and Designates Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 issued under the Sections 2(3) of the Financial Transactions Reporting Act, No. 6 of 2006.

**Actg. Director  
Financial Intelligence Unit**

Cc: Compliance Officers

**GUIDELINES, NO. 7 OF 2018 ON IMPLEMENTING UNITED NATIONS  
(SANCTIONS IN RELATION TO IRAN) REGULATIONS, NO. 1 OF 2018**

**Introduction**

- (1) The Minister of Foreign Affairs, acting within the powers vested with him under the United Nations Act, No. 45 of 1968, has issued United Nations (Sanctions in relation to Iran) Regulations, No. 1 of 2018 published by the Gazette Extraordinary



- No. 2080/34 dated July 17, 2018 and its amendments published by the Gazette Extraordinary No. 2085/11 dated August 21, 2018 (hereinafter referred to as Iran Regulations) for the implementation of UNSCR 2231 (2015) in Sri Lanka.
- (2) These guidelines are issued by the Financial Intelligence Unit (FIU) to be adhered by Institutions as defined under Section 33 of the Financial Transactions Reporting Act, No. 6 of 2006 (hereinafter referred to as Institutions), in accordance with the provisions of the Iran Regulations, to facilitate their compliance with the provisions of the Iran Regulations, and the effective implementation of the same in Sri Lanka.
  - (3) For Iran Regulations, the Minister of Foreign Affairs has appointed the Secretary to the Ministry of Defence as the Competent Authority, who is responsible for the overall implementation of the said Regulations in Sri Lanka.
  - (4) These guidelines will come into force with immediate effect and are required to be read together with the Iran Regulations, Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 and Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 issued under the Section 2(3) of the Financial Transactions Reporting Act, No. 6 of 2006.
  - (5) Iran Regulations restrict any individual or entity located in Sri Lanka, or Sri Lankan individuals and entities located outside the jurisdiction of Sri Lanka, from carrying out financial transactions and providing financial services for a list of 'designated individuals and entities' in Iran, as well as for any individuals or entities who may be acting on behalf or at the direction of designated individuals and entities (hereinafter referred to as designated persons and associates).
  - (6) The requirement to apply targeted financial sanctions in accordance with Iran Regulations is not risk-based, but rule-based, which means Institutions should carry out sanction screening regardless of the risk associated with a particular customer or a product.
  - (7) Sanction screening refers to the process of screening of the customer identities against the most recent list of designated persons by attempting to match key identification data, and screening of customers who may be owned or controlled by, or who may hold assets or conduct transactions on behalf of a designated person.

#### Targeted Financial Sanctions (TFS)

- (8) Targeted Financial Sanctions (TFS) means both asset freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly, for the benefit of designated persons and entities, except as authorized by the Competent Authority under conditions described in the Regulations.
- (9) Targeted financial sanctions relating to proliferation financing are applicable to persons and/or entities designated by the UN Security Council or the relevant committees set up by the Security Council. Designation/listing criteria are:
  - a. persons or entities engaging in or providing support for, including through illicit means, proliferation-sensitive activities and programmes;
  - b. acting on behalf of or at the direction of designated persons or entities;
  - c. owned or controlled by designated persons or entities; and
  - d. persons or entities assisting designated persons or entities in evading sanctions, or violating resolution provisions.
- (10) Institutions are required to freeze immediately the funds, other financial assets and economic resources which are on their possession at the date of Iran Regulations or at any time thereafter that are owned or controlled, directly or indirectly by the persons/entities mentioned in guideline 5 above; and further ensure that no funds or other assets and economic resources are made available to such persons and entities, except in specific situations as authorized by the Competent Authority, and under conditions specified in the UNSC Resolutions.

#### Implementation Mechanism

- (11) Institutions are required to follow a two-stage approach to comply with the Iran Regulations.
  - (i) First stage is the screening of new customers (at the time of customer onboarding) against the consolidated list of designated persons and associates, to make sure no such persons are becoming customers of the Institutions.
  - (ii) Second stage is the screening of the entire customer database as and when update notifications are issued by the FIU.
- (12) As per Regulation 8 of the Iran Regulations, the freezing actions mentioned in the regulation 9 have immediate effect on Iranian individuals and entities who are designated by the United Nations Security Council. This means there will be no separate freezing orders or publishing of designated lists by the Competent Authority. Therefore, it is the responsibility of Institutions to make sure that no designated persons and associates are their customers, and the Institutions do not provide any financial services to such designated persons and associates.

- (13) Screening of names, addresses and other details against the consolidated list of designated persons and entities (including entities owned or controlled by them) published by the UN Security Council or its Committee is necessary in ensuring compliance with certain elements of targeted financial sanctions. However, the above screening would not be sufficient on its own, as targeted financial sanctions are also applicable to persons / entities acting on behalf of or at the direction of designated persons/entities. Therefore, the institutions are also required to identify the beneficial owners and other connected parties of their customers to the extent reasonably possible, and apply the screening measures to such associates as well.

#### **Screening of New Customers at the time of Onboarding**

- (14) Whenever there is a new account opening for a new customer, the details of that customer are required to be screened against the designated list, and the Institutions are required to ensure that the customer is not a designated person or entity, before entering into a relationship with the customer.
- (15) Institutions are required to identify the beneficiaries and/or beneficial owners of their accounts/transactions, and apply the same procedure described in these guidelines 8 to 10, to ensure that no designated persons and associates are beneficiaries and/or beneficial owners of the funds, accounts or other assets. Such processes are required to be developed so as to identify and verify beneficiaries and/or beneficial owners, and the Institutions are required to be able to demonstrate reasonable efforts have been made to verify the beneficiaries of the funds, accounts or other assets.

#### **Screening of the Customer Database upon Update Notification by the FIU**

- (16) As soon as the FIU receives a notice from the UN regarding updates to the UNSCR 2231 list, the FIU will circulate a notification email among the Institutions who are registered with the FIU as reporting entities. Whenever there is such notification by the FIU, Institutions are required to obtain the updated list from the United Nations Security Council's UNSCR 2231 (2015) website (<http://www.un.org/en/sc/2231/list.shtml>), and perform a full screening of their customer base against the list. Institutions are advised to utilize a combinations of search criteria that include name, date of birth, nationality, passport/NIC number and addresses of designated persons. The list is available in PDF, XML and HTML formats, therefore the Institutions can develop computer applications to process the contents in those lists, in order to be fed into their screening databases. As there could be subtle differences between the list contents and customer data in Institutions' databases, a multiple search techniques including phonetic search are recommended for an effective search.

#### **Other Measures**

- (17) Institutions should report to the Competent Authority and the FIU information on any assets frozen or actions taken in compliance with the prohibition requirements of the relevant Regulations, including attempted transactions, after freezing of such assets.
- (18) When the Competent Authority issues an authorization to use the frozen funds for exemption conditions, Institutions should have mechanisms to release such frozen funds without delay. Where the funds or other assets are owned or held by a designated non- financial institution, institutions should undertake a number of additional measures and safeguards to ensure that only permitted payments are made.
- (19) For transactions involving non-account holders / walk-in customers and third-party customers (such as cheque encashment, pay orders and currency exchanges), Institutions should perform screening before conducting the transaction. For that, adequate mechanisms should be set up to obtain information from such customers. If the Institution identifies a possible match due to such screening, then it should collect funds from the payer and then freeze the transaction/funds.

**Direction No.: 01/2018**

18 January 2018

To: All Licensed Financial Acquirers of Payment Cards

### **DIRECTION ON ACQUIRING PAYMENT CARD BASED ELECTRONIC COMMERCE TRANSACTIONS THROUGH SERVICE PROVIDERS**

This Direction is issued in terms of the regulation 18 of the Payment Cards and Mobile Payment Systems Regulations No.1 of 2013 (Regulations) and shall apply to Financial Acquirers of Payment Cards licensed in terms of the Regulations (hereinafter referred to as Licensed Financial Acquirers or LFAs).

Licensed Financial Acquirers who make arrangements with third parties to accept payment cards as a means of payment and reimburses those third parties with the value of goods or services purchased, may acquire payment card based electronic commerce transactions through Institutions facilitating initiation of online card payments (hereinafter referred to as Service Providers). LFAs may also obtain the assistance of Service Providers to settle payments to merchants for electronic commerce transactions carried out through the respective internet payment platform/gateway.

The objective of issuing this Direction is to stipulate conditions on acquiring payment card based electronic commerce transactions through Service Providers in order to ensure timely payments to merchants and to safeguard the interests of cardholders. This Direction shall come into force with effect from 18 January 2018.

LFAs intending to acquire payment card based electronic commerce transactions through Service Providers, shall adhere to following conditions;

- 2.1. LFAs shall take utmost care in assessing the capability of the prospective Service Provider.
- 2.2. LFAs shall enter into agreements with Service Providers with regard to providing facilities to accept payment cards as a means of payment for online purchases of goods and/or services. The roles, responsibilities, rights and obligations of each party shall be clearly specified in these agreements.
- 2.3. LFAs shall review merchant applications and grant approval for merchants to register in the respective internet based payment platform/gateway. LFAs may consider company profiles and details of business operations of merchants provided by Service Providers when reviewing merchant applications. LFAs shall maintain a record of all merchants registered in each internet based payment platform/gateway.
- 2.4. LFAs shall maintain the confidentiality of cardholder data and ensure that Service Providers shall not have access to sensitive information of cardholders such as card number, card security code and expiry date.
- 2.5. LFAs shall maintain a dedicated account owned by the LFA for each internet payment platform/gateway to facilitate payments related to transactions carried out through the respective internet payment platform/gateway. Refunds for failed or disputed transactions shall also be facilitated through this account.
- 2.6. LFAs shall ensure that final settlements to the merchants will take place within three (03) business days upon receipt of funds.
- 2.7. LFAs shall develop a dispute resolution mechanism in line with dispute resolution guidelines of the relevant payment card scheme for handling of disputes relating to transactions effected through internet payment platform/gateway.
- 2.8. LFAs shall monitor the operations of internet payment platform/gateway.
3. LFAs shall submit a copy of the draft agreement to be entered into by and between the LFA and the Service Provider to obtain approval of the Central Bank of Sri Lanka prior to facilitating card payments in the internet payment platform/gateway. LFA shall have separate agreements with Service Providers for each internet payment platform/gateway.
4. LFAs shall ensure that they adhere to all applicable laws and regulations in acquiring payment card based electronic commerce transactions through internet payment platform/gateway.
5. LFAs shall submit an assessment report on each internet payment platform/gateway on a quarterly basis to the Payments and Settlements Department of Central Bank of Sri Lanka.

C J P Siriwardena  
Deputy Governor

Guideline No.: 01/2018

18 January 2018

## GUIDELINES ON MINIMUM COMPLIANCE STANDARD FOR PAYMENT RELATED MOBILE APPLICATIONS

These Guidelines are issued in terms of Section 44 of the Payment and Settlement Systems Act, No. 28 of 2005 (Act), to provide a minimum compliance standard to be adopted by any licensed commercial bank, licensed specialized bank, finance company or licensed operator of mobile phone based e-money system or any institution, all of which are operating or facilitating or providing payment services for mobile applications (hereinafter referred to as Payment Service Provider (PSP)).

These Guidelines shall cover the entire payment related mobile application eco system including but not limited to mobile applications, web services, server side databases, storage and network communication. PSPs shall obtain approval from the Central Bank of Sri Lanka for all payment related mobile applications. These Guidelines shall come in to effect from 18 January 2018.

### 2. Definitions

Wherever used in these guidelines, the following terms shall have the following meanings:

- Account Lockout:** Account lockout is a method used to prevent password-guessing attacks by locking an account after a predefined number of invalid login attempts.
- Authentication:** Authentication is the act of verifying the identity of a user and the user's eligibility to access computerized information.
- Authorization:** Authorization is the security mechanism used to determine user/client privileges or access levels related to system resources.

<b>Availability:</b>	Availability is ensuring timely and reliable access to and use of information.
<b>Certificate Authority:</b>	A Certificate Authority is a trusted entity that issues digital certificates that verify a digital entity's identity on the Internet.
<b>Certificate Pinning:</b>	The client makes a connection to the server and the server responds with its SSL (Secure Socket Layer) certificate. If that certificate was issued by a Certificate Authority that is trusted by the mobile application, then the connection is allowed.
<b>Licensed Financial Acquirer:</b>	Any person licensed under the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013 to make arrangements with third parties to accept payment cards of cardholders as a means of payment and reimburses those third parties with the value of the goods or services purchased by the cardholder, and/or who reimburses such third parties for cash advances obtained by the cardholders.
<b>Minification:</b>	Minification is the process of removing all unnecessary characters from source code without changing its functionality.
<b>Obfuscation:</b>	Obfuscation is the deliberate act of creating obfuscated code, i.e. source or machine code that is difficult for humans to understand.
<b>Privilege Escalation:</b>	Privilege Escalation is the act of exploiting a bug, design flaw or configuration oversight in an operating system or software application to gain elevated access to resources that are normally be protected from an application or user.
<b>Sandbox:</b>	Sandbox is a security mechanism for separating running programs. It is often used to execute untested or untrusted programs or code.
<b>Sensitive Data:</b>	Sensitive data in this context includes customer credentials, bank account numbers and payment card numbers and similar fields.
<b>Short-lived Access Token:</b>	When a client passes an access token to a server managing a resource, that server can use the information contained in the token to decide whether the client is authorized or not. These tokens have a short lifetime.
<b>Stakeholders :</b>	Stakeholders in this context includes PSPs, software vendors, service providers, benefiting merchants and auditors.

**Uniform Resource Locator (URL) Manipulation:** URL Manipulation is the process of altering the parameters in a URL.

### 3. Policy Formulation

- 3.1. PSPs shall develop a policy document governing all payment related mobile applications covering business objectives, standards, compliance, guidelines, controls, responsibilities, and liabilities. PSPs may revise this document annually and as and when required.
- 3.2. This Policy document shall be used as a framework when developing all payment related mobile applications and shall be clearly communicated to all stakeholders.

### 4. Documentation

- 4.1. PSPs shall ensure that all required documentation such as architecture diagram, System Requirement Specification (SRS) document, technical documentation and other user documentation prepared and maintained by all stakeholders are in accordance with the Policy Document developed under Section 3 above.

### 5. Device Registration

- 5.1. User accounts and mobile devices shall be registered with the PSP using mobile SIM number and device identifier details including Media Access Control (MAC) address or International Mobile Equipment Identity (IMEI) number.
- 5.2. Each payment related mobile application user account shall be allowed to be used only on mobile devices which are registered with the PSP.
- 5.3. A login authentication and a financial value based transaction authentication shall be in place for each payment related mobile application user account.

### 6. Authentication and Password Policy

Following minimum controls and password policies shall be implemented for authentication at the server end;

- 6.1. Authentication shall be processed only at the server end.

- 6.2. Short-lived Access Tokens shall be implemented to authenticate client requests without transmitting user credentials.
- 6.3. Multi Factor Authentication (MFA) shall be implemented with mobile SIM number, device identifier and Password/PIN and identifier specific to the payment related mobile application.
- 6.4. A configurable strong password policy shall be implemented.
- 6.5. A configurable account lockout function shall be implemented after multiple invalid login attempts. Unlocking of such accounts shall follow standard security procedure of the PSP.
- 6.6. Authentication attempts shall be logged and monitored to detect login anomalies and possible attacks in real-time.
- 6.7. Access to any internal resource shall be properly authenticated.

## **7. Authorization**

Following minimum controls shall be implemented on authorization;

- 7.1. Principle of Least Privilege (PoLP) shall be followed at all times.
- 7.2. Privilege escalation controls and URL manipulation controls shall be implemented.

## **8. Session Handling**

Following minimum controls shall be implemented on session handling;

- 8.1. Session ID shall be randomized.
- 8.2. Payment related mobile application shall have automatic user log off functionality after a configurable idle time period.
- 8.3. An easy to use and clearly visible log off method shall be implemented.
- 8.4. During the log off, all application specific sensitive data stored in all temporary and permanent memories of the mobile device shall be erased/expired.
- 8.5. A procedure shall be implemented to centrally disable the access to the payment related mobile application server from the device reported lost or stolen. A procedure shall be implemented at the server side to detect simultaneous login attempts and communicate it to the user.

## **9. Entering and Storing Data**

- 9.1. Payment Card data capturing shall be taken place only in a Licensed Financial Acquirer's domain or in a mobile application where the mobile application ecosystem is PA-DSS (Payment Application Data Security Standard) and PCI-DSS (Payment Card Industry Data Security Standard) certified.
- 9.2. Payment related sensitive data except Payment Card data shall only be captured/stored in an ecosystem approved and regulated by CBSL.
- 9.3. Sensitive information such as account numbers and customer credentials shall not be stored in the mobile device.
- 9.4. Sensitive information in the Random Access Memory (RAM) of the device shall be secured appropriately.
- 9.5. Data shall be validated and sanitized before being recorded in the databases. Payment related mobile application databases shall be hardened for server side and client side.

## **10. Offline Transactions**

- 10.1. Payment related mobile applications shall not allow offline authorization of transactions and storing transaction data on the device for later transmission unless it is a payment made using a stored value card or for transactions permitted by CBSL.

## **11. Cryptography**

The following properties shall be used when designing and using cryptographic algorithms in payment related mobile applications;

- 11.1. Payment related mobile application shall use financial industry accepted cryptographic algorithms and cryptographic modes.
- 11.2. Sensitive data shall be encrypted while in transit and at rest. Payment related mobile application shall use a Salt when generating hashes from passwords.
- 11.3. Hash iteration count shall be in accordance with the financial industry standards.
- 11.4. Encryption keys shall not be stored in the mobile device without appropriate security controls.

## **12. Transport Layer Protection**

- 12.1. Transport layer encryption shall be implemented for all communications.

- 12.2. Certificate pinning shall be properly implemented and used with proper exception handling.
- 12.3. Controls to mitigate bypassing of certificate pinning shall be implemented.
- 12.4. Payment related mobile application shall cease operations until SSL certification errors are properly addressed and certification errors shall not be ignored.
- 12.5. Payment related mobile application shall use valid SSL certificates issued by a trusted certificate authority.
- 12.6. Sensitive data except One Time Password shall not be transmitted using alternate channels such as USSD, SMS, MMS and notifications.

### **13. Reverse Engineering and Debugging**

- 13.1. Payment related mobile application shall not allow any third-party to debug the application during the runtime.
- 13.2. Minification and source code obfuscation techniques shall be used in the payment related mobile application.

### **14. Tampering Detection**

- 14.1. The following checks shall be implemented in the server side to verify the integrity and to detect any manipulation of the client application. These checks can be executed at the start of the payment related mobile application or as appropriate. If any of these checks are failed payment related mobile application shall be disabled.
  - 14.1.1. Hash values/checksums of code blocks, classes or the whole program.
  - 14.1.2. Validate the size of certain system files or the file modification time stamps.
  - 14.1.3. Verify the signature of the package file at the run time.
- 14.2. Payment related mobile applications shall not be allowed to be executed on rooted/jail broken devices.
- 14.3. Debugger detection and emulator detections shall be implemented and payment related mobile application shall not be allowed to run inside a debugger/emulator.

### **15. Payment related Mobile Application Permissions**

- 15.1. Payment related mobile application shall acquire only minimum Operating System (OS) permissions required for the application to function properly.

### **16. Secure Coding**

PSPs shall adopt following practices;

- 16.1. Developers adhere to industry accepted secure coding practices and standards.
- 16.2. Payment related mobile application does not use vulnerable/deprecated components, protocols, libraries, scripts etc.
- 16.3. Implementations of components/ protocols/ libraries/ scripts do not lead to any vulnerability.
- 16.4. Payment related mobile application shall be properly patched if any vulnerability is identified.
- 16.5. Sensitive information shall not be hardcoded in the source code.

### **17. Input and Output Handling**

- 17.1. All input and output data shall be properly sanitized and validated at the server and at the client.
- 17.2. Auto complete feature shall be disabled for sensitive information.
- 17.3. Controls shall be implemented to disable the clipboard/copy-paste function for sensitive data.

### **18. Error and Exception Handling**

- 18.1. Proper error handling shall be implemented throughout the application.
- 18.2. Sensitive information and/or hints shall not be disclosed in error/warning messages and notifications.
- 18.3. Payment related mobile application errors shall be logged in the server.

### **19. Server Side Infrastructure**

- 19.1. Servers and web services with which the payment related mobile application communicates shall be properly hardened.
- 19.2. Server access controls and audit logs shall be maintained at the server level.
- 19.3. Ports and services which are not used by the payment related mobile application shall be disabled.

### **20. Logs and Data Leakage**

Detailed transaction logs shall be maintained in accordance with the following.

- 20.1. The payment related mobile application crash logs shall not be stored in the mobile device.
- 20.2. The payment related mobile application logs shall not contain any sensitive data.
- 20.3. The logs shall be stored in a log server which is segregated from the application/database servers and protected with appropriate access controls.
- 20.4. Security safeguards shall be implemented to protect the logs from unauthorized modification or destruction and only authorized officers shall be provided with access to the logs.
- 20.5. Server and the ecosystem logs shall be available for audits.
- 20.6. Logs shall be retained for a period of six years at a minimum. Adequate measures shall be implemented for the protection of transaction details against any loss or damage.

## 21. Code Signing of Payment related Mobile Application

- 21.1. PSP shall ensure that code signing is used for the payment related mobile application to confirm the software author and guarantee that the code has not been altered or corrupted since it was signed.
- 21.2. The private key used for code signing shall be generated, securely stored and backed up by the PSP.
- 21.3. Signing certificate shall be prepared with a strong private key.

## 22. Use of Third-party app stores and hosting at business websites

- 22.1. The payment related mobile application shall be hosted only at the relevant platform store such as Google Play Store, Apple Store and Windows Store, and shall not be hosted for downloading at PSP website or the vendor website or any other third party website.
- 22.2. PSPs shall ensure that all users are informed by the payment related mobile application owner that the payment related mobile application is not hosted in third party stores.

## 23. Business Continuity and Change Management

- 23.1. Details of the system including the Software Development Life Cycle (SDLC) shall be documented properly with change management.
- 23.2. If third party software is used, the PSP preferably ensures that the payment related mobile application owner has an escrow arrangement for all revised versions of the source code.
- 23.3. PSPs shall maintain appropriate redundancy and disaster recovery systems.
- 23.4. Payment related mobile application version controlling shall be maintained and documented.
- 23.5. Change Requests/ Change Management procedures shall be followed for all changes in the payment related mobile application.

## 24. Audit

- 24.1. An information system audit and information security audit shall be conducted for the entire payment related mobile application eco-system including web services, the server side databases and storage and network communication by an independent, reputed third-party auditor, who possess adequate capacity for auditing information systems.
- 24.2. The scope for audit may include, but not limited to, static and dynamic security analysis, source code review, production and testing environment reviews, vulnerability assessments and penetration reviews.
- 24.3. Information security audit requirements and compliance to these guidelines shall be met for each release of the payment related mobile application before live implementation and shall include all relevant patches and updates.
- 24.4. All composed audit reports shall contain the details of all members of the audit team including experience, academic and professional qualifications of each audit team member.

