

# 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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Circular No. 01 of 2019

04 January 2019

## GUIDELINES FOR THE EMPLOYMENT OF EXPATRIATE OFFICERS IN LICENSED BANKS IN SRI LANKA

Licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) shall adhere to the following guidelines for the employment of suitable and eligible expatriate officers based on the needs of licensed banks.

1. General Requirements
  - 1.1 Expatriate officers, who are appointed as Chief Executive Officers (CEOs) or such other officers performing executive functions in licensed banks, are subject to the fitness and propriety assessment in terms of Section 44A or Section 76H of the Banking Act, No. 30 of 1988, as amended, in addition to these Guidelines.
  - 1.2 Licensed banks shall give priority to local officers and employment of expatriate officers shall be considered after all reasonable means have been taken to attract and employ local officers. Local officers shall mean Sri Lankan citizens for the purpose of these Guidelines.
  - 1.3 Licensed banks shall establish succession planning to identify local staff and train such staff to take up the positions/responsibilities held by expatriate officers within a reasonable period.
  - 1.4 Nevertheless, Guidelines 1.2 and 1.3 above will not be applicable in the case of a bank incorporated outside Sri Lanka, which is within the permitted limit as specified in Guideline 4.1.
  - 1.5 The Central Bank of Sri Lanka (CBSL) may withdraw an approval granted for employment of an expatriate officer at any time deemed necessary and shall communicate such decision to the relevant licensed bank giving a maximum of four months of notice.
2. Expatriate Officers
  - 2.1 Expatriate officers for the purpose of this Direction shall be:
    - (i) permanent or contract employees who are on the payroll of the licensed bank or on the payroll of the parent bank of banks incorporated outside Sri Lanka, and is not limited to CEOs and such other officers performing executive functions; and
    - (ii) consultants/advisors to the Board of Directors or bank.
3. Eligibility Criteria for Banks Incorporated Locally
  - 3.1 Approval for expatriate officers will be granted on a case-by-case basis taking into consideration the specific needs/projects of licensed banks.
  - 3.2 Approval will be granted for the employment of expatriate officers in the following fields:
    - (i) Implementation of the Basel regulatory framework
    - (ii) International Financial Reporting Standards
    - (iii) Risk modeling
    - (iv) Data warehousing and information technology risk management
    - (v) Structuring of derivative products
    - (vi) Corporate governance
    - (vii) Any other area where a skills gap exists in Sri Lanka, as determined by CBSL
  - 3.3 Validity period of the approval shall be on a case-by-case basis up to a maximum of 3 years.
  - 3.4 Licensed banks shall submit projections on specific business or deliverables expected from expatriate officers along with other details as in Part I of Annex I.

- 3.5 Extension of tenure approved under 3.3 above.
- (i) The extension of the term of expatriate officers will be considered on a case-by-case basis based on:
    - (a) necessity of the extension of the project;
    - (b) annual performance reviews of expatriate officers; and
    - (c) the succession planning followed by the licensed bank.
  - (ii) Maximum extension period shall be 1 year.
4. Eligibility Criteria for Banks Incorporated Outside Sri Lanka
- 4.1 The maximum number of expatriate officers permitted shall be based on the number of permanent local staff employed by the licensed bank as follows:
- | Permanent local staff | Permitted number of expatriates |
|-----------------------|---------------------------------|
| Less than 75          | 3                               |
| 75 to 400             | 5                               |
| More than 400         | 10                              |
- 4.2 Licensed banks shall submit the details of expatriate officers to CBSL as attached in Part I of Annex I.
- 4.3 Validity period of permission shall be up to a maximum of 4 years for CEOs and 3 years for other expatriate officers.
- 4.4 Extension of tenure permitted under 4.3 above.
- (i) Extension of tenure will be approved based on recommendation of the regional office.
  - (ii) Maximum extension period shall be 2 years for CEOs and 1 year for other expatriate officers.
- 4.5
- (i) Under exceptional circumstances, approvals for appointment of expatriate officers in excess of the maximum number of expatriate officers permitted in 4.1 above may be considered on a case-by-case basis for a period up to 1 year. However, in order to consider such request at least 80% of the officers performing executive functions of the licensed bank should be local permanent staff.
  - (ii) For this purpose, licensed banks shall submit specific skills of the nominated expatriate officers and specific responsibilities/projects assigned to him/her along with other details as in Part I of Annex I.
  - (iii) The extension of the term of such appointed expatriate officers will be considered on a case-by-case basis based on:
    - (a) necessity of the extension of the project;
    - (b) annual performance reviews of expatriate officers; and
    - (c) the succession planning followed by the licensed bank.
  - (iv) Maximum extension period on such appointments will be 2 years.
- 4.6 For new branches of banks incorporated outside Sri Lanka, approval for employment of expatriate officers exceeding the permitted number specified in Guideline 4.1 will be granted on a case-by-case basis taking into consideration the specific needs of the bank.
5. Issuance of Visa Recommendation Letters
- 5.1 The issuance of visa recommendation letters by the Director of Bank Supervision will be limited to:



- (i) expatriate officers on the payroll of licensed bank or on the payroll of the parent bank of banks incorporated outside Sri Lanka, and permitted/ approved in terms of these guidelines:
    - (a) the chief executive officer or officers performing executive functions; and
    - (b) any other officers.
  - (ii) close relations as defined in the Banking Act (spouse and dependent children) and dependent parents of expatriate officers;
  - (iii) an expatriate director of a licensed bank; and
  - (iv) consultants/advisors to the Board of Directors or bank permitted/ approved in terms of these guidelines.
- 5.2 All applicants recommended for visa by the Director of Bank Supervision shall conduct themselves in a responsible manner during their stay in Sri Lanka
- 5.3 The Board of Directors or CEOs of banks incorporated locally and, executive at head office/regional head office who is responsible for the operations in Sri Lanka of banks incorporated outside Sri Lanka are responsible to inform the Director of Bank Supervision of any improper conduct and other concerns relating to the expatriate officer's stay in Sri Lanka.
- 5.4 Licensed banks shall submit visa recommendation request forms as given in Part II of Annex I.
6. Revocation
- 6.1 The Circular Ref. No. 02/01/00/0002/001 dated 31 December 2007 on Guidelines for Employment of Expatriate Staff in Banks is hereby revoked.

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

**Annex I**

<b>Part I: Application Form for Appointment of an Expatriate Officer</b>	
1.	Name of the bank
2.	Name of the expatriate officer
3.	Current designation of the expatriate officer in the parent bank (if applicable)
4.	Designation to be filled in Sri Lanka
5.	Responsibilities/projects assigned to the expatriate officer
6.	Duration of the posting/contract/project
7.	Projections for specific business/expected deliverables from the expatriate officer (including Key Performance Indicators (KPI) and target dates for each KPI)
8.	Any other information relevant to the appointment (e.g. succession plan)

Attachments to be submitted:

1. Curriculum Vitae of the expatriate officer
2. Certification on accuracy of details\*

<b>Part II: Visa Recommendation Request Form</b> (To be filled for each person requesting visa recommendation)	
1.	Name in full
2.	Relationship to the expatriate officer
3.	Date of birth
4.	Nationality
5.	Gender
6.	Civil status
7.	Category of visa
8.	Reasons for applying for visa

9.	Passport details (passport number, date of issue, date of expiry)	
10.	Any other relevant information	

Attachments to be submitted:

1. Certified copy of the passport
2. Certification on accuracy of details\*

**Declaration:**

I confirm that the above information is true and complete to the best of my knowledge and belief.

Date:

Signature:

\* CEO shall certify the accuracy of details submitted on expatriate officers. Details with respect to CEO, his/her spouse, dependent children and dependent parents shall be certified by the Company Secretary in case of a bank incorporated locally and by the executive at head office/regional head office who is responsible for the operations in Sri Lanka in the case of a bank incorporated outside Sri Lanka. Such certification can also be included in the covering letter.

Circular No. 02 of 2019

18 January 2019

**PUBLICATION OF ANNUAL AND QUARTERLY FINANCIAL STATEMENTS AND OTHER  
DISCLOSURES BY LICENSED BANKS**

- |                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Requirements under the Banking Act | 1.1 In terms of Sections 38 and 76H of the Banking Act No. 30 of 1988 as amended, all licensed banks (LBs) incorporated or established within Sri Lanka and all LBs incorporated outside Sri Lanka shall: <ol style="list-style-type: none"> <li>(i) transmit its audited financial statements within five months after the close of its financial year to the Director of Bank Supervision;</li> <li>(ii) publish the audited financial statements at least once within that period in Sinhala, Tamil and English daily newspapers circulating in Sri Lanka; and</li> <li>(iii) exhibit them in a conspicuous place at each of its places of business until the financial statements for the succeeding financial year are prepared and exhibited.</li> </ol> |
| 2. Empowerment                        | 2.1 In terms of Sections 38(3) and 76H of the Banking Act, the Monetary Board may specify the form of the financial statements including any disclosure requirements to be made and where such form is specified, financial statements of every licensed bank shall be prepared in such form as may be specified.                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 3. Scope of Application               | 3.1 Licensed banks shall use the specified formats given in Annex I and Annex II to this Circular for the preparation, presentation and publication of annual and quarterly financial statements, respectively.<br><br>3.2 LBs incorporated in Sri Lanka shall publish financial statements under both solo and consolidated basis.<br><br>3.3 In terms of Section 28 of the Banking Act, the formats referred to in 3.1 above shall also be used for the preparation of financial statements of the Off-shore Banking Units of licensed banks.                                                                                                                                                                                                                |
| 4. Compliances                        | 4.1 Licensed banks shall publish information with respect to the entire bank, i.e., including the off-shore banking unit and in the case of licensed commercial banks incorporated in Sri Lanka, any branches established abroad by the licensed bank.<br><br>4.2 Licensed banks shall publish annual and quarterly financial information and other disclosures in the Annual Report, Press and Website as given in Table 1 below.                                                                                                                                                                                                                                                                                                                             |

Table 1: Publication of Annual and Quarterly Minimum Disclosures		
Type of Statement/Information	Frequency and Location of Publication	
	Quarterly	Annually
Income Statement	P,W	A,P,W
Statement of Comprehensive Income	P,W	A,P,W
Statement of Financial Position	P,W	A,P,W
Statement of Changes in Equity	P,W	A,P,W
Statement of Cash Flows	P,W	A,P,W
Analysis of Financial Instruments on Measurement Basis	W	A,W
Analysis of Loans and Advances	W	A,W
Analysis of Deposits	W	A,W
Selected Performance Indicators	P,W	A,P,W
A - Annual Report    P - Press    W - Website		

- 4.3 Licensed banks shall report statement of financial position as at the end of the relevant quarter and shall publish comparative figures for the same based on the audited financial statements for the previous financial year.
- 4.4 The reporting period in respect of the income statement should be the cumulative position as at the end of the relevant quarter in the financial year. Comparative figures for the income statement should be in respect of the same reporting period in the previous financial year.
- 4.5 Licensed banks shall include details of audit qualifications, if any, on audited financial statements when publishing such statements in the Press and Website.
- 4.6 Licensed banks shall report selected key performance indicators (KPIs) and the relevant ratios as at the reporting date while comparative KPIs and ratios should be based on the audited financial statements for the previous financial year.
- 4.7 Licensed banks incorporated outside Sri Lanka may publish the latest available KPIs relating to the global operations of such bank on a quarterly basis, and the ratios based on audited financial information along with the audited financial statements of the parent bank. Such information may be reported in home currency or in US Dollars in the column for reporting the information of the Group.
- 4.8 The key performance indicators should be computed according to the definitions given in the respective Banking Act Directions, Determinations, Circulars and Guidelines.
- 4.9 If a 'nil' balance has to be reported in respect of an item in the format, such items should be reported as 'nil', instead of deleting the item.
5. Responsibilities of the Management
- 5.1 The Board of Directors and the management of the licensed bank shall provide the true status of the financial condition of the bank, in discharging their fiduciary responsibility.
- 5.2 Licensed banks shall ensure that adequate publicity is given to non-compliance with the prudential ratios, if any, and the measures being taken by the licensed bank to meet these ratios.

- 5.3 Licensed banks shall avoid publishing incorrect statements/information and non-disclosure of adequate information required for decision making process.
- 5.4 Licensed banks shall adopt the disclosure requirements contained herein as a minimum and are encouraged to make additional disclosures for the benefit of the general public.
6. Timeline for Publication of Financial Statements
- 6.1 Licensed banks shall publish quarterly publication within two months from the end of each quarter, at least once in Sinhala, Tamil and English daily newspaper.
- 6.2 Publication of annual audited financial statements shall be made within five months from the end of the financial year.
- 6.3 If the bank publishes its annual audited financial statements within three months from the end of the financial year, the requirement to publish the financial statements for the fourth quarter in terms of 6.1 above would not arise.
7. Effective date/period
- 7.1 Formats for quarterly reporting will be applicable for quarters beginning on or after 01.01.2019.
- 7.2 Formats for annual reporting will be applicable for financial years beginning on or after 01.01.2018.
8. Revocations
- 8.1 The following Circulars are hereby revoked:
- (i) Circular No: BS/38/90 dated 02.06.1998 on Preparation of Annual Audited Accounts of Banks;
  - (ii) Circular No: BS/62/97 dated 10.09.2001 on Public Disclosure by Publication of Bank Accounts in the Press;
  - (iii) Circular No: 02/04/003/0401/001 dated 30.09.2005 on Public Disclosure by Publication of Quarterly Financial Statements of Banks in the Press;
  - (iv) Circular No: 02/04/003/0401/001 dated 26.01.2006 on Publication of Quarterly Financial Statements of Banks in the Press;
  - (v) Circular dated 13.02.2006 on Submission of Audited Financial Statements by Banks;
  - (vi) Circular No: 02/04/003/0401/001 dated 21.02.2006 on Publication of Audited Financial Statements of Banks in the Press;
  - (vii) Circular No: 02/04/003/0401/001 dated 24.03.2006 on Inadequate/ Incorrect Disclosures/Press Statements by Banks;
  - (viii) Circular No: 02/17/900/0001/04 dated 11.02.2013 on Public Disclosure by Publication of Quarterly Financial Statements of Banks in the Press;
  - (ix) Circular No: 02/17/900/0001/04 dated 11.02.2013 on Preparation, Presentation and Publication of Annual Audited Accounts of Banks;
  - (x) Circular No: 02/17/800/0002/002 dated 17.09.2013 on Publication of Financial Statements and Other Disclosures on the Websites; and
  - (xi) Circular No. 02/17/900/0001/004 dated 11.10.2013 on Additional Quarterly Disclosure in the Press and on the Websites.

A A M Thassim

**Director of Bank Supervision**Annex I and II of this Circular is available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

Circular No. 03 of 2019

12 March 2019

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

All licensed banks are hereby informed that the circular No. 02 of 2018 dated 11 October 2018 on Margin Requirements Against Imports on Documents Against Acceptance (DA) Terms is withdrawn with effect from 13 March 2019.

