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EXTRAORDINARY

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PART I : SECTION (I) — GENERAL

CENTRAL BANK OF SRI LANKA NOTICES

THE MONETARY LAW ACT

REGULATIONS issued by the Monetary Board of the Central Bank of Sri Lanka (Monetary Board), under section 32E of the Monetary Law Act, (Chapter 422).

Prof. **W. D. LAKSHMAN**
Chairman
Monetary Board.

Colombo,
06th August, 2021.

Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations

- 1. Citation**
 - 1.1 These Regulations shall be cited as the “Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No.02 of 2021”.
- 2. Objective of the Scheme & Enabling Provisions**
 - 2.1 In terms of Section 5 of the Monetary Law Act, No. 58 of 1949, the Central Bank of Sri Lanka is charged with the duty of securing, as far as possible, by action authorized by such Act, the two primary objectives of (a) economic and price stability and (b) financial system stability.



- 2.2 In terms of Sections 32A to 32E of the Monetary Law Act, the Central Bank may establish, maintain, manage and control, as determined by the Monetary Board from time to time, a scheme for insurance of deposits held by banking institutions.
- 2.3 In terms of Sections 46(1) and 76(J) of the Banking Act, No. 30 of 1988, the Monetary Board is empowered to issue Directions to licensed commercial banks and licensed specialized banks, regarding the manner in which any aspect of the business of such bank is to be conducted, in order to ensure the soundness of the banking system.
- 2.4 In terms of Sections 38, 39 and 41 of the Finance Business Act, No. 42 of 2011, the Monetary Board may operate a scheme for insurance of deposits held by licensed finance companies and require such finance companies to insure their deposit liabilities under the scheme or under a body corporate authorized by the Monetary Board.
- 2.5 Accordingly, the Sri Lanka Deposit Insurance and Liquidity Support Scheme is established in the interest of the overall financial system stability of the country (hereafter referred to as “the Scheme”). It will outline a mechanism to protect small depositors in the event of a failure of a Member Institution, with a view to upholding the public trust in the financial system.

3. Title of the Scheme and Effective Date

- 3.1 This Scheme shall be titled the “Sri Lanka Deposit Insurance and Liquidity Support Scheme”.
- 3.2 The Scheme under these Regulations shall come into effect from the 06th of August, 2021.

4. Member Institutions to be governed by the Scheme

- 4.1 Every Licensed Bank, Licensed Finance Company shall be a member of the Scheme (referred to in these Regulations as a “Member Institution”).

5. Eligible Deposits to be insured

- 5.1 Eligible deposits to be insured, shall include demand, time and savings and certificates of deposit liabilities of Member Institutions, value of the shares of shareholders who were initially deposit holders, whose deposits were converted into equity under the Directions of the Monetary Board in 2010 and 2011 as part of the business restructuring plans implemented prior to 01.01.2012 and exclude all debt instruments, including any promissory note, hybrid equity and such other debt instrument as may be determined by the Monetary Board .

For this purpose, the value of shares of shareholders whose deposits were converted into equity, shall be the value of deposit/s that had been converted into shares.

- 5.2 The following deposit liabilities shall be excluded from the Scheme:

- (i) Deposit liabilities to Member Institutions.
- (ii) Deposit liabilities maintained individually or jointly with any other party, by Directors, Key Management Personnel, other related parties, excluding shareholders as defined in Banking Act Direction, No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act Direction, No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Licensed Finance Companies.
- (iii) Deposit liabilities maintained either individually or jointly with any other party, by former Directors or Key Management Personnel of the respective Member Institution;

- (a) Where the Monetary Board has issued Directions to remove such Director/s or Key Management Personnel , as the case may be, from the Board of Directors and/or Key Management Personnel from the position or positions held by such personnel in the respective Member Institution, due to such Directors or Key Management Personnel being involved in or concerned with, carrying on the business operations or management of the Member Institution, following any unsound, improper, dishonest, deceitful or fraudulent financial practice or practices, detrimental to the interests of its depositors and other creditors.
- (b) Where the Director of Bank Supervision/Director of the Department of Supervision of Non-bank Financial Institutions, have determined that such Director or Directors and/or any one or more Key Management Personnel is and/or are not fit and proper to hold office in the Member Institution, in as much as they being subject to an investigation or inquiry for or concerning an act involving fraud, cheating, misappropriation, deceit, dishonesty or any other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal or other body established by law, in Sri Lanka or in any other jurisdiction OR have been found guilty for any act which involves fraud, cheating, misappropriation, deceit, dishonesty, improper conduct or non-compliance with the provisions of any law or any rule, regulation, direction, determinations made thereunder, by any court of law, regulatory or supervisory authority, professional association, commission of inquiry, tribunal or other body established by law, in Sri Lanka or in any other jurisdiction.
- (c) Where the Monetary Board determines *ex mero motu*, upon being satisfied upon material available, that any Director or Directors, or any Key Management Personnel of any Member Institution, is or are disentitled to receive any benefit under the Scheme, due to having been responsible for or having engaged in or engaging in, or being involved in carrying on the business operations or management of the Member Institution, by or through following any unsound, improper, dishonest, deceitful or fraudulent financial practice/s, detrimental to the interests of its depositors and other creditors.
- (iv) Deposits falling within the meaning of abandoned property in terms of the Banking Act, amounts of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.
- (v) Dormant deposits in terms of the Finance Business Act, amounts of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