C J P Siriwardena  
Deputy Governor

Ref. No. : 34/07/029/0001/002

9 April 2018

Payment and Settlement Systems Circular No. 01/2018

To : All Participants of the LankaSettle System

### RESTRICTION OF BUSINESS HOURS OF THE LANKASETTLE SYSTEM ON 20 APRIL 2018

The Central Bank of Sri Lanka has decided to restrict business hours of the LankaSettle System on 20 April 2018 from 0800 hrs. to 1500 hrs., since it has been declared half-holiday in lieu of the Sinhala and Tamil New Year Day which falls on Saturday, 14

April 2018. Accordingly, the events after 1200 noon of the Operating Schedule of the LankaSettle System for 20 April 2018 will be revised as follows:

Event	Revised time
OMO-Repo/Reverse Repo (Auction) Settlement	1245 hrs.
MLNS-SLIPS (Session 2)	1300 hrs.
MLNS- Adjustment Clearing and Settlement Clearing	1400 hrs.
Cut-off time for third party transactions	1415 hrs.
CAS (Session 2) and CEFTS (Session 2)	1415 hrs.
MLNS-SLIPS (Session 3)	Not Available
SDF settlement	1430 hrs.
ILF Reversal and SLF settlement	1445 hrs.
Close for business	1500 hrs.
System shut down	1530 hrs.

D Kumaratunge  
Director/Payments and Settlements

Ref. No. : 34/07/029/0001/002

7 June 2018

Payment and Settlement Systems Circular No. 02/2018

To : All Participants of the LankaSettle System

### **LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM THE DISASTER RECOVERY SITE (DRS) ON 13 & 14 JUNE 2018**

This is to inform you that the Central Bank of Sri Lanka (CBSL) will conduct operations of the LankaSettle System (RTGS System and the LankaSecure System) and other related systems from its DRS on 13 & 14 June 2018 (Wednesday & Thursday) for the purpose of testing the business continuity arrangements.

The PCs of your institution that have been connected to the CBSLNet have already been configured to access the CBSL DRS. However, you are requested to contact the IT Department of CBSL and test the connectivity before 13 June 2018 to ensure the readiness. The contact details of CBSL IT officials are given below.

- Mr. V Kamalanath 011 2477126 (e-mail: kamalanath@cbsl.lk)
- Mrs. Bhagya Mallawa 011 2477016 (e-mail: bhagyam@cbsl.lk)

D Kumaratunge  
Director/Payments and Settlements

Copies : CEO- LankaClear Pvt. Ltd.  
Secretary General – Sri Lanka Banks' Association  
President- Association of Primary Dealers  
CEO- Lanka Financial Services Bureau Ltd.

General Direction No.01 of 2018

### **OPERATIONS OF THE COMMON ELECTRONIC FUND TRANSFER SWITCH**

Payment and Settlement Systems Act, No. 28 of 2005

General Direction made by the Monetary Board of the Central Bank of Sri Lanka under Section 44 of the Payment and Settlement Systems Act, No. 28 of 2005.

C J P Siriwardena  
Deputy Governor  
Central Bank of Sri Lanka

Colombo  
25 July 2018



## GENERAL DIRECTION NO. 01 OF 2018 - OPERATIONS OF THE COMMON ELECTRONIC FUND TRANSFER SWITCH

This direction may be cited as the General Direction No.01 of 2018 - Operations of the Common Electronic Fund Transfer Switch and shall replace the General Direction No.02 of 2014 - Operations of the Common Electronic Fund Transfer Switch. This Direction shall apply to LankaClear (Pvt.) Ltd. (LCPL) and Member of the Common Electronic Fund Transfer Switch (CEFTS) and shall come in to operation on 25 July 2018.

### 2. Definitions

In this Direction, unless the context otherwise requires:

- 2.1 **“Common Electronic Fund Transfer Switch” or “CEFTS”** means an electronic system operated by LCPL, which facilitates domestic interbank real-time fund transfers and shall include systems, processes, and procedures for switching and clearing of fund transfers between CEFTS members.
- 2.2 **“CEFTS Member”** means a Primary Member or a Secondary Member of CEFTS.
- 2.3 **“CEFTS System”** means systems and processes operated and maintained by LCPL for CEFTS including without any limitation, systems for dispatching, receiving, processing and archival of CEFTS data.
- 2.4 **“Clearing Cycle”** means the time period predefined by LCPL with the concurrence of Director, Payments and Settlements (D/PSD) of the Central Bank of Sri Lanka (CBSL) for netting of transactions for settlement.
- 2.5 **“Customer”** means any legal or natural person, who issues or directs a payment order and authorizes the CEFTS member to debit the respective account or tenders monetary value to the extent of the value of the payment order to the respective CEFTS member.
- 2.6 **“Operational Procedure Manual”** means the document prepared by LCPL containing the procedures laid down for the guidance of CEFTS Members as regards to the operations of CEFTS.
- 2.7 **“Primary Member”** means any licensed commercial bank which is a participant in the RTGS System and approved by the CBSL and LCPL to be a CEFTS Member.
- 2.8 **“RTGS System”** means the Real Time Gross Settlement System, which is a fully automated payment system owned and operated by CBSL.
- 2.9 **“Secondary Member”** means any legal entity approved by CBSL and LCPL to be a CEFTS Member and which has made arrangements with a Primary Member to settle net balances through the RTGS account of such Primary Member.
- 2.10 **“Member Agreement”** means an agreement entered into by a CEFTS Member with LCPL relating to CEFTS.

### 3. Responsibilities of LCPL and a CEFTS Member

- 3.1 Every CEFTS Member and LCPL shall enter into a Member Agreement relating to participation in and operations of CEFTS.
- 3.2 Every CEFTS Member and LCPL shall adhere to the arrangements between them in respect of operations of CEFTS, including those in the form of rules, procedures and such other arrangements prescribed by LCPL from time to time.
- 3.3 Every CEFTS Member and LCPL shall agree to follow the stipulations and guidelines of the Operational Procedure Manual.
- 3.4 Every CEFTS Member and LCPL shall comply with the limits imposed by CBSL, if any, on fees chargeable in respect of CEFTS transactions.

### 4. Responsibilities of LCPL

- 4.1 LCPL shall be the sole operator of CEFTS.
- 4.2 LCPL shall be responsible for;
  - 4.2.1 operating CEFTS on around the clock basis every day;
  - 4.2.2 granting Primary and Secondary Memberships in CEFTS to eligible entities with the approval of D/PSD;
  - 4.2.3 setting out clear and comprehensive System Rules with the approval of D/PSD of CBSL. The System Rules issued by LCPL shall stipulate, among other things, powers, rights, duties and obligations of LCPL and CEFTS Members, conditions for participation including joining, withdrawal, termination and suspension, operational requirements, dispute resolution mechanisms and conditions for maintaining confidentiality of information. LCPL shall amend System Rules as and when necessary with the concurrence of D/PSD of CBSL;
  - 4.2.4 defining the specifications, standards, security features and audit compliances which are applicable to the operations of CEFTS;

- 4.2.5 making available to CBSL, CEFTS multilateral net settlement batch files setting out the net position of every CEFTS Member on or before the cut-off times set out by CBSL;
- 4.2.6 entering into agreements and contracts properly with any service provider relating to the operations of CEFTS; and
- 4.2.7 adopting a uniform fees and penalties structure which may be amended by LCPL from time to time subject to the clause 3.4 hereof.

4.3 LCPL shall comply with reporting requirements of CBSL in respect of the operations of CEFTS and related matters;

4.4 LCPL shall conduct training, awareness and education programmes on CEFTS, as and when necessary, to CEFTS Members and the general public.

## 5. Responsibilities of CEFTS Members

5.1 A CEFTS Member shall not engage in any national level interbank clearing and settlement system, other than the clearing systems operated by LCPL.

5.2 Every CEFTS Member shall;

- 5.2.1 adhere to the System Rules of CEFTS set out by LCPL;
- 5.2.2 adhere to technical, administrative and other requirements for the smooth operations of CEFTS specified by LCPL from time to time;
- 5.2.3 establish a procedure and/or mechanism to acknowledge the completion or non completion of the transaction through CEFTS to the customer in real time;
- 5.2.4 ensure that adequate funds are available in its RTGS settlement account to settle CEFTS multilateral net settlement batch in the RTGS System at the cut-off times specified by CBSL;
- 5.2.5 be responsible for making regular backups of databases relating to the operations of CEFTS and establishing and maintaining recovery procedures in the event of system failure or data corruption or loss at the primary site;
- 5.2.6 reconcile the daily transaction reports and inform LCPL in writing of any discrepancy within 24 hours of receipt of the settlement report;
- 5.2.7 adhere to transaction limits specified by LCPL with the approval of CBSL with regard to CEFTS;
- 5.2.8 comply with reporting requirements of CBSL in respect of the operations of CEFTS and related matters; and
- 5.2.9 report transactions effected through CEFTS to the Financial Intelligence Unit (FIU) of CBSL as per the regulations issued in terms of the Financial Transaction Reporting Act, No. 06 of 2006 and act according to the instructions of FIU.

## 6. Business Continuity Planning

6.1 LCPL and CEFTS Members shall have a well defined business continuity plan for the operations of CEFTS approved by the respective Boards of Directors to ensure availability of CEFTS service at all times.

6.2 LCPL and CEFTS Members shall have a fully equipped Disaster Recovery Site (DRS) and well trained disaster management and business recovery teams to ensure uninterrupted operations.

6.3 LCPL shall have a skilled and trained backup staff in respect of core functionalities of CEFTS to be deployed in contingency situations in order to ensure carrying out operations without any interruption.

6.4 If LCPL experiences any technical or operational problem that prevents from performing its functions of CEFTS, such problem shall be conveyed to CBSL immediately after becoming aware of such problem. In the event of an unrecoverable failure at the primary site, LCPL shall immediately inform CBSL and commence operations at DRS and submit the CEFTS multilateral net settlement batch file to CBSL from DRS. In the event of a prolonged unrecoverable failure at both primary site and DRS, LCPL shall inform CBSL immediately and shall adopt alternative methods to derive the CEFTS multilateral net settlement for the time period from the end of the last settled Clearing Cycle to the time of the failure of the system and shall make available the same to CBSL.

## 7. Confidentiality

LCPL and every CEFTS Member shall maintain confidentiality in respect of all data, information and records and shall ensure that its officers, employees, agents and/or any person employed in any capacity maintain confidentiality, at all times.

## 8. General

8.1 In furtherance of and without prejudice to the foregoing, CBSL may from time to time and at any time require LCPL and CEFTS Members to provide such information in respect of the operations of CEFTS and LCPL and CEFTS Members shall provide such information to CBSL.

8.2 This direction is in addition to and not in derogation of any other written law, and rules, regulations, directions, terms and conditions to which LCPL and CEFTS Members are subject to and/or may be subject to from time to time.

8.3 Without prejudice to the generality of the above paragraph, this direction shall not be construed to limit any obligation or responsibility imposed on the CEFTS Members by the Payment and Settlement Systems Act, No. 28 of 2005 or any rule, regulation, instruction, directive or order issued or given thereunder or any other written law.

Ref. No. : 34/07/029/0001/002

25 July 2018

**Payment and Settlement Systems Circular No. 03/2018**

To : All participants of LankaSettle System

**AMENDMENT TO DAILY OPERATING SCHEDULE OF THE LANKASETTLE SYSTEM**

1. Four (04) Clearing Cycles will be implemented for the fund settlements of Common ATM Switch (CAS) and Common Electronic Fund Transfer Switch (CEFTS) from **01 August 2018**. LCPL Clearing Cycles and RTGS settlement times for each Clearing Cycle will be as follows;

LCPL Clearing Cycle	RTGS Settlement Time (CAS)	RTGS Settlement Time (CEFTS)
Cycle 1 (1400 hrs. - 0700 hrs. following day)	0845 hrs.	0900 hrs.
Cycle 2 (0700 hrs. - 1000 hrs.)	1100 hrs.	1115 hrs.
Cycle 3 (1000 hrs. - 1200 hrs.)	1300 hrs.	1315 hrs.
Cycle 4 (1200 hrs. - 1400 hrs.)	1500 hrs.	1515 hrs.

2. Accordingly, you are hereby informed that the table in the Clause 1.2 of Volume 4 of LankaSettle System Rules Version 2.1 - August 2013 on Daily Operating Schedule **will be amended as follows with effect from 01 August 2018**.

TIME	EVENT	ACTIVITIES /TRANSACTIONS
0630 hrs.	System start-up	Start-up of RTGS/SSS applications.
0730 hrs. to 0800 hrs.	Start of day processing	Update Official Prices of securities, earmarking securities for ILF.
0800 hrs.	LankaSettle System opens for business	System opens for effecting transactions.
0800 hrs.	ILF/Auto reversal of Repos and Standing Deposit Facility (SDF)	Grant ILF and settle second leg of Repos of OMO and SDF
0815 hrs.	Maturities/Interest payments, start of the day (SOD) file and maturities of CBSL Securities	Settlement of maturity proceeds/coupon payments of securities, effecting LankaSettle charges/penalties and maturities of CBSL Securities.
0830 hrs.	Multilateral Net Settlement (MLNS) Batch from Lanka Clear	SLIPS Cycle 1/Main Clearing of CITS.
0830 hrs.	Outright sales/ Purchases / Long Term Repo Auction/ Issue of Long Term CBSL Securities	Settlement of OMO outright sales, purchases, Long Term CBSL Securities Auction and first leg of Long Term Repo Auction.
0845 hrs.	MLNS Batch from LankaClear	Common ATM Switch (CAS) Cycle 1
0900 hrs.	MLNS Batch from LankaClear	Common Electronic Fund Transfer Switch (CEFTS) Cycle 1
1100 hrs.	Reversal of Reverse Repos and Standing Lending Facility (SLF)	Settlement of second leg of Reverse Repos under OMO and SLF.
1100 hrs.	MLNS Batch from LankaClear	CAS Cycle 2
1115 hrs.	MLNS Batch from LankaClear	CEFTS Cycle 2
1145 hrs.	Long Term Reverse Repos (Auction)	Settlement of first leg of Long Term Reverse Repos under OMO.
1300 hrs.	MLNS Batch from LankaClear	SLIPS Cycle 2
1300 hrs.	MLNS Batch from LankaClear	CAS Cycle 3

1300 hrs.	Closure of Primary Auction Settlement/ Short Term CBSL Securities Auction	Settlement of securities under Primary Auction. Settlement of Short Term CBSL Securities Auction
1315 hrs.	MLNS Batch from LankaClear	CEFTS Cycle 3
1315 hrs.	Short Term Repos/Reverse Repos (Auction)	Settlement of first leg of Short Term Repos/Reverse Repos under OMO
1445 hrs.	MLNS Batch from LankaClear	Settlement Clearing and Adjustment Clearing.
1500 hrs.	MLNS Batch from LankaClear	SLIPS Cycle 3
1500 hrs.	MLNS Batch from LankaClear	CAS Cycle 4
1500 hrs.	Primary cut-off time for third party transactions	Close for new transactions (for T + 0) in favour of third parties, except for bank-to-bank (MT2XX series).
1515 hrs.	MLNS Batch from LankaClear	CEFTS Cycle 4
1545 hrs.	Cut-off time for Participant managed ILF Repo creation	Participants should not initiate ILF Repos after 1545 hrs.
1600 hrs.	SDF	Settlement of first leg of SDF.
1615 hrs.	SLF	Settlement of first leg of SLF.
1615 hrs.	ILF Repayment	Repayment of ILF.
1630 hrs.	Final Cut-off Time Closure of System for business	No further inputs are accepted. With the closure of system for business, queue/Settlement processing will cease and any transactions still in queues will be rejected by the system.
1630 hrs. to 1700 hrs.	EOD processing	End-of-day (EOD) processes e.g. generate reports/GL export (EOD) file, database maintenance for billing/statement printing purposes.
1700 hrs.	System shut down	Commence shutting down of RTGS/SSS application software, obtain off-line backups.

3. Participants are advised to monitor their settlement accounts through browser workstations and assure to keep sufficient funds in their settlement accounts at the time of settlement of Multilateral Net Settlement (MLNS) batches in the RTGS System.

D Kumaratunge  
**Director/Payments and Settlements**

**Ref. No. : 34/07/029/0001/002**

20 August 2018

**Payment and Settlement Systems Circular No. 04/2018**

To : All Participants of the LankaSettle System

### OPENING OF THE LANKASETTLE SYSTEM TO CONDUCT A LIVE TRIAL ON 02 SEPTEMBER 2018

This is to inform you that the LankaSettle system (RTGS and SSSS) will be opened on **02 September 2018 (Sunday)** for the limited purpose of testing the new version of application software in a live environment. However, any related interface applications (OMO etc.) of the LankaSettle system will not be available on the aforementioned day for any testing.

Accordingly, LankaSettle Participants are required to enter all test transactions specified by the Information Technology Department of the Central Bank of Sri Lanka (ITD, CBSL), to verify proper settlement of such transaction types.

LankaSettle Participants are also requested;

- (1) not to send any future value dated transactions on 02 September 2018 (live trial day) and to disregard all transactions value dated 02 September 2018, as such entries will be deleted from the system at the end of the live trial; and
- (2) to disregard all inbound SWIFT messages generated on 02 September 2018 (live trial day) by CBCELKLAXXX, CBCELKLSXXX and CBCELKLXXXX.

The live trial will be conducted from **9:00 am to 11:30 am** on **02 September 2018 (Sunday)**.

The test plan including test transactions will be directly emailed to the authorized officer of each Participant by ITD, CBSL on or before 31 August 2018.

Upon successful completion of the live trial, the new version of the LankaSettle System will be available to use from **03 September 2018** onwards.

D Kumaratunge  
Director/Payments and Settlements

M Z M Aazim  
Superintendent of Public Debt

**General Direction No.02 of 2018**

## **OPERATIONS OF THE COMMON POINT-OF-SALES SWITCH**

### **Payment and Settlement Systems Act, No. 28 of 2005**

General Direction made by the Monetary Board of the Central Bank of Sri Lanka under section 44 of the Payment and Settlement Systems Act, No. 28 of 2005.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

Colombo  
24 August 2018

### **GENERAL DIRECTION NO.02 OF 2018 - OPERATIONS OF THE COMMON POINT-OF-SALES SWITCH**

This Direction may be cited as the General Direction No. 02 of 2018 - Operations of the Common Point-of-Sales Switch and shall apply to Members of the Common Point-of-Sales Switch (CPS) and LankaClear (Pvt.) Ltd. (LCPL). CPS is an electronic system operated by LCPL that links Point-of-Sales (POS) switches of its members to facilitate switching and clearing of not-on-us POS transactions. This Direction shall come into operation on 24 August 2018.

#### **2. Definitions**

In this Direction, unless the context otherwise requires:

- 2.1 **"CPS Member"** means a Primary Member or a Secondary Member of CPS.
- 2.2 **"Clearing Cycle"** means the time period determined by Director, Payments and Settlements (D/PSD) of the Central Bank of Sri Lanka (CBSL) for netting of transactions for settlement.
- 2.3 **"Not-on-Us POS Transaction"** means a transaction originated at a CPS Member's POS terminal by a customer of another CPS Member.
- 2.4 **"Operational Procedure Manual"** means the document prepared by LCPL containing the procedures laid down for the guidance of CPS Members as regards to the operations of CPS.
- 2.5 **"Primary Member"** means any licensed commercial bank which is a participant in the RTGS System and approved by CBSL and LCPL to be a CPS Member.
- 2.6 **"RTGS System"** means the Real Time Gross Settlement System, which is a fully automated payment system owned and operated by CBSL.
- 2.7 **"Secondary Member"** means any legal entity approved by CBSL and LCPL to be a CPS Member and which has made arrangements with a Primary Member to settle net balances through the RTGS account of such Primary Member.
- 2.8 **"Member Agreement"** means an agreement entered into by a CPS Member with LCPL relating to CPS.

#### **3. Responsibilities of LCPL and a CPS Member:**

- 3.1 Every CPS Member and LCPL shall enter into a Member Agreement relating to participation in and operations of CPS.
- 3.2 Every CPS Member and LCPL shall agree to follow the stipulations and guidelines of the Operational Procedure Manual.
- 3.3 Every CPS Member and LCPL shall adhere to the arrangements between them in respect of operations of CPS, including those in the form of rules, procedures and such other arrangements prescribed by LCPL from time to time.
- 3.4 Every CPS Member and LCPL shall comply with the limits imposed by CBSL, if any, on fees chargeable in respect of CPS transactions.

#### 4. Responsibilities of LCPL

- 4.1 LCPL shall be the sole operator of CPS.
- 4.2 LCPL shall be responsible for;
  - 4.2.1 operating CPS on *around the clock* basis every day;
  - 4.2.2 granting Primary and Secondary Membership in CPS to eligible entities with the approval of D/PSD of CBSL;
  - 4.2.3 setting out clear and comprehensive System Rules with the approval of D/PSD of CBSL. The System Rules issued by LCPL shall stipulate, among other things, responsibilities of LCPL and CPS Members, conditions for participation including joining, withdrawal, termination and suspension, operational requirements, dispute resolution mechanisms and conditions for maintaining confidentiality of information. LCPL shall amend System Rules as and when necessary with the approval of D/PSD of CBSL;
  - 4.2.4 making available to CBSL, CPS multilateral net settlement batch files for settlement of CPS transactions, on or before the cut-off times set out by CBSL; and
  - 4.2.5 adopting a uniform structure for fees and charges which may be amended by LCPL from time to time subject to the limits imposed by CBSL, if any, on fees chargeable in respect of CPS transactions.
- 4.3 LCPL shall comply with reporting requirements of CBSL in respect of the operations of CPS and related matters.

#### 5. Responsibilities of CPS Members

- 5.1 Every CPS Member shall;
  - 5.1.1 adhere to the System Rules of CPS set out by LCPL;
  - 5.1.2 adhere to technical, administrative and other requirements for the smooth operations of CPS specified by LCPL from time to time;
  - 5.1.3 be responsible for making regular backups of databases relating to the operations of CPS and establishing and maintaining recovery procedures in the event of system failure or data corruption or loss at the primary site;
  - 5.1.4 reconcile the daily transaction reports and inform LCPL in writing of any discrepancy within 24 hours of receipt of the settlement report; and
  - 5.1.5 comply with reporting requirements of CBSL in respect of the operations of CPS and related matters.
- 5.2 Every CPS Primary Member shall ensure that adequate funds are available in its RTGS settlement account to settle CPS multilateral net settlement batch in the RTGS System at the cut-off times specified by CBSL. In the event a CPS Primary Member does not comply with this clause, CBSL may take action in accordance with the LankaSettle System Rules.