J P Gamalath  
**Actg. Director of Bank Supervision**

Circular No. 04 of 2019

13 March 2019

**NON-INTEREST BASED INCENTIVE SCHEMES FOR INTEREST BEARING  
SAVINGS AND TIME DEPOSITS OF LICENSED BANKS**

- |                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Objective                       | 1.1 The Central Bank of Sri Lanka is of the view that offering non-interest based incentive schemes for mobilising of interest bearing savings and time deposits create undue competition among licensed banks while undermining the interest rate policies implemented by the Central Bank of Sri Lanka. Accordingly, licensed banks are informed to adhere to the following with immediate effect in order to promote market determined interest rates and fair competition to safeguard the interests of the depositors.       |
| 2. Incentive schemes not permitted | 2.1 Licensed banks shall not conduct: <ul style="list-style-type: none"> <li>(i) lottery schemes/raffle draws</li> <li>(ii) gift schemes, etc.</li> </ul> <p>that result in a disadvantageous situation for the customers where features of a financial product/service are distorted, e.g., relatively reduced interest rates on savings deposits, incorporating features of time deposits to savings accounts.</p>                                                                                                              |
| 3. Permitted gift schemes          | 3.1 Licensed banks may conduct gift schemes (seasonal/promotional) provided that: <ul style="list-style-type: none"> <li>(i) all customers of the relevant product, service or category of the product/service receive the offered gift,</li> <li>(ii) applicable market interest rates are offered based on the nature of the product,</li> <li>(iii) cost of the gifts is not charged to customers, and</li> <li>(iv) no additional terms and conditions are imposed on customers with respect to the gifts offered.</li> </ul> |

J P Gamalath  
**Acting Director of Bank Supervision**

Banking Act Directions No. 01 of 2019

17 April 2019

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

National Savings Bank is hereby informed that the Banking Act Directions No. 07 of 2018 dated 12 October 2018 on Measures to Curtail Imports of Motor Vehicles and Non-Essential Consumer Goods are withdrawn with effect from the date of this Direction.

H A Karunaratne  
**Chief Executive Officer/Acting Senior Deputy Governor  
of the Central Bank of Sri Lanka**

Circular No. 05 of 2019

18 April 2019

**REMOVAL OF RESTRICTIONS ON  
OPENING OF LETTERS OF CREDIT (LCS) FOR IMPORTATION OF MOTOR VEHICLES  
UNDER PERMITS ON CONCESSIONARY TERMS**

1. Licensed commercial banks and licensed specialised banks are informed of the removal of restrictions on the opening of LCs for importation of motor vehicles under the permits on concessionary terms as follows:
  - (a) Permits issued for importation of motor vehicles in terms of P.A. Circular No. 22/99, LCs may be opened on or after:
    - (i) 01.05.2019 for permits issued on or before 31.12.2018;
    - (ii) 01.06.2019 for permits issued in any date.
  - (b) Permits issued for importation/ purchase of motor vehicles in terms of Trade and Investment Policy Circular No. 01/2018 and subsequent amendments and officers appointed to Sri Lanka Mission/ Posts abroad, LCs may be opened on or after:
    - (i) 01.06.2019 for permits issued on or before 30.09.2018;
    - (ii) 01.07.2019 for permits issued on or before 30.11.2018;
    - (iii) 01.08.2019 for permits issued on or before 28.02.2019;
    - (iv) 01.09.2019 for permits issued on or before 30.06.2019;
    - (v) 01.10.2019 for permits issued in any date.
2. Direction No. 02 of the Banking Act Directions No. 06 of 2018 dated 28.09.2018 on Measures to Curtail imports of Motor Vehicles is withdrawn by Banking Act Direction No. 02 of 2019 dated 18.04.2019.

J P Gamalath  
**Actg. Director of Bank Supervision**

Banking Act Directions No. 02 of 2019

18 April 2019

**MEASURES TO CURTAIL IMPORTS OF MOTOR VEHICLES**

1. Licensed commercial banks and licensed specialised banks are hereby informed that the Direction No. 02 of the Banking Act Directions No. 06 of 2018 dated 28.09.2018 on Measures to Curtail imports of Motor Vehicles is withdrawn with effect from the date of this Directions.
2. Licensed commercial banks and licensed specialised banks shall adhere to the requirements stipulated under Circular No. 05 of 2019 on Removal of restrictions on opening of letters of credit (LCs) for importation of motor vehicles under permits on concessionary terms.

H A Karunaratne  
**Chief Executive Officer/Acting Senior Deputy Governor  
of the Central Bank of Sri Lanka**

Circular No. 06 of 2019

26 April 2019

**SUPPLEMENT TO CIRCULAR NO. 04 OF 2018 ON ADOPTION OF SRI LANKA  
ACCOUNTING STANDARD - SLFRS 9: FINANCIAL INSTRUMENTS IN LICENSED BANKS**

1. On 31 December 2018, the Central Bank of Sri Lanka (CBSL) issued Guidelines to licensed banks on SLFRS 9 to be adopted within the requirements of SLFRS 9, promoting consistent and prudent application of same in the banking sector.
2. The Monetary Board, considering the representations made by the licensed banks and the Report of the Working Group on high market interest rates and issues faced by Small and Medium Enterprises (SMEs) has decided that licensed banks may adopt the following as an interim measure in respect of the adoption of SLFRS 9 during a transitional period with the approval of their Board of Directors.
  - (i) With reference to the requirements set out in Section 1.2 of Annex I to the Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments issued by CBSL on 31.12.2018, licensed banks may

rebut the 30-day rebuttable presumption on significant increase of credit risk to 60 days, subject to internally approved procedures laid down by the Board of Directors, for a temporary period between 01.01.2019 to 30.06.2020 with respect to credit facilities granted to SMEs up to an aggregate loan limit of Rs. 25 million per SME.

- (ii) With reference to sections 1.2(b) and 1.3(b) of the Annex I of the above Circular, licensed banks may exempt credit facilities granted to SMEs up to an aggregate loan limit of Rs. 25 million per SME, which are subsequently restructured between 01.01.2019 to 30.06.2020.
- (iii) Further, it is reiterated that in terms of the above guidelines, a credit facility shall be considered as restructured only if, original repayment terms have been amended due to a deterioration in credit quality, while the respective credit facility remained as performing in terms of CBSL Directions (including Temporary Overdrafts). An extension of the facility is possible without having to incur an impairment charge if there was an underlying business case and there was no significant increase in credit risk. The internal policies of the bank approved by its Board of Directors should set out the factors to be considered in assessing the credit risk when the original repayment terms are changed or extended.
- (iv) During the interim period up to 30.06.2020, licensed banks may take steps to analyse and back test their portfolios of advances to the SME sector and develop models to compute the expected loss provisions for this segment or any sub segment thereof.
- (v) Further, in lieu of Temporary Overdrafts, the licensed banks may devise products to facilitate short-term revolving funds to SMEs assessing the risk and pricing of such products at reasonable rates.

**Director of Bank Supervision**

**Banking Act Directions No. 03 of 2019**

26 April 2019

### **SMALL AND MEDIUM ENTERPRISES REFERRED UNDER BASEL III REGULATORY FRAMEWORK ON CAPITAL AND LIQUIDITY STANDARDS**

The Banking Act Direction No. 01 of 2016 on Capital Requirements, the Banking Act Directions No. 09 of 2018 on Liquidity Coverage Ratio and the Banking Act Directions No. 08 of 2018 on Net Stable Funding Ratio issued under Basel III capital and liquidity standards are amended as follows:

1. Amendments
  - 1.1 **Capital Requirements**  
The qualifying criteria for SME exposures given in the web-based return code of 20.3.1.8.1.0 (d) (i) of part III(A) of Appendix IV of Schedule I of Banking Act Directions No. 01 of 2016 on Capital Requirements is amended as in Part I of Annex I hereto.
  - 1.2 **Liquidity Coverage Ratio**  
The web-based return code of 19.3.1.1.2.0 of Appendix II of Banking Act Directions No. 09 of 2018 on Liquidity Coverage Ratio is amended as in Part II of Annex I hereto.
  - 1.3 **Net Stable Funding Ratio**  
The web-based return code of 32.2.2.1.0.0 of Appendix II of Schedule I of Banking Act Directions No. 08 of 2018 on Net Stable Funding Ratio is amended as in Part III of Annex I hereto.

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

## Annex I

Part I: Capital Requirements	
Web-based Return Code	Item
20.3.1.8.1.0	(d) (i) <b>SME Exposures</b> I. The maximum credit exposure of the lending bank to an SME shall not exceed Rs. 250 million. II. The annual turnover of the SME shall not exceed Rs. 750 million at the time of granting a facility. III. Banks shall adopt an internal mechanism approved by the Board to verify the annual turnover of the SME. The Board approved internal mechanism shall be included in to the credit policy of the bank.
Part II: Liquidity Coverage Ratio	
Web-based Return Code	Item
19.3.1.1.2.0	<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 a deposit/granting a facility. (ii) Banks shall adopt an internal mechanism approved by the Board to verify the annual turnover of the SME.
Part III: Net Stable Funding Ratio	
Web-based Return Code	Item
32.2.2.1.0.0	<b>Non-maturity deposits and term deposits with residual maturity of less than one year provided by retail customers and SMEs</b> Non-maturity deposits and/or term deposits with residual maturity of less than one year provided by retail customers and SMEs. In the case of SMEs, 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 a deposit/granting a facility. (ii) Banks shall adopt an internal mechanism approved by the Board to verify the annual turnover of the SME.

Monetary Law Act Order No. 01 of 2019

26 April 2019

**MAXIMUM INTEREST RATES ON SRI LANKA RUPEE DEPOSITS  
OF LICENSED BANKS**

Considering the high real interest rates on deposits and lending products prevailing in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, and for licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) to reduce interest rates on lending and thereby enhance credit flows to the real economy, the Monetary Board hereby issues an Order on maximum interest rates to be paid in respect of deposit products of licensed banks.

- |    |                                        |                                                                                                                                                                                                                                                               |
|----|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Empowerment under the Monetary Law Act | 1.1 In terms of Section 104(1)(a) of the Monetary Law Act No. 58 of 1949, the Monetary Board may from time to time fix the maximum rates of interest which licensed commercial banks and licensed specialised banks may pay upon various classes of deposits. |
| 2. | Maximum Interest Rates on LKR deposits | 2.1 Except as provided for in this Order, the maximum interest rates that may be offered or paid by a licensed bank on Sri Lanka Rupee (LKR) deposits shall;                                                                                                  |



- (i) not exceed the interest rates derived in accordance with Table 01 below, and
- (ii) be based on the Standing Deposit Facility Rate (SDFR) or the Weighted Average Yield Rate (WAYR) of 364-days Treasury Bills (T-bill rate).

<b>Table 01 : Maximum Interest Rates at Maturity for LKR Deposits of Licensed Banks</b>	
<b>Tenure of Deposit</b>	<b>Maximum Interest Rate Per Annum</b>
Savings and other deposits of a tenure of less than 03 months or maturity is not specified	SDFR - 0.50%
<b>Term Deposits</b>	
03 months and less than 06 months	T-bill rate - 0.50%
06 months and less than 01 year	T-bill rate
01 year and less than 02 years	T-bill rate + 1.00%
02 years and less than 03 years	T-bill rate + 1.50%
03 years and less than 05 years	T-bill rate + 2.00%
05 years or more	T-bill rate + 2.50%

- 2.2 Further, the rate at which any periodic interest payments are made on term deposits during the tenure of the deposit should be computed so that the Annual Effective Rate (AER) does not exceed the specified maximum interest rates stipulated above.
- 2.3 Notwithstanding the provisions in Order 2.1 (i) above, the maximum rate payable by a licensed bank for savings deposits of children under the age of 18 years and for term deposits with a tenure of 01 year or more of senior citizens shall be 50 basis points (0.5%) higher than rates given in Table 01. With respect to joint accounts of senior citizens, all account holders shall be senior citizens in order for the enhanced rate in Order 2.3 to apply.
3. Applicable SDFR and Yield Rate
- 3.1 The reference rates shall be as follows:
- (i) SDFR for the quarter shall be SDFR as at the end of the immediately preceding quarter.
  - (ii) WAYR of 364 days Treasury Bills for the quarter shall be based on the simple average of WAYR of last 04 accepted primary auctions for 364 days Treasury Bills in the immediately preceding quarter.
- 3.2 SDFR and WAYR of 364 days Treasury Bills referred to in Order 2.1 (i) shall be announced by the Director of Bank Supervision at the end of the months of March, June, September and December of each year which will be applicable for the following quarter.
4. Interest rate Applicable to Early Withdrawal
- 4.1 In the case of an early withdrawal of any term deposit prior to its original contracted maturity date, the interest payable on the deposit up to the date of withdrawal shall be computed on the basis of the lower of, the published interest rate of the licensed bank applicable to the completed period prevailing at the time of withdrawal or at a rate of 100 basis points less than the contracted rate. The licensed bank shall at the time of early withdrawal recover any excess interest that may have been paid above the interest amount so computed during the period the deposit was held. However, banks may apply a different formula that would result in the interest and any benefit paid on the early withdrawal of the deposit not exceeding the amount of interest that would have been paid from the application of the formula given in this Direction provided that the basis of calculation is made known to the depositor at the time of making the deposit.

5. Exemptions
- 5.1 The maximum rate in Order 2.1(i) above shall not apply to;
- (i) the Special Interest Scheme on Fixed Deposits for Senior Citizens provided by the Government of Sri Lanka,
  - (ii) debt securities issued by a licensed bank and listed on a licensed stock exchange, and,
  - (iii) unlisted debt securities issued by a licensed bank that are specifically excluded from this Order by the Monetary Board from time to time.
6. Regulatory Reporting
- 6.1 Every licensed bank shall submit details of the interest rates in accordance with the existing requirements of weekly web based return on 'BSD-WF-13-IR - Interest Rates ("Bank Only" Totals)'.
7. Interpretations
- 7.1 In this Order:
- (i) Term deposits shall mean any deposit other than savings deposits accepted or renewed by a bank with an agreement to repay after a specified time of 03 months or more.
  - (ii) Savings deposits shall mean all interest-bearing accounts to which funds can be credited or from which funds can be withdrawn other than on specified dates.
  - (iii) Senior citizens shall mean persons who are over sixty (60) years of age at the time of accepting or renewal of a deposit.
8. Implementation
- 8.1 This Order shall come into effect commencing 29 April 2019 and shall be applicable for new deposits, existing savings deposits and at the renewal of term deposits.