5.3 In the case of foreign currency deposit liabilities, the daily indicative exchange rates issued by the International Operations Department of the Central Bank of Sri Lanka, shall be used to convert the foreign currency liabilities into local currency.

5.4 All eligible deposits shall be insured by Member Institutions.

6. Premium to be levied on insured deposits

6.1 Each Member Institutions shall pay a premium calculated on the total amount of deposits inclusive of any interest accrued, excluding the deposit liabilities stated in 5.2 above, as at the end of the quarter/month as may be determined by the Monetary Board, from time to time, to the Sri Lanka Deposit Insurance and Liquidity Support Fund stated in Regulation 7.

6.2 The calculation of premia effective until further notice, shall be as follows:

- (i) Licensed banks, which maintained a capital adequacy ratio of 14 per cent or above at the end of the immediately preceding financial year as per its audited accounts as accepted by the Director of Bank Supervision – a premium of 0.10 per cent per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
- (ii) All other licensed banks – a premium of 0.125 per cent per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
- (iii) Licensed Finance Companies – a premium of 0.15 per cent per annum payable monthly calculated on total amount of all eligible deposits as at end of the month.

6.3 Each Member Institution shall remit the applicable amount of the premium to the account of the Sri Lanka Deposit Insurance and Liquidity Support Fund within a period of fifteen (15) calendar days from the end of the respective quarter/month and submit the details of deposits and calculation of premium in a format specified by the Director of the department of the Central Bank of Sri Lanka, who shall be responsible for the operational and administrative arrangements of the Scheme, as specified in Regulation 10.1.

6.4 In the event of a delay in the payment of the premium inclusive of instances of under-payment, a penalty will be levied at the prevailing weighted average 91 days primary Treasury bill yield rate plus 200 basis points or as may be determined by the Monetary Board.

**7. Sri Lanka
Deposit
Insurance
and Liquidity
Support Fund**

7.1 The Scheme shall have a fund titled “Sri Lanka Deposit Insurance and Liquidity Support Fund” (hereafter referred to as “the Fund”), and it shall be operated and managed by the Monetary Board, which responsibility may delegate to an officer or a Department of the Central Bank of Sri Lanka as it may consider necessary and Regulation 10.1 below, specifies the present operational and management arrangements.

7.2 The administration and management arrangements of the Sri Lanka Deposit Insurance and Liquidity Support Fund shall be distinct and independent from that of the supervisory departments of Member Institutions, in order to prevent or avoid any natural or other conflicts of interest.

7.3 Credits to the Fund shall include: premia and penalties paid by Member Institutions, all proceeds of profits, investment income and gains arriving out of the investments of the moneys in the Fund, recovery of secured advances or loans granted to any Member Institution, recovery of compensation paid to depositors, such sums as may be appropriated out of the abandoned property in the case of licensed banks and dormant deposits in the case of licensed finance companies transferred to the Central Bank of Sri Lanka in terms of Directions issued by the Monetary Board under Part IX – Sections 72 and 76 of the Banking Act and Sections 23 of the Finance Business Act as applicable, borrowings and contributions from the Government and/or any other sources as may be approved by the Monetary Board.

7.4 Debits to the Fund may be on account of :- Compensation payments to depositors, repayment of abandoned property/dormant deposits lying in the fund and the operating expenses of the Scheme, as may be determined by the Monetary Board.

**8. Utilization
of moneys
in the Fund**

8.1 Apart from any debits to the fund, the moneys in the Fund shall be utilized as hereinafter provided:

- (i) Investments in Government Securities - Government securities shall include Treasury bills, Treasury bonds and all other marketable securities issued by the Government of Sri Lanka. For avoidance of doubt and for the purposes of these Regulations, these will include investments made by way of reverse repurchase agreements.
- (ii) Secured advances or loans to any Member Institution in the instance of a severe liquidity crisis in such Member Institution, if, in the opinion of the Monetary Board (after considering an assessment report on the liquidity position submitted by the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a licensed finance company), that such an advance/loan will substantially contribute towards avoiding or averting an imminent financial panic in the particular institution, or in respect of that institution, or in the financial system as a whole AND if the same is warranted in the totality of the attendant circumstances.