#### 6. Business Continuity Planning

- 6.1 LCPL and CPS Members shall have well defined business continuity plans for the operations of CPS approved by the respective Boards of Directors to ensure availability of CPS service at all times.
- 6.2 LCPL and CPS Members shall have fully equipped Disaster Recovery Sites (DRS) and well trained disaster management and business recovery teams to ensure uninterrupted operations.
- 6.3 LCPL shall have skilled and trained backup staff in respect of core functionalities of CPS to be deployed in contingency situations in order to ensure carrying out operations without any interruption.
- 6.4 If LCPL experiences any technical or operational problem that prevents from performing its functions of CPS, such problem shall be conveyed to CBSL immediately after becoming aware of such problem. In the event of an unrecoverable failure at the primary site, LCPL shall immediately inform CBSL and commence operations at DRS and submit the CPS multilateral net settlement batch file to CBSL from DRS. In the event of a prolonged unrecoverable failure at both primary site and DRS, LCPL shall inform CBSL immediately and shall adopt alternative methods to derive the CPS multilateral net settlement amounts for the time period from the end of the last settled Clearing Cycle to the time of the failure of the system and shall make available the same to CBSL.

## 7. Confidentiality

LCPL and every CPS Member shall maintain confidentiality in respect of all data, information and records and shall ensure that its officers, employees, agents and/or any person employed in any capacity maintain confidentiality, at all times.

## 8. General

8.1 In furtherance of and without prejudice to the foregoing, CBSL may from time to time and at any time require LCPL and CPS Members to provide such information in respect of the operations of CPS and LCPL and CPS Members shall provide such information to CBSL.

8.2 This Direction is in addition to and not in derogation of any other written law, and rules, regulations, directions, terms and conditions to which LCPL and CPS Members are subject to and/or may be subject to from time to time.

8.3 Without prejudice to the generality of the above paragraph, this Direction shall not be construed to limit any obligation or responsibility imposed on the CPS Members by the Payment and Settlement Systems Act, No. 28 of 2005 or any rule, regulation, instruction, directive or order issued or given thereunder or any other written law.

**Ref: 34/07/ 029/ 0001/002**

**Payment and Settlement Systems Circular No. 05/2018**

12 September 2018

To : All Participants of the LankaSettle System

### **APPOINTMENT OF BANK OF CHINA LIMITED AS A PARTICIPANT OF THE LANKASETTLE SYSTEM**

Bank of China Limited (BOCL) of No. 40, York Street, Colombo 01, has been licensed to carry on both domestic banking business and off-shore banking business under the Banking Act No. 30 of 1988. Accordingly, BOCL will be admitted as a participant of the LankaSettle System in terms of Section 62A of the Monetary Law Act No. 58 of 1949 (as amended), and as a Direct Participant and a Dealer Direct Participant of the LankaSettle System, in terms of Sections 21D and 21E of the Registered Stock and Securities Ordinance (RSSO) No. 7 of 1937 (as amended) and Sections 9 and 10 of the Local Treasury Bills Ordinance (LTBO) No. 8 of 1923 (as amended).

BOCL will be registered as a participant of the Real Time Gross Settlement (RTGS) System and LankaSecure System (Scripless Securities Settlement System - SSSS and Central Depository System - CDS) of the LankaSettle System, with effect from **14 September 2018**.

The SWIFT User Identification Code (BIC), RTGS Settlement Account Number and the contact details of BOCL are given below:

SWIFT User Id Code (BIC) : BKCHLKLXXX

RTGS Settlement Account : BKCHLKLXXX0100052027

#### **Contact Details:**

Country Manager : Mr Wang Chuan

Telephone : +94-11-2118888

E-mail : chuanwang@bankofchina.com

All Participants of the LankaSettle System are informed of BOCL's participation in the LankaSettle System.

D Kumaratunge

**Director/Payments & Settlements**

R D T Gunasekara

**Actg. Superintendent of Public Debt**

**Payment and Settlement Systems Circular No. 06 of 2018**

09 October 2018

To : All CEO's of Licensed Banks, Licensed Finance Companies and Licensed Operators of Mobile Phone Based e-Money Systems

### **ESTABLISHMENT OF A NATIONAL QUICK RESPONSE CODE STANDARD FOR LOCAL CURRENCY PAYMENTS**

This Circular is issued in terms of Section 44 of the Payment and Settlement Systems Act, No.28 of 2005 (Act) read with Section 4 of the Act to establish and promote a National Quick Response Code Standard for Local Currency Payments. The Central Bank of Sri Lanka hereby issues a National QR code standard, titled LANKAQR Specifications (Annexure 1).

This Circular shall come into effect on 09 October 2018 and all Licensed Banks, Licensed Finance Companies and Licensed Operators of Mobile Phone Based e-Money Systems who offer QR Code based payment solutions shall conform to the same within 06 months of this Circular.

## 1. Definitions

For all intents and purposes, the following have been defined as parties to a LANKAQR code initiated transaction:

- 1.1 Issuer – Institutions which facilitate payments from current accounts, savings accounts, credit card accounts, mobile phone based e-money accounts, which would be used to carry out QR code based payments.
- 1.2 Acquirer – The financial institution or mobile phone based e-money operator responsible for enrolling merchants, assigning merchant IDs, maintaining merchant records/accounts, and settling merchants. Acquirer also facilitates generation of merchant presented LANKAQR code.
- 1.3 Network Facilitator - When the issuer and acquirer are different, the network facilitator (LankaClear (Pvt.) Ltd. (LCPL)) would be responsible for routing transactions between the respective financial institutions involved in the transaction.
- 1.4 Mobile Application Provider - This is the party which provides the mobile based payment solution to facilitate transactions using LANKAQR code. This can be a third-party application provider of a financial institution or an acquiring institution.
- 1.5 Transaction Acquirer - The transaction acquirer is the financial institution or mobile phone based e-money operator which facilitates the mobile application provider to acquire transactions. This party would facilitate the financial transactions via LCPL or respective payment network.

## 2. Fees and Charges

- 2.1 No charge shall be levied on the consumer for LANKAQR code initiated transactions.
- 2.2 Charges may be levied on merchants in the form of a Merchant Discount Rate (MDR).
- 2.3 Merchant Acquirers are strictly advised to make sure that the merchants do not recover full/part cost of MDR from the end consumer.
- 2.4 Merchant Acquirers shall ensure that the lowest possible MDR rates prevail in order to encourage faster and widespread adoption of the LANKAQR code in the market.
- 2.5 Initially, the Central Bank of Sri Lanka (CBSL) may allow market forces to determine the MDR thus creating a healthy competition among Merchant Acquirers, and if required, CBSL may intervene in order to regularise and stabilise the MDR.
- 2.6 Table 1 below is an example of the distribution of a 1% MDR between all stakeholders – Merchant Acquirers, Transaction Acquirers, Issuers and LCPL. Though the MDR value may vary, the allocation for each stakeholder identified below may not be changed, with the exception of the Merchant Acquirer. The MDR shall be collected and distributed by the Merchant Acquirer to the relevant parties according to the allocations provided in Table 1.
- 2.7 In the instance of a reversal of transactions, the total network fee (LCPL fee which is non-refundable) shall be borne by the Merchant Acquirer.

**Table 1: Example of Distribution of a 1% MDR between all stakeholders**

Transaction Amount x in LKR	LCPL Fee in LKR	Issuer Fee	Transaction Acquirer Fee	Merchant Acquirer Fee
10 <= x <= 100	0.01	0.25%	0.35% (To be shared with Mobile Application Provider)	Up to 0.40% (Determined by market forces) - LCPL Fee
100 < x <= 1000	0.10			
1000 < x <= 5000	1.00			
5000 < x	3.00			

## 3. Transaction Limits

- 3.1 The minimum transaction limit per LANKAQR code transactions shall be LKR 10.00.
- 3.2 The maximum transaction limit per LANKAQR code transactions shall be decided by the Acquirer, based on individual risk tolerance.

## 4. Transaction Notifications

- 4.1 Issuers shall notify the customers of the transaction status in real-time, via SMS.
- 4.2 Merchant Acquirers shall notify the merchants of the transaction status in real-time, via a suitable method, agreed with the merchant.



## 5. Network Facilitator

- 5.1 LCPL has been appointed as the main facilitating entity for the LANKAQR code based payment process and shall issue the relevant Operating Guidelines and Branding Guidelines as approved by the Director, Payments and Settlements, Central Bank of Sri Lanka. All participants engaging in LANKAQR code initiated transactions shall adhere to these Guidelines issued by LCPL.

D Kumaratunge

Director/Payments and Settlements

### Payment and Settlement Systems Circular No. 07 of 2018

23 October 2018

To : All Primary Members of Common ATM Switch and Common Electronic Fund Transfer Switch and LankaClear (Pvt.) Ltd.

#### LIABILITY MANAGER LIMITS IN LANKAPAY COMMON ATM SWITCH AND LANKAPAY COMMON ELECTRONIC FUND TRANSFER SWITCH

Considering the number of transaction rejections due to insufficient Liability Manager (LM) limits set by member institutions in LankaPay Common ATM Switch (CAS) and LankaPay Common Electronic Fund Transfer Switch (CEFTS) the Monetary Board of the Central Bank of Sri Lanka (CBSL) has approved imposing a multi-tiered LM limit structure to provide effective payment and settlement services to the customers. Initially, the multi-tiered LM limit structure will apply only to Primary Members of CAS and CEFTS.

2. Accordingly, Primary Members will be grouped in to three categories as per the list given in Annex I and minimum LM limits will be defined for CAS and CEFTS for each category as given in the following tables.

##### i. Minimum LM Limits for CAS

	Category A	Category B	Category C
Category A	Rs. 200 Mn	Rs. 150 Mn	Rs. 100 Mn
Category B	Rs. 150 Mn	Rs. 150 Mn	Rs. 100 Mn
Category C	Rs. 100 Mn	Rs. 100 Mn	Rs. 100 Mn

##### ii. Minimum LM Limits for CEFTS

	Category A	Category B	Category C
Category A	Rs. 250 Mn	Rs. 200 Mn	Rs. 150 Mn
Category B	Rs. 200 Mn	Rs. 200 Mn	Rs. 150 Mn
Category C	Rs. 150 Mn	Rs. 150 Mn	Rs. 150 Mn

3. LankaClear (Pvt.) Ltd. shall implement and maintain the minimum LM limits defined by CBSL in CAS and CEFTS Systems and accommodate requests made by Primary Members to set LM limits higher than the minimum LM limits defined by CBSL.
4. Minimum LM limits assigned for any or all category/ies and categorization of Primary Members would be periodically reviewed by CBSL and revised, if necessary.
5. Primary Members were categorized in this manner for the sole purpose of defining minimum LM limits and shall not be used for any other purpose.
6. This Circular will be effective from 01 November 2018.

D Kumaratunge

Director/Payments and Settlements

#### Annex I

#### Primary Members of Common ATM Switch and/or Common Electronic Fund Transfer Switch

- Category A

People's Bank
Bank of Ceylon
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Hatton National Bank PLC

- Category B

Seylan Bank PLC
National Development Bank PLC
Nations Trust Bank PLC
DFCC Bank PLC
The Hongkong & Shanghai Banking Corporation Ltd.

- Category C

Pan Asia Banking Corporation PLC
Standard Chartered Bank
Union Bank of Colombo PLC
Amana Bank PLC
Cargills Bank Ltd.
Citibank N.A.
MCB Bank Ltd.
Deutsche Bank AG
State Bank of India
Axis Bank Ltd.
Indian Bank
Habib Bank Ltd.
Public Bank Berhad
ICICI Bank Ltd.
Indian Overseas Bank

This categorization is for the sole purpose of imposing the multi-tiered LM limit structure and shall not be used for any other purpose.

Ref. No.: 34/07/029/0001/002

05 November 2018

Payment and Settlement Systems Circular No. 08/2018

To : All Participants of the LankaSettle System

**OPENING OF THE LANKASETTLE SYSTEM FOR BUSINESS AT 0730 HRS.  
ON 07 NOVEMBER 2018**

This is to inform you that the LankaSettle system (RTGS and SSSS) will open for business at 0730 hrs. on 07 November 2018 (Wednesday), for the purpose of addressing any technical issues after the upgrade of the SWIFT system to Version 7.2.

D Kumaratunge

Director/Payments and Settlements

M Z M Aazim

Superintendent of Public Debt

Ref. No. : 34/07/029/0001/002

21 November 2018

Payment and Settlement Systems Circular No. 09/2018

To : All Participants of the LankaSettle System

**LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM THE DISASTER RECOVERY SITE (DRS)  
ON 28, 29 & 30 NOVEMBER 2018**

This is to inform you that the Central Bank of Sri Lanka (CBSL) will conduct operations of the LankaSettle System (RTGS System and the LankaSecure System) and other related systems from its DRS on 28, 29 & 30 November 2018 (Wednesday, Thursday & Friday) for the purpose of testing the business continuity arrangements.

The computers of your institution which have been connected to the CBSLNet have already been configured to access the CBSL DRS. However, you are requested to contact the Information Technology (IT) Department of CBSL and test the connectivity before 28 November 2018 to ensure the readiness. The contact details of CBSL IT officials are given below.

- Mr. V Kamalanath 011 2477126 (e-mail: kamalanath@cbsl.lk)
- Mrs. Bhagya Mallawa 011 2477016 (e-mail: bhagyam@cbsl.lk)

D Kumaratunge  
**Director/Payments and Settlements**

Copies : Director/ Information Technology – Central Bank of Sri Lanka  
CEO- LankaClear Pvt. Ltd.  
Secretary General – Sri Lanka Banks' Association  
President- Association of Primary Dealers  
CEO- Lanka Financial Services Bureau Ltd.

**Operating Instructions No: RDD/SAPP/ 4P /2018/01**

Regional Development Department  
Central Bank of Sri Lanka  
P O Box 590  
No. 30, Janadhipathi Mawatha  
Colombo 01  
10 April 2018

**To : All PFIs**

## **OPERATING INSTRUCTIONS FOR THE 4P CAPITAL, 4P SEASONAL AND YOUTH LOAN SCHEMES UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIPS PROGRAMME (SAPP)**

### **1. Introduction**

Government of Sri Lanka (GOSL) with the consent of the International Fund for Agricultural Development (IFAD) has made arrangements establish the Smallholder Agribusiness Partnerships Programme (SAPP) which will be implemented by the Project Management Unit (PMU) operated under the Presidential Secretariat. The SAPP will be funded by both IFAD and GOSL whereas the Loan Proceeds for Credit provided by the IFAD will be utilised for the financing of **Public-Private-Producers Partnerships (4P) Capital, 4P Seasonal and Youth Loan Schemes** (the 4P Loan Schemes), in terms of SAPP Component 2: Access to Rural Finance and sub component 2.1: Financing of 4Ps. The Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL) will implement the Credit Component of 4P Loan Schemes. The 4P Loan Schemes will be implemented through the accredited and selected Licenced Commercial & Licenced Specialized Banks referred as Participating Financial Institutions (PFIs) of the SAPP.

Accordingly, SAPP has allocated USD Eleven Million Seven Hundred and Ninety Thousand (USD 11,790,000) for the 4P Loan Schemes. The promoter company in the 4P arrangement would be selected and recommended to the RDD through the PMU, by the respective PFI.

### **2. The Objective of 4P Loan Schemes**

The primary objective of the Loan Schemes is to increase the production, productivity, and quality and value addition of agriculture produce.

Other objectives of the 4P Loan Schemes are as follows;

- a. To minimize the transaction cost of the loan to the farmer.
- b. To improve the social conditions of the farmer.
- c. To enhance financial inclusion among rural farmers by bringing them into the formal financial system.
- d. To develop the value chain marketing and linkages among the rural farmers.
- e. To introduce modern farming methods of skills for the rural farmers.
- f. To encourage farmers to increase the agriculture production and contribute to the country's GDP growth.
- g. To create youth employment opportunities along the 4P projects.
- h. To encourage, uplift the skill levels of the rural youth through capacity building.
- i. To inculcate savings habits and thrift among the farmers.
- j. To improve the living condition of the farmers by means of increasing their household income through the enhancement of the agriculture production and value addition.

### 3. Areas of Operation

The programme will be implemented all island.

### 4. Eligible Activities

Loans can be provided for the purchase of capital assets such as machineries, farm equipment and as working capital requirements under out grower farming undertaken by the project farmers that should be acceptable to the PFI.

### 5. Sub-loan Categories

The sub loan categories granting from the Loan Proceeds for Credit will be as follows;

- Seasonal Loans for farmers, Farmer Organisations (FOs)/Producer Organisations (POs) & Farmer groups engaged in 4P arrangements.
- Capital loans farmers and FOs/POs & Farmer groups for engaged in 4P arrangements.
- Capital loans/Working Capital Loans for Youth entrepreneurs.

### 6. The Role and the Responsibilities of the PFI

The PFI is required to play an active role in the implementation of the 4P Loan Schemes. The PFI shall;

- Ensure that required staff is allocated to implement the 4P Loan Schemes.
- Take full responsibility of the delivery of credit and recoveries.
- Ensure that any branch of the PFIs shall not, in any circumstance, grant loans for the end-borrowers at any interest rate higher than the rate mentioned in Section 8.0 below, under the 4P Loan Schemes.
- Satisfy itself that each sub project is economically and financially viable and feasible in terms of marketing.
- Maintain Accounts and Financial Statements
  - PFIs are required to maintain appropriate ledger accounts and records to indicate inter alia, sub loan appraisal, approvals, disbursement and recovery.
  - PFIs are required to maintain separate accounts for the utilization of loan proceeds and refinance operations.
  - PFIs should make available the Accounts and Financial Statements for the inspection and review of RDD and the PMU (on behalf of IFAD). Further, the PFI should submit the Accounts and Financial Statements to RDD and the PMU as and when required.
- Follow the registration process and refinance procedure stipulated in the Operating Instructions.

### 7. Eligible Beneficiaries

Eligible Beneficiaries, indicated below, should be able to satisfy the PFI that the proposed project has a positive cash flow and an adequate repayment capacity.

- Farmers engaged in 4P arrangements.
- Youths to respond to the demand for services generated along the value chain in complement to the 4Ps. The youths should have detailed business plan and sales arrangement defined with the 4P actors in the business plan.

### 8. Main Features of the 4P Loan Schemes

Main features of the 4P Loan Schemes are given in the Table below.

Feature	4P - Capital Loan Scheme	4P - Seasonal Loan Scheme	Youth Loan Scheme
Maximum Loan Limit	<ul style="list-style-type: none"> <li>Rs.300, 000 for out-grower farmers under 4Ps</li> <li>In case of FOs/POs and farmer groups, the cumulative member's loan or organization loan limit should not exceed Rs. 25 Million.</li> </ul>	<ul style="list-style-type: none"> <li>Rs.300, 000 for out-grower farmers under 4Ps</li> <li>In case of FOs/POs and farmer groups, the cumulative member's loan or organization loan limit should not exceed Rs. 25 million.</li> </ul>	Rs. 2 Million

Eligible Sub-borrowers and Sub- Loan Activities	<ul style="list-style-type: none"> <li>- Farmers, FOs/POs and farmer groups</li> <li>- To purchase farm equipment and farm infrastructure development, etc</li> </ul>	<ul style="list-style-type: none"> <li>- Farmers, FOs/POs and farmer groups</li> <li>- To use as working capital for seedlings, fertilizing, hiring of tractors, harvesting, rehabilitation of water wells, etc</li> </ul>	<ul style="list-style-type: none"> <li>- Youth entrepreneurs and/or group of youth entrepreneurs</li> <li>- To purchase machinery, farm equipment and working capital to meet the demand of the services generated through 4Ps value chain</li> </ul>
Interest Rate payable to the PFI by the Sub-Borrower	6.5 % per annum	6.5 % per annum	6.5 % per annum
Interest Rate payable to the CBSL by the PFI	3.0 % per annum	3.0 % per annum	3.0 % per annum
Grace Period	Maximum duration of six (6) months depending on the requirement of the project	No Grace Period	Maximum duration of six (6) months depending on the requirement of the project
Repayment Period	Should not exceed thirty six (36) months	Could range between 6 months to 12 months based on the yielding period of the crops and farmers' cash flow.	Should not exceed 60 months.
Collateral	Buy back agreement between the company and the farmer or two personal guarantors or the corporate guarantee for the group of farmers.	Buy back agreement between the company and the farmer or two personal guarantors or the corporate guarantee for the group of farmers	Service agreement between the company and the beneficiary/s will be the substitute collateral for this loan or PFIs to decide the type of collateral for granting the loans.

## 9. Registration of Borrowers

- The Head Office of the PFI should direct details of the applicants who wish to obtain loans under the 4PLoan Schemes, as given in Section 9 (b) and (c) below, as per the Loan Registration Form given as Annex I (a) and I (b) of the Operating Instruction to the RDD of the CBSL through the PMU.
- In case of both individual borrowers and borrowers from the FO/PO and Farmer Groups (FG), the PFI must retain duly completed Annex I (a) with respect to each and every borrower and should direct duly completed Annex I (b) of the Operating Instructions to the RDD of the CBSL through the PMU.
- If the borrower is a FO/PO/Farmer Group, PFI should forward separate Annex I (b) for each FO/PO/Farmer Group
- PMU will recommend the list of applicants or the Group to the RDD of the CBSL, after carrying out necessary background evaluations.

## 10. Custody of documents

Head Office/branch of the PFIs must retain the duly completed Beneficiary Application Form of the Line of Credit (**Annex I (a)**) and should submit a copy whenever requested by the RDD of Central Bank or the PMU. PFI Head Office or branch may retain any other document relevant to loan disbursement at the sole discretion of the PFI.

## 11. Refinance Procedure

CBSL will provide 100 per cent refinance for all Sub-loans granted subject to the terms and conditions laid down in this Operating Instructions.

- PFIs should release loans to the registered beneficiaries within 90 days of CBSL registration. If any loans are unable to disburse within the stipulated time period, PMU & RDD should be informed with any valid reasons upon the completion of 90 days from the date of registration. PMU/RDD should consider the reasons given for the delay and should take appropriate decision on registered beneficiaries. Any registered loan failing to disburse or to provide valid reasons within 90 days is subject to cancellation by the RDD within 14 days, lapsing 90 days period.
- Duly completed applications for refinance should be submitted to RDD for reimbursement after releasing the Sub-loans. Each refinance application should be accompanied with the following documents:

- i. Application for Refinance - Annex II
  - ii. Statement of Loans Disbursed Application for Refinance - Annex III
  - iii. Demand Promissory Note- Annex IV
  - iv. Delivery Note - Annex V
  - v. Form of Assignment by way of Pledge to CBSL - Annex VI
  - vi. Disbursement Letter - Annex VIII
- c. Upon approval of the refinance application, RDD will sanction the refinance application and release refinance within 30 days after receiving duly completed refinance application, first come first served basis, subject to the availability of funds.
  - d. Refinance claims should be submitted to RDD through the PFIs Head Offices within 30 days of the date of disbursement.
  - e. Capital and interest payments on refinance loan will be payable by the PFIs to the CBSL according to the repayment schedule for refinance prepared by the CBSL.