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

26 April 2019

**To - Chief Executive Officers of all Licensed Banks**

Dear Sir/Madam

**REFERENCE RATES APPLICABLE FOR MAXIMUM INTEREST RATES ON SRI LANKA RUPEE DEPOSITS OF  
 LICENSED BANKS FOR QUARTER ENDING 30 JUNE 2019**

With reference to the Monetary Law Act Order No. 01 of 2019 on the 'Maximum Interest Rates on Sri Lanka Rupee Deposits of Licensed Banks', the Standing Deposit Facility Rate (SDFR) as at the end of the first quarter of 2019 and, the simple average of the Weighted Average Yield Rates (WAYR) relating to the last 04 primary auctions for 364-days Treasury Bills conducted during the first quarter of 2019 are in Table 01 below.

**Table 01: Applicable Reference Rates for Quarter ending  
 30 June 2019**

Rate	%
SDFR	8.00
WAYR of 364-days Treasury Bills	10.54

Yours faithfully,  
 A A M Thassim  
**Director of Bank Supervision**

Circular No. 07 of 2019

08 May 2019

**CONCESSIONS GRANTED TO TOURISM INDUSTRY**

In view of the adverse impact on tourism industry due to the current situation of the country, licensed commercial banks and licensed specialised banks, hereinafter referred to as licensed banks, are requested to grant the following concessions to those individuals and entities in the tourism industry, who wish to avail such concessions.

- (i) Licensed banks may grant a moratorium to individuals and entities who have registered with Sri Lanka Tourism Development Authority or any other authority/ agency to provide services to tourism, on a case-by-case basis.
- (ii) The moratorium shall be granted for performing loans (both capital and interest) till 31 March 2020, in respect of outstanding credit facilities as at 18 April 2019.
- (iii) The Board of Directors of the licensed bank or any other authority delegated by the Board of Directors shall approve the granting of moratorium.
- (iv) Licensed banks shall convert the capital and interest falling due during the moratorium period into a term loan which shall be recovered from July 2020 onwards. A concessionary rate of interest may be charged for this facility.
- (v) The licensed bank and the borrower shall agree on the repayment period and the rate of interest on the above loans.
- (vi) Licensed banks may maintain non-performing loans in the same category for classification and provisioning purpose, during the moratorium period.
- (vii) Licensed banks shall waive off the penal interest to be charged on non-performing loans, during the moratorium period.
- (viii) Licensed banks shall use the funds in Enterprise Sri Lanka Loan Scheme (Jaya Isuru) and Sawbagya Loan Scheme of the Central Bank of Sri Lanka to grant working capital facilities, if necessary, after taking into account the moratorium granted for capital and interest dues.
- (ix) Licensed banks shall maintain necessary documents to substantiate the granting of such concessions.
- (x) Licensed banks shall report the moratorium availed by borrowers as per the format in Annex I, to the Director of Bank Supervision on a monthly basis by 15th of the succeeding month.

A A M Thassim  
Director of Bank Supervision

Annex I of the Circular is available at <https://www.cbsl.gov.lk/en/laws/derections-circulars-guidelines-for-banks>

Explanatory Note No. 01 of 2019

16 May 2019

**INTERPRETATIONS FOR CIRCULAR NO. 07 OF 2019 ON  
CONCESSIONS GRANTED TO TOURISM INDUSTRY**

The following interpretations are issued in relation the Circular No. 07 of 2019 dated 08 May 2019 on Concessions Granted to Tourism Industry.

**1. Individuals**

Individuals include persons providing services to tourism sector and permanent employees of entities who provide services to tourism sector.

**2. Registration**

- (i) Persons and entities providing services to tourism sector shall be registered with any of the following Institutions, as at 18.04.2019.
  - (a) Sri Lanka Tourism Development Authority
  - (b) Agencies under Sri Lanka Tourism Development Authority
    - i) Sri Lanka Tourism Promotion Bureau
    - ii) Sri Lanka Tourism Convention Bureau
    - iii) Sri Lanka Institute of Tourism and Hotel Management
  - (c) The Hotels Association of Sri Lanka

- (ii) Persons and entities who have not registered with any of the Institutions referred in 2(i) above as at 18.04.2019, shall have at least registered their businesses/ services with the local government authorities such as Pradeshya Sabha, Urban Council or Municipal Council as at 18.04.2019 and in order to avail the moratorium, such persons and entities shall now be required to register with the relevant institution/s referred in 2(i) above.

### 3. Granting of moratorium

- (i) Individuals or entities who wish to avail the moratorium shall make a request to the relevant licensed bank seeking such moratorium.
- (ii) Licensed banks shall evaluate such request individually, including the requirement stipulated in para 2 above, in order to assess the eligibility.
- (iii) The moratorium shall be granted for any performing credit facilities (both capital and interest) as at 18.04.2019 of such individuals or entities.
- (iv) Licensed banks shall report all individuals or entities who have requested to avail the moratorium, as per the reporting format prescribed in the Circular No. 07 of 2019 on Concessions Granted to Tourism Industry.

### 4. Accounting Treatment under SLFRS 9

- (i) Licensed banks shall comply with the instructions provided by the Chartered Accountants of Sri Lanka in relation to recognitions of interest income and accounting for financial assets (Annex I).

Annex I of the Explanatory Note is available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

## Banking Act Directions No. 04 of 2019

31 May 2019

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

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

The Central Bank of Sri Lanka issues Directions as follows for implementation of loan to value ratios in respect of credit facilities granted by licensed commercial banks (LCBs) and licensed specialised banks (LSBs), hereinafter referred to as licensed banks, for the purpose of purchase or utilisation of motor vehicles.

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.
- (i) Credit facilities granted by licensed banks 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.
- (a) 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%
Light trucks	B	90%	90%
Any other vehicle	A1, A and single cabs categorized under B	90%	70%
Hybrid Motor Cars, Vans and SUVs	B (other than light trucks & single cabs)	50%	

- (b) 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. Loan to Value Ratio for credit facilities granted for importation or purchase of motor vehicles under permits on concessionary terms shall be computed based on the proforma invoice value, instead of the market value of the motor vehicle.

3. The Banking Act Directions No. 06 of 2018 dated 28.09.2018 on Measures to Curtail imports of Motor Vehicles are withdrawn with effect from the date of this Directions.

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

**Explanatory Note No. 02 of 2019**

20 June 2019

### **INTERPRETATIONS FOR CIRCULAR NO. 07 OF 2019 ON CONCESSIONS GRANTED TO TOURISM INDUSTRY**

The following interpretations are issued in relation the Circular No. 07 of 2019 dated 08 May 2019 on Concessions Granted to Tourism Industry.

#### **1. Registration**

- (i) Persons and entities providing services to tourism sector and have not registered with any of the Institutions referred in Explanatory Note No. 01 of 2019, shall now be required to register with the Sri Lanka Tourism Development Authority, in order to avail the moratorium.

#### **2. Granting of moratorium**

- (i) The moratorium shall be granted for any performing credit facilities (both capital and interest) as at 18.04.2019 of eligible individuals or entities (herein after referred to as eligible borrowers). However, if such eligible borrowers wish to avail the moratorium only for capital or interest, licensed bank may grant such moratorium for such eligible borrowers, as requested.
- (ii) Licensed banks may convert the capital or interest or both, as the case may be, falling due during the moratorium period into a new credit facility or extend the maturity of the original credit facility by the moratorium period with the consent of the eligible borrower.
- (iii) Licensed banks may grant the moratorium for a lesser period, if the eligible borrower wishes to avail the moratorium for a period less than the period stipulated in Circular No. 07 of 2019 dated 08 May 2019 on Concessions Granted to Tourism Industry. However, the repayment of capital, interest or both falling dues during the moratorium period shall commence after three months from the end of the applicable moratorium period.
- (iv) In the event, capital, interest or both falling due during the moratorium period are converted to a new facility, licensed banks may charge a concessionary rate of interest not exceeding the latest auction rate for 364-days Treasury Bill, at the end of the moratorium period, plus 1.00 per cent per annum, for a repayment period not exceeding two years. The licensed bank and the borrower shall agree on the interest rate, if the repayment period exceeds two years.
- (v) With regard to provision of working capital facilities, licensed banks shall comply with the Guidelines issued by the Department of Development Finance, Ministry of Finance.
- (vi) Licensed banks shall report the details of concessions granted to eligible borrowers on a cumulative basis for the week ending on each Friday by Wednesday of the following week, as per the revised format at Annex I.

Annex I of this Explanatory Note is available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

**28 June 2019**

**To - Chief Executive Officers of all Licensed Banks**

Dear Sir/Madam

#### **REFERENCE RATES APPLICABLE FOR MAXIMUM INTEREST RATES ON SRI LANKA RUPEE DEPOSITS OF LICENSED BANKS FOR QUARTER COMMENCING 01 JULY 2019**

With reference to the Monetary Law Act Order No. 01 of 2019 on the 'Maximum Interest Rates on Sri Lanka Rupee Deposits of Licensed Banks', the Standing Deposit Facility Rate (SDFR) as at the end of the second quarter of 2019 and, the simple average of the Weighted Average Yield Rates (WAYR) relating to the last 04 accepted primary auctions for 364-days Treasury Bills conducted during the second quarter of 2019 are in Table 01 below.

**Table 01: Applicable Reference Rates for Quarter commencing 01 July 2019**

Rate	%
SDFR	7.50
WAYR of 364-days Treasury Bills	8.83

Yours faithfully,  
J P Gamalath  
**Acting Director of Bank Supervision**

**Banking Act Directions No. 05 of 2019**

28 June 2019

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

Banking Act Directions No. 04 of 2019 on Loan to Value Ratios for Credit Facilities Granted in Respect of Motor Vehicles are amended as follows:

- The following Direction is inserted immediately after Direction 1(i)(b) of the Banking Act Directions No. 04 of 2019 on Loan to Value Ratios for Credit Facilities Granted in Respect of Motor Vehicles and shall have effect as Direction 1(i)(c).
  - 80 per cent in respect of unregistered non-electric motors cars (Class B) which are purchased under the 'Mini Taxi' concessionary loan scheme of the 'Enterprise Sri Lanka' programme.

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

**Explanatory Note No. 03 of 2019**

18 July 2019

**INTERPRETATIONS FOR BANKING ACT DIRECTIONS NO. 01 OF 2016 ON CAPITAL REQUIREMENTS UNDER BASEL III FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

The banking sector in Sri Lanka has adopted Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments for financial reporting periods beginning on or after 01.01.2018 as stipulated by the Institute of Chartered Accountants of Sri Lanka. Currently, when computing capital adequacy ratio under the above Directions the Capital Measure is calculated on Sri Lanka Accounting Standards based figures and Risk Weighted Assets (RWA) are computed based on the balance sheet prepared for regulatory reporting in line with Directions issued by the Central Bank of Sri Lanka.

In order to implement a consistent approach to measure Capital and RWA when computing capital adequacy ratio, the following measures are introduced:

**1. Impairment eligible for inclusion in Tier 2 capital under web based return code 20.2.3.1.1.3 - General Provisions**

100 per cent of impairment for assets in Stage 1 and 50 per cent of impairment for assets in Stage 2 under SLFRS subject to a maximum limit of 1.25 per cent of RWA on credit risk under the Standardised Approach shall be eligible for inclusion in Tier 2 capital. Accordingly, licensed banks shall report the eligible impairment under the web-based return code 20.2.3.1.1.3.

**2. Application of Risk Weights for Non-Performing Assets (NPA)**

**2.1 Impairment for NPA other than qualifying residential mortgage loans**

Impairment for assets in stage 3 under SLFRS shall be deducted from the respective credit exposures to arrive at net exposure<sup>1</sup> and risk weighted as follows:

- Web-based return code 20.3.1.11.1.0 – licensed banks shall report unsecured portion of NPA, other than qualifying residential mortgage loans, where stage 3 impairment under SLFRS is equal to or more than 20 per cent of the carrying value of the respective financial asset or group of assets.

<sup>1</sup> In the case of collective impairment where it is not possible to identify the impairment with specific assets, licensed banks shall apportion the impairment charges on a pro rata basis.

- (ii) Web-based return code 20.3.1.11.2.0 - licensed banks shall report unsecured portion of NPA, other than qualifying residential mortgage loans, where stage 3 impairment under SLFRS is less than 20 per cent of the carrying value of the respective financial asset or group of assets.

## 2.2 Impairment for NPA secured by Residential Property

Impairment for assets in stage 3 under SLFRS shall be deducted from the respective credit exposures to arrive at net exposure 1 and risk weighted as follows:

- (i) Web-based return code 20.3.1.12.1.0 - licensed banks shall report NPA secured by residential property, where stage 3 impairment under SLFRS is equal to or more than 20 per cent of the carrying value of the respective financial asset or group of assets.
- (ii) Web-based return code 20.3.1.12.2.0 - licensed banks shall report NPA secured by residential property, where stage 3 impairment under SLFRS is less than 20 per cent of the carrying value of the respective financial asset or group of assets.

## 3. Foreign Claims on Central Government

- (i) Web-based return code 20.3.1.1.1.2 - Licensed banks shall deduct respective SLFRS based impairment charge, if any, from claims on foreign currency denominated securities issued by Government of Sri Lanka before applying the risk weight when computing the capital charge under Basel III.

A A M Thassim  
Director of Bank Supervision

Explanatory Note No. 04 of 2019

18 July 2019

### INTERPRETATIONS FOR BANKING ACT DIRECTIONS NO. 12 OF 2018 ON LEVERAGE RATIO UNDER BASEL III FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

The Bank Supervision Department issued Explanatory Note 03 of 2019 on 18 July 2019 to ensure the consistency of capital and risk weighted assets computation in terms of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III considering the implications of adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments.

Accordingly, with a view to ensuring consistency licensed banks shall hereinafter use Sri Lanka Accounting Standards based Statement of Financial Position to compute the exposure measure in the Leverage Ratio computation under Basel III whilst computation of off-balance sheet exposure remains the same.

A A M Thassim  
Director of Bank Supervision

Explanatory Note No. 05 of 2019

27 August 2019

(3<sup>rd</sup> Explanatory Note for Circular No. 07 of 2019)

### INTERPRETATIONS FOR CIRCULAR NO. 07 OF 2019 ON CONCESSIONS GRANTED TO TOURISM INDUSTRY

The following interpretations are issued in relation the Circular No. 07 of 2019 dated 08 May 2019 on Concessions Granted to Tourism Industry.

#### 1. Registration Requirements

In line with the Cabinet decision to extend the concessions granted to tourism sector to music groups who are registered at the Department of Cultural Affairs, licensed banks are informed that such persons and entities are exempted from the requirement to register with Sri Lanka Tourism Development Authority, in order to avail the concessions granted to tourism industry.

## Banking Act Directions No. 06 of 2019

29 August 2019

## MARKET CONDUCT AND PRACTICES FOR TREASURY OPERATIONS OF LICENSED BANKS IN SRI LANKA

In the exercise of the powers conferred by Sections 46(1) and 76J(1) of the Banking Act, No. 30 of 1988, as amended, the Monetary Board hereby issues the following Directions on Market Conduct and Practices for Treasury Operations of licensed commercial banks and licensed specialised banks, hereinafter referred to as licensed banks. The purpose of these Directions is to further improve the market conduct and practices for treasury operations and to strengthen market risk management systems in licensed banks to increase their soundness, thereby strengthening financial system stability.