8.2 Such advances or loans to Member Institutions in terms of Regulation 8.1(ii) shall be provided on the pledging of collateral in the form of Government securities, at prevailing market interest rates or otherwise, as may be unanimously determined by the Monetary Board, taking into consideration, the viability of the Fund and the opportunity cost of such decision, to the Fund.

8.3 The repayment period of such loans or advances shall be as determined by the Monetary Board.

8.4 The Monetary Board may issue Operational Guidelines pertaining to the granting of such loans or advances, supplemental to these Regulations.

**9. Compensation
on Insured
Deposits**

9.1 Compensation to depositors on insured deposits will be paid as per Regulations issued by the Monetary Board from time to time, or as hereinafter provided.

9.2 Member Institutions shall maintain records of all depositors with a unique identification number for each depositor and submit details of all the depositors. Such details shall be submitted quarterly by licensed banks and monthly by licensed finance companies, to the department of the Central Bank of Sri Lanka, who shall be responsible for the operational and administrative arrangements of the Scheme as specified in Regulation 10.1, in a format as specified by the Director of such department from time to time. In the case of resident individuals, the unique identification number shall be the National Identity Card Number. In the case of companies registered under the Companies Act, the company registration number shall be considered and all other non-individuals, registration numbers issued by the relevant and accepted approving authority, shall be considered as the unique identification number.

9.3 A Member Institution shall cease to be a member of the Scheme upon the cancellation of the licence of such Member Institution to carry on banking business or finance business, by the Monetary Board.

9.4 Compensation on insured deposit liabilities of a Member Institution will be paid only when the licence issued to the Member Institution is cancelled by the Monetary Board in terms of the relevant statutory provisions.

9.5 Within fourteen (14) calendar days from the announcement of the decision of the Monetary Board to cancel its licence, the Member Institution shall submit the list of depositors with the certification of the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a licensed finance company, in the format specified by the Director of the Department of the Central Bank of Sri Lanka, who shall be responsible for the operational and administrative arrangements of the

Scheme as specified in Regulation 10.1 for the purpose of payment of compensation as at the date of the Monetary Board Order of cancellation. For the purpose of certification of the list of depositors, the Director of Bank Supervision and the Director of Department of Supervision of Non-Bank Financial Institutions may obtain the service of an External Auditor, if necessary.

- 9.6 The payment of compensation on insured deposit liabilities of a Member Institution shall be commenced within sixty (60) calendar days from the date of the cancellation of the licence and honour the claims of insured depositors submitted not later than two (02) years from the date of cancellation of the licence. The insured depositors of the Member Institutions whose licences have been cancelled/suspended prior to the date of these Regulations, shall submit their claims not later than four (04) years from the date of the cancellation/suspension of the licence issued to the respective institution.
- 9.7 In the case of a Member Institution, whose licence has been cancelled, the insured depositors thereof, shall be entitled to receive compensation payment under this Regulation, only in so far as such insured depositors submits the duly completed claim for the eligible compensation, before the appointment of the liquidator by the competent court in respect of the liquidation of such Member Institution or before the expiration of the periods to submit claims as specified in Regulation 9.6 above, whichever occurs earlier.
- 9.8 The compensation payable in respect of insured deposits of a Member Institution will be computed on a "per-depositor" basis, consolidating all insured deposits liabilities to each depositor inclusive of any interest accrued as at the date of the cancellation of the licence of the Member Institution. No interest shall be paid for the ensuing period.
- 9.9 The amount of compensation payable to a depositor shall be limited to the total insured deposits computed as above, subject to a maximum amount of Rupees One Million and One Hundred Thousand (Rs.1,100,000), in respect of LKR deposits or in the case of foreign currency deposits, its equivalent in LKR, and up to that extent, if such amount exceeds Rupees One Million and One Hundred Thousand (Rs. 1,100,000).
- 9.10 The insured depositors of the Member Institutions whose licences have been cancelled or suspended, as the case may be, prior to 01.04.2021, shall be entitled to receive compensation payable under this Regulation, subject to a maximum of Rupees One Million and One Hundred Thousand (Rs.1,100,000) or its LKR equivalent in the case of foreign currency deposits, provided that such insured depositors have :-
 - a) either not claimed compensation as of 01.04.2021, or
 - b) made their claim by 01.04.2021, but have not been paid compensation as at the date of these Regulations coming into force, or
 - c) in cases where compensation been paid by 01.04.2021, but such compensation is less than Rupees One Million and One Hundred Thousand (Rs. 1,100,000).
- 9.11 Any compensation paid to depositors of a Member Institution by the Sri Lanka Deposit Insurance and Liquidity Support Scheme shall be accounted in the books of the Member Institution as its deposit liability to the Sri Lanka Deposit Insurance and Liquidity Support Scheme, while redeeming the deposit liabilities due to the respective depositors by an equivalent amount.
- 9.12 In the event that any depositor is unable to or has not received the entitled compensation at the time of payment of compensation, the legal beneficiaries of the depositor shall be paid the compensation in terms of the applicable legal provisions and procedures.