## 12. Recovery of Loans

The capital and interest for the refinance provided for the PFIs will be recovered semi – annually i.e. 30th June and 31st December of each year. The PFIs shall repay to the CBSL according to the product type:

- 4P Capital Loan- The PFIs shall repay the CBSL under this loan product in maximum 36 months.
- 4P Seasonal Loan- The PFIs shall repay the CBSL under this loan product in maximum 12 months.
- Youth Loan - The PFIs shall repay the CBSL under this loan product in maximum 60 months.

## 13. Reporting

PFIs should monthly report the commitment, disbursement and refinance loan details before 15th of next month to the Central Bank with a copy to the PMU, as per the Annex VII. PFIs should report quarterly the NPL status of the disbursed Sub-Loans as per the Annex IX.

## 14. Auditing of Accounts

RDD will prepare annual financial statements of 4P Loan Schemes and such financial statements will be audited by the Auditor General. PFIs are also required to get the financial statements of this programme audited as required by the IFAD.

The CBSL reserves the right to revise the terms and conditions in respect of 4P Loan Schemes as and when necessary.

Yours faithfully  
D.V.S. Dayawansa (Mrs)  
**Director**  
**Regional Development Department**  
**Central Bank of Sri Lanka**

## Annex I(a)

### Individual Beneficiary Application

PFI: CENTRAL BANK BENEFICIARY REGISTRATION NO:...

### LOAN REGISTRATION APPLICATION FOR INDIVIDUAL CUSTOMERS- SAPP (.....LOAN SCHEME)

Name of the Branch : District:

Address of the Branch :

1) Project / Participating Company Name :

2) Telephone No. / Fax No :

3) Status of Applicant/s : Individual ☐ Group Member ☐

4) If a Group Member; Name of the Group :

Registration Number of the Group :

5) Name and Address of Applicant/s :

Name	Address	National Identity Card Number	Gender
i			
ii			

6) Purpose of the Loan:

.....

7) Loans previously obtained or currently processing under SAPP: (Please add additional rows if necessary)

Loan Scheme	Purpose	Amount (Rs.)
4P Capital		
4P Seasonal		
Youth		

8) Complete Address of the Project Site and Location:

.....

9) Type of Business/Small Enterprise : .....

10) Brief description of the Business/Small Enterprise to be financed under the Loan Scheme: .....

.....

11) Estimated cost of the Project : Rs.....

12) Amount of loan recommended/approved by the PFI : Rs.....

.....  
Name & the Signature of the Beneficiary

.....  
Name and the Signature & Official  
seal of Authorized officer

Date : .....

## Annex I (b) : 4P Loan Schemes - SAPP

**SUB BORROWER REGISTRATION**  
(Name of the Loan Scheme)

APPLICATION NUMBER: .....

TO : THE CENTRAL BANK OF SRI LANKA

THROUGH : SAPP - PROJECT MANAGEMENT UNIT

Name of the PFI :

PFI Branch Name :

#	Applicant Name	Address & Contact Number of the Applicant	Gender	Borrower Status (Individual/ Group Member)	NIC	Group Name and Registration Number (For Group Members)	Loan Details			CBSL Registration Number*
							Project Name	Purpose	Amount	

I certify that the projects mentioned above were examined by me/credit officer of the bank and found that those are eligible to be financed under the Small Holder Agribusiness Programme.

.....

(Name & Signature and  
Stamp of the Authorized Officer)

Date

\* For CBSL use only



## Annex II

## APPLICATION FOR REFINANCE

REFINANCE APPLICATION NO.:.....

(Under Operating Instructions No. ....)

Address:

Date:

## APPLICATION FOR REFINANCE –

## ..... LOAN SCHEME UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIP PROGRAM (SAPP)

To: The Monetary Board of the Central Bank of Sri Lanka

We, .....(Name of PFI) a licensed commercial bank and development banks/licensed specialized bank/Micro Finance Institution and an authenticated print of whose constitution has already been/is herewith submitted to you, do hereby apply for the grant of a loan of Rupees ..... (Rs.....) under the above Refinance Scheme.

2. In making this application, we agree to comply with the terms and conditions stipulated in your Operating Instructions No..... and the Subsidiary Loan Agreement under 4P Capital, 4P Seasonal and Youth Loan Scheme of **Smallholder Agribusiness Partnership Program (SAPP)** between the Central Bank of Sri Lanka (CBSL) and us dated .....2018.
3. As required by the aforementioned Operating Instructions and in compliance therewith, we forward herewith a statement of loans granted by us under the above Refinance Scheme. We certify that the loans mentioned in the statement have not been reflected in any previous statement in support of an application for a refinance loan.
4. We hereby certify that we have satisfied ourselves that (i) the loans mentioned in Para (3) have been granted to eligible sub-borrowers for eligible projects under the above scheme, (ii) such loans are within the borrowing powers of the respective sub-borrowers and (iii) in the case of guarantees obtained for the repayment of such loans, that the guarantors have the power to give such guarantees.

**Signature, Name and Designation of the Authorized Officer(s) of the PFI  
Manager, Refinance Unit**

## Annex III: Application for Refinance

REFINANCE APPLICATION NO. :- .....

STATEMENT OF LOANS DISBURSED UNDER - ..... LOAN SCHEME  
(SMALLHOLDER AGRIBUSINESS PARTNERSHIP PROGRAM)

TO : THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA

FROM : REFINANCE UNIT: .....

PFI : ..... BRANCH: ..... DISTRICT: .....

Registration No.	Name & Address of the Borrower	NIC No.	Loan Type	Purpose of Loan *	Sub-loan Amount		Date of disbursement	Disbursed amount for which refinance is sought		Grace Period	Repayment Schedule		
					Loan Cycle **	Amount Rs.		Instalment No	Amount Rs.		Instalments	Due Date for First Instalment	Due Date for Last Instalment
											No	Value	
<b>Total</b>													

We do hereby promise to pay the above loan to the Central Bank of Sri Lanka in bi-annual instalments given in the above repayment schedule as agreed in the sub loan Agreement between the CBSL and the PFI.

.....

Date

Signature of Authorized Officer

\* Indicate Project purpose along with the 4P name

\*\* Indicate as 1st loan, 2nd loan, 3rd loan etc.

**Annex IV: Promissory Note**

REFINANCE APPLICATION NO. :- .....

(Under Operating Instructions No..... dated .....2018)

Date:

**DEMAND PROMISSORY NOTE**

Rs. ....

On demand, we, the undersigned ..... (Name and address of the PFI) hereby promise to pay to THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA or ORDER at COLOMBO the sum of Rupees ..... (Rs. ....) for value received, with interest thereon at the rate of ..... per cent per annum from the date hereof.

.....  
For (Name of PFI)  
REFINANCE UNIT  
HEAD OFFICE

.....  
(Stamp)

1. ....

2 .....  
Signature of the Authorized Officer(s)

WITNESSES:

1. ....

2. ....

**Annex V: Delivery Note**

REFINANCE APPLICATION NO. :- .....

(Under Operating Instructions No..... dated .....2018)

Date:

**DELIVERY NOTE****To: THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA**

In consideration of you agreeing to grant us a loan in the amount of Rupees ..... (Rs.....) with the object of granting refinance to us in respect of lending operations carried out by us under the Refinance Scheme titled ..... **Loan Scheme under Smallholder Agribusiness Partnership Program (SAPP)**, referred to in your Operating Instructions No. RDD/..... dated ..... WE HEREWITH DELIVER TO YOU OUR Promissory Note in your favour for Rupees ..... (Rs.....) payable on demand together with interest as therein mentioned.

We hereby waive presentment for payment and confirm that it shall not be necessary for you to give notice of dishonour in respect of our said Promissory Note.

For (name of PFI)

REFINANCE UNIT, HEAD OFFICE

1. ....

2. ....

Signature of the Authorized Officer(s)

**Annex VI: Form of Assignment**

REFINANCE APPLICATION NO.....

(Under Operating Instructions No:.....)

Date:

**FORM OF ASSIGNMENT BY WAY OF PLEDGE TO THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA UNDER SECTION 88A OF THE MONETARY LAW ACT \***

We, ..... (Name and address of the PFI) in terms of Section 88A of the Monetary Law Act, do hereby assign to the Central Bank of Sri Lanka, by way of pledge, the debt owing to us, particulars whereof are set forth in the Schedule hereto, as security/further security for the repayment to the Central Bank of Sri Lanka of a Loan of Rupees ..... (Rs.....) granted to us by the Bank repayable with interest at ..... percent per annum.

**SCHEDULE**

Amount of Debt (Rs.)	Borrower's Name & Address	Date	Notary

.....

Signature of the Authorized Officer

For (name of PFI)

REFINANCE UNIT

HEAD OFFICE

\* To be used by Licensed Commercial Banks and Licensed Specialized Banks only.

**Annex VII****PROGRESS REPORTING 4P CAPITAL, 4P SEASONAL AND YOUTH LOAN SCHEME – SAPP PROGRAMME**

Name of the PFI :

Month &amp; the Year :

Loan Scheme :

4P Project Name	Status Registered/Disbursed *	Number of beneficiaries / Sub borrower			Total Amount Rs.
		Male	Female	Total	

Date:

Designation &amp; Signature:

- Please report registered and disbursed loan information separately

**Annex VIII****DISBURSEMENT LETTER**

(To Operating Instructions : ..... dated .....2018)

Bank Name:

Bank Code No:

Branch Name:

Branch Code No:

Registration No. of the Loan:

Date:

Disbursement:

**STATEMENT OF LOANS DISBURSED UNDER THE – ..... LOAN SCHEME**

Enquiry Number:

**1. Particulars of the Borrower :**

1.1 Name of the Borrower :

1.2 Address of the Borrower :

**2. Particulars of the Loan:**

2.1 Purpose of the Loan :

2.2 Location of the project :

2.3 Total amount of loan sanctioned: originally Rs.

Subsequent enhancement of loan for cost overruns Rs.

Total Rs...

2.4 Date of original sanction of loan :

Date of sanction of enhancement of loan :

2.5 Repayment Programme for the instalment for which refinance was applied for:

Date: Amount (Rs.):

2.6 Rate of interest:

**3. Status of Loan:**

3.1 Amount released previously ) Rs.

and refinance claimed from the CBSL )

3.2 Amount now released and for which ) Rs.

Refinance is sought )

Total Rs.....

I certify that the particulars given above are true and correct.

Date :

Signature of Branch Manager

Name of Branch Manager

Please indicate whether it is 1st, 2nd or any other instalment by putting a cross in the appropriate box.

## Annex IX – NPL Status

..... LOAN SCHEME

Name of the PFI :

Performance as at :

District	Total Outstanding Balance as at .....		Special Mention		Substandard		Doubtful		Loss		Total NPL	NPL* (%)	NPL ** (%)	NPL*** (%)
	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount				

\* NPL of the particular CBSL Loan Scheme as a percentage of total Loans given under the same Scheme

\*\* NPL of the particular CBSL Loan Scheme as a percentage of total Loans and Advances of the Bank

\*\*\*NPL of the Bank as a percentage of total Loans and Advances of the Bank

Total Loans &amp; Advances of the Bank (Rs.Mn.) : .....

Total NPL of the Bank (Rs.Mn.) : .....

Name &amp; Designation of Authorized Officer

**Operating Instructions No: RDD/SAPP/ RF/2018/01**

Regional Development Department  
 Central Bank of Sri Lanka  
 P O Box 590  
 No. 30, Janadhipathi Mawatha  
 Colombo 01  
 10 April 2018

To: All PFIs

**OPERATING INSTRUCTIONS FOR THE RF CAPITAL, RF SEASONAL AND RF INCOME GENERATION LOAN SCHEMES UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIPS PROGRAMME (SAPP)**

**1. Introduction**

Government of Sri Lanka (GOSL) with the consent of the International Fund for Agricultural Development (IFAD) has made arrangements to establish a Consolidated Revolving Fund (CRF) under the Smallholder Agribusiness Partnerships Programme (SAPP) utilizing the previous IFAD funded financial lines of credits which are, Dry Zone Livelihood Support and Partnership Programme – Revolving Fund (DZLiSPP-RF), Smallholder Plantation and Entrepreneurship Development Programme (SPEnDP) and National Agribusiness Development Project (NADeP). The CRF should be utilised for all the previous and present IFAD funded project beneficiaries for their loan requests. In terms of SAPP Component 2: Access to Rural Finance and sub component 2.1: Financing of Public Private Producers Partnerships (4Ps), 03 Revolving Fund Loan Schemes (RF Loan Schemes), namely, “RF Capital, RF Seasonal and RF Income Generation Scheme” are introduced under the CRF. The Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL) will implement the Credit Component of RF Loan Schemes whereas the Presidential Secretariat will be the Lead Programme Agency. The RF Loan Schemes will be implemented through the accredited, selected Licenced Commercial & Licenced Specialized Banks referred as Participating Financial Institutions (PFIs) of the SAPP. The GOSL has allocated USD Eighteen Million Five Hundred Thousand (USD 18,500,000) to the CRF.

**2. The Objective of RF Loan Schemes**

The primary objective of the RF Loan Schemes is to increase the production, productivity, and quality and value addition of agriculture produce.

Other objectives of the RF Loan Schemes are as follows;

- a. To minimize the transaction cost of the loan to the farmer.
- b. To improve the social conditions of the farmer.
- c. To enhance financial inclusion among rural farmers by bringing them into the formal financial system.
- d. To develop the value chain marketing and linkages among the rural farmers.
- e. To introduce modern farming methods of skills for the rural farmers.
- f. To encourage farmers to increase the agriculture production and contribute to the country's GDP growth.
- g. To create youth employment opportunities along the 4P projects.
- h. To reduce vulnerability of rural population by diversifying into other income generating activities.
- i. To inculcate savings habits and thrift among the farmers.
- j. To improve the living condition of the farmers by means of increasing their house hold income through the enhancement of the agriculture production and value addition.

**3. Areas of Operation**

The programme will be implemented all island.

**4. Eligible Activities**

- a. Repeat seasonal/ capital loans for out grower farmers under (4Ps).
- b. Income Generation Loans (IGL) such as agriculture, fisheries, livestock, trade and services, small industries & other for target smallholders of NADeP, SPEnDP, DZP, SAPP including women, youth, Farmer Organisations (FOs)/ Producer Organisations (POs), Farmer groups (FGs) including such as grass root institutions, tea factories, tea nurseries and farm managers.

**5. Sub-loan Categories**

The sub loan categories granting from the Loan Proceeds for Credit will be as follows;

- a. Seasonal Loans for farmers, Farmer Organisations (FOs)/Producer Organisations (POs) & Farmer groups engaged in 4P arrangements.

- b. Capital loans farmers and FOs/POs & Farmer groups for engaged in 4P arrangements.
- c. RF Income Generation Scheme.

## 6. The Role and the Responsibilities of the PFI

The PFI is required to play an active role in the implementation of the RF Loan Schemes. The PFI shall;

- a. Ensure that required staff is allocated to implement the RF Loan Schemes.
- b. Take full responsibility of the delivery of credit and recoveries.
- c. Ensure that any branch of the PFIs shall not, in any circumstance, grant loans for the end-borrowers at any interest rate higher than the rate mentioned in Section 8.0 below, under the RF Loan Schemes.
- d. Satisfy itself that each sub project is economically and financially viable and feasible in terms of marketing.
- e. Maintain Accounts and Financial Statements
  - PFIs are required to maintain appropriate ledger accounts and records to indicate inter alia, sub loan appraisal, approvals, disbursement and recovery.
  - PFIs are required to maintain separate accounts for the utilization of loan proceeds and refinance operations.
  - PFIs should make available the Accounts and Financial Statements for the inspection and review of RDD and the Project Management Unit (PMU) of SAPP (on behalf of IFAD). Further, the PFI should submit the Accounts and Financial Statements to RDD and the PMU as and when required.
- f. Follow the registration process and refinance procedure stipulated in the Operating Instructions.

## 7. Eligible Beneficiaries

Eligible Beneficiaries, indicated below, should be able to satisfy the PFI that the proposed project has a positive cash flow and an adequate repayment capacity.

- a. 4P farmers and youth who are already linked to 4Ps with the private companies.
- b. Individuals/ group of individuals has an existing business in the project areas and benefited by IFAD funded projects.
- c. Women, youth, FOs/POs, Farmer groups and farm managers involved in income generating activities.
- d. Small holder tea nurseries, tea factories, grass root institutions and rubber factories.

## 8. Main Features of the RF Loan Schemes

Main features of the RF- Loan Schemes are given in the Table below.

Feature	RF - Capital Loan	RF - Seasonal Loan	RF - Income Generation Loan
Maximum Loan Limit	- Rs.300, 000.00 for repeat out-grower farmers under 4Ps	- Rs. 300,000.00	- Rs.300,000.00 for individual Sub-borrowers - Rs. 25 Million for group Loans/ Group Sub borrowers
Eligible Sub-borrowers and Sub- Loan Activities	- Farmers, FOs/POs and farmer groups - To purchase farm equipment and farm infrastructure development, etc	- Farmers, FOs/POs and farmer groups - To use as working capital for seedlings, fertilizing, hiring of tractors, harvesting, rehabilitation of water wells, etc	- Target smallholders of NADeP, SPEnDP, DZLiSPP-RF and SAPP including women, youth, FOs/POs, Farmer groups including such as grass root institutions, tea factories, tea nurseries and farm managers
Interest Rate payable to the PFI by the Sub-Borrower	6.5 % per annum	6.5 % per annum	6.5 % per annum
Interest Rate payable to the CBSL by the PFI	3.0 % per annum	3.0 % per annum	3.0 % per annum



Grace Period	Maximum duration of six (6) months depending on the requirement of the project	No Grace Period	Maximum duration of six (6) months depending on the requirement of the project
Repayment Period	Should not exceed thirty six (36) months	Could range between 6 months to 12 months based on the yielding period of the crops and farmers' cash flow	Should not exceed 36 months.
Collateral	Buy back agreement between the company and the farmer or two personal guarantors or the corporate guarantee for the group of farmers.	Buy back agreement between the company and the farmer or two personal guarantors or the corporate guarantee for the group of farmers	Inter – se Guarantee of two other borrowers or guarantee of two family members.

## 9. Registration of Borrowers

- The Head Office of the PFI should direct details of the applicants who wish to obtain loans under the RF Loan Schemes, as given in Section 9 (b) and (c) below, as per the Loan Registration Form given as **Annex 1 (a) & 1 (b)** of the Operating Instructions to the RDD of the CBSL through the PMU.
- In case of both individual borrowers and borrowers from the FO/PO and Farmer Groups, the PFI must retain duly completed Annex I (a) with respect to each and every borrower and should direct duly completed Annex I (b) of the Operating Instructions to the RDD of the CBSL through the PMU.
- If the borrower is a FO/PO/FG, PFI should forward separate Annex 1 (b) for each FO/PO/FG.
- PMU will recommend the list of applicants or the Group to the RDD of the CBSL, after carrying out necessary background evaluations.

## 10. Custody of documents

Head Office/branch of the PFIs must retain the duly completed Beneficiary Application Form of the Line of Credit (**Annex I (a)**) and should submit a copy whenever requested by the RDD of Central Bank or the PMU. PFI Head Office or branch may retain any other document relevant to loan disbursement at the sole discretion of the PFI.

## 11. Refinance Procedure

CBSL will provide 100 per cent refinance for all Sub-loans granted subject to the terms and conditions laid down in this Operating Instructions.

- PFIs should release loans to the registered beneficiaries within 90 days of CBSL registration. If any loans are unable to disburse within the stipulated time period, PMU & RDD should be informed with any valid reasons. PMU/RDD should consider the reasons given for the delay and should take appropriate decision on registered beneficiaries. Any registered loan failing to disburse or provide valid reasons within 90 days is subject to cancellation by the RDD within 14 days, lapsing 90 days period.
- Duly completed applications for refinance should be submitted to RDD for reimbursement after releasing the Sub-loans. Each refinance application should be accompanied with the following documents:
  - Application for Refinance - Annex II
  - Statement of Loans Disbursed Application for Refinance - Annex III
  - Demand Promissory Note- Annex IV
  - Delivery Note - Annex V
  - Form of Assignment by way of Pledge to CBSL - Annex VI
  - Disbursement Letter - Annex VII
- Upon approval of the refinance application, RDD will sanction the refinance application and release refinance within 30 days after receiving duly completed refinance application, first come first served basis, subject to the availability of funds.
- Refinance claims should be submitted to RDD through the PFIs Head Offices within 30 days of the date of disbursement.
- Capital and interest payments on refinance loan will be payable by the PFIs to the CBSL according to the repayment schedule for refinance prepared by the CBSL.

## 12. Recovery of Loans

The capital and interest for the refinance provided for the PFIs will be recovered semi – annually i.e. 30th June and 31st December of each year. The PFIs shall repay to the CBSL according to the product type:

- Out Grower Farmer Capital Investment- The PFIs shall repay the CBSL under this loan product in maximum 36 months.
- Input (Seasonal) Loan Scheme- The PFIs shall repay the CBSL under this loan product in maximum 12 months.
- Income Generation Loan Scheme- The PFIs shall repay the CBSL under this loan product in maximum 36 months.

## 13. Reporting

PFIs should monthly report the commitment, disbursement and refinance loan details before 15th of next month to the Central Bank with a copy to the PMU, as per the Annex VIII. PFIs should report quarterly the NPL status of the disbursed Sub-Loans as per the Annex IX.

## 14. Auditing of Accounts

RDD will prepare annual financial statements of RF Loan Schemes and such financial statements will be audited by the Auditor General. PFIs are also required to get the financial statements of this programme audited as required by the IFAD.

The CBSL reserves the right to revise the terms and conditions in respect of RF Loan Schemes as and when necessary.

Yours faithfully  
D.V.S. Dayawansa (Mrs)  
**Director**  
**Regional Development Department**  
**Central Bank of Sri Lanka**

## Annex I(a) Individual Beneficiary Application

PFI: CENTRAL BANK BENEFICIARY REGISTRATION NO: ...