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|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Scope and Applicability | <p>1.1 These Directions shall be applicable to:</p> <ul style="list-style-type: none"> <li>(i) All licensed banks engaged in market dealer functions in Rupees and designated foreign currencies including, without limiting to, foreign exchange, debt securities, money market instruments including repo and reverse repo transactions, fixed income securities, equity instruments, derivative products and any other financial market instruments.</li> <li>(ii) Authorised Persons who are: <ul style="list-style-type: none"> <li>(a) engaged in transacting business under 1.1 (i) above. This shall include officers engaged in front office, middle-office and back-office functions of the treasury operations of licensed banks, and</li> <li>(b) performing executive functions relating to businesses referred under 1.1 (i) above. Officers Performing Executive Functions are determined under the Banking Act, time to time.</li> </ul> </li> </ul> <p>1.2 These Directions shall be read in conjunction with Direction No. 07 of 2011 on Integrated Risk Management Framework.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 2. Policy Framework        | <p>2.1 Licensed banks shall establish internal policies and procedures covering the entire treasury operations including dealing practices, financial markets and instruments referred to in 1.1 above.</p> <p>2.2 Licensed banks shall formulate a Board approved code of conduct for treasury operations.</p> <p>2.3 Licensed banks shall put in place Board approved prudent market risk management policies and connected procedures and oversee the implementation of the same.</p> <p>2.4 Licensed banks shall ensure controls and limits are established with the approval of the Board of Directors to identify, measure, monitor and control market risk.</p> <p>2.5 Licensed banks shall ensure that appropriate measures are in place to enforce the Customer Due Diligence and Know Your Customer principles in trading activities to ensure that transactions are not used to facilitate money laundering, fraud or other criminal activities.</p> <p>2.6 Licensed banks shall establish policies and procedures on the conduct of treasury and derivative transactions with counterparts, especially high-risk or highly leveraged counterparts, paying particular attention to evaluation and approvals.</p> <p>2.7 The policies and procedures at a minimum, shall cover the following:</p> <ul style="list-style-type: none"> <li>(i) ethical market conduct,</li> <li>(ii) handling confidential information,</li> <li>(iii) clear guidelines on whether Dealers are allowed to trade for their own account in any of the instruments and products that the licensed bank is dealing in,</li> <li>(iv) clear guidelines on use of non-public price sensitive information to ensure the best interest of the counterpart and the market in general,</li> <li>(v) practices of acceptance of entertainment, gifts or favours including a threshold value for gifts and entertainment, frequency and requirements to disclose such entertainment, gifts or favours, etc.,</li> </ul> |



- (vi) to restrict the usage of mobile phones, chatting applications and video conferencing for dealing conversations as these could be used to circumvent telephone recording and compromise confidentiality. However, official mobile phones with recording facility, group chatting through dealing platform or monitored platforms and video conferencing with recording facility may be permitted,
  - (vii) appropriate data and call recording requirements in line with international best practices,
  - (viii) procedure for retention of call records, listening to call records and destruction of outdated call records. The destruction policy shall include effective communication channels and approval authority for destruction so that routine destruction of certain records may be suspended, if necessary. For example, due to litigations against certain transactions,
  - (ix) maintaining confidentiality of recorded dealing conversations,
  - (x) procedure for valuation of exchange rate. Preferably, day end closing mid-market rates should be used. These rates should be obtained, by staff other than authorised dealing personnel, or, as a minimum, independently verified,
  - (xi) introduction of new treasury products, services and activities.
- 2.8 Policies shall be approved by the Board of Directors and shall be reviewed on a regular basis. In the case of foreign banks, Board of Directors shall mean the Head Office/ Regional Monitoring Office.
- 2.9 Policies shall be circulated among staff members of all relevant departments and units.
3. Ethics and Standards of Conduct
- 3.1 **Market conduct**
- 3.1.1 Authorised Persons shall:
- (i) abide by the code of conduct formulated by their respective licensed banks so as to conduct themselves with integrity and uphold the highest standard of professionalism,
  - (ii) sign a code of conduct issued by their respective licensed banks in line with these Directions and international best practices, so as to conduct themselves with integrity and uphold the highest standard of professionalism,
  - (iii) demonstrate a high standard of personal and professional integrity in their conduct,
  - (iv) exercise skill, care and diligence and act in good faith in the best interest of the bank,
  - (v) exercise extreme care when in possession of non-public, market sensitive information,
  - (vi) immediately report to the Director of Bank Supervision, any undue influence from the members of the Board, senior management or a shareholder to execute a transaction based on the non-public market sensitive information available with such parties.
- 3.1.2 Authorised Persons shall not:
- (i) engage in manipulative or deceptive conduct or any form of conduct which would give other participants 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,
  - (ii) collude with other Authorised persons in the same licensed bank or in other licensed banks to artificially alter market prices, other market conditions or engage in large transactions with the intention of artificially altering market price and conditions,
  - (iii) enter into any transaction which may conflict with the interest owed to a customer, corporate, bank or potential customers (hereinafter referred to as counterpart). In particular, where Authorised Persons are handling counterpart orders, these orders shall be handled appropriately and with due regard to the best interests of the counterpart,
  - (iv) willfully spread rumors or disseminate false or misleading information or shall not misuse or manipulate the price discovery mechanism. In addition, care must be exercised when handling unsubstantiated market information,
  - (v) pressurise any other licensed bank or Authorised Persons by duress, inducement, threat or promise, for information or action.

- 3.1.3 Licensed banks and Authorised Persons shall ensure that customer assets are kept separate from its own assets, adequately safeguarded and are properly accounted.
- 3.1.4 Licensed banks and Authorised Persons shall not provide any information on market developments to media without the consent of the Board of Directors and should disclose their identity with the statement.
- 3.1.5 Licensed banks and/or Authorised Persons shall not undertake any transaction for the purpose of concealing trading positions or transferring profits and losses, as such "points" parking or "position" parking, that undermines the integrity of the market.
- 3.1.6 Licensed banks shall penalise the Authorised Persons who have not complied with these Directions or internal policy requirements, during the performance evaluation process and related payments and fringe benefits.
- 3.1.7 Licensed banks shall ensure all remuneration payments to Authorised Persons are based on documented policy and market rates, and that such compensation levels are designed so as to avoid providing incentives for excessive risk taking or recklessness.
- 3.1.8 Licensed banks shall also establish claw-back arrangements for pay-outs of performance linked remunerations of Authorised Persons

### **3.2 Confidentiality**

- 3.2.1 Authorised Persons shall:
  - (i) preserve, and aid in preserving, confidentiality in all matters including information of dealing counterparts,
  - (ii) share an equal responsibility for preserving the integrity of the market through the proper maintenance of confidentiality.
- 3.2.2 Authorised Persons shall not:
  - (i) use non-public market sensitive information of counterparts for the benefit of the Authorised Persons, or for the benefit of their representative or known party, or induce another party to perform on the basis of such non-public information,
  - (ii) discuss the affairs of the bank or counterparty in public places including through mobile phones or social media,
  - (iii) leave in public places, any documents, electronic media or computers, which contain confidential information,
  - (iv) pressure anyone by inducement, threat or promise, for information, which would be improper for the latter to divulge. Authorised Persons shall similarly reject any request from counterparty or others in the bank to divulge confidential information and shall immediately report any such incidents to their management.
- 3.2.3 Licensed bank and/or Authorised Persons shall not disclose transactions related information except in accordance with provisions under the Banking Act.
- 3.2.4 Licensed banks shall train their staff to identify and handle non-public market sensitive information.

### **3.3 Dealing for Personal (own) Account**

- 3.3.1 Licensed banks shall ensure that adequate safeguards and controls are established to prevent actual and potential conflict of interest, insider trading and front running in any form, if dealing for personal accounts are permitted.
- 3.3.2 Licensed banks shall ensure that the interests of the bank and its counterparty are adequately protected at all times without being distracted by the personal financial concerns of Authorised Persons.
- 3.3.3 The internal guidelines shall require the Dealers to disclose such dealing to the Board of Directors through the compliance department on a periodic basis.

### **3.4 Entertainment, Gifts and Favours**

- 3.4.1 Authorised Persons shall:
  - (i) immediately notify the relevant authority, if any unusual favours are offered to them by the counterparty or any other party.

### 3.4.2 Authorised Persons shall not:

- (i) solicit gifts or favours of any kind, in monetary or other terms, from counterparts in connection with business transactions,
- (ii) solicit any undue favours from counterparty for their family, relatives or any known party, if such favours conflict with customary standards of fairness and integrity,
- (iii) accept without due permission from the relevant authority as specified in the internal policy, any complements of a significant value given to them by dealing counterparty. However, in cases where the complements are offered as general recognition or as general complements, acceptance of such recognition or complements may be permitted,
- (iv) distribute among dealers, any commission offered to a dealer on behalf of the bank with regard to any deals but will be recognised as income of the bank.

### 3.5 Bets and Gambling

3.5.1 Authorised Persons shall not make or arrange bets or gambling, especially on market movements with other market participants.

## 4. General Dealing Principles

### 4.1 Recording of Deal Conversations

4.1.1 Licensed banks shall put in place an appropriate system for data and call recording in the dealing room, in line with the international best practices, to facilitate investigations and to resolve disputes.

4.1.2 The call recording system of the licensed bank shall be capable of recording and storing deal conversations in serially numbered order or based on unique identification number along with the phone number, date and time of the deal conversation.

4.1.3 Licensed banks shall ensure that call records are stored independently from the treasury operations and access to call records whether in use or in store, is strictly controlled so that they cannot be tampered with

4.1.4 Licensed banks shall ensure the call recording system is tested by an independent party on a periodic basis to ensure that the recording system is in order.

4.1.5 Licensed banks shall retain the call recording of deal conversations for at least six years or for a longer period as deemed necessary.

### 4.2 Record Keeping

4.2.1 Licensed banks shall establish a mechanism to ensure raising of a deal ticket, electronically or otherwise, for each and every deal conversation, including cancelled deals, with date and time stamp.

4.2.2 Licensed banks shall maintain and preserve documentary evidences, electronically or otherwise, with regard to transactions with counterparties for a period of at least six years or for a longer period as deemed necessary and forward such documents to the regulator as and when required.

### 4.3 Dealings Outside Normal Working Hours and Off-premises

4.3.1 Licensed banks shall discourage dealings outside normal working hours and/or off-premises and shall permit dealings outside normal working hours and/or off-premises only in exceptional cases with the prior permission of the relevant authority as specified in the internal policy. For this purpose, normal working hours for USD/LKR trades shall be 8.00 am to 5.00 pm and normal working hours for domestic money market trades shall be 7.30 am to 5.00 pm Sri Lanka time on bank working days.

4.3.2 Licensed banks shall establish clear guidelines on the extent of such dealings including, type of transactions, names of persons authorised to deal, transaction limits, and so on.

4.3.3 Licensed banks shall also institute a control system to enable prompt recording and confirmation of all dealing transactions outside normal working hours and off-premises, at the earliest.

### 4.4 Price or Rate Quotations

4.4.1 Authorised Persons shall:

- (i) make it clear whether the prices or rates they are quoting are firm or merely indicative.
- 4.4.2 Authorised Persons shall not:
- (i) make frivolous quotes for which they have no intention of honouring and are designed merely to mislead market participants,
  - (ii) engage in practices, which may realise immediate gain (or avoid loss) compromising the ethical standards relating to trading practices.
- 4.4.3 Licensed banks shall not permit Off-market rate dealings and promptly report to the Bank Supervision Department whenever they spot Authorised Persons of other licensed banks quoting prices/rates in a way that jeopardises the interest or reputation of the treasury market.

#### 4.5 Error Trades

- 4.5.1 Licensed banks shall not adjust or cancel an executed trade arbitrarily, and shall preserve the integrity of the market. Accordingly, under normal circumstances, a trade shall only be cancelled on the basis that the price/rate traded is not representative of the prevailing market prices/rates or genuine errors. Such cancellations shall be reviewed and approved immediately by a higher authority. Further, cancellation of a trade shall be carried out only where all parties to the trade agree to such cancellation.
- 4.5.2 Licensed banks shall keep records with full details of such cancelled transaction for verifications.

#### 4.6 Foreign Exchange Trading Activities

- 4.6.1 Licensed banks shall undertake end user foreign exchange trading activities only based on underlying transactions. For this purpose, an underlying transaction shall mean a current account transaction or a permitted capital account transaction, in terms of the Foreign Exchange Act, No. 12 of 2017, effected on the following basis:
- (i) purchase of foreign currency from non-commercial bank customers such as exporters, foreign currency account holders, and persons sending inward foreign currency remittances,
  - (ii) sale of foreign currency to non-commercial bank customers such as importers and persons who are permitted by law to make outward remittances in foreign exchange for approved purposes.
- 4.6.2 Licensed banks shall purchase and/or sell foreign currency subject to the respective net open position limit.
- 4.6.3 Licensed banks shall adhere to the net open position limit at the end of each day, and also be within the intra-day net open position limit specified from time to time by the Director of International Operations Department.
- 4.6.4 Licensed banks shall have systems in place to independently value their foreign currency positions on a regular basis. In this regard, the following practices shall be adopted:
- (i) Net Open Position arising from customer and other trading activities shall be calculated on an ongoing basis. In the calculation of Net Open Position the following should be noted:
    - (a) all unsettled spot transactions should be included,
    - (b) all outstanding forward transactions should also be included,
    - (c) net foreign exchange position in other foreign exchange contracts, such as currency options, futures etc. should also be included separately,
    - (d) exposure indicated against each currency should be considered ignoring signs to arrive at gross exposure.
  - (ii) Account for revaluation profit and loss on their foreign exchange position on a regular basis or at least on a monthly basis,
  - (iii) Revalue forward transactions at the prevailing day end closing mid-market rate or any other globally accepted method for the outstanding period to settlement,