- 9.13 The Monetary Board may enter into an agreement with a licenced bank/s, if the Monetary Board deems it so necessary, in order to expedite the compensation payments to the depositors of a particular Member Institution, whose licence has been cancelled.
- 9.14 Any specific instructions or guidelines relevant to the compensation payment process of insured depositors of Member Institutions, may be determined by the Monetary Board, from time to time.
- 9.15 The payment of compensation shall not be a liability of the Monetary Board under any circumstances, and shall be strictly limited only to the funds available or raised in the Sri Lanka Deposit Insurance and Liquidity Support Fund, including any borrowings permitted and contributions received. The Monetary Board shall not be responsible for any liability or claim that exceeds the total amount lying to the credit of the Fund, in any manner whatsoever.

10. Books and Accounts of the Fund

- 10.1 There shall be an established Deposit Insurance Unit in the Resolution and Enforcement Department of the Central Bank of Sri Lanka (hereinafter referred to as “the Unit”), which shall be responsible for the operational and management arrangements, under the instructions and supervision of the Director of Resolution and Enforcement in terms of Directions/Regulations and policies as approved by the Monetary Board from time to time.
- 10.2 The Unit shall maintain books, accounts and statements relating to financial transactions of the Fund in terms of the applicable Sri Lanka Accounting Standards.
- 10.3 The financial year of the Fund shall be the calendar year and the Auditor General shall be the Auditor.
- 10.4 The Unit shall prepare financial statements on income and expenses, assets and liabilities, cash flows and investments for each financial year and submit the audited financial statements to the Monetary Board on or before 31st March of the following year and disclose such statements for the information of the Member Institutions and the public.
- 10.5 The financial statements of the Sri Lanka Deposit Insurance and Liquidity Support Fund shall be distinctly separated from the financial statements of the Central Bank of Sri Lanka and accordingly, no consolidation of the Unit’s financial statements shall be made with that of the Central Bank of Sri Lanka.

11. Interpretation

- 11.1 For the purposes of these Regulations,
- (i) “Licensed Banks” shall mean all banks, which are licensed under the Banking Act No. 30 of 1988, as amended and “Licensed Finance Companies” shall mean all finance companies, which are licensed under the Finance Business Act No.42 of 2011, as amended.
 - (ii) “Loans and advances” shall mean a specified sum of money lent to a Member Institution, at a specified rate of interest on specified collaterals, for a specified period of time for repayment.
 - (iii) “Insured deposits” shall mean all eligible deposits; provided however, that the maximum amount of compensation payable to a depositor shall be limited to the amount specified in Regulation 9.9, above.
 - (iv) “Insured depositors” shall mean holders of eligible deposits; provided however, that the maximum amount of compensation payable to a depositor shall be limited to the amount specified in Regulation 9.9, above.

12. Repeal of Regulations

- 12.1 The Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 1 of 2010, as amended by subsequent Regulations, is hereby repealed (hereinafter referred to as “the repealed Regulations”). Notwithstanding the repeal effected under these provisions, the Sri Lanka Deposit Insurance and Liquidity Support Scheme, established under the said repealed Regulations shall subsist and be preserved and shall continue in existence, without interruption or impediment, under and subject to the provisions of these Regulations.
- 12.2 The amounts lying to the credit of the Sri Lanka Deposit Insurance and Liquidity Support Fund operated under the said repealed Regulations as at the date of the coming into operation of these Regulations, shall be deemed to be the Sri Lanka Deposit Insurance and Liquidity Support Fund under these Regulations, as at the effective date.
- 12.3 All rights, obligations, assets, properties, liabilities, powers, privileges, authorities attributed to the Scheme operated under the repealed Regulations, and interests arising in or out of such rights, assets, properties and such liabilities, all books, accounts; and documents relating or appertaining to the Scheme operated under the repealed Regulations, and subsisting on the effective date, shall be deemed as from the effective date, to be rights, obligations, assets, properties, liabilities, powers, privileges, authorities, interests, books, accounts and documents of the Scheme under these Regulations.

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