### LOAN REGISTRATION APPLICATION FOR INDIVIDUAL CUSTOMERS- SAPP

(RF ..... LOAN SCHEME)

- Name of the Branch : District:
- Address of the Branch :
- 1) Project :
- 2) Status of the Applicant/ s :
- A. Individual of a Company/FO/PO/FG ☐ B. FO/PO/FG ☐ C. Income Generation ☐
- 3) Participating Company/FO/PO/FG Name :
- 4) Telephone No. / Fax No of the Company/FO/PO/FG:
- 5) Company/FO/PO/FG Registration
- a. Name of the Legal authority :
- b. Number :
- 6) Name and Address of Applicant/ s :

Name*	Address	Contact Number	NIC/REG Number	Gender
i				
ii (If any co-borrowers)				
iii (If any co-borrowers)				

*\*If the borrower is FO/PO/FG, PFI should submit details of two relevant officers of the FO/PO/FG*

7) Purpose of the Loan:

.....

8) Loans previously obtained or currently processing under SAPP: (Please add additional rows if necessary)

Loan Scheme	Purpose	Amount (Rs.)	Remarks
4P Capital			
4P Seasonal			
Income Generation			

9) Complete Address of the Project Site and Location:

.....

10) Type of Business/Small Enterprise : .....

11) Brief description of the Business/Small Enterprise to be financed under the Loan Scheme: .....

.....

12) Estimated cost of the Project : Rs.....

13) Amount of loan recommended/approved by the PFI : Rs.....

.....

Name and the Signature of the Beneficiary

.....

Name, Signature & Official seal of  
Authorized officer

Date : .....

#### Annex 1 (b): RF Loan Schemes - SAPP

#### SUB BORROWER REGISTRATION

(Name of the Loan Scheme)

APPLICATION NUMBER: .....

TO : THE MONERARY BOARD OF THE CENTRAL BANK OF SRI LANKA

THROUGH : SAPP - PROJECT IMPLEMENTATION UNIT

Name of the PFI : Name of the Company/FO/PO/FG :

PFI Branch Name : Borrower Status (Individual/ Group):

#	Applicant Name	Address & Contact Number of the Applicant	Gender	NIC	Loan Details			CBSL Registration Number*
					Project Name	Purpose	Amount	

I certify that the projects mentioned above were examined by me/credit officer of the bank and found that those are eligible to be financed under the Small Holder Agribusiness Programme.

.....

(Name & Signature and  
Stamp of the Authorized Officer)

.....

Date

\* For CBSL use only

## Annex II

## APPLICATION FOR REFINANCE

REFINANCE APPLICATION NO.: .....

(Under Operating Instructions No. ....)

Address:

Date:

## APPLICATION FOR REFINANCE –

## RF ..... LOAN SCHEME UNDER SMALL HOLDER AGRIBUSINESS PARTNERSHIP PROGRAM (SAPP)

To: The Monetary Board of the Central Bank of Sri Lanka

Gentlemen

We, ..... (Name of PFI) a licensed commercial bank and development banks/licensed specialized bank/Micro Finance Institution and an authenticated print of whose constitution has already been/is herewith submitted to you, do hereby apply for the grant of a loan of Rupees ..... (Rs.....) under the above Refinance Scheme.

2. In making this application, we agree to comply with the terms and conditions stipulated in your Operating Instructions No..... and the Subsidiary Loan Agreement under RF Capital, RF Seasonal and RF Income Generation Loan Scheme of **Small Holder Agribusiness Partnership Program (SAPP)** between the Central Bank of Sri Lanka (CBSL) and us dated .....2018.
3. As required by the aforementioned Operating Instructions and in compliance therewith, we forward herewith a statement of loans granted by us under the above Refinance Scheme. We certify that the loans mentioned in the statement have not been reflected in any previous statement in support of an application for a refinance loan.
4. We hereby certify that we have satisfied ourselves that (i) the loans mentioned in Para (3) have been granted to eligible sub-borrowers for eligible projects under the above scheme, (ii) such loans are within the borrowing powers of the respective sub-borrowers and (iii) in the case of guarantees obtained for the repayment of such loans, that the guarantors have the power to give such guarantees.

**Signature, Name and Designation of the Authorized Officer(s) of the PFI  
Manager, Refinance Unit**

## Annex III: Application for Refinance

REFINANCE APPLICATION NO. :- .....

STATEMENT OF LOANS DISBURSED UNDER - RF ..... LOAN SCHEME  
(SMALL HOLDER AGRIBUSINESS PARTNERSHIP PROGRAM)

TO : THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA

FROM : REFINANCE UNIT: .....

PFI : ..... BRANCH: ..... DISTRICT: .....

Registration No.	Name & Address of the Borrower	NIC No.	Loan Type	Purpose of Loan *	Sub-loan Amount		Date of disbursement	Disbursed amount for which refinance is sought		Grace Period	Repayment Schedule		
					Loan Cycle **	Amount Rs.		Instalment No	Amount Rs.		Instalments	Due Date for First Instalment	Due Date for Last Instalment
											No	Value	
<b>Total</b>													

We do hereby promise to pay the above loan to the Central Bank of Sri Lanka in bi-annual instalments given in the above repayment schedule as agreed in the sub loan Agreement between the CBSL and the PFI.

.....

Date

Signature of Authorized Officer

\* Indicate Project purpose along with the 4P name

\*\* Indicate as 1st loan, 2nd loan, 3rd loan etc.

**Annex IV: Promissory Note**

REFINANCE APPLICATION NO. :- .....

(Under Operating Instructions No..... dated .....2018)

Date:

**DEMAND PROMISSORY NOTE**

Rs. ....

On demand, we, the undersigned ..... (Name and address of the PFI) hereby promise to pay to THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA or ORDER at COLOMBO the sum of Rupees ..... (Rs. ....) for value received, with interest thereon at the rate of ..... per cent per annum from the date hereof.

.....  
For (Name of PFI)  
REFINANCE UNIT  
HEAD OFFICE

.....  
(Stamp)

1. ....

2. ....

Signature of the Authorized Officer(s)

WITNESSES:

1. ....

2. ....

**Annex V: Delivery Note**

REFINANCE APPLICATION NO. :- .....

(Under Operating Instructions No..... dated .....2018)

Date:

**DELIVERY NOTE****To: THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA**

In consideration of you agreeing to grant us a loan in the amount of Rupees ..... (Rs.....) with the object of granting refinance to us in respect of lending operations carried out by us under the Refinance Scheme titled ' **RF Capital , RF Seasonal and RF Income Generation Loan Scheme under Small Holder Agribusiness Partnership Program (SAPP)** ', referred to in your Operating Instructions No. RDD/..... dated ..... WE HEREWITH DELIVER TO YOU OUR Promissory Note in your favour for Rupees ..... (Rs.....) payable on demand together with interest as therein mentioned.

We hereby waive presentment for payment and confirm that it shall not be necessary for you to give notice of dishonour in respect of our said Promissory Note.

For (name of PFI)  
REFINANCE UNIT, HEAD OFFICE

1. ....

2. ....

Signature of the Authorized Officer(s)

**Annex VI: Form of Assignment**

REFINANCE APPLICATION NO.....

(Under Operating Instructions No:.....)

Date:

**FORM OF ASSIGNMENT BY WAY OF PLEDGE TO THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA UNDER SECTION 88A OF THE MONETARY LAW ACT \***

We, ..... (Name and address of the PFI) in terms of Section 88A of the Monetary Law Act, do hereby assign to the Central Bank of Sri Lanka, by way of pledge, the debt owing to us, particulars whereof are set forth in the Schedule hereto, as security/further security for the repayment to the Central Bank of Sri Lanka of a Loan of Rupees ..... (Rs.....) granted to us by the Bank repayable with interest at ..... percent per annum.

**SCHEDULE**

Amount of Debt (Rs.)	Borrower's Name & Address	Date	Notary

.....  
Signature of the Authorized Officer  
For (name of PFI)

REFINANCE UNIT

HEAD OFFICE

-----  
\* To be used by Licensed Commercial Banks and Licensed Specialized Banks only.

**Annex VII****PROGRESS REPORTING RF CAPITAL, RF SEASONAL AND RF INCOME GENERATION LOAN SCHEME – SAPP PROGRAMME**

Name of the PFI :  
Month & the Year :  
Loan Scheme :

RF Project Name	Status Registered/Disbursed *	Number of beneficiaries / Sub borrower			Total Amount Rs.
		Male	Female	Total	

Date:

Designation &amp; Signature:

- Please report registered and disbursed loan information separately

**Annex VIII****DISBURSEMENT LETTER**

(To Operating Instructions : ..... dated .....2018)

Bank Name:

Bank Code No:

Branch Name:

Branch Code No:

Registration No. of the Loan:

Date:

Disbursement:

**STATEMENT OF LOANS DISBURSED UNDER THE – 'RF ..... LOAN SCHEME**

Enquiry Number:

**1. Particulars of the Borrower :**

1.1 Name of the Borrower :

1.2 Address of the Borrower :

**2. If the beneficiary is FO/PO/FG, relevant responsible officer's**

2.1 Name :

2.2 Address :

**3. Particulars of the Loan:**

3.1 Purpose of the Loan :

3.2 Location of the project :

3.3 Total amount of loan sanctioned: originally Rs.

Subsequent enhancement of loan for cost overruns Rs.

Total Rs...

3.4 Date of original sanction of loan :

Date of sanction of enhancement of loan :

3.5 Repayment Programme for the instalment for which refinance was applied for:

Date: Amount (Rs.):

3.6 Rate of interest:

**4. Status of Loan:**

4.1 Amount released previously ) Rs.

and refinance claimed from the CBSL )

4.2 Amount now released and for which ) Rs.

Refinance is sought )

Total Rs.....

I certify that the particulars given above are true and correct.

Date :

Signature of Branch Manager

Name of Branch Manager

Please indicate whether it is 1st, 2nd or any other instalment by putting a cross in the appropriate box.



## Annex IX – NPL Status

## RF CAPITAL, RF SEASONAL &amp; INCOME GENERATION LOAN SCHEME

Name of the PFI :

Performance of ..... Loans as at quarter ending .....

(Amount Rs. '000)

District	Total Outstanding Balance as at .....		Special Mention		Substandard		Doubtful		Loss		Total NPL	NPL* (%)	NPL** (%)	NPL*** (%)
	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount				

\* NPL of the particular CBSL Loan Scheme as a percentage of total Loans given under the same Scheme

\*\* NPL of the particular CBSL Loan Scheme as a percentage of total Loans and Advances of the Bank

\*\*\*NPL of the Bank as a percentage of total Loans and Advances of the Bank

Total Loans &amp; Advances of the Bank (Rs.Mn.) : .....

Total NPL of the Bank (Rs.Mn.) : .....

Name &amp; Designation of Authorized Officer

**Operating Instructions No: RDD/SAPP/4P/2018/01 (Amendment - 01)**

05 December 2018

To – All PFIs of SAPP Loan Schemes

Dear Sir/Madam

**AMENDMENT TO OPERATING INSTRUCTIONS FOR THE 4P CAPITAL, 4P SEASONAL AND YOUTH LOAN SCHEMES UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIPS PROGRAMME (SAPP)**

All Participating Financial Institutions of the 4P Capital, 4P Seasonal and Youth Loan Schemes under Smallholder Agribusiness Partnerships Programme (SAPP) are hereby informed that the Operating Instructions No. RDD/SAPP/4P/2018/01 dated 10.04.2018, have been amended as in Annex I.

**All other terms and conditions of the Loan Scheme will remain unchanged.**

The effective date for the amended Operating Instructions is 05.12.2018.

You are kindly requested to bring the contents of this amendment to the notice of relevant officers in your bank branches.

Yours faithfully

D V S Dayawansa (Mrs)

**Director/Regional Development**

Copy : Dr (Mrs ) Yasantha Mapatuna, Programme Director, SAPP

**Annex I**

1. Grace Period specified in the **Section 8** of the Operating Instructions of 4P Capital, 4P Seasonal and Youth Loan Schemes under Smallholder Agribusiness Partnerships Programme (SAPP) (4P Loan Schemes of SAPP) shall be amended as follows;

Feature	4P - Capital Loan Scheme	4P - Seasonal Loan Scheme	Youth Loan Scheme
Grace Period*	(i) Maximum duration of six (6) months depending on the requirement of the project	i) (a) Maximum duration of eighteen (18) months for the sub-borrowers who undertake to make bullet/lump sum repayments; and (b) Maximum duration of six (6) months for the sub-borrowers who undertake to make monthly repayments  ii) Granting grace period will be decided by the PMU of SAPP and respective PFI in consultation with relevant authorities, where necessary, based on the first harvest/harvesting pattern of the crop as specified in the 4P project appraisal carried out by PMU of SAPP  iii) The list of crops and the respective grace periods of the New Comprehensive Rural Credit Scheme (NCRCS) implemented by the CBSL will serve as a guideline in deciding grace periods (Annex I (a))	(i) Maximum duration of six (6) months depending on the requirement of the project

\* Sub-borrowers are required to pay interest during the grace period.

2. Repayment Period given in the **Section 8** of the Operating Instructions of 4P Loan Schemes of SAPP shall be amended as follows;

Feature	4P - Capital Loan Scheme	4P - Seasonal Loan Scheme	Youth Loan Scheme
Repayment Period	Should not exceed thirty six (36) months	i) (a) Maximum duration of eighteen (18) months for the sub-borrowers who undertake to make bullet/lump sum repayments; and (b) Maximum duration of thirty (30) months including the grace period for the sub-borrowers who undertake to make monthly repayments ii) Repayment period will be decided by the PMU of SAPP and respective PFI in consultation with relevant authorities, where necessary, based on the first harvest/harvesting pattern of the crop as specified in the 4P project appraisal carried out by PMU of SAPP iii) The list of crops and the respective grace periods of the NCRCS will serve as a guideline in deciding repayment period (Annex I (a))	Should not exceed sixty (60) months.

**Operating Instructions No: RDD/SAPP/RF/2018/01 (Amendment - 01)**

05 December 2018

To – All PFIs of SAPP Loan Schemes

Dear Sir/Madam

**AMENDMENT TO OPERATING INSTRUCTIONS FOR THE RF CAPITAL, RF SEASONAL AND RF INCOME GENERATION LOAN SCHEMES UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIPS PROGRAMME (SAPP)**

All Participating Financial Institutions of the RF Capital, RF Seasonal and RF Income Generation Loan Schemes under Smallholder Agribusiness Partnerships Programme (SAPP) are hereby informed that the Operating Instructions No. RDD/SAPP/RF/2018/01 dated 10.04.2018, have been amended as in Annex I.

**All other terms and conditions of the Loan Scheme will remain unchanged.**

The effective date for the amended Operating Instructions is 05.12.2018.

You are kindly requested to bring the contents of this amendment to the notice of relevant officers in your bank branches.

Yours faithfully

D V S Dayawansa (Mrs)

**Director/Regional Development**

Copy : Dr (Mrs) Yasantha Mapatuna, Programme Director, SAPP

**Annex I**

- Section 4 (a)** of the Operating Instructions for the RF Capital, RF Seasonal and RF Income Generation Loan Schemes under Smallholder Agribusiness Partnerships Programme (SAPP) (RF Loan Schemes of SAPP) shall be repealed and substituted therefor;

“Seasonal/Capital loans for out grower farmers under 4Ps.”

- 2.1 Grace Period specified in **Section 8** of the Operating Instructions of RF Loan Schemes of SAPP shall be amended as follows;

Feature	RF - Capital Loan Scheme	RF - Seasonal Loan Scheme	RF - Income Generation Loan Scheme
Grace Period*	(i) Maximum duration of six (6) months depending on the requirement of the project	i) (a) Maximum duration of eighteen (18) months for the sub-borrowers who undertake to make bullet/lump sum repayments; and (b) Maximum duration of six (6) months for the sub-borrowers who undertake to make monthly repayments ii) Granting grace period will be decided by the PMU of SAPP and respective PFI in consultation with relevant authorities, where necessary, based on the first harvest/harvesting pattern of the crop as specified in the 4P project appraisal carried out by PMU of SAPP iii) The list of crops and the respective grace periods of the New Comprehensive Rural Credit Scheme (NCRCS) implemented by the CBSL will serve as a guideline in deciding grace periods (Annex I (a)) iv) Sub-borrowers should pay interest during the grace period	(i) Maximum duration of six (6) months depending on the requirement of the project

\* Sub-borrowers are required to pay interest during the grace period.

2.2 Repayment Period given in the **Section 8** of the Operating Instructions of RF Loan Schemes of SAPP shall be amended as follows;

Feature	RF - Capital Loan Scheme	RF - Seasonal Loan Scheme	RF - Income Generation Loan
Repayment Period	Should not exceed thirty six (36) months	i) (a) Maximum duration of eighteen (18) months for the sub-borrowers who undertake to make bullet/lump sum repayments; and (b) Maximum duration of thirty (30) months including the grace period for the sub-borrowers who undertake to make monthly repayments ii) Repayment period will be decided by the PMU of SAPP and respective PFI in consultation with relevant authorities, where necessary, based on the first harvest/harvesting pattern of the crop as specified in the 4P project appraisal carried out by PMU of SAPP iii) The list of crops and the respective grace periods of the NCRCS will serve as a guideline in deciding repayment period (Annex I (a))	Should not exceed thirty six (36) months.

## Finance Business Act Direction No. 01 of 2018

16 January 2018

**FINANCIAL CUSTOMER PROTECTION FRAMEWORK**

In terms of the powers conferred by section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board issues Directions to all Licensed Finance Companies (LFCs) to ensure the protection of rights and interests of the financial customers.

- |    |   |   |
|----|---|---|
| 1. | Applicability and scope                           | <p>1.1 Every LFC shall ensure the adherence to the Financial Customer Protection Framework sets out in this Direction. The objective of these Directions are to safeguard the interests of the customers, maintaining a healthy relationship with customers and strengthening the customer confidence in the sector to ensure the stability and soundness of the sector.</p> <p>1.2 Every LFC shall follow the minimum standards of customer protection sets out in Direction 3 below and detailed guidelines are annexed to this Direction.</p>  |
| 2. | Role and responsibility of the Board of Directors | <p>2.1 Role and responsibility of the Board of Directors</p> <p>2.2 Board shall ensure that all employees and appointed agents are adhering to the minimum standards on customer protection sets out in these Directions. For this purpose, Board shall ensure that an appropriate monitoring mechanism is in place to ensure compliance with these Directions.</p>   |
| 3. | Minimum standards on Customer Protection          | <p>3.1 <b>Disclosure and Transparency</b><br/>Customers shall be given complete, clear, concise, accurate and not misleading information about financial products/services and have the right to access and fully understand the terms and conditions of the products/services which enable them to make informed decisions.</p> <p>3.2 <b>Customer Education and Awareness</b><br/>Appropriate mechanisms shall be developed to improve the customer knowledge and understanding on the financial products/services which help them to make informed decisions.</p> <p>3.3 <b>Responsible Business Conduct</b><br/>Employees and appointed agents shall act professionally with due skill, care and diligence when dealing with customers.</p> <p>3.4 <b>Complaint Handling and Redress</b><br/>The customers shall have access to adequate complaint handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.</p> <p>3.5 <b>Equitable and Fair Treatment</b><br/>All customers shall be treated equitably, honestly and fairly at all stages of their relationship with the entity.</p> <p>3.6 <b>Protection of Customer Data and Privacy</b><br/>All LFCs shall take necessary steps to protect customer data and privacy.</p> |
| 4. | Implementation                                    | <p>4.1 All LFCs shall ensure the implementation of these Directions within 3 months from the date of the Direction.</p> <p>4.2 All LFCs shall obtain written confirmation from all existing and new employees (prior to taking up their employment) and appointed agents on the adherence to the Financial Customer Protection Framework.</p> <p>4.3 All LFCs shall publish the Financial Customer Protection Framework in their websites and make copies available for customers on request in their preferred language and educate them when necessary.</p>   |

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

## Annexure

## DETAILED GUIDELINES ON THE FINANCIAL CUSTOMER PROTECTION FRAMEWORK OF THE LICENSED FINANCE COMPANIES

### Introduction

This provides guidelines to comply with the minimum standards of Financial Customer Protection Framework introduced in the view of protecting customer rights and interests by the Licensed Finance Companies (LFCs).

### 1. Disclosure and Transparency

- 1.1 Customers shall be given complete, clear, concise, accurate and not misleading information about financial products/services. The information provided shall be available in languages preferred by the customers, i.e., Sinhala, Tamil and English.

### 1.2 Key Information about the Product/Service

#### 1.2.1 Advertisements Stage

- a. All advertisements made by LFC in any form, shall be accurate, understandable and contain factual information on products/services offered in view of not misleading the customers. LFC shall also provide clarification on any advertisements published on request.
- b. Further, LFC shall comply with the general and product-specific advertising regulation and guidelines issued by the Central Bank of Sri Lanka from time to time.

#### 1.2.2 Pre-contractual Stage

- a. Every LFC shall have a standardized document in the form of “Key Facts Document” in either printed or electronic form for its products/services written in simple language, which shall be available to the prospective customers and shall be displayed in the corporate website.
- b. This document shall contain the following basic information with regard to loan products:
  - i. Key features of the product/service including the nature of the product, interest rates, penalties, other charges and fees and commissions.
  - ii. Procedures to be followed to obtain the product/service.
  - iii. Main terms and conditions.
  - iv. Applicable legal provisions related to the product/service.
  - v. Complaint handling procedure.
- c. This document shall contain the following basic information with regard to Deposit Products:
  - i. Financial and other benefits to customers including any incentives and promotions.
  - ii. The minimum balance requirements, account opening fee, account maintenance fees, account closure fees and the availability of the deposit insurance coverage.
  - iii. Any restrictions on opening of accounts, closing of accounts, transfer of funds by customers and policies and procedures on dormant accounts and abandoned properties.
- d. Prospective customers shall not be forced to enter into a contract and shall be allowed a reasonable period to make an informed decision about the product/service.

#### 1.2.3 Contractual Stage

- a. All LFCs shall disclose the information on products/services as required by the relevant Acts/Directions, where applicable.
- b. LFC shall clearly explain to the customer of the terms and conditions and features of the products/services covering the following:
  - i. The details of the general charges such as interest rates, fees and commissions, if any, required to be paid by the customer including the method of computing interest charges.
  - ii. The LFC procedure for receiving complaints and the resolution mechanism.
  - iii. The course of recovery actions the LFC may follow in the event of any default by the customer on his/her obligations and expenses of the LFC that will be reimbursed from the customer.
  - iv. Any restrictions on opening of accounts, closing of accounts, maintenance of accounts (e.g. minimum balance), transfer of funds by customers and policies and procedures on dormant accounts and abandoned property.