- (iv) Revalue other appropriate foreign exchange related contracts through the Middle Office/ Back Office on a "mark to market" basis,
  - (v) Not depend upon valuations provided by their counterparties.
- 4.6.5 Licensed banks shall adopt the following process in settlement of foreign exchange transactions:
- (i) use the Society for World-wide Inter-bank Financial Telecommunications (SWIFT) System or any other system approved by the Central Bank of Sri Lanka,
  - (ii) ensure the minimising of operational errors while preventing any gridlock in the Real Time Gross Settlement (RTGS),
  - (iii) effect all such transactions through NOSTRO Accounts only.
- 4.6.6 Licensed banks and Authorised Persons shall update interbank foreign exchange transactions in the on-line system of the Central Bank of Sri Lanka, within the time prescribed by the Director of International Operations Department.
- 4.6.7 Licensed banks shall disclose separately in the audited financial statements, the profit generated through all interbank foreign exchange transactions including end user transaction where one leg is in the inter-bank market.
- 4.7 Financial Derivative Transactions**
- 4.7.1 Licensed banks shall adhere to the Directions issued under Banking Act Directions No. 4 of 2018 on Financial Derivative Transactions for Licensed Banks, with regard to financial derivative transactions.
5. Risk Management Principles
- 5.1 Responsibilities of the Board and Senior Management and all other staff involved**
- 5.1.1 The Board/senior management shall take measures to strengthen the market risk management through the following:
- (i) ensure documentation of related internal control procedures in the form of procedure manuals,
  - (ii) establish an Asset and Liability Management Committee (ALCO) and ensure the establishment of appropriate risk parameters for the ALCO and/or senior management committee involved in management of market risk,
  - (iii) review the periodic stress test results to assess the potential impact of various shocks and evaluate the bank's capacity to withstand stressed situations in terms of profitability, liquidity and capital adequacy,
  - (iv) formulate an efficient Management Information System for reporting treasury related activities, with facilities to escalate all exceptional transactions to the Board or the senior management as the case may be,
  - (v) ensure that the Board and senior management fully understand the risks involved,
  - (vi) formulate procedures to seek and obtain separate independent professional advice where necessary, in order to assist the Board of Directors to discharge its duties in this regard,
  - (vii) approve the introduction of all new products, services and activities.
- 5.1.2 Licensed banks shall adhere to Directions Nos. 11 and 12 of 2007 on Corporate Governance for Licensed Banks in Sri Lanka, with regard to the responsibilities of the Board and senior management.
- 5.2 Risk Monitoring and Control**
- 5.2.1 Licensed banks shall:
- (i) document the procedures and internal controls to be performed by Front Office, Middle Office and Back Office,
  - (ii) establish a system to monitor market risks on an ongoing basis,
  - (iii) report such risks on an ongoing basis to ALCO,
  - (iv) ensure the effective segregation of duties and responsibilities on trading, risk management, measurement, monitoring, settlement and accounting functions through:

- (a) physical and functional segregation of front, middle and back offices of the treasury functions,
- (b) establishment of a clear understanding of responsibilities and reporting obligations to the operating staff,
- (c) restriction of access to the trading room and each of the identified functional areas to authorised personnel only, and
- (d) prevention of the application of undue influence by the Front Office on the Middle/Back Office operations.
- (v) approve a list of acceptable instruments, approved brokers, authorised counterparties and their limits,
- (vi) establish a procedure for delegating authority to dealers based on their experience and expertise,
- (vii) ensure that the approval of the Board of Directors/senior management is obtained for transactions in excess of delegated limits immediately after such transactions,
- (viii) ensure the maintenance of deal blotters and regular independent reconciliation of positions of Traders/Front Office with the General Ledger,
- (ix) ensure that the Back Office confirms all dealing transactions prior to issuance of settlement instructions to the counterparties,
- (x) monitor, on a real time basis, the foreign exchange and other dealing transactions and positions independent of dealing and trading negotiations and implement a mechanism for timely reporting of all exceptions, violation of limits to the Board/senior management,
- (xi) ensure that all transactions are executed at current market rates and that off-market or historical rate rollover transactions are not permitted,
- (xii) ensure that any irregularities in transactions, such as a large number of offsetting transactions, long outstanding suspense balances, as identified by an independent risk monitoring division, are reported promptly to the Board/senior management,
- (xiii) regularly marking-to-market of foreign exchange and other trading positions through a division independent of Front Office and also independently verify revaluation rates and yield curves,
- (xiv) strictly enforce an uninterrupted leave policy and ensure that traders on leave are prohibited from engaging in any trading or having remote access during this period,
- (xv) establish a suitable succession plan.

### 5.3 Framework of Limits

5.3.1 Licensed banks shall establish a comprehensive framework of market risk related limits, including institution, dealer and transactions level to effectively manage market risk exposures, at different levels of seniority.

5.3.2 These limits shall be:

- (i) properly documented and approved by the Board of Directors,
- (ii) reasonable, and be based on the need after considering the funding, scale of business, risk tolerance policy, the degree of market proficiency and the experience and position of the dealer,
- (iii) reviewed at least annually or more frequently as appropriate, considering the overall risk tolerance levels, relative excess volatility in foreign currencies, counterparty risk rating or market conditions.

5.3.3 The respective limits structure specifically recommended for foreign exchange operations shall include the following:

- (i) open position limits on the aggregate of all currencies, both intra-day and overnight,
- (ii) open position limits for individual currencies to which banks have material exposures, both intra-day and overnight,

- (iii) limits for personnel involved in foreign exchange dealings, based on their experience and expertise,
  - (iv) limits for all counterparties covering the settlement and credit risks,
  - (v) stop loss and/or management action trigger limits,
  - (vi) country limits,
  - (vii) forward foreign exchange mismatch limits,
  - (viii) maturity mismatch gap limits, under different time buckets, against all major currencies.
- 5.3.4 Licensed banks shall also establish a comprehensive limit framework for other market risk related instruments.

#### **5.4 Risk Measurement and Reporting**

- 5.4.1 Licensed banks shall ensure the following with respect to the measurement and reporting of market risk:

- (i) regular reporting to Board/senior management/group or parent companies, where necessary,
- (ii) ensuring senior management's active involvement and responsibility for market risk reporting,
- (iii) linking the market risk reporting system to the bank's core systems and ensuring the reconciliation thereafter with the core data,
- (iv) ensuring that reports are clear and unambiguous, highlight key information and in particular set out breaches or exceptions.

- 5.4.2 Licensed banks shall ensure that the risk measurement and reporting systems have the ability to:

- (i) independently assess and evaluate all market risk by maturity, on both gross and net basis, arising from all assets and liabilities and off-balance sheet positions, including derivative transactions, preferably by the Middle Office,
- (ii) apply generally accepted financial models or methods for measuring risks and the conduct of regular stress testing and scenario analysis,
- (iii) maintain accurate and timely data on current positions,
- (iv) monitor the foreign exchange counterparty credit risk and settlement risk on a real-time basis to ensure that limits are not exceeded,
- (v) document the assumptions, parameters and limitations on which the measurement systems are based, with any material changes to the assumptions being documented, well supported and approved by Board/senior management,
- (vi) maintain an accurate, reliable, informative and timely Management Information System which includes indicators on market risk as well as operational risks arising from treasury operations.

#### **5.5 Stress Testing**

- 5.5.1 Licensed banks shall measure their vulnerability to losses arising from treasury operations by conducting regular stress tests. Banks shall evaluate their capacity to withstand market or bank specific stressed situations in terms of profitability, liquidity and capital adequacy.

- 5.5.2 The stress tests shall cover market dealer functions to which the bank is exposed to and take into account the effect of any possible significant exchange rate, interest rate and equity/gold price movements.

- 5.5.3 The stress tests shall be commensurate with the nature of the bank's portfolio and risks involved.

#### **5.6 Money Laundering, Fraud and Other Criminal Activities**

- 5.6.1 Licensed banks shall ensure that the money laundering and suspicious transactions filtering and monitoring systems are in place and all Authorised Persons are trained to identify and report suspicious transactions to the relevant authority in the bank, which is responsible to report such incidents to the Financial Intelligence Unit of CBSL

**5.7 Introduction of New Products, Services and Activities**

- 5.7.1 Licensed banks shall ensure that all new products/services/activities are recommended by the ALCO and approved by the Board.
- 5.7.2 Licensed banks shall identify the trading process, evaluate the inherent risks and returns, and review the legal implications with regard to all new products/services/activities.
- 5.7.3 Licensed banks shall ensure that all review notes to the Board seeking approval for new products/services/activities are duly signed by officers involved in the product development process.
- 5.7.4 Licensed banks shall ensure new products/services/activities are compatible with the bank's IT system, core activities, risk profile and expertise.

**5.8 Transactions with Customers**

- 5.8.1 Licensed banks and Authorised Persons shall ensure that the counterparties, especially non-institutional retail customers, fully understand the nature and potential risks of the product offered to them, especially derivatives, before transactions are carried out.

**5.9 Electronic trading activities**

- 5.9.1 All other provisions of these Directions equally apply to transactions and businesses conducted via electronic trading platforms.

**5.10 Internal Audit Function**

- 5.10.1 Licensed banks shall ensure that their Internal Audit function conducts periodic reviews on internal controls and risk management processes relating to treasury business in order to ensure their integrity, accuracy and compliance with the prescribed processes.
- 5.10.2 The reviews shall ensure effective control over treasury operations, 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 and established procedures.
- 5.10.3 The internal audit shall be carried out on a risk based approach. All high-risk areas shall be audited by the internal auditors on a regular basis. The internal audit shall ensure that the operating procedures are adequate to minimise risks.
- 5.10.4 The internal audit shall ensure the adequacy and accuracy of management information reports regarding the market risk management activities.
- 5.10.5 Internal audit and other risk control units shall be adequately staffed or assisted by the Head office internal audit team, in the case of foreign banks
- 5.10.6 Internal audit shall possess sufficient expertise and authority for reviewing the treasury business.
- 5.10.7 Licensed banks shall respond promptly to any findings relating to violations of established procedures and ensure that recommendations by the internal or external auditors are effectively implemented.

6. Professionalism and Knowledge Level

**6.1 Professionalism and level of Knowledge**

- 6.1.1 Authorised Persons shall:
- (i) 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,
  - (ii) use clear and unambiguous language when dealing or negotiating transactions,
  - (iii) 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.
- 6.1.2 Authorised persons shall not:
- (i) have been found guilty by any regulatory authority or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that such person has committed or been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.



- 6.1.3 Licensed banks shall ensure that Authorised Persons are aware of their responsibility to act professionally and are familiar with market terminology and conventions.
- 6.1.4 Licensed banks shall ensure the availability of job descriptions duly signed and accepted by each dealer and his superior.
- 6.2 Required Qualifications**
- 6.2.1 An Authorised Person referred in Direction 1.1(ii)(a) above shall possess the following professional qualification/s:
- (i) the Dealing Certificate or the Operations Certificate offered by the Financial Market Association (Association Cambiste Internationale – ACI), or
  - (ii) a Certificate in Treasury and Foreign Exchange Operations offered by the Center for Banking Studies of the Central Bank of Sri Lanka, or
  - (iii) the Diploma in Treasury and Risk Management offered by the Institute of Bankers of Sri Lanka, or
  - (iv) Membership in the Institute of Chartered Financial Analyst
  - (v) any other relevant professional qualification acceptable to the Monetary Board. The Monetary Board may grant such approval on a case-by-case basis.
- 6.2.2 Authorised Persons referred under 1.1(ii)(a) above, who are currently engaged in transacting business under 1.1(i) above, shall obtain the relevant qualifications as specified in 6.2.1 above, within one year from the date of these Directions.
- 6.2.3 Any new appointment of Authorised Persons referred under 1.1(ii)(a) above to engage in transacting business under 1.1(i) above, shall be approved by the Board of Directors of the licensed banks, if such Authorised Persons do not have the relevant qualifications as specified in 6.2.1 above, at the time of such appointments.
- 6.2.4 Further, Authorised Persons referred in 6.2.3 above shall obtain the relevant qualifications as specified in 6.2.1 above, within one year from the date of such appointment.
- |    |                                                                       |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----|-----------------------------------------------------------------------|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7. | Declarations to be Furnished by Licensed Banks and Authorised Persons | 7.1 | Authorised Persons referred in Direction under 1.1(ii)(a) above shall submit a Declaration to the Director of Bank Supervision, through the Chief Executive Officer of the respective licensed bank, as per the format set out in Annex I.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|    |                                                                       | 7.2 | Licensed banks shall submit to the Director of Bank Supervision, the particulars of Authorised Persons, referred under 1.1(ii)(a) above, as at the date of these Directions, as per the attached format in Annex II. Any changes in personnel or in the particulars provided shall be informed to the Director of Bank Supervision within a period not exceeding two weeks from such change.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 8. | Sanctions on Non-compliance with these Directions                     | 8.1 | In the event any licensed bank and/or Authorised Person fails to comply with these Directions, the Monetary Board may, after conducting an investigation, take any one or more of the following actions as it may consider necessary: <ul style="list-style-type: none"> <li>(i) direct the licensed bank to suspend or remove any Authorised Person, who has been in non-compliance with these Directions, from performing any function in relation to treasury operations in the respective licensed bank,</li> <li>(ii) assess the officers performing executive functions as not fit and proper to continue in the capacity of an officer performing executive functions,</li> <li>(iii) suspend the Authorised dealership, Primary dealership or any other dealership licence/ approval granted by the Central Bank of Sri Lanka,</li> <li>(iv) reduce the Net Open Position limits and/or other trading limits of the non-compliant licensed bank,</li> <li>(v) cancel the Authorised dealership, Primary dealership or any other dealership licence/ approval granted by the Central Bank of Sri Lanka,</li> <li>(vi) reprimand any Authorised Person who has been in non-compliance with these Directions, and</li> <li>(vii) any other regulatory sanctions as deemed fit by the Monetary Board.</li> </ul> |
| 9. | Revocation of Directions                                              | 9.1 | The following Directions/Circulars are hereby revoked:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

- (i) No. 03 of 2009 on Risk Management Relating to Foreign Exchange Business of Licensed Commercial Banks.
- (ii) No. 01 of 2012 on Foreign Exchange Trading Activities of Licensed Commercial Banks in Sri Lanka.
- (iii) Circular No. 02/17/600/0014/003 on Declaration to be Submitted by Persons Engaged in Foreign Exchange Business.

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

Annexes of these Directions are available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

**Monetary Law Act Order No. 02 of 2019**

24 September 2019

### **ENHANCING EFFICIENCY OF THE TRANSMISSION OF RECENT POLICY DECISIONS TO RUPEE DENOMINATED MARKET LENDING RATES**

Issued under Section 104(1)(b) of the Monetary Law Act, No. 58 of 1949, as amended.

The Central Bank of Sri Lanka (CBSL) has adopted several policy measures in the recent past such as reduction of policy interest rates and the statutory reserve ratio, and imposition of maximum interest rates on Sri Lanka Rupee (LKR) deposits to reduce cost of funds of licensed commercial banks (LCBs) and licensed specialised banks (LSBs), thereby reducing interest rates of lending products in the banking sector. However, due to the unduly long time lag observed in transmitting the reduction of policy and deposit rates broadly and equitably to interest rates of lending products, the Monetary Board hereby issues an Order on the interest rates applicable on LKR denominated loans and advances granted by LCBs and LSBs, while taking cognisance of differences in their funding structures.