- v. Penalties and early settlement charges to be paid by the relevant customer in case of premature withdrawal/termination of participation in a product/service by the customers.
- vi. The rules regarding, reporting of suspicious transactions and above-the-threshold transactions to the Financial Intelligence Unit.
- vii. The reporting procedures that the customer shall follow in the case of stolen cards/financial instruments and liability of the LFC and the customer.
- viii. The disclosure of customer information to a party legally authorised to obtain such information.
- c. For loan products, every customer shall be provided with an "Offer Letter/product statement" and shall, at minimum, contain the following basic information;
  - i. Name of the borrower.
  - ii. Contract Number. (Loan reference No.)
  - iii. Amount granted.
  - iv. Date granted and the period of the loan.
  - v. Rate of interest and its basis. (Nominal or Effective)
  - vi. Repayment terms and frequency of the instalment. (Daily, weekly, monthly or any other basis)
  - vii. Details of the security offered.
  - viii. Breakdown of the additional charges such as insurance, valuation, documentation, registration, etc. (if applicable)
  - ix. Penal rate (per annum) in the event of delayed payment.
  - x. The recovery procedure in the event of default of the customer. (repossession of assets, the costs involved in the process, procedure after repossession, the other charges applicable, etc.)
  - xi. The conditions applicable for early settlement of loans.
  - xii. In the case of micro finance loans, the recovery procedure such as the days and the time that the field officer visits the group members and the details of the collection centres should be specified. If the initial collection schedule changes due to natural disasters and unforeseen events, customers should be informed accordingly.
- d. Statements for credit cards shall set out the minimum payment required and the total interest amount charged if only the required minimum payment is made and late payment fee if the minimum payment is not made.
- e. With regard to Deposit Products, all LFCs shall disclose required information stipulated in the relevant Acts/ Directions where applicable. A periodic statement shall be sent to customers either in printed form or electronic form opted by them regarding transactions and balances in their savings deposit accounts other than passbook savings accounts.

#### 1.2.4 Upon Request

A product statement shall be provided for loan products upon request and shall cover the following information;

- i. Detailed transactional information for the reporting period. (e.g. itemized credits and debits to the customer account)
- ii. Effective interest rate and the interest charge for the period.
- iii. Fees charged for the period.
- iv. Due date and the outstanding balance.

**1.2.5** A written confirmation shall be obtained from the customer that the details of the products/services and their terms and conditions were received, explained and understood.

**1.2.6** All the documents pertaining to the product/service shall be duly completed and signed by the customer. Accepting incomplete documents and obtaining signatures on blank papers/documents is prohibited.

**1.2.7** Any changes made by the LFC to the agreed terms and conditions on products/services shall be informed to the customers before the changes are made

### 1.3 General Disclosures

- a. The information displayed in the Business Places of the LFC shall include the following;
  - i. Finance Business License issued by Central Bank of Sri Lanka.

- ii. Set of latest audited financial statements of the LFC.
- iii. Credit rating of the LFC with underlying specifications.
- iv. Key contact details of person handling customer complaints as per Section 4.1 of the guideline.
- v. The contact details of the Financial Ombudsman.
- vi. Business hours and holiday notices.
- b. Including the above, following information shall be displayed in the corporate website;
  - i. Current interest rates on all deposit and investment products.
  - ii. Current base interest rates and other charges on loan products. (wherever possible)
  - iii. Buying and selling rates of foreign currencies. (if applicable)
  - iv. Disclosure requirement under Section 1.2.2(a).

## 2. Customer Education and Awareness

### 2.1 Deliver Effective Financial Education Programs

- a. LFC either on their own or in partnership with industry associations shall develop specific financial literacy programs to improve the customer awareness on financial products/services. Financial education programs should be designed to meet the needs and financial literacy of the target audience.
- b. Financial education tools might include printed brochures, flyers, posters, training videos, (e.g. money management, debt management, saving) interactive loan calculators, key messages (e.g. protect your money, know your product, read and understand terms and conditions, check your statements, pay your loan instalment on time, understand fees and charges, safeguard your personal identification numbers)
- c. LFC shall educate the customers on the applicable legal provisions related to the product/service, e.g. Finance Business Act, Finance Leasing Act, Mortgage Act, Pawning Ordinance, etc.

### 2.2 Promote Financial Discipline

Financial education and information provision should be enhanced to deepen the capability and the financial knowledge of the customer, especially for the vulnerable groups. Customers shall be provided with the specific warnings related to over indebtedness, consequences of multiple borrowing and late repayments, etc.

## 3. Responsible Business Conduct

- 3.1. **Knowing the Customer and Suitability:** LFC and appointed agents shall have the necessary resources and procedures in place for safeguarding the best interests of the customers and to cater the product to meet the appropriate financial and non-financial needs of the customer. In this regard LFC and appointed agents shall:

- a. **Know the Customer:** gather and record sufficient information prior to recommending, offering or providing appropriate product/service to the customer. The level of information gathered shall be appropriate to the nature of the complexity of product/service being sought by the customer.
- b. **Assess the Suitability:** LFC or appointed agents shall consider whether product/service meet the customer's needs and objectives and customer is financially able to bear the risk associated with the product/service.
- c. **Prevention of Over-Indebtedness**
  - i. When offering a new credit product or service the customer's credit worthiness should be properly assessed and conduct appropriate customer repayment capacity analysis to ensure that customer is likely to meet the financial obligation associated with the product.
  - ii. Board and Senior management of the LFC shall be aware and concerned about the risk of over-indebtedness of the customer. A maximum Debt service/Income Ratio (i.e. a maximum percentage of customer's disposable income that can be applied to service debt) should be identified.
  - iii. LFCs shall limit in providing new loans to settle the existing loan facilities given by another financial institution in order to prevent the over exposure beyond the existing credit worthiness of the customer.
  - iv. LFC should use credit risk management systems that support prevention of over indebtedness such as Credit Information Bureau (CRIB).

### 3.2 Personal Visits and Contacts with Customers

Employees of LFC or appointed agents shall;

- a. visit the customer by giving reasonable notice and such visits shall be made during the daytime;
- b. maintain separate record of the visit including the purpose, date and time of the visit and the customer's response in brief, and



- c. when making a telephone contact with the existing or prospective customer, the person shall identify himself or herself by name, name of the LFC on whose behalf customer is contacted and the commercial purpose of the contact.

**3.3. Monitoring of the Employees and Appointed Agents:** LFC shall have a mechanism of rigorous and regular monitoring of the conduct of employees and appointed agents, who directly interact with the customers to prevent inappropriate business conduct and unreasonable risk taking.

**3.4. Employee Training:** Employees of the LFC and appointed agents (especially those who interact directly with customers such as credit officers, recovery officers, marketing officers, complaint handling officers, customer service representatives) shall be properly trained and qualified.

**3.5. Remuneration Policy**

- a. Board approved remuneration policy shall be designed for employees and appointed agents, those who interact directly with customers to encourage responsible business conduct and to discourage unreasonable risk taking.
- b. Employees shall be given sales targets which are realistic and shall be within the personal capacity of such employees.
- c. LFC shall ensure that employees and appointed agents are not remunerated solely on sales performance but include factors such as customer satisfaction, loan repayment performance, customer retention, compliance with regulatory requirements/best practices guidelines and codes of conduct which are related to best interests of the customers.

**3.6. Responsibility of the Employees and Agents appointed by LFC**

The employees and appointed agents shall avoid the following practices:

- a. Harassing customers.
- b. Using abusive debt collection practices.
- c. Disclosing customer information to others.
- d. Giving false or misleading information about products/services.
- e. Unduly influence customers or the general public to buy or get involved in the LFC products/services.
- f. Signing security documents outside the LFC. However, if a situation arises that the agreement has to be signed outside the business place of the LFC, due to reasonable circumstances, an authorized officer must be present.

**3.7. Compensation from withdrawal/cancellation of products/services by LFC**

In the event an LFC seeks to withdraw/terminate a product/service already in operation, especially deposit products, customers have the right to receive a reasonable time with an exit mechanism and compensation scheme and if necessary such withdrawal/termination shall be disclosed in advance.

**3.8. Levying Penal Rates**

Policy on penal interest shall be governed by fairness, incentive to service the debt and due regard to genuine difficulties of customers.

**4. Complaint Handling and Redress**

**4.1. Internal Complaint Handling Mechanism**

- a. LFC shall have a Complaint Handling Policy to address the grievances and complaints of its customers.
- b. Customers should be encouraged to seek recourse through the internal complaints handling process of the company before opting for external support.
- c. Assign an officer in each business place, with the responsibility of handling and facilitating the resolution of complaints lodged by customers. If it is unresolved it is the responsibility of such officer/s to escalate it to the next decision-making authority until it is resolved.
- d. Establish a database to record all customer complaints and assign an officer in charge of the database. Such officer shall be responsible to report unresolved customer complaints periodically to the senior management of the company. Senior management should take prompt corrective action on the unresolved matters.
- e. At the business place customer should be directed to the officer assigned to resolve such complaints.
- f. Customer complaints forwarded by regulatory authorities shall be directed to relevant decision-making authority.

- g. Acknowledge the receipt of any complaint in writing within a reasonably short period of time and inform the complainant of the procedure that will be followed by the LFC for the resolution of the complaint and the contact details of the officer/officers handling the complaint. (For this purpose, company can have a suitably worded printed form).
- h. Facilitate receiving complaints verbally or in writing and the LFC shall not insist that complaints be necessarily made only in writing.
- i. At any point of the complaint handling process, customers should not be treated unjustly.

## 5. Equitable and Fair Treatment of Customers

### 5.1. Equitable and Fair Treatment

All customers shall be treated equitably and fairly at all stages of their relationship with LFC irrespective of their cast, religion, language, gender, age, etc.

### 5.2. Special attention and Care

The customers such as elderly, disabled or customers with low financial literacy have the right to receive special attention to facilitate them to have a fair access to financial services.

## 6. Protection of Customer Data and Privacy

### 6.1. Protection of Personal Data

As required by the Section 61 of the Finance Business Act No. 42 of 2011, all LFCs shall take necessary steps to protect customer data and privacy in line with the provisions of the Act.

### 6.2. CRIB Reporting System and Data Sharing

Customers shall be appropriately/fully informed regarding the sharing of personal data related to them with CRIB and the exact purpose and conditions of collection, processing and distribution of data held about them and on the related confidentiality rules adopted.

## Finance Business Act Directions No. 02 of 2018

08 February 2018

### LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES

Issued under section 12 of the Finance Business Act, No. 42 of 2011.

The Monetary Board issues Directions as follows for the implementation of Loan to Value (LTV) ratios in respect of credit facilities granted by Licensed Finance Companies (LFCs) for the purpose of purchase or utilisation of motor vehicles.

- 1. Empowerment under the Finance Business Act
  - 1.1 In terms of section 12 of the Finance Business Act, the Board may give directions to finance companies or to any group or category of finance companies regarding the manner in which any aspect of the business and corporate affairs of such finance companies are to be conducted.
- 2. Maximum LTV ratios
  - 2.1 Commencing 01 January 2018, credit facilities granted by every LFC for the purpose of purchase or utilisation of vehicles shall not exceed the following percentages of the market value of such vehicles.
    - (i) In respect of unregistered vehicles and registered vehicles which have been used in Sri Lanka for less than one year after the first registration;

Table 1 – Loan to Value Ratios

Vehicle Category	Vehicle Class of Department of Motor Traffic	Electric Vehicles	Other
Commercial vehicles	C1, C, CE, D1, D, DE, G1, G, J	90%	90%
Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	90%	50%
Three wheelers	B1	90%	25%
Any other vehicle	A1, A, light trucks & single cabs categorized under B	90%	70%
Hybrid Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	70%	

- (ii) 70 per cent in respect of registered vehicles which have been used in Sri Lanka for more than one year after the first registration.
3. Exemptions from the maximum LTV 3.1 The limits in Direction 2 above will not be applicable to credit facilities granted to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration.
- 3.2 LFCs shall have internal limits and adopt adequate risk management procedures in granting credit facilities for this category of vehicles.
4. Other credit facilities for vehicles 4.1 An LFC shall not grant credit facilities for the purpose of purchase or utilisation of motor vehicles, other than credit facilities granted in accordance with Directions 2 and 3 above.
5. Interpretations 5.1 Credit facilities shall mean finance leases, hire purchase facilities and all other credit facilities granted for the purpose of purchase or utilisation of vehicles by end-users.
- 5.2 The value of the vehicle shall be the market value. LFCs may use the following for the purpose of valuing vehicles:
- (i) Brand new vehicles - value given by authorized agents
  - (ii) Reconditioned vehicles - valuation considered at customs or invoice value given by the dealer
  - (iii) Registered vehicles - value given by a professional valuer
- 5.3 LFCs should ensure that the valuation is obtained at the time of granting credit facilities and provides a true and fair value.
- 5.4 Fleet of vehicles referred to in Direction 3.1 shall mean two or more vehicles.
- 5.5 Company engaged in tourism referred to in Direction 3.1 shall mean a company registered with the Sri Lanka Tourism Development Authority or any other authority to provide services to tourism.
- 5.6 A company engaged in transportation referred to in Direction 3.1 shall mean any business entity registered at any state authority for the purpose of business of transportation of goods or passengers
6. Revocation of previous Directions 6.1 The following Directions are hereby revoked:
- (i) Finance Companies (Loan to Value Ratios for Credit Facilities in respect of Motor Vehicles) Direction No. 01 of 2017.
  - (ii) Finance Companies (Amendment to Directions on the Loan to Value Ratios for credit facilities in respect of Motor Vehicles) Direction No. 03 and No. 04 of 2017.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

**Finance Business Act Directions No. 03 of 2018**

06 June 2018

### **CAPITAL ADEQUACY REQUIREMENTS**

In terms of powers conferred by Section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board has determined the minimum capital adequacy ratios for Licensed Finance Companies (LFCs) as given below.

1. Minimum Capital Adequacy Requirements 1.1 Commencing from 01 July 2018, every LFC shall, at all times, maintain the minimum capital adequacy ratios in relation to total risk weighted assets as prescribed in Table 1 and 2 below.

**Table 1: LFCs with assets less than Rs.100 billion**

Components of capital	01.07.2018	01.07.2019	01.07.2020	01.07.2021
Tier 1 Capital	6.00	6.50	7.00	8.50
Total Capital	10.00	10.50	11.00	12.50

**Table 2: LFCs with assets of Rs.100 billion and above**

Components of capital	01.07.2018	01.07.2019	01.07.2020	01.07.2021
Tier 1 Capital	6.00	7.00	8.00	10.00
Total Capital	10.00	11.00	12.00	14.00

- 1.2 The capital adequacy ratios referred above shall be computed in accordance with the methodologies and requirements set out in the framework on capital adequacy requirements for LFCs given in Schedule I hereto.
2. Regulatory Reporting
- 2.1 Every LFC shall submit details of computation of capital adequacy requirements through the web-based system in accordance with the formats given in Schedule II as per the following manner.
- Monthly: report the position as at the last calendar day of each month, and should be submitted within 15 days.
  - Annual (audited): report the position as at the last calendar day of the financial year, and should be submitted within three months after the closure of each financial year.
3. Regulatory Measures in the Event of Non-Compliance
- 3.1 In the event of non-compliance by an LFC with above Directions, the Director shall act on any one or more of the following.
- Restrict distribution of dividends or repatriation of profits.
  - Suspend any business activity that will further deteriorate the regulatory capital position.
- 3.2 The Director shall lift the above regulatory measures when such non-compliance is rectified.
4. Interpretations
- 4.1 In these Directions,
- Assets value of an LFC with reference to Table 1 and 2 of Section 1.1 shall be determined based on the latest available audited financial statements.
  - "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. Revocation of Previous Direction
- 5.1 The Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 02 of 2006 and the circular dated 15.03.2007 are hereby revoked.

Dr. Indrajit Coomaraswamy

**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

Schedule I and II of this Direction are available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Finance\\_Business\\_Act\\_Directions\\_No\\_3\\_of\\_2018\\_e.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Finance_Business_Act_Directions_No_3_of_2018_e.pdf)

**Finance Business Act Directions No. 04 of 2018**

06 June 2018

### **VALUATION OF IMMOVABLE PROPERTIES**

In terms of powers conferred by section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board issues Directions on the regulatory framework on Valuation of Immovable Properties of Licensed Finance Companies (LFCs).

1. Scope of the direction 1.1 These Directions on valuation of immovable properties shall be applicable for the purpose of:
  - a. Meeting the regulatory requirements issued under the Finance Business Act, No. 42 of 2011 and,
  - b. Other on-going business requirements of LFCs which necessitate valuation of immovable property
2. Establishment and Implementation of a policy on valuation of immovable property 2.1 Every LFC shall ensure that appropriate board approved prudent policies and procedures on valuation of immovable property are in place.
  - 2.2 In establishing policies and procedures on valuation of immovable property as referred to in Direction 2.1 above, every LFC shall consider the following minimum requirements.
    - a. Responsibility of the Board of Directors, senior management and other relevant committees (e.g., Credit Committee) on the formulation and periodical review of the policy.
    - b. Appointment of panels of valuers, both internal and external.
    - c. Procedures to identify and select qualified valuers for the appointment of panel(s) of valuers, subject to Direction 4 below.
    - d. Procedures to assess the reasonableness of the market value of an immovable property derived from the valuation model and, the reliability and the accuracy of data used for such valuation.
    - e. Threshold for internal and external valuation reports obtained/to be obtained in respect of immovable property against all loans and advances, as the case may be, subject to Direction 5 below.
    - f. Frequency of valuation, subject to Direction 6 below.
    - g. Valuation criteria for internal valuations.
    - h. Independence and disclosure, subject to Direction 7 below.
    - i. Notification to borrowers: The loan agreement shall include detailed specifications of the manner and frequency of revaluation together with a detailed description of the immovable property obtained as collateral.
    - j. Procedure of payment and fee structure for external valuers.
3. Immoveable Property 3.1 For the purposes of these Directions, immovable property shall mean any land, land and building or any rights therein which are acquired or held for the purposes including the following:
  - a. Land, and land & building which are obtained as collateral against any accommodation extended by any LFC including foreclosed properties.
  - b. Land, and land & building which are purchased or acquired for the purpose of conducting business of LFC which are measured and disclosed in accordance with Sri Lanka Accounting Standards, e.g., LKAS 16: Property, Plant and Equipment.
  - c. Land, and land & building which are purchased or acquired as LFC's investments, which are measured and disclosed in accordance with Sri Lanka Accounting Standards, e.g., LKAS 40: Investment Property.
4. Eligibility criteria for valuers 4.1 Every LFC shall ensure that:
  - a. Eligibility criteria for valuers are set out as follows.
    - a.1 A member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:
      - i. A Fellow member; or
      - ii. A Graduate member with 5 years' experience in such grade of membership; or
      - iii. A Graduate member who has been an Associate member at the time of his admission to the Graduate Membership, with number of years of experience equivalent to the period that the member would have taken to complete 10 years in the Associate Membership; or
      - iv. An Associate Member with 10 years' experience in such grade of membership.
    - a.2 A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be:
      - i. A Fellow member; or
      - ii. Any other member of RICS with 3 years' experience in such grade of membership.
  - b. Valuation of immovable property undertaken by internal valuers shall satisfy the eligibility criteria set out in Directions 4.1 a) above.

- |    |   |     |  |
|----|---|-----|--|
| 5. | Threshold for internal and external valuation reports | 5.1 | An LFC shall establish an appropriate threshold for internal and external valuation in respect of immovable property.  |
|    |   | 5.2 | In the case of a non-performing loan, an internal valuation report could be obtained in respect of facility/ies where the capital outstanding amount is less than Rs. 1,000,000 or 0.1% of the LFC's capital base, whichever is less.  |
| 6. | Frequency of valuation                                | 6.1 | The frequency of valuation of immovable property shall be as follows. <ul style="list-style-type: none"> <li>a. Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be not more than three years old.</li> <li>b. Valuation of immovable property as referred to in Directions 3.1 b) and c) above shall be made:             <ul style="list-style-type: none"> <li>i. Annually depending on any significant and volatile changes in fair value of such immovable property are experienced; or</li> <li>ii. At least once in every three years.</li> </ul> </li> </ul> |
| 7. | Independence and Disclosure                           | 7.1 | Every LFC shall ensure the independence of external valuers and that disclosures are made in the LFC's Annual Report or in the Audited Financial Statements as set out below. <ul style="list-style-type: none"> <li>a. An external valuer shall not be a related party, to avoid any conflict of interest that may arise from such engagement.</li> <li>b. The Board of Directors/senior management shall ensure that disclosures are made in the LFC's Annual Report or in the Audited Financial Statements on the valuation policy, measurement and recognition of immovable property.</li> </ul>                                 |

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

#### Finance Business Act Directions No. 05 of 2018

07 June 2018

### AMENDMENTS TO DIRECTIONS ON LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES

Issued under section 12 of the Finance Business Act, No. 42 of 2011.

Finance Business Act Directions No. 2 of 2018 on Loan to Value ratios for credit facilities granted in respect of motor vehicles are amended by replacing the following Directions.

- |    |                           |     |  |
|----|---------------------------|-----|--|
| 3. | Exemptions from LTV ratio | 3.1 | The limits in Direction 2 above shall not be applicable to credit facilities granted: <ul style="list-style-type: none"> <li>(i) to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration; and</li> <li>(ii) for procurement of vehicles for Government Agencies under the finance leasing method.</li> </ul> |
|    |                           | 3.2 | LFCs shall have internal limits and adopt adequate risk management procedures in granting such credit facilities.  |

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

#### Finance Business Act Directions No. 06 of 2018

24 August 2018

### AMENDMENTS TO DIRECTIONS ON LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES

Issued under section 12 of the Finance Business Act, No. 42 of 2011.

Finance Business Act Directions No. 5 of 2018 on Loan to Value ratios for credit facilities granted in respect of motor vehicles are amended by replacing the following Directions.

3. Exemptions from LTV ratio
- 3.1 The limits in Direction 2 above shall not be applicable to credit facilities granted:
- (i) to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration;
  - (ii) for procurement of vehicles for Government Agencies under the finance leasing method specified by the Ministry of Finance and Mass Media; and
  - (iii) for credit facilities granted for purchase of motorcycles by field officers in the public service and teachers servicing in difficult areas under the proposed concessionary leasing facility provided by the Government.
- 3.2 LFCs shall have internal limits and adopt adequate risk management procedures in granting such credit facilities.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka**

### Finance Business Act Directions No. 07 of 2018

04 September 2018

## OUTSOURCING OF BUSINESS OPERATIONS

In terms of the powers conferred by Section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board issues Directions on Outsourcing of Business Operations of Licensed Finance Companies (LFCs).