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| 1. Empowerment under the Monetary Law Act               | 1.1 In terms of Section 104(1)(b) of the Monetary Law Act, the Monetary Board may from time to time fix the maximum rates of interest which LCBs and LSBs may charge for different types of loans or other credit operations.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 2. Interest rates on LKR denominated loans and advances | <p>2.1 Every LCB and LSB shall reduce the annual nominal interest rate applicable for all LKR denominated loans and advances, excluding credit facilities mentioned in Order 2.3 and credit facilities exempted under Order 5 below, by at least 200 basis points by 15.10.2019, in comparison to the interest rate applicable to the respective loans and advances as at 30.04.2019.</p> <p>2.2 However, if the annual nominal interest rate applicable to any LKR denominated loan or advance as at the date of this Order or anytime thereafter is 12.5 per cent or lower, it shall not be mandatory to give effect to the reduction required under Order 2.1 above. Further, in cases where the applicable annual nominal interest rate as at the date of this Order or anytime thereafter is 12.5 per cent or less, the bank shall not increase the interest rates of such loans and advances from the level maintained as at the date of this Order.</p> <p>2.3 Every LCB shall reduce the following product-wise lending rates to the maximum levels outlined herein, by 01.11.2019:</p> <ul style="list-style-type: none"> <li>(i) Interest rates on credit card advances to 28 per cent per annum.</li> <li>(ii) Interest rates on pre-arranged temporary overdrafts to 24 per cent per annum.</li> </ul> <p>2.4 Every LCB and LSB shall reduce the penal interest rates charged on all loans and advances, including credit facilities already granted, to a level not exceeding 400 basis points per annum, for the amount in excess of an approved limit or in arrears, during the overdue period, with effect from 15.10.2019.</p> |

3. Maximum Average Weighted Prime Lending Rate (AWPR)
- 3.1 (i) Every LCB shall reduce its weekly AWPR by at least 250 basis points by 27.12.2019, compared to its AWPR published by CBSL as at 26.04.2019 in the Weekly Economic Indicators publication.
- (ii) In the interim, every LCB shall reduce its weekly AWPR by at least 150 basis points by 01.11.2019, compared to its AWPR published by CBSL as at 26.04.2019.
- 3.2 If the Weekly Economic Indicators published by CBSL as at 26.04.2019 does not contain AWPR of an LCB, such LCB shall maintain an AWPR not exceeding 9.5 per cent per annum.
- 3.3 Order 3.1 above shall not apply to LCBs, whose AWPR reaches or falls below 9.5 per cent per annum as at the date of this Order or anytime thereafter. However, such LCB shall not increase its weekly AWPR above 9.5 per cent.
- 3.4 Upon complying with Order 3.1 above, any LCB shall not increase its AWPR from the reduced level.
4. Monitoring
- 4.1 All LCBs and LSBs shall ensure the accuracy of interest rate data submitted to CBSL and maintain internal documented records electronically or manually, in relation to the reductions in interest rates in respect of each loan and advance to which this Order applies
5. Exemptions
- 5.1 Following categories of loans and advances shall be exempted from the requirements in Order 2 above.
- (i) Loans and advances granted before 15.10.2019 on fixed term interest rate contracts, until the end of the contracted fixed rate period. For avoidance of doubt these will include, leases and facilities collateralised by gold where applicable. However, the provisions of this Order shall apply to any revision to the annual nominal interest rate effected on or after 15.10.2019.
- (ii) Loans and advances collateralised by LKR deposits maintained with LCBs and LSBs, provided that the margin over the deposit rate is not increased above the margin applied by the bank to such advances as at the date of this Order.
- (iii) Loans and advances granted under a refinance scheme supported by the Government of Sri Lanka or CBSL or on concessionary terms under a general restructuring arrangement where the applicable interest rate or the basis of its determination is stipulated in such scheme or arrangement.
6. Implementation
- 6.1 These Orders shall be effective from the date of the Order.

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

Monetary Law Act Order No. 03 of 2019

24 September 2019

**MAXIMUM INTEREST RATES ON SRI LANKA RUPEE DEPOSITS  
 OF LICENSED BANKS**

Monetary Law Act Order No. 01 of 2019 dated 26.04.2019 on Maximum Interest Rates on Sri Lanka Rupee Deposits of Licensed Banks is hereby rescinded.

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

Circular No. 08 of 2019

18 November 2019

## LIST OF QUALIFIED AUDITORS TO AUDIT THE ACCOUNTS OF LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

In terms of the Sections 38A and 76H of the Banking Act, No. 30 of 1988, as amended, the Central Bank of Sri Lanka (CBSL), has reviewed the list of qualified auditors to conduct audits of licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) in Sri Lanka.

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|----|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Evaluation Process               | <p>1.1 The Director of Bank Supervision with the approval of the Monetary Board has selected qualified auditors to audit the accounts of licensed banks in Sri Lanka in accordance with the updated guidelines issued by the Monetary Board in this regard.</p> <p>1.2 The assessment criteria considered under the updated guidelines include number and qualifications of audit partners, staff strength and qualifications, experience and expertise of the audit firm and availability of technical competencies including expertise on banking regulation &amp; financial products, ability to undertake forensic audits and capabilities &amp; experience on Information Technology audits.</p> |
| 2. | List of Qualified Auditors       | <p>2.1 Accordingly, CBSL has selected the following Qualified Auditors to audit the accounts of licensed banks in Sri Lanka from financial years commencing 01.01.2021:</p> <ul style="list-style-type: none"> <li>(i) BDO Partners<br/>"Charter House", No. 65/2, Sir Chittampalam A Gardiner Mawatha, Colombo 02</li> <li>(ii) Ernst &amp; Young, Sri Lanka<br/>No. 201, De Saram Place, Colombo 10</li> <li>(iii) KPMG Sri Lanka<br/>No. 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03</li> <li>(iv) PricewaterhouseCoopers<br/>No. 100, Braybrooke Place, Colombo 02</li> <li>(v) SJMS Associates<br/>No. 11, Castle Lane, Colombo 04</li> </ul>                                              |
| 3. | Revocation of Previous Circulars | <p>3.1 The circulars dated 30.04.1998 on the List of Qualified Auditors issued to licensed banks will cease to be effective from financial years commencing 01.01.2021.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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

Banking Act Directions No. 07 of 2019

19 December 2019

## AMENDMENTS TO REGULATORY FRAMEWORK ON VALUATION OF IMMOVABLE PROPERTIES OF LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

In the exercise of the powers conferred by Sections 46(1) and 76J(1) of the Banking Act, No. 30 of 1988, the Monetary Board hereby issues the following amendments to Banking Act Directions No. 01 of 2014 on the Regulatory Framework on Valuation of Immovable Property of Licensed Commercial Banks and Licensed Specialised Banks, hereinafter referred to as licensed banks.

Accordingly, the following Directions of the Banking Act Directions No. 01 of 2014 on the Regulatory Framework on Valuation of Immovable Property of licensed banks shall be replaced as follows:

5. Eligibility Criteria for Valuers
- 5.1 Every licensed bank shall ensure that:
- a) eligibility criteria for valuers are set out as follows:
    - A. A member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:
      - i. A Fellow Member; or
      - ii. A Professional Associate Member with 5 years of experience in such grade of membership.  
For the purpose of determining number of years of experience in the grade of Professional Associate Membership, the transitional provisions stated in Section 24 of the IVSL amendment Act. No. 9 of 2019, shall be applicable.
    - B. A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be:
      - i. A Fellow Member of RICS and a member of IVSL; or
      - ii. Other members of RICS who have passed the final examination of RICS in the General Practice Division with 05 years of experience in such grade of membership and a member of IVSL.
  - b) valuers selected for the panel of valuers of the licensed banks as per the qualifications set out in Direction 5.1 a) above shall acquire Continuous Professional Development as approved/ recommended by the respective professional body; and
  - c) internal valuation of immovable property is undertaken by valuers who satisfy the eligibility criteria set out in Direction 5.1 a) above.
6. Threshold for internal and external valuation reports
- 6.1 In respect of immovable property obtained/to be obtained as collaterals against all performing loans and advances, banks shall establish an appropriate threshold for internal and external valuation as per the bank's policy.
- 6.2 In respect of non-performing loans, where the capital outstanding amount is less than Rs. 10,000,000 or 0.1% of the bank's capital base, whichever is less, an internal valuation report may be obtained.
- 6.3 Licensed banks shall obtain an external valuation report in the case of obtaining valuation for a foreclosed property where the capital outstanding amount is over Rs. 5,000,000 or 0.1% of the bank's capital base, whichever is less.
7. Frequency of valuation
- 7.1 The frequency of valuation as referred to in Direction 2.2 (f) of the cited Direction shall be as follows:
- a) Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be made at the frequency as follows for any regulatory purpose.
    - i. In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes: a report that is not more than five years old.
    - ii. All other credit facilities: a report that is not more than four years old.
  - b) Revaluation of immovable property as referred to in Directions 3.1 b) and c) cited Direction shall be made in line with the internal policies approved by the Board of Directors or depending on any significant and volatile changes in fair value of such immovable property are experienced. However, such gains can only be included in Tier 2 capital once in three years.
  - c) Valuation of immovable property obtained as collateral against loans and advances which are performing, shall be made at the time of initial granting and at the time of any subsequent enhancement of credit facilities.

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

## Banking Act Directions No. 08 of 2019

19 December 2019

### ASSESSMENT OF FITNESS AND PROPRIETY OF DIRECTORS OF LICENSED BANKS IN SRI LANKA

In terms of the powers conferred by Sections 46(1) and 76J(1) of the Banking Act No. 30 of 1988, as amended, the Monetary Board hereby issues these Directions to licensed commercial banks and licensed specialised banks, hereinafter referred to as licensed banks, on assessment of fitness and propriety of Directors and information to be submitted by the persons proposed to be appointed, elected or nominated as a Director of a licensed bank in Sri Lanka for the purpose of obtaining approval of the Director of Bank Supervision in terms of Section 42 read with Section 76H of the Banking Act.

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|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Empowerment                                             | <p>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 licensed bank, regarding the manner in which any aspect of the business of such banks is to be conducted.</p> <p>1.2 In terms of Sections 42(1) and 76H of the Banking Act, no person shall be appointed, elected or nominated as a Director of a licensed bank or continue as a Director of such bank unless that person is a fit and proper person to hold office and if he is not prevented from doing so by any provision of this Act or of any other written law.</p>                                                                                                                                                                                                                                                                            |
| 2. Information to be furnished and deadline for submission | <p>2.1 The person proposed to be appointed, elected or nominated as a Director of a licensed bank shall submit the original Affidavit as given in Schedule I, before such person is appointed to the designated post of a licensed bank.</p> <p>2.2 The Affidavit shall be completed in line with the attached Guidelines for completing same.</p> <p>2.3 The Company Secretary shall attest and forward the Affidavits with respect to the Directors of a licensed bank in order to assess the fitness and propriety of the proposed persons.</p> <p>2.4 The Affidavit should be submitted under confidential cover to the Director of Bank Supervision, 15 working days prior to the expected date of appointment</p> <p>2.5 Licensed banks shall inform the Director of Bank Supervision of the retirement/resignation/removal of Directors of a licensed bank with reasons within 3 working days of such retirement/resignation/removal.</p> |
| 3. Assessment of Fitness and Propriety                     | <p>3.1 The Director of Bank Supervision shall assess the fitness and propriety of the proposed person based on the criteria set out in the Banking Act and the Directions issued thereunder.</p> <p>3.2 The Director of Bank Supervision shall assess the information submitted through the Affidavit and issue a letter approving or declining to approve the proposed appointment</p> <p>3.3 Directors shall undertake to keep the licensed banks fully informed, as soon as possible, of all subsequent events relevant to the information provided in the Affidavit which may have an impact on the assessment of fitness and propriety.</p> <p>3.4 The Company Secretary of the licensed bank shall notify the Director of Bank Supervision of all subsequent events as informed by the Directors under Direction 3.3 above, within 15 days of becoming aware of such facts.</p>                                                            |
| 4. Re-assessments                                          | <p>4.1 Continuing Directors shall submit the Affidavit annually, 15 working days before the Annual General Meeting of the respective licensed bank or by 31st March of each year, whichever is earlier.</p> <p>4.2 Fitness and propriety of Directors will be carried out at any time where there are supervisory concerns in respect of any Director as may be determined by the Director of Bank Supervision.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 5. Date of Implementation                                  | <p>5.1 This Direction shall come into effect commencing 01 January 2020.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 6. Revocation of Circulars                                 | <p>6.1 The following Circulars issued by the Director of Bank Supervision are hereby revoked.</p> <p>(i) Circular No.02/04/002/0012/002 dated 31 March 2005 on Appointment of Directors of Banks (Section 42 of the Banking Act, No. 30 of 1988 as amended)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

- (ii) Circular No.02/04/0012/002 dated 12 April 2005 on Appointment of Directors of Banks
- (iii) Circular No.02/17/600/0017/001 dated 27 August 2010 on Appointment of Directors

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

Schedule 1 of these Directions is available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

**Banking Act Determination No. 01 of 2019**

19 December 2019

## **ASSESSMENT OF FITNESS AND PROPRIETY OF CHIEF EXECUTIVE OFFICER AND OFFICERS PERFORMING EXECUTIVE FUNCTIONS IN LICENSED BANKS**

In terms of the powers conferred by Section 44A read with Section 76H of the Banking Act No. 30 of 1988, as amended, the Monetary Board hereby issues the Banking Act Determination on assessment of fitness and propriety of Chief Executive Officer (CEO) and Officers Performing Executive Functions.