1. Applicability and scope
- 1.1 Outsourcing arrangements can bring cost savings and other benefits and it may increase the risk profile of an LFC due to failure of an outsourcing service provider in providing the service, leading to reputation, compliance and operational risks.
- 1.2 These Directions shall not be applied to outsourced arrangements that are not directly related to provision of financial services, such as mail, courier, catering, housekeeping and janitorial, security, printing services (e.g. application forms, brochures, statements), communication, recruitments on contract and temporary basis, payroll and secretarial functions.
2. Functions/operations or activities that cannot be outsourced
- 2.1 An LFC may outsource its functions/operations or activities other than the following;
- a. Services associated with mobilizing of deposits and withdrawals;
  - b. Assets and liabilities management;
  - c. Compliance function;
  - d. Customer Due Diligence (CDD) and Know Your Customer procedures (KYC);
  - e. Treasury management;
  - f. Risk management;
  - g. Strategic planning and decision-making;
  - h. Sanctioning of loans;
  - i. Internal audit function subject to Directions 6 below;
  - j. Information Technology related services subject to Directions 7 below;
  - k. Marketing and recovery functions subject to Directions 8 below;
  - l. Any other functions/operations or activities as may be determined by the Monetary Board.
3. General Conditions
- 3.1 Every LFC shall at all times enter into a legally binding agreement with the outsourcing service provider hereinafter referred to as "outsourcing arrangement".
- 3.2 Outsourcing arrangements shall be entered into only with service providers who have specialized resources, capacity and expertise to perform such functions/operations or activities.
- 3.3 Outsourcing arrangements shall not be entered into with a service provider in which substantial interest is held by Directors or employees and/or close relatives of a Director or an employee of the LFC.

- |  |     |   |
|--|-----|---|
|  | 3.4 | When the outsourcing service provider is the parent company or another related company of the LFC, the LFC shall comply with the provisions with regard to "Related Party Transactions" stipulated in Finance Companies (Corporate Governance) Direction No. 3 of 2008 or as amended.   |
| 4. Outsourcing Arrangement                           | 4.1 | <p>The outsourcing arrangement shall include at least the following;</p> <ul style="list-style-type: none"> <li>a. Scope of the outsourcing arrangement including service standards;</li> <li>b. Period of the agreement and conditions applicable on renewal/renegotiation;</li> <li>c. Rights and responsibilities of the parties involved;</li> <li>d. Internal control and risk management standards;</li> <li>e. Confidentiality and security;</li> <li>f. Business continuity management;</li> <li>g. Performance evaluation mechanism;</li> <li>h. Monitoring and control of outsourcing arrangements;</li> <li>i. Audit and inspection;</li> <li>j. Dispute resolution;</li> <li>k. Default termination and early exit;</li> <li>l. Sub-contracting;</li> <li>m. Applicable laws, regulations and prudential requirements.</li> </ul>   |
| 5. Responsibility of the Board and Senior Management | 5.1 | <p><b>Approval and Effective Oversight</b></p> <ul style="list-style-type: none"> <li>a. The Board of Directors (hereinafter referred to as "Board") and the Senior Management of the LFC shall be responsible for providing an effective oversight of the outsourcing arrangements and managing the outsourcing risks.</li> <li>b. The Board shall approve an outsourcing policy framework which governs the outsourcing arrangements. The policy shall contain the following minimum requirements; <ul style="list-style-type: none"> <li>i. A mechanism for identification and effective management of risks that could arise from outsourced arrangements;</li> <li>ii. The delegated approving authority of the outsourcing arrangements;</li> <li>iii. Procedures to be followed for the selection of outsourcing service providers;</li> <li>iv. Cost-benefit analysis on each function/operation or activity to be outsourced;</li> <li>v. A procedure to assess the service provider's capacity, capability and mode/basis of payment to perform the obligations under the outsourcing arrangement; and</li> <li>vi. The reporting mechanism of the review process of all the outsourcing arrangements.</li> </ul> </li> <li>c. All the outsourcing arrangements entered between the outsourcing service provider and the LFC shall be approved by the Board or the delegated approving authority as specified in the outsourcing policy framework.</li> </ul> |
|  | 5.2 | <p><b>Implementation</b></p> <p>The Senior Management is responsible for the implementation of outsourcing arrangements in line with the Board approved outsourcing policy framework.</p>   |
|  | 5.3 | <p><b>Monitoring and Control</b></p> <ul style="list-style-type: none"> <li>a. Senior Management must ensure an independent review is undertaken by, either an internal unit or external party, at regular intervals, to ensure compliance of all outsourcing arrangements with the Board approved outsourcing policy framework.</li> <li>b. Senior Management must, at least annually, assess the effectiveness of the outsourcing arrangement and based on the outcome of the assessment, shall decide on the continuity of such arrangement.</li> </ul>  |
| 6. Outsourcing of Internal Audit Function            | 6.1 | <p>An LFC shall not outsource its internal audit function, except adhering to the conditions stated below;</p> <ul style="list-style-type: none"> <li>a. An LFC with total assets less than Rs. 15 billion may fully outsource its internal audit function, if the LFC is able to justify the cost savings, improved efficiency and better management of resource constraints;</li> </ul>   |



		b. An LFC with total assets more than Rs. 15 billion should have an inhouse internal audit department and may outsource branch and Information System (IS) audits and specialised audit assignments.
	6.2	The responsibility and control of the outsourced audit assignments shall continue to be with the Chairman of the Board Audit Committee (BAC). BAC shall ensure the compliance with the provisions stipulated in the Finance Companies (Corporate Governance) Direction No. 3 of 2008 or as amended.
	6.3	Internal audit function shall be outsourced to an Auditor appointed from the panel of external auditors approved by the Central Bank of Sri Lanka subject to following conditions;
		a. Such auditor shall not be the LFC's present external auditor;
		b. Any such appointment shall be made after a "cooling off" period of 2 years if such audit firm had been previously engaged in the external audit assignment of the LFC.
	6.4	The internal audit service provider shall not perform any management function or act, directly or indirectly, in a capacity equivalent to that of a member of management or an employee of the LFC.
	6.5	The internal audit service provider shall not provide consultancy services to a function/operation or activity of the LFC of which it is expected to audit or vice versa within a period of 2 years.
7. Outsourcing of Information Technology Function	7.1	An LFC shall not outsource the Information Technology function except the following functions and shall be able to obtain cost savings, improved efficiency and better resource capabilities through the outsourcing arrangements;
		a. Application/Systems development, testing, maintenance and support;
		b. Technology infrastructure management, maintenance and support;
		c. Help Desks;
		d. Network administration;
		e. Disaster recovery support services;
		f. Data entry operations of non-core business activities;
		g. Electronic banking systems (e.g. Internet banking, Mobile banking and Tele-banking) development, maintenance and support;
		h. Web hosting and maintenance;
		i. Credit/Debit/Automated Teller Machines (ATM) card printing;
		j. Any other functions/activities except above shall be outsourced, with the prior approval of Director.
8. Outsourcing of Marketing & Recovery Functions	8.1	The Marketing and recovery functions may be outsourced by LFCs subject to ensuring that the staff of the outsourcing service provider who are directly dealing with customers are properly trained to handle their responsibilities with care and prudence and comply with the provisions of the Finance Business Act Direction No. 01 of 2018 (Financial Customer Protection Framework) or as amended.
	8.2	If Central Bank of Sri Lanka receives any written/verbal complaints with respect to conduct of any outsourcing service provider, Director has the right to suspend such outsourcing arrangements upon further investigation.
9. Implementation	9.1	These Directions shall be effective from the date of these Directions.
10. Transitional Arrangements	10.1	If an LFC has already outsourced the core business functions/operations or activity stated in 2.1 above, approvals granted shall be lapsed within a period of six months from the effective date of these Directions.
11. Register of outsourcing arrangements and reporting	11.1	LFC shall maintain an up-to-date register of all outsourcing arrangements.
	11.2	LFC shall inform the list of outsourcing arrangements proposed during a following financial year in the format given in Annexure 1 to the Director on or before the end of the first month of the financial year.
12. Interpretations	12.1	<b>"Outsourcing Arrangement"</b> is an arrangement in which a service provider performs a function/operation or an activity on behalf of an LFC on a continuing basis, where the activity is normally or could be undertaken by the LFC.

- 12.2 **"Service Provider"** refers to an entity, including a parent company or another related company of the LFC, providing services to an LFC under an outsourcing arrangement and includes all sub-contractors.
- 12.3 **"Sub-contractor"** refers to an entity which enters into an arrangement, directly or indirectly, with the primary service provider to perform the whole or a part of the outsourced activity.
- 12.4 **"Director"** means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- 12.5 **"Close relative"** means spouse and dependent children.
- 12.6 **"Substantial interest"** shall have the same meaning as contained in Section 74 of the Finance Business Act No. 42 of 2011.
- 12.7 **"Assets"** referred in Direction 6.1 refers to total assets in the latest available audited financial statements.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

#### Annex I

The list of Functions/Operations or Activities proposed to be outsourced

Year: .....

Function/Operation or Activity Outsourced	Name of Service Provider	Address	Proposed Date of Commencement	Period of Agreement	Deliverables/ Services Performed	Cost (per annum)
1.						
2.						
3.						
4.						

Finance Business Act Directions No. 08 of 2018

04 September 2018

### AMENDMENT TO DIRECTION ON FINANCE COMPANIES (STRUCTURAL CHANGES) DIRECTION NO. 01 OF 2013

In terms of the powers conferred by section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board hereby issues following Direction to delete the Direction 3.1 of the Finance Companies (Structural Changes) Direction No. 01 of 2013 dated 07th June 2013 issued for Licensed Finance Companies in Sri Lanka.

1. Applicability and Scope This Direction may be cited as Finance Business Act Direction No. 08 of 2018.
2. Deletion The Direction 3.1 of the Finance Companies (Structural Changes) Direction No. 01 of 2013 dated 07<sup>th</sup> June 2013 is hereby deleted.
3. Implementation These Directions shall be effective from the date of these Directions.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

Finance Business Act Directions No. 09 of 2018

01 October 2018

### MEASURES TO CURTAIL IMPORT OF MOTOR VEHICLES

Issued under section 12 of the Finance Business Act, No. 42 of 2011.

The Central Bank of Sri Lanka with a view to curtailing imports and the resultant adverse impact on the exchange rate requires licensed finance companies to adopt the following measures with effect from 01 October 2018.

1. The following will replace Directions 2.1 of the Finance Business Act Directions No. 02 of 2018 on Loan to Value Ratios for Credit Facilities Granted in respect of Motor Vehicles.

Credit facilities granted by every licensed finance company for the purpose of purchase or utilisation of motor vehicles shall not exceed the following percentages of the market value of such vehicles until further notice.

- (i) In respect of unregistered vehicles and registered vehicles which have been used in Sri Lanka for less than one year after the first registration;

**Table 1 – Loan to Value Ratio**

Vehicle Category	Vehicle Class of Department of Motor Traffic	Electric Vehicles	Other
Commercial vehicles	C1, C, CE, D1, D, DE, G1, G, J	90%	90%
Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	90%	50%
Three wheelers	B1	90%	25%
Any other vehicle	A1, A, light trucks & single cabs categorized under B	90%	70%
Hybrid Motor Cars, Vans and SUVs	B (other than light trucks & single cabs)	50%	

- (ii) 70 per cent in respect of registered vehicles which have been used in Sri Lanka for more than one year after the first registration.

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

#### Finance Business Act Directions No. 10 of 2018

03 December 2018

#### MAXIMUM RATE OF INTEREST ON MICROFINANCE LOANS

In terms of the powers conferred by Section 12(1)(b) of the Finance Business Act, No. 42 of 2011, the Monetary Board issues Directions on maximum rate of interest on Microfinance loans for Licensed Finance Companies (LFCs).

- |                                     |     |  |
|-------------------------------------|-----|--|
| 1. Applicability and scope          | 1.1 | The Central Bank of Sri Lanka introduces a maximum rate of interest on Microfinance loans with the objective of protecting the customers being charged with exorbitant interest rates on Microfinance loans granted by LFCs.   |
|                                     | 1.2 | This Direction will be applicable for all Microfinance loans granted from the date of this Direction.  |
| 2. Maximum Rate of Interest         | 2.1 | LFCs shall not charge a rate exceeding 35 percent per annum (effective annual interest rate), inclusive of all other charges on Microfinance loans.  |
| 3. Definition of Microfinance Loans | 3.1 | Loans granted for individuals/individuals under Group Lending System for income generating activities, which include loans for establishing and managing Micro Enterprises.  |
| 4. Reporting Requirements           | 4.1 | LFCs shall report the Microfinance loans under code 1.1.4.12.0.0- Microfinance Loans in the Financial Information Network (FInNet) return NBD-MF-01-BS - Balance Sheet.  |
| 5. Interpretations                  | 5.1 | "Micro Enterprises" shall mean enterprises in the manufacturing and service sector with an annual turnover of less than Rs. 15 million and employees less than 10 [Source: National Policy Framework for Small Medium Enterprise Development issued by Ministry of Industry and Commerce]. |

Dr. Indrajit Coomaraswamy  
**Chairman of the Monetary Board and  
 Governor of the Central Bank of Sri Lanka**

#### Circular No. 01 of 2018

13 March 2018

#### CREDIT RATINGS

All Licensed Finance Companies are hereby required to follow the guidelines given below with respect to credit ratings.

- |                  |     |  |
|------------------|-----|--|
| 1. Key deadlines | 1.1 | Enter in to an agreement with a credit rating agency acceptable to the Central Bank of Sri Lanka by 30 <sup>th</sup> April 2018 to obtain a credit rating for the entity and inform the undersigned accordingly. |
|                  | 1.2 | Obtain a credit rating for the entity that could be published from such credit rating agency by 1 <sup>st</sup> October 2018.  |

- |                                   |     |  |
|-----------------------------------|-----|--|
| 2. List of credit rating agencies | 2.1 | For this purpose, select one of the credit rating agencies mentioned below;<br>a) Fitch Ratings Lanka Ltd.<br>b) ICRA Lanka Ltd.   |
|                                   | 2.2 | Any changes to the list in 2.1 shall be announced by the Director of Department of Supervision of Non-Bank Financial Institutions (D/SNBFI) for necessary action.  |
| 3. Other conditions               | 3.1 | With effect from 1 <sup>st</sup> October 2018, disclose the credit rating in all the advertisements soliciting deposits and debt from the public, in the corporate website, financial statements published and at the business places. |
|                                   | 3.2 | Credit ratings should be updated at least annually and the rating report should be submitted to D/SNBFI within one month from the date of the report.  |

W Ranaweera

**Acting Director, Department of Supervision of Non-Bank Financial  
Institutions, Central Bank of Sri Lanka**

**Finance Leasing Act Direction No. 01 of 2018**

22 January 2018

### FINANCIAL CUSTOMER PROTECTION FRAMEWORK

In terms of the powers conferred by section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred to as "Director") issues Directions to all Specialized Leasing Companies (SLCs) to ensure the protection of rights and interests of the financial customers.

- |  |     |  |
|--|-----|--|
| 1. Applicability and scope                           | 1.1 | Every SLC shall ensure the adherence to the Financial Customer Protection Framework sets out in these Directions. The objectives of these Directions are to safeguard the interests of the customers, maintaining a healthy relationship with customers and strengthening the customer confidence in the sector to ensure the stability and soundness of the sector. |
|  | 1.2 | Every SLC shall follow the minimum standards of customer protection sets out in Direction 3 below and detailed guidelines annexed to this Direction.   |
| 2. Role and responsibility of the Board of Directors | 2.1 | Financial customer protection shall be an integral part of the corporate governance, culture and strategic decision making of the Board.   |
|  | 2.2 | Board shall ensure that the all employees and appointed agents are adhering to the minimum standards on customer protection sets out in these Directions. For this purpose, Board shall ensure that an appropriate monitoring mechanism is in place to ensure compliance with these Directions.  |
| 3. Minimum standards on Customer Protection          | 3.1 | <b>Disclosure and Transparency</b><br>Customers shall be given complete, clear, concise, accurate and not misleading information about financial products/services and have the right to access and fully understand the terms and conditions of the products/services which enable them to make informed decisions.   |
|  | 3.2 | <b>Customer Education and Awareness</b><br>Appropriate mechanisms shall be developed to improve the customer knowledge and understanding on the financial products/services which help them to make informed decisions.  |
|  | 3.3 | <b>Responsible Business Conduct</b><br>Employees and appointed agents shall act professionally with due skill, care and diligence when dealing with customers.   |
|  | 3.4 | <b>Complaint Handling and Redress</b><br>The customers shall have access to adequate complaint handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.  |

4. Implementation
- 3.5 **Equitable and Fair Treatment**  
All customers shall be treated equitably, honestly and fairly at all stages of their relationship with the entity.
  - 3.6 **Protection of Customer Data and Privacy**  
All SLCs shall take necessary steps to protect customer data and privacy.
  - 4.1 All SLCs shall ensure the implementation of these Directions within 3 months from the date of the Direction.
  - 4.2 All SLCs shall obtain written confirmation from all existing and new employees (prior to taking up their employment) and appointed agents on the adherence to the Financial Customer Protection Framework.
  - 4.3 All SLCs shall publish the Financial Customer Protection Framework in their websites and make copies available for customers on request in their preferred language and educate them when necessary.

W Ranaweera

**Acting Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

**Annexure**

## **DETAILED GUIDELINES ON THE FINANCIAL CUSTOMER PROTECTION FRAMEWORK OF THE SPECIALIZED LEASING COMPANIES**

### **Introduction**

This provides guidelines to comply with the minimum standards of Financial Customer Protection Framework introduced in the view of protecting customer rights and interests by the Specialized Leasing Companies (SLCs).

### **1. Disclosure and Transparency**

- 1.1. Customers shall be given complete, clear, concise, accurate and not misleading information about financial products/services. The information provided shall be available in languages preferred by the customers, i.e., Sinhala, Tamil and English.

### **1.2. Key Information about the Product/Service**

#### **1.2.1. Advertisements Stage**

- a. All advertisements made by SLCs, in any form shall be accurate, understandable and contain factual information on products/services offered in view of not misleading the customers. SLCs shall also provide clarification on any advertisements published on request.
- b. Further, SLCs shall comply with the general and product-specific advertising regulation and guidelines issued by the Central Bank of Sri Lanka from time to time.

#### **1.2.2. Pre-contractual Stage**

- a. Every SLC shall have a standardized document in the form of "Key Facts Document" in either printed or electronic form for its products/services written in simple language, which shall be available to the prospective customers and shall be displayed in the corporate website.
- b. This document shall contain the following basic information with regard to loan products:
  - i. Key features of the product/service including the nature of the product, interest rates, penalties, other charges and fees and commissions.
  - ii. Procedures to be followed to obtain the product/service.
  - iii. Main terms and conditions.
  - iv. Applicable legal provisions related to the product/service.
  - v. Complaint handling procedure.

- b. This document shall contain the following basic information with regard to debt instruments:
  - i. Financial and other benefits to customers including any incentives and promotions.
  - ii. Other applicable terms and conditions related to the debt instrument such as conditions on early redemption, etc.
- c. Prospective customers shall not be forced to enter into a contract and shall be allowed a reasonable period to make an informed decision about the product/service.

### 1.2.3. Contractual Stage

- a. All SLCs shall disclose the information on products/services as required by the relevant Acts/ Directions, where applicable.
- b. SLC shall clearly explain to the customer of the terms and conditions and features of the products/ services covering the following:
  - i. The details of the general charges such as interest rates, fees and commissions, if any, required to be paid by the customer including the method of computing interest charges.
  - ii. The SLC procedure for receiving complaints and the resolution mechanism.
  - iii. The course of recovery actions the SLC may follow in the event of any default by the customer on his/her obligations and expenses of the SLC that will be reimbursed from the customer.
  - iv. Terms and conditions relating to investments such as early redemption of the debt instruments.
  - v. Penalties and early settlement charges to be paid by the relevant customer in case of early redemption/termination of participation in a product/service by the customers.
  - vi. The rules regarding, reporting of suspicious transactions and above-the-threshold transactions to the Financial Intelligence Unit.
  - vii. The reporting procedures that the customer shall follow in the case of misplaced financial instruments and liability of the SLC and the customer.
  - viii. The disclosure of customer information to a party legally authorised to obtain such information.
- c. For loan products, every customer shall be provided with an "Offer Letter/product statement" and shall, at minimum, contain the following basic information:
  - i. Name of the borrower.
  - ii. Contract number. (Loan reference No.)
  - iii. Amount granted.
  - iv. Date granted and the period of the loan.
  - v. Rate of interest and its basis. (Nominal or Effective)
  - vi. Repayment terms and frequency of the instalment. (Daily, weekly, monthly or any other basis)
  - vii. Details of the security offered.
  - viii. Breakdown of the additional charges such as insurance, valuation, documentation, registration, etc. (if applicable)
  - ix. Penal rate (per annum) in the event of delayed payment.
  - x. The recovery procedure in the event of default of the customer. (repossession of assets, the costs involved in the process, procedure after repossession, the other charges applicable, etc.)
  - xi. The conditions applicable for early settlement of loans.
  - xii. In the case of micro finance loans, the recovery procedure such as the days and the time that the field officer visits the group members and the details of the collection centres should be specified. If the initial collection schedule changes due to natural disasters or any unforeseen events, customers should be informed accordingly
- d. With regard to Debt Instruments, all SLCs shall disclose required information stipulated in the relevant Acts/ Directions where applicable.

**1.2.4. Upon Request**

A product statement shall be provided for loan products upon request and shall cover the following information:

- i. Detailed transactional information for the reporting period. (e.g. itemized credits and debits to the customer account)
- ii. Effective interest rate and the interest charged for the period.
- iii. Fees charged for the period.
- iv. Due date and the outstanding balance.

1.2.5. A written confirmation shall be obtained from the customer that the details of the products/services and their terms and conditions were received, explained and understood.

1.2.6. All the documents pertaining to the product/service shall be duly completed and signed by the customer. Accepting incomplete documents and obtaining signatures on blank papers/documents is prohibited.

1.2.7. Any changes made by the SLC to the agreed terms and conditions on products/services shall be informed to the customers before the changes are made.

**1.3. General Disclosures**

a. The information displayed in the Business Places of the SLC shall include the following:

- i. Finance Leasing License issued by Central Bank of Sri Lanka.
- ii. Set of latest audited financial statements of the SLC.
- iii. Credit rating of the SLC with underlying specifications. (if available)
- iv. Key contact details of person handling customer complaints as per Section 4.1 of the guideline.
- v. The contact details of the Financial Ombudsman.
- vi. Business hours and holiday notices.

b. Including the above, following information shall be displayed in the corporate website:

- i. Current base interest rates and other charges on loan products. (wherever possible)
- ii. Disclosure requirement under Section 1.2.2(a).b

**2. Customer Education and Awareness****2.1. Deliver Effective Financial Education Programmes**

- a. SLCs either on their own or in partnership with industry associations shall develop specific financial literacy programs to improve the customer awareness on financial products/services. Financial education programs should be designed to meet the needs and financial literacy of the target audience.
- b. Financial education tools might include printed brochures, flyers, posters, training videos, (e.g. money management, debt management, inculcating savings habits) interactive loan calculators, key messages (e.g. protect your money, know your product, read and understand terms & conditions, check your statements, pay your loan instalment on time, understand fees and charges, safeguard your personal identification numbers)
- c. SLCs shall educate the customers on the applicable legal provisions related to the product/service, e.g. Finance Leasing Act, Mortgage Act, Pawning Ordinance, etc.