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|--------------------------------------------|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Empowerment                             | 1.1 | In terms of Section 44A read with Section 76H of the Banking Act No. 30 of 1988, as amended, CEO and such other Officers Performing Executive Functions of licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) as determined by the Monetary Board shall be fit and proper persons and Section 42(2) of the Banking Act shall apply in determining whether such officers are fit and proper persons.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 2. Officers Performing Executive Functions | 2.1 | <p>Officers holding following designations/ positions are determined as Officers Performing Executive Functions in a licensed bank:</p> <ul style="list-style-type: none"> <li>(i) Additional General Manager</li> <li>(ii) Senior Deputy General Manager</li> <li>(iii) Deputy General Manager</li> <li>(iv) Senior Vice President</li> <li>(v) Assistant General Manager</li> <li>(vi) Chief Operating Officer</li> <li>(vii) Chief Risk Officer</li> <li>(viii) Chief Accountant</li> <li>(ix) Chief Financial Officer</li> <li>(x) Chief Internal Auditor</li> <li>(xi) Chief Information Officer</li> <li>(xii) Chief Information Security Officer</li> <li>(xiii) Compliance Officer</li> <li>(xiv) Head of Treasury</li> <li>(xv) Head of Legal</li> <li>(xvi) Head of Information Technology</li> <li>(xvii) Board Secretary</li> <li>(xviii) Any other officer falling under the definition of section 3(1)(i)(f) of the Banking Act Direction Nos. 11 and 12 of 2007 on Corporate Governance for Licensed Banks in Sri Lanka</li> <li>(xix) In addition to the positions/designations mentioned above, officers in the immediate two layers below the level of CEO in the organisational structure of the licensed banks will be determined as Officers Performing Executive Functions/KMPs for the purpose of assessing fitness and propriety.</li> </ul> |

3. Information to be furnished and deadline for submission
- 3.1 The person proposed to be appointed or nominated as CEO or Officer Performing Executive Functions of a licensed bank shall submit the original Affidavit as given in Schedule I, before such person is appointed to the designated post of a licensed bank.
- 3.2 The Affidavit shall be completed in line with the attached Guidelines for completing same.
- 3.3 The Chairman and CEO, respectively, shall attest and forward Affidavits with respect to CEO and Officers Performing Executive Functions.
- 3.4 The Affidavit should be submitted under confidential cover to the Director of Bank Supervision 15 working days prior to the expected date of appointment.
- 3.5 Licensed banks shall inform the Director of Bank Supervision of the retirements/resignations/terminations of employment of CEO or Officers Performing Executive Functions of a licensed bank with reasons within 3 working days of such retirements/resignations/termination.
4. Assessment of Fitness and Propriety
- 4.1 The Director of Bank Supervision shall assess the fitness and propriety of the proposed person based on the criteria set out in the Banking Act and the Directions issued thereunder.
- 4.2 In addition to the provisions of Section 42 (2) of the Banking Act, the criteria set out in the Banking Act Direction Nos.11 and 12 of 2007 on Corporate Governance for licensed banks will also be applicable for the assessment of fitness and propriety of CEO and Officers Performing Executive Functions.
- 4.3 The Director of Bank Supervision shall assess the information submitted through the Affidavit and issue a letter approving or declining to approve the proposed appointment.
- 4.4 CEO/Officers Performing Executive Functions shall undertake to keep the licensed banks fully informed, as soon as possible, of all subsequent events relevant to the information provided in the Affidavit which may have an impact on the assessment of fitness and propriety.
- 4.5 The Company Secretary of the licensed bank shall notify the Director of Bank Supervision of all subsequent events as informed by CEO/ Officers Performing Executive Functions under Direction 4.4 above within 15 days of becoming aware of such facts
- 4.6 At the time of first appointment of an officer as the CEO/Officer Performing Executive Functions in the bank, a letter from the former employer/employers during the preceding 5 years of the appointment (if the former employer is not a licensed bank in Sri Lanka) regarding the level of performance of duties assigned to him / her in the particular institution should be submitted to the Director of Bank Supervision.
- 4.7 In the case of an expatriate CEO or Officers Performing Executive Functions appointed to branches of banks incorporated outside Sri Lanka (i.e foreign banks), a letter obtained from the home country regulator with regard to any supervisory concerns on the suitability of such officers should be submitted directly to the Director of Bank Supervision.
- 4.8 Acting arrangements for CEO exceeding a period of one month approved by the Board of Directors (With respect to foreign banks, Board of Directors shall mean Head of the Office supervising Sri Lankan operations) of the respective licensed bank shall be informed to the Director of Bank Supervision 15 working days prior to the expected date of commencement of such arrangement along with the duly completed Affidavit of the proposed person.
- 4.9 A licensed bank shall not appoint any officer other than an Officer Performing Executive Functions to act on behalf of CEO.
5. Re-assessments
- 5.1 CEO shall submit the Affidavit annually, 15 working days before the Annual General Meeting of the respective licensed bank or by 31st March of each year, whichever is earlier.
- 5.2 Officers Performing Executive Functions will be re-assessed at the time of promotions, renewal of contracts and on lateral moves to positions requiring special knowledge and/or skills. The licensed bank shall submit the Affidavit together with the reasons and basis for such selection within 15 working days of such change.
- 5.3 Fitness and propriety of CEO and Officers Performing Executive Functions will be carried out at any time where there are supervisory concerns in respect of any officer above as may be determined by the Director of Bank Supervision.



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| 6. Officers serving as Consultants/ Advisors to the Board/Bank | <p>6.1 The Board of Directors of the licensed bank shall ensure that the Consultants/Advisors to the Board/bank are fit and proper persons and shall formulate appropriate policies and procedures for obtaining the services of Consultants/Advisors to the Board/bank.</p> <p>6.2 Licensed bank shall carryout the assessment of fitness and propriety of Consultants/Advisors based on the criteria set out in Section 42(2) of the Banking Act and the Banking Act Directions Nos.11 and 12 of 2007 on Corporate Governance.</p> <p>6.3 The licensed bank shall obtain from the Consultant/Advisor to the Board/bank the duly completed Affidavit which is prepared based on the Affidavit annexed hereto and shall submit when required by the Director of Bank Supervision.</p> <p>6.4 Consultants/Advisors to the Board/bank who are engaged for specific deliverables and who is a partner or an employee of a Consultancy practice/firm are not permitted to undertake any executive functions in the licensed bank.</p> <p>6.5 In the case of individuals who are employed as Consultants/Advisors, the period of engagement shall be limited to 12 months in aggregate over any 3-year period.</p> |
| 7. Interpretation                                              | 7.1 Key Management Personnel in Banking Act Direction Nos. 11 and 12 of 2007 on Corporate Governance for Licensed Banks in Sri Lanka shall mean Officers Performing Executive Functions as referred to in this Determination.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 8. Date of Implementation                                      | 8.1 This Determination shall come into effect commencing 01 January 2020.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 9. Revocation of Determinations and Circular                   | <p>9.1 The following Banking Act Determinations and Circular are hereby revoked.</p> <p>(i) Banking Act Determination Nos. 03 and 04 of 2010 dated 24 November 2010 on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Banks.</p> <p>(ii) Circular No.02/17/600/0017/001 dated 08 August 2011 on Assessment of Fitness and Propriety of Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

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

Schedule 1 of this Ditermination is available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

**Banking Act Directions No. 09 of 2019**

19 December 2019

### AMENDMENT TO THE BANKING ACT DIRECTIONS NOS. 11 AND 12 OF 2007 ON CORPORATE GOVERNANCE FOR LICENSED BANKS IN SRI LANKA

Banking Act Directions Nos. 11 and 12 of 2007 on Corporate Governance for Licensed Commercial Banks and Licensed Specialised Banks in Sri Lanka dated 26 December 2007 are hereby amended by inserting the following new Direction. Licensed Commercial Banks and Licensed Specialised Banks shall hereinafter be referred to as licensed banks.

- 3(3) (iii) A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka. Any variation thereto in exceptional situations such as where expertise of retiring bankers may be required when reconstituting Boards of licensed banks which need restructuring, shall be subject to the prior approval of the Monetary Board. In this regard, licensed banks shall ensure to adhere to the requirement of the cooling-off period when appointing Directors or Chief Executive Officer. If a Director is appointed to the licensed bank by an appointing authority violating these Directions, the licensed bank shall take steps to prevent such appointee from exercising any powers or enjoying any privileges or benefits.

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

**Banking Act Directions No. 10 of 2019**

20 December 2019

**FRAMEWORK FOR DEALING WITH DOMESTIC SYSTEMICALLY IMPORTANT BANKS**

In terms of the powers conferred by Sections 19(7)(a) and 76G(7) of the Banking Act No. 30 of 1988, as amended, the Monetary Board has determined a framework for dealing with Domestic Systemically Important Banks (D-SIBs) and Higher Loss Absorbency Requirements (HLA) as capital surcharge on D-SIBs having regard to the guidelines issued by the Basel Committee on Banking Supervision.

This framework attempts to identify the banks whose failure has a larger impact on the financial system due to size, interconnectedness, lack of substitutability and complexity and requires maintaining HLA by such banks.

1. Empowerment
  - 1.1 In terms of Section 102 of the Monetary Law Act, the Monetary Board may from time to time by Order prescribe the minimum capital ratios which the capital of licensed banks shall bear to the total volume of their assets or to any specified category of such assets.
  - 1.2 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 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 on a solo and consolidated basis; and
    - (ii) branches of banks incorporated or established outside Sri Lanka, on a standalone basis.
3. Capital Surcharge on D-SIBs
  - 3.1 D-SIB shall maintain, at all times, the minimum capital surcharge as prescribed in 3.2 below.
  - 3.2 The minimum capital surcharge on D-SIBs are in Table 1 below:

**Table 1: Minimum Capital Surcharge on D-SIBs**

Bucket	HLA Requirement (CET1 as a % of risk-weighted assets)
3	2.0
2	1.5
1	1.0

- 3.3 The capital surcharge on D-SIBs shall be met with Common Equity Tier 1 (CET1) as defined in Banking Act Directions No. 01 of 2016 of Capital Requirements under Basel III.
4. Framework
  - 4.1 Framework for Dealing with Domestic Systemically Important Banks is in Schedule I.
5. Disclosure Requirement
  - 5.1 For each financial year-end, licensed banks with a Leverage Ratio exposure measure, that exceeds Rs. 400 billion shall comply with the disclosure requirements in Schedule I.

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

Schedule I of these Directions is available at <https://www.cbsl.gov.lk/en/laws/directions-circulars-guidelines-for-banks>

**Banking Act Directions No. 11 of 2019**

20 December 2019

**AMENDMENTS TO DIRECTIONS ON CAPITAL REQUIREMENTS UNDER BASEL III FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for licensed commercial banks and licensed specialised banks hereinafter referred to as licensed banks are amended by replacing the following Directions.

3. Minimum Capital Requirements
- 3.1 Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed below in Table 01 and shall ensure compliance with Schedule I annexed to Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for licensed banks.

**Table 01 – Capital Requirements for Licensed Banks**

Components of Capital	Capital Adequacy Ratio to be Maintained
Common Equity Tier 1 including Capital Conservation Buffer	7.0 %
Total Tier I including Capital Conservation Buffer	8.5 %
Total Capital Ratio including Capital Conservation Buffer	12.5 %

- 3.2 Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs), from time to time shall maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1.

**Table 02 – Capital Requirements for D-SIBs**

Components of Capital	Capital Adequacy Ratio to be Maintained
Common Equity Tier 1 including Capital Conservation Buffer	7.0 % + HLA
Total Tier I including Capital Conservation Buffer	8.5 % + HLA
Total Capital Ratio including Capital Conservation Buffer	12.5 % + HLA

- 3.3 Sections relating to D-SIBs referred to in Schedule I of Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for licensed banks is amended in line with Direction 3.2 above.

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

**Banking Act Directions No. 12 of 2019**

20 December 2019

### DOMESTIC SYSTEMICALLY IMPORTANT BANKS

In terms of the powers conferred by Sections 19(7)(a) and 76G(7) of the Banking Act No. 30 of 1988, as amended, the Monetary Board has determined the following licensed banks as Domestic Systemically Important Banks (D-SIBs) and the applicable Higher Loss Absorbency Requirements (HLA) with immediate effect.

**Table 01 – Licensed Banks Determined as D-SIBs**

Bucket	Licensed Banks	HLA Requirement (CET1 as a % of Risk-Weighted Assets)
3	-	2.0
2	Bank of Ceylon Commercial Bank of Ceylon PLC	1.5
1	People's Bank Hatton National Bank PLC	1.0

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

Ref : 12/02/004/0007/001

25th June, 2019

Circular No: 2019-01

To : All CEOs of Licensed Commercial Banks (LCBs)

Dear Sir/ Madam,

**INCREASING THE SERVICE CHARGE FOR CURRENCY NOTES DEPOSITED BY  
LICENSED COMMERCIAL BANKS**

With reference to the circular dated 26.02.2009 on "A Service Charge for Processing Serviceable Currency Notes".

The Monetary Board has approved to increase the current service charge on serviceable currency note deposits by Licensed Commercial Banks (LCBs) with effect from 01st July, 2019 as follows;

1. For denominations of Rs.500 and above from Rs. 200 to Rs. 500 per bundle of 1,000 pieces.
2. For denominations of below Rs.500 from Rs. 100 to Rs. 300 per bundle of 1,000 pieces.

This service charge is only applicable for currency notes deposited as serviceable currency notes and LCBs are required to strictly follow the currency note sorting standards issued by Currency Department when separating currency notes under the categories of serviceable currency notes, un-serviceable currency notes and mutilated and damaged currency notes.

Yours faithfully,  
**Superintendent of Currency**

OPERATING INSTRUCTION NO. : 35/03/016/007/002

14 February 2019

To: All Participating Institutions

**CONSOLIDATED OPERATING INSTRUCTIONS ON MARKET OPERATIONS**

This has reference to our Circular No. 35/03/016/007/001 dated 26 October 2016 on the above subject. Sections 17(b) and 17(d) of the said Operating Instructions are hereby amended as follows with effect from 14 February 2019.

**17.0 Recovery of Damages and Default Interest**

**17(b) Default of a PI on the maturity date**

In the event of a PI failing to maintain sufficient funds in its settlement account to pay the sell back value before the close of business of LankaSecure on the maturity date (sell back date) the PI shall be liable to pay damages to the CBSL the interest component of the respective transaction in addition to a default interest payment at a rate equivalent to one-tenth of one per centum (0.1%) per day.

**17(d) Fails to honor a bid/deal or default more than once in a calendar year**

In the event a PI fails to honor a bid/deal more than once in a calendar year, CBSL may suspend the PI from engaging in such transactions for a period of time determined by CBSL. In the event a PI default more than three times in a calendar year, such default interest rate shall be increased to two-tenth of one per centum (0.2%) per day or the CBSL may suspend the PI from engaging in transactions for a period of time determined by CBSL.

**Director/Domestic Operations**

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

**EXTRAORDINARY**

No. 2110/34 - THURSDAY FEBRUARY 14, 2019

(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,  
14th February, 2019.

## MONEY BROKING REGULATIONS

### Amendment to the Money Broking Regulations No. 1 of 2018

- |                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Citation.                             | 1.1 These Regulations shall be cited as Money Broking Regulations No. 1 of 2019.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 2. Amendment to the principle regulation | <p>2.1 Money Broking Regulations No. 1 of 2018 published in <i>Gazette Extraordinary</i> No. 2061/7 of 05 March 2018 is hereby amended as follows: –</p> <ol style="list-style-type: none"> <li>1. Repeal of Regulations 12 (b) and 12 (f) and substitution therefor of the following new Regulations.           <ol style="list-style-type: none"> <li>12(b) Each Authorized Money Broking company shall obtain from respective officers referred to in 12 (a) 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. A significant shareholder who is considered as a minor (less than 18 years old) shall not require obtaining fitness and propriety assessment.</li> <li>12(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 sixty days after receiving the required documents notify the Authorized Money Broking company of such approved or refusal, giving reasons therefor.</li> </ol> </li> <li>2. Repeal of Regulations 13(e) and 13(f) and substitution therefor of the following new Regulations.           <ol style="list-style-type: none"> <li>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 ;</li> <li>13(e) such person is being subjected to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity, by any regulatory authority, supervisory authority, professional association, Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.</li> <li>13(f) there is any findings of any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that such person has committed or has been connected with the commission of any act which involves fraud, deceit, dishonesty or any other improper conduct.</li> </ol> </li> <li>3. Rename Regulation 14 as Regulation 14(a) and include following new Regulation as 14(b)           <ol style="list-style-type: none"> <li>14(b) Directors or principal officers of the Authorized Money Broking company shall not have equity participation or have control over the licensed commercial bank and/or primary dealer.</li> </ol> </li> <li>4. Insert a Regulation 16(g) under Regulation 16           <ol style="list-style-type: none"> <li>16. The internal control system referred to in Regulation (15), shall include:               <ol style="list-style-type: none"> <li>16(g) the maintenance agreement for the voice recorder and other services obtained from external parties.</li> </ol> </li> </ol> </li> <li>5. Repeal Regulation 18(f) and substitution therefor of the following new Regulation           <ol style="list-style-type: none"> <li>18(f) The Authorized Money Broking company shall submit a performance report on a monthly basis to the Director, Domestic Operations, not later than two weeks of the following month in the form prescribed in the Schedule IV attached hereto, through Fin Net system which is the on-line interface provided to such Authorized Money Broking companies by the Central Bank. All monthly financial statements (statement of cash flow, statement of comprehensive income and statement of financial position) and audited financial statements shall be submitted to Director, Domestic Operations before exceeding one month and six months following the respective period, respectively.</li> </ol> </li> </ol> |

6. Repeal Regulation of 20(a) and substitution therefor of the following new Regulation.

Examination Books and  
Provision of Information

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. An Authorized Money Broking company shall provide any information relating to money broking activities requested by Director, Domestic operations within stipulated time period without any delay. The Director, Domestic Operations may, from time to time, issue directions, circulars, guidelines and codes of conduct with a view to ensure compliance by Authorized Money Brokers with these regulations.