**2.2. Promote Financial Discipline**

Financial education and information provision should be enhanced to deepen the capability and the financial knowledge of the customer, especially for the vulnerable groups. Customers shall be provided with the specific warnings related to over indebtedness, consequences of multiple borrowing and late repayments, etc.

**3. Responsible Business Conduct**

3.1. **Knowing the Customer and Suitability:** SLC and appointed agents shall have the necessary resources and procedures in place for safeguarding the best interests of the customers and to cater the product to meet the appropriate financial and non-financial need of the customer. In this regard SLC and appointed agents shall:

- a. **Know the Customer:** gather and record sufficient information prior to recommending, offering or providing appropriate product/service to the customer. The level of information gathered shall be appropriate to the nature of the complexity of product/service being sought by the customer.
- b. **Assess the Suitability:** SLC or appointed agents shall consider whether product/service meet the customer's needs and objectives and customer is financially able to bear the risk associated with the product/service.
- c. **Prevention of Over-indebtedness**
  - i. When offering a new credit product/service the customer's credit worthiness should be properly assessed and conduct appropriate customer repayment capacity analysis to ensure that customer is likely to meet the financial obligation associated with the product.
  - ii. Board and Senior management of the SLC shall be aware and concerned about the risk of over-indebtedness of the customer. A maximum Debt service/Income Ratio (i.e. a maximum percentage of customer's disposable income that can be applied to service debt) should be identified.
  - iii. SLCs shall limit in providing new loans to settle the existing loan facilities given by another financial institution in order to prevent the over exposure beyond the existing credit worthiness of the customer.
  - iv. SLCs should use the credit risk management systems that support prevention of over-indebtedness such as Credit Information Bureau (CRIB).

### 3.2. Personal Visits and Contacts with Customers

Employees of SLCs or appointed agents shall;

- a. visit the customer by giving reasonable notice and such visits shall be made during the daytime,
- b. maintain separate record of the visit including the purpose, date and time of the visit and the customer's response in brief, and
- c. when making a telephone contact with the existing or prospective customer, the person shall identify himself or herself by name, name of the SLC on whose behalf customer is contacted and the commercial purpose of the contact.

### 3.3. Monitoring of the Employees and Appointed Agents: SLCs shall have a mechanism of rigorous and regular monitoring of the conduct of employees, who directly interact with the customers to prevent inappropriate business conduct and unreasonable risk taking.

### 3.4. Employee Training: Employees of the SLCs and appointed agents (especially those who interact directly with customers such as credit officers, recovery officers, marketing officers, complaint handling officers, customer service representatives) shall be properly trained and qualified.

### 3.5. Remuneration Policy

- a. Board approved remuneration policy shall be designed for employees and appointed agents, those who interact directly with customers to encourage responsible business conduct and to discourage unreasonable risk taking.
- b. Employees shall be given sales targets which are realistic and shall be within the personal capacity of such employees.
- c. SLCs shall ensure that employees and appointed agents are not remunerated solely on sales performance but include factors such as customer's satisfaction, loan repayment performance, customer retention, compliance with regulatory requirements/best practices guidelines and codes of conduct which are related to best interests of the customers.

### 3.6. Responsibility of the Employees and Agents Appointed by SLCs

The employees and appointed agents shall avoid the following practices:

- a. Harassing customers.
- b. Using abusive debt collection practices.
- c. Disclosing customer information to others.
- d. Giving false or misleading information about products/services.
- e. Unduly influence customers or the general public to buy or get involved in the SLC's products/services.



- f. Signing security documents outside the SLC. However, if a situation arises that the agreement has to be signed outside the business place of the SLC, due to reasonable circumstances, an authorized officer must be present.

### **3.7. Compensation from withdrawal/cancellation of products/services by SLCs**

In the event of an SLC seeks to withdraw/terminate a product/service already in operation, especially investments in debt instruments, customers have the right to receive a reasonable time with an exit mechanism and compensation scheme and if necessary such withdrawal/termination shall be disclosed in advance.

### **3.8. Levying Penal Rates**

Policy on penal interest shall be governed by fairness, incentive to service the debt and due regard to genuine difficulties of customers.

## **4. Complaint Handling and Redress**

### **4.1. Internal Complaint Handling Mechanism**

- a. SLCs shall have a Complaint Handling Policy to address the grievances and complaints of its customers.
- b. Customers should be encouraged to seek recourse through the internal complaints handling process of the company before opting for external support.
- c. Assign an officer in each business place, with the responsibility of handling and facilitating the resolution of complaints lodged by customers. If it is unresolved it is the responsibility of such officer/s to escalate it to the next decision-making authority until it is resolved.
- d. Establish a database to record all customer complaints and assign an officer in charge of the database. Such officer shall be responsible to report unresolved customer complaints periodically to the senior management of the company. Senior management should take prompt corrective action on the unresolved matters.
- e. At the business place, customer should be directed to the officer assigned to resolve such complaints.
- f. Customer complaints forwarded by regulatory authorities shall be directed to relevant decision-making authority.
- g. Acknowledge the receipt of any complaint in writing within a reasonably short period of time and inform the complainant of the procedure that will be followed by the SLC for the resolution of the complaint and the contact details of the officer/officers handling the complaint. (For this purpose, company can have a suitably worded printed form).
- h. Facilitate receiving complaints verbally or in writing and the SLC shall not insist that complaints be necessarily made only in writing.
- i. At any point of the complaint handling process, customers should not be treated unjustly.

## **5. Equitable and Fair Treatment of Customers**

### **5.1. Equitable and Fair Treatment**

All customers shall be treated equitably and fairly at all stages of their relationship with SLC irrespective of their cast, religion, language, gender, age, etc.

### **5.2. Special Attention and Care**

The customers such as elderly, disabled or customers with low financial literacy have the right to receive special attention to facilitate them to have a fair access to financial services.

## **6. Protection of Customer Data and Privacy**

### **6.1. Protection of Personal Data**

All SLCs shall take necessary steps to protect customer data and privacy in line with the applicable laws and regulations.

### **6.2. CRIB Reporting System and Data Sharing**

Customers shall be appropriately/fully informed regarding the sharing of personal data related to them with CRIB and the exact purpose and conditions of collection, processing and distribution of data held about them and on the related confidentiality rules adopted.

## Finance Leasing Act Directions No. 02 of 2018

08 February 2018

# **LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES**

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

The Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred to as “Director”) issues Directions as follows for the implementation of a Loan to Value (LTV) ratios in respect of credit facilities granted by Specialized Leasing Companies (SLCs) for the purpose of purchase or utilization of motor vehicles.

1. Empowerment under the Finance Leasing Act
  - 1.1 In terms of section 34 of the Finance Leasing Act, the Director is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as “Specialized Leasing Companies”).
2. Maximum LTV ratios
  - 2.1 Commencing 01 January 2018, credit facilities granted by every SLC for the purpose of purchase or utilisation of vehicles shall not exceed the following percentages of the market value of such vehicles.
    - (i) In respect of unregistered vehicles and registered vehicles which have been used in Sri Lanka for less than one year after the first registration;

Table 1 – Loan to Value Ratios			
Vehicle Category	Vehicle Class of Department of Motor Traffic	Electric Vehicles	Other
Commercial vehicles	C1, C, CE, D1, D, DE, G1, G, J	90%	90%
Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	90%	50%
Three wheelers	B1	90%	25%
Any other vehicle	A1, A, light trucks & single cabs categorized under B	90%	70%
Hybrid Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	70%	

- (ii) 70 per cent in respect of registered vehicles which have been used in Sri Lanka for more than one year after the first registration.

3. Exemptions from the maximum LTV
  - 3.1 The limits in Direction 2 above will not be applicable to credit facilities granted to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration.
  - 5.7 SLCs shall have internal limits and adopt adequate risk management procedures in granting credit facilities for this category of vehicles.
4. Other credit facilities for vehicles
  - 4.1 An SLC shall not grant credit facilities for the purpose of purchase or utilisation of motor vehicles, other than credit facilities granted in accordance with Directions 2 and 3 above.
5. Interpretations
  - 5.1 Credit facilities shall mean finance leases, hire purchase facilities and all other credit facilities granted for the purpose of purchase or utilisation of vehicles by end-users.
  - 5.2 The value of the vehicle shall be the market value. SLCs may use the following for the purpose of valuing vehicles:
    - (i) Brand new vehicles - value given by authorized agents
    - (ii) Reconditioned vehicles - valuation considered at customs or invoice value given by the dealer
    - (iii) Registered vehicles - value given by a professional valuer

- 5.3 SLCs should ensure that the valuation is obtained at the time of granting credit facilities and provides a true and fair value.
- 5.4 Fleet of vehicles referred to in Direction 3.1 shall mean two or more vehicles.
- 5.5 Company engaged in tourism referred to in Direction 3.1 shall mean a company registered with the Sri Lanka Tourism Development Authority or any other authority to provide services to tourism.
- 5.6 A company engaged in transportation referred to in Direction 3.1 shall mean any business entity registered at any state authority for the purpose of business of transportation of goods or passengers.
6. Revocation of previous Directions 6.1 The following Directions are hereby revoked:
- (i) Finance Leasing (Loan to Value Ratios for Credit Facilities in respect of Motor Vehicles) Direction No. 01 of 2017.
  - (ii) Finance Leasing (Amendment to Directions on the Loan to Value Ratios for credit facilities in respect of Motor Vehicles) Direction No. 02 and No. 03 of 2017.

W. Ranaweera

**Acting Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

**Finance Leasing Act Directions No. 03 of 2018**

06 June 2018

### **CAPITAL ADEQUACY REQUIREMENTS**

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000

The Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred to as "Director") has determined the minimum capital adequacy ratios for Specialized Leasing Companies (SLCs) as given below.

1. Empowerment under the Finance Leasing Act 1.1 In terms of section 34 of the Finance Leasing Act, the Director is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as "Specialized Leasing Companies").
2. Minimum Capital Adequacy Requirements 2.1 Commencing from 01 July 2018, every SLC shall, at all times, maintain the minimum capital adequacy ratios in relation to total risk weighted assets as prescribed in Table 1 and 2 below.

Table 1 – SLCs with assets less than Rs.100 billion				
Components of capital	01.07.2018	01.07.2019	01.07.2020	01.07.2021
6.00	6.50	7.00	8.50	90%
10.00	10.50	11.00	12.50	50%

Table 2 – SLCs with assets of Rs.100 billion and above				
Components of capital	01.07.2018	01.07.2019	01.07.2020	01.07.2021
Tier 1 Capital	6.00	7.00	8.00	10.00
Total Capital	10.00	11.00	12.00	14.00

- 2.2 The capital adequacy ratios referred above shall be computed in accordance with the methodologies and requirements set out in the framework on capital adequacy requirements for SLCs given in Schedule I hereto.
3. Regulatory Reporting 3.1 Every SLC shall use the formats at Schedule II hereto for reporting of capital adequacy ratios. The reporting formats should show the position as at the last calendar day of each month, and should be submitted within 15 days through the web-based system.

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| 4. Regulatory Measures in the Event of Non-Compliance | 4.1 | In the event of non-compliance by an SLC with above Directions, the Director shall act on any one or more of the following. <ul style="list-style-type: none"> <li>i. Restrict distribution of dividends or repatriation of profits.</li> <li>ii. Suspend any business activity that will further deteriorate the regulatory capital position.</li> </ul>                        |
|   | 4.2 | The Director shall lift the above regulatory measures when such non-compliance is rectified.   |
| 5. Interpretations                                    | 5.1 | In these Directions, <ul style="list-style-type: none"> <li>i. Assets value of an SLC with reference to Table 1 and 2 of Section 2.1 shall be determined based on the latest available audited financial statements.</li> <li>ii. "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</li> </ul> |
| 6. Revocation of Previous Direction                   | 6.1 | The Finance Leasing (Capital Adequacy Ratio) Direction No. 01 of 2011 is hereby revoked.   |

W. Ranaweera

**Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

Schedule I and II of this Direction are available at [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Finance\\_Leasing\\_Act\\_Directions\\_No\\_03\\_of\\_2018\\_e.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Finance_Leasing_Act_Directions_No_03_of_2018_e.pdf).

**Finance Leasing Act Directions No. 04 of 2018**

06 June 2018

**VALUATION OF IMMOVABLE PROPERTIES**

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000

The Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred to as "Director") issues Directions on the regulatory framework on Valuation of Immovable Properties for Specialized Leasing Companies (SLCs) as given below.

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| 1. Empowerment under the Finance Leasing Act                                       | 1.1        | In terms of section 34 of the Finance Leasing Act, the Director is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as "Specialized Leasing Companies").  |
| 2. Scope of the direction  | 2.1        | These Directions on valuation of immovable properties shall be applicable for the purpose of: <ul style="list-style-type: none"> <li>a. Meeting the regulatory requirements issued under the Finance Leasing Act, No. 56 of 2000 and,</li> <li>b. Other on-going business requirements of SLCs which necessitate valuation of immovable property</li> </ul>  |
| 3. Establishment and Implementation of a policy on valuation of immovable property | 3.1<br>3.2 | <p>Every SLC shall ensure that appropriate board approved prudent policies and procedures on valuation of immovable property are in place.</p> <p>In establishing policies and procedures on valuation of immovable property as referred to in Direction 2.1 above, every SLC shall consider the following minimum requirements.</p> <ul style="list-style-type: none"> <li>a. Responsibility of the Board of Directors, senior management and other relevant committees (e.g., Credit Committee) on the formulation and periodical review of the policy.</li> <li>b. Appointment of panels of valuers, both internal and external.</li> <li>c. Procedures to identify and select qualified valuers for the appointment of panel(s) of valuers, subject to Direction 5 below.</li> <li>d. Procedures to assess the reasonableness of the market value of an immovable property derived from the valuation model and, the reliability and the accuracy of data used for such valuation.</li> <li>e. Threshold for internal and external valuation reports obtained/to be obtained in respect of immovable property against all loans and advances, as the case may be, subject to Direction 6 below.</li> <li>f. Frequency of valuation, subject to Direction 7 below.</li> <li>g. Valuation criteria for internal valuations.</li> <li>h. Independence and disclosure, subject to Direction 8 below.</li> <li>i. Notification to borrowers: The loan agreement shall include detailed specifications of the manner and frequency of revaluation together with a detailed description of the immovable property obtained as collateral.</li> <li>j. Procedure of payment and fee structure for external valuers.</li> </ul> |

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| 4. Immovable Property                                    | 4.1 | For the purposes of these Directions, immovable property shall mean any land, land and building or any rights therein which are acquired or held for the purposes including the following: <ul style="list-style-type: none"> <li>a. Land, and land &amp; building which are obtained as collateral against any accommodation extended by any SLC including foreclosed properties.</li> <li>b. Land, and land &amp; building which are purchased or acquired for the purpose of conducting business of SLC which are measured and disclosed in accordance with Sri Lanka Accounting Standards, e.g., LKAS 16: Property, Plant and Equipment.</li> <li>c. Land, and land &amp; building which are purchased or acquired as SLC's investments, which are measured and disclosed in accordance with Sri Lanka Accounting Standards, e.g., LKAS 40: Investment Property.</li> </ul>   |
| 5. Eligibility criteria for valuers                      | 5.1 | Every SLC shall ensure that: <ul style="list-style-type: none"> <li>a. Eligibility criteria for valuers are set out as follows.             <ul style="list-style-type: none"> <li>a.1 A member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:                 <ul style="list-style-type: none"> <li>i. A Fellow member; or</li> <li>ii. A Graduate member with 5 years' experience in such grade of membership; or</li> <li>iii. A Graduate member who has been an Associate member at the time of his admission to the Graduate Membership, with number of years of experience equivalent to the period that the member would have taken to complete 10 years in the Associate Membership; or</li> <li>iv. An Associate Member with 10 years' experience in such grade of membership.</li> </ul> </li> <li>a.2. A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be:                 <ul style="list-style-type: none"> <li>i. A Fellow member; or</li> <li>ii. Any other member of RICS with 3 years' experience in such grade of membership</li> </ul> </li> </ul> </li> <li>b. Valuation of immovable property undertaken by internal valuers shall satisfy the eligibility criteria set out in Directions 5.1 a) above.</li> </ul> |
| 6. Threshold for internal and external valuation reports | 6.1 | An SLC shall establish an appropriate threshold for internal and external valuation in respect of immovable property.   |
|  | 6.2 | In the case of a non-performing loan, an internal valuation report could be obtained in respect of facility/ies where the capital outstanding amount is less than Rs. 1,000,000 or 0.1% of the SLC's capital base, whichever is less.   |
| 7. Frequency of valuation                                | 7.1 | The frequency of valuation of immovable property shall be as follows. <ul style="list-style-type: none"> <li>a. Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be not more than three years old.</li> <li>b. Valuation of immovable property as referred to in Directions 4.1 b) and c) above shall be made:             <ul style="list-style-type: none"> <li>i. Annually depending on any significant and volatile changes in fair value of such immovable property are experienced; or</li> <li>ii. At least once in every three years.</li> </ul> </li> </ul>  |
| 8. Independence and Disclosure                           | 8.1 | Every SLC shall ensure the independence of external valuers and that disclosures are made in the SLC's Annual Report or in the Audited Financial Statements as set out below. <ul style="list-style-type: none"> <li>a. An external valuer shall not be a related party, to avoid any conflict of interest that may arise from such engagement.</li> <li>b. The Board of Directors/senior management shall ensure that disclosures are made in the SLC's Annual Report or in the Audited Financial Statements on the valuation policy, measurement and recognition of immovable property.</li> </ul>  |

W. Ranaweera

**Director, Department of Supervision of Non-Bank Financial  
Institutions, Central Bank of Sri Lanka**

**Finance Leasing Act Directions No. 05 of 2018**

07 June 2018

**AMENDMENTS TO DIRECTIONS ON LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES**

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

Finance Leasing Act Directions No. 2 of 2018 on Loan to Value ratios for credit facilities granted in respect of motor vehicles are amended by replacing the following Directions.

3. Exemptions from LTV ratio 3.1 The limits in Direction 2 above shall not be applicable to credit facilities granted:
- (i) to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration; and
  - (ii) for procurement of vehicles for Government Agencies under the finance leasing method.
- 3.2 SLCs shall have internal limits and adopt adequate risk management procedures in granting such credit facilities.

W. Ranaweera

**Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

**Finance Leasing Act Directions No. 06 of 2018**

24 August 2018

**AMENDMENTS TO DIRECTIONS ON LOAN TO VALUE RATIOS FOR CREDIT FACILITIES GRANTED IN RESPECT OF MOTOR VEHICLES**

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

Finance Leasing Act Directions No. 5 of 2018 on Loan to Value ratios for credit facilities granted in respect of motor vehicles are amended by replacing the following Directions.

3. Exemptions from LTV ratio 3.1 The limits in Direction 2 above shall not be applicable to credit facilities granted:
- (i) to any company engaged in tourism and/or transportation for purchase of vehicle fleets to be utilized for their core business operations, provided that such vehicles financed shall not be transferred to any person or entity within one year from the date of the first registration;
  - (ii) for procurement of vehicles for Government Agencies under the finance leasing method specified by the Ministry of Finance and Mass Media; and
  - (iii) for credit facilities granted for purchase of motorcycles by field officers in the public service and teachers servicing in difficult areas under the proposed concessionary leasing facility provided by the Government.
- 3.2 SLCs shall have internal limits and adopt adequate risk management procedures in granting such credit facilities.

W. Ranaweera

**Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

**Finance Leasing Act Directions No. 07 of 2018**

01 October 2018

**MEASURES TO CURTAIL IMPORT OF MOTOR VEHICLES**

Issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

The Central Bank of Sri Lanka with a view to curtailing imports and the resultant adverse impact on the exchange rate requires specialized leasing companies to adopt the following measures with effect from 01 October 2018.

1. The following will replace Directions 2.1 of the Finance Leasing Act Directions No. 02 of 2018 on Loan to Value Ratios for Credit Facilities Granted in respect of Motor Vehicles.

Credit facilities granted by every specialized leasing company for the purpose of purchase or utilisation of motor vehicles shall not exceed the following percentages of the market value of such vehicles until further notice.

- (i) In respect of unregistered vehicles and registered vehicles which have been used in Sri Lanka for less than one year after the first registration;

Table 1 – Loan to Value Ratios			
Vehicle Category	Vehicle Class of Department of Motor Traffic	Electric Vehicles	Other
Commercial vehicles	C1, C, CE, D1, D, DE, G1, G, J	90%	90%
Motor Cars, SUVs and Vans	B (other than light trucks & single cabs)	90%	50%
Three wheelers	B1	90%	25%
Any other vehicle	A1, A, light trucks & single cabs categorized under B	90%	70%
Hybrid Motor Cars, Vans and SUVs	B (other than light trucks & single cabs)	50%	

- (ii) 70 per cent in respect of registered vehicles which have been used in Sri Lanka for more than one year after the first registration.

W. Ranaweera

**Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

#### Finance Leasing Act Directions No. 08 of 2018

03 December 2018

#### MAXIMUM RATE OF INTEREST ON MICROFINANCE LOANS

In terms of the powers conferred by section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non-Bank Financial Institutions issues Directions on maximum rate of interest on Microfinance loans for Specialized Leasing Companies (SLCs).

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|-------------------------------------|-----|--|
| 1. Applicability and scope          | 1.1 | The Central Bank of Sri Lanka introduces a maximum rate of interest on Microfinance loans with the objective of protecting the customers being charged with exorbitant interest rates on Microfinance loans granted by SLCs.   |
|                                     | 1.2 | This Direction will be applicable for all Microfinance loans granted from the date of this Direction.  |
| 2. Maximum Rate of Interest         | 2.1 | SLCs shall not charge a rate exceeding 35 percent per annum (effective annual interest rate), inclusive of all other charges on Microfinance loans.  |
| 3. Definition of Microfinance Loans | 3.1 | Loans granted for individuals/individuals under Group Lending System for income generating activities, which include loans for establishing and managing Micro Enterprises.  |
| 4. Reporting Requirements           | 4.1 | SLCs shall report the Microfinance loans under code 3.1.4.9.0.0- Microfinance Loans in the Financial Information Network (FInNet) return NBL-MF-03-BS - Balance Sheet.   |
| 5. Interpretation                   | 5.1 | "Micro Enterprises" shall mean enterprises in the manufacturing and service sector with an annual turnover of less than Rs. 15 million and employees less than 10 [Source: National Policy Framework for Small Medium Enterprise Development issued by Ministry of Industry and Commerce]. |

W. Ranaweera

**Director, Department of Supervision of Non-Bank Financial Institutions, Central Bank of Sri Lanka**