3. Effective date 3.1 This amendment shall come into effect from 14th February, 2019.

**OPERATING INSTRUCTIONS No: 35/01/005/0007/14**

22 February 2019

**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. 2111/50 of 22 February 2019 on the above subject.

2. All 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 five per centum (5.00%) of the total of such deposit liabilities.
3. Schedule A of Operating Instructions No. 35/01/005/0007/13 of 14 November 2018 is replaced by attached ‘Schedule A’.
4. The above amendment will take effect from 01 March 2019. All other instructions contained in our Operating Instructions No. 35/01/005/0007/06 and 35/01/005/0007/07 of 22 April, 2013 as amended from time to time will continue to apply.

**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>

<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 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. 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.

**Circular No: 35/01/005/0010/23**

07 March 2019

**To: All Licensed Commercial Banks****MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT FOR IMPORTATION OF MOTOR VEHICLES AND NON-ESSENTIAL CONSUMER GOODS**

All Licensed Commercial Banks are hereby informed that the Circulars No. 35/01/005/0010/21 and 35/01/005/0010/22 dated 29 September 2018 and 26 November 2018 respectively, are withdrawn with effect from 07 March 2019.

**Director / Domestic Operations****Circular No: 35/03/016/007/003**

05 September 2019

**To : CEO's of All Participating Institutions****REVISED TIME SCHEDULE FOR OPEN MARKET OPERATIONS**

The revised time schedule for auctions under Open Market Operations (OMOs) is as follows.

Type of Auction	Auction Time	Settlement of First Leg
Overnight/Short-Term Repurchase and Overnight/Short-Term Reverse-Repurchase auctions for Licensed Commercial Banks and Employees Provident Fund	10:00 hrs – 10:30 hrs	13:15 hrs on the same day
Liquidity Support Facility (LSF) for Standalone Primary Dealers	11:00 hrs – 11:30 hrs	13:15 hrs on the same day

The revised time schedule will be effective from 06 September 2019. Auction hours for other auctions under OMOs will remain unchanged.

All Participating Institutions are required to comply with the above time schedule.

**Director / Domestic Operations**

**Circular No: 35/03/016/007/004**

05 September 2019

**To: CEOs of All Participating Institutions**

### **OUTRIGHT AUCTIONS UNDER OPEN MARKET OPERATIONS**

With effect from 06 September 2019, both Treasury bills and Treasury bonds will be accepted for outright auctions (sales/purchases) conducted by the Central Bank of Sri Lanka (CBSL) under Open Market Operations (OMOs).

Accordingly, the Section 83.0 of the Circular No. 35/03/016/007/001 on Consolidated Operating Instructions (COI) on Market Operations dated 26 October 2016 is amended as follows with effect from 06 September 2019.

#### **83.0**

##### **(a) Auction announcement under Treasury bills**

The CBSL shall announce the decision to conduct an outright auction by 09:30 hours on the auction day or one business day in advance to the auction date. The announcement shall include the type of auction on offer (outright sale or purchase), amount offered (the face value of the securities), maturity date, days to maturity, auction date and settlement date. The settlement date for outright transactions will be the following business day.

##### **(b) Auction announcement under Treasury bonds**

The CBSL shall announce the decision to conduct outright auction at least three working days prior to the auction date. The announcement shall include the type of auction on offer (outright sale or purchase), amount offered (the face value of the securities), maturity date, days to maturity, auction date and settlement date. The settlement date for outright transactions will be the following business day.

**Director / Domestic Operations**

**Circular No: 35/03/021/0013/002**

05 September 2019

**To : CEO's of All Standalone Primary Dealers**

### **OPERATING INSTRUCTIONS ON LIQUIDITY SUPPORT FACILITY FOR STANDALONE PRIMARY DEALERS UNDER OPEN MARKET OPERATIONS**

This has reference to the Circular No.35/03/016/007/001 dated 26 October 2016 on Consolidated Operating Instructions on Market Operations and the Circular No 35/03/021/0013/001 dated 23 August 2018 on Open Market Operations (OMOs) of the Central Bank of Sri Lanka.

A Liquidity Support Facility (LSF) by way of reverse repurchase transactions is introduced by the Central Bank of Sri Lanka (CBSL) for Standalone Primary Dealers (SPDs), the companies appointed as Primary Dealers except Licensed Commercial Banks (LCBs). The LSF will be available for SPDs when the CBSL conducts overnight reverse repo auctions under the OMOs for LCBs or as decided by the CBSL.

SPDs are eligible to borrow funds under the LSF on overnight basis to fulfill daily liquidity needs with effect from 06 September 2019 and the Circular No. 35/03/021/0013/001 is repealed by this Circular. Instructions given in Clauses 8,9,13,14,15,16,17,18,20,22,24,25,26,27,28,46,47,57, 58,59,60,61,62 and 63 of the said Consolidated Operating Instructions (COI) on Market Operations that are applicable for reverse repurchase transactions under OMOs are amended as follows and **the amended instructions are applicable only for SPDs.**



1. SPDs who intend to borrow funds under the LSF shall submit their bid/s electronically through the Online Electronic Bidding System (OEBS) by selecting the relevant auction. Such SPDs shall submit their bids together with security details, i.e. International Securities Identification Number (ISIN).
2. The auction is conducted from 11:00 hours to 11:30 hours. Each SPD is restricted to a maximum of 3 bids and the total value to the amount offered at the respective auction.
3. The floor rate of the auction under LSF shall be decided by the CBSL based on the maximum accepted bidding rate of the reverse repo auction conducted for LCBs on the same day. The applicable floor rate shall be announced via Central Integrated Market Monitor (CIMM) and OEBS before the commencement the auction for LSF. Any bid below the floor rate will not be accepted.
4. Only in an event that a participant SPD is unable to access the OEBS due to a technical failure, such a SPD is advised to inform the same via telephone to the OMO Division of the Domestic Operations Department (DOD) before the closure of the respective auction. A letter of confirmation of deals/bids duly signed by two authorized officers shall be submitted via fax or email before the closure of the respective auction highlighting the nature of such technical failure. Each such deal/bid shall contain all relevant information to enable the DOD to enter each transaction manually. The CBSL may consider such communication as a request to enter a manual deal/bid on behalf of the SPD on the basis of the information provided by them. An incorrect or incomplete information submitted for manual entry by DOD shall result in such request being rejected by the CBSL. Bids received (by fax or email) after the stipulated cut-off times of the auction shall not be entertained under any circumstance. The original document of the request should be forwarded to Director of DOD before closure of business on the same day.
5. Once the auction is closed, no amendments shall be made to the bids placed by SPDs at the auction under any circumstance.
6. For all transactions, the minimum value of a deal/bid shall be Rupees one million (Rs. 1,000,000.00) and deals should be in multiples of Rupees one million.
7. When entering a bid at the auction, the face value of the security/securities to be allocated to the CBSL for each bid, shall be based on the CBSL official buying price/s of the respective security/securities. Such official prices are recorded in the LankaSecure System and can also be retrieved from the OEBS.
8. SPDs may assign any number of ISINs (multiple ISINs) for a given bid. If a bid involves securities carrying more than one ISIN, each such ISIN shall be treated as a separate bid at the final settlement.
9. The allotment shall be made based on the descending order of the bidding interest rates quoted by the successful bidder.
10. Allotment will be made on a 'pro-rata' basis in the event more than one successful bid at the cut off rate.
11. CBSL reserves the right to accept or reject a deal/bid of a SPD.
12. CBSL may announce the results of the auction by 12:00 hours via the OEBS and the CIMM along with details of total bids received, amount accepted, weighted average rate, maximum and minimum rate of the successful bids. Each bidder (SPD) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction through the OEBS.
13. A confirmation of the auction will be issued to each successful SPDs electronically via the OEBS within one hour after the release of the results.
14. Substitution of securities submitted for LSF shall not be permitted.
15. The settlement of the transactions shall be processed on or before 13:15 hours on the same day. Payments and Settlements Department (PSD) of the CBSL shall settle the transaction by crediting the settlement account of the respective SPD for the purchase price of securities (amount accepted) against the receipt of purchased securities into the Domestic Operations Reverse Repurchase (DRP) Account of the CBSL in LankaSecure.
16. On the maturity date (date of re-purchase by the respective SPD), CBSL shall transfer the purchased securities back to the respective SPDs OWN security account at the LankaSecure, not later than 11:00 hours, against the receipt of funds into the settlement account of CBSL for the re-purchase value of the security/securities by the SPD.
17. The re-purchase value shall consist of purchase value of the securities (amount accepted) plus interest component for the respective bid. The interest component of the respective bid shall be calculated based on the amount accepted and the corresponding bidding interest rate of the SPDs for that bid for the duration of the agreement (tenure).
18. In an event that a SPD is unable to view or print the confirmation(s) referred to in the clause 13, only due to a technical failure in accessing the OEBS, PSD may send a copy of the confirmation(s) to the SPD on request via fax/email.
19. All Reverse Repo auction transactions carried out between a SPD and the CBSL in terms of the provisions set-out in this Circular are subject to the provisions of the Master Repurchase and Reverse Repurchase Agreement entered into between such SPDs and the Monetary Board of the CBSL. The terms used in these Operating Instructions shall have the same meanings assigned to them in the Master Repurchase and Reverse Repurchase Agreement.

20. If the Government declares an unscheduled bank holiday and if the maturity date in respect of any transaction fall on such holiday, any obligation of a party to such transaction arising on such day shall be fulfilled by such party on the immediately following business day.
21. All transactions will be on Delivery versus Payment (DVP) basis.
22. Close of business shall deem to be the time specified for the close of business in the daily operating schedule in the Volume 04 of the LankaSettle System Rules Version 2.1 or its latest Version. If, ad hoc adjustments to the operating schedule are adopted by the PSD, at its sole discretion, from time to time to deal with unforeseen contingencies, the CBSL shall adjust the usual close of business time of 16:30 hours and inform the participants as required.
23. SPDs are not required to submit any settlement instructions.
24. Recovery of damages:
- (a). Failure of a SPD to honour a deal /bid on the settlement date
- The acceptance by the CBSL of a deal/bid of a SPD is binding on the SPD and if a SPD fails to honor a deal/bid in full due to unavailability of adequate quantities of the assigned security in their OWN accounts, before the close of business of LankaSecure on the settlement date, such SPD shall be liable to pay damages to the CBSL in a sum equivalent to the interest component of the respective transaction. Such damages shall be debited from SPD's settlement account with the CBSL on the following business day.
- (b). Default of a SPD on the maturity date
- In the event of a SPD failing to maintain sufficient funds in its settlement account to pay the re-purchase value before the close of business of LankaSecure on the maturity date (date of re-purchase), the SPD shall be liable to pay damages to CBSL with the interest component of the respective transaction plus default interest payment calculated at a rate equivalent to one – tenth of one per centum (0.1%) of amount accepted (purchase value of securities) per day. Such damages shall be debited from SPD's settlement account with the CBSL on the next business day.
- (c). Failing to honor a deal/bid or default more than once in a calendar year
- In the event a SPD fails to honor a deal/bid more than once in a calendar year, such a default interest rate shall be increased by one tenth of one per centum (0.1%) of amount accepted per day on each instance, or CBSL may suspend the SPD from engaging in transactions for a period of time determined by the CBSL. Such damages shall be debited from SPD's settlement account with the CBSL on the following business day.
- (d). In the event that a SPD, fails to cover damages as specified in 24 (b), (c), CBSL shall convert such transaction to an outright purchase.
25. In the event of any inconsistency or conflict between the Master Repurchase and/or Reverse Repurchase Agreement, this Circular shall prevail.
26. The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of the Operating Instructions of LSF with prior notice to SPDs.

**Director / Domestic Operations**

**Circular No: 35/03/021/0013/003**

05 September 2019

**To: CEOs of All Standalone Primary Dealers**

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

With effect from 06 September 2019, Standalone Primary Dealers (SPDs) are eligible to participate in the outright sale/purchase auctions for Treasury bills/bonds conducted under the Open Market Operations (OMOs) of the Central Bank of Sri Lanka.

Access to the Standing Facilities for SPDs will remain unchanged.

**Director / Domestic Operations**

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

**EXTRAORDINARY**

No. 2112/17 - WEDNESDAY, FEBRUARY 27, 2019

(Published by Authority)

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

REGULATION 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 2019 and to make any payments in relation to such issuance, for non - resident investors.

MANGALA SAMARAWEEERA,  
**Minister of Finance.**

Ministry of Finance,  
 Colombo 01,  
 26th February, 2019.

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

**EXTRAORDINARY**

No. 2112/25 - THURSDAY FEBRUARY 28, 2019

(Published by Authority)

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

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

The Government of Sri Lanka and State - Owned Enterprises of the Government of Sri Lanka (with over 50% share capital owned by the Government) are hereby permitted to borrow from outside Sri Lanka in Designated Foreign Currency, subject to the approval of the relevant Line Ministry and any other relevant authority, without the loan proceeds being routed through the Inward Investment Account of the lender. Details of such borrowing shall be reported by the Department of External Resources, Department of Public Enterprises and Department of National Budget (as applicable) of the Ministry of Finance to the Director, Department of Foreign Exchange within one (01) month of receipt of the loan proceeds into Sri Lanka.

MANGALA SAMARAWEEERA,  
**Minister of Finance.**

Ministry of Finance,  
 Colombo 01,  
 27th February, 2019.

**DEPARTMENT OF FOREIGN EXCHANGE**  
**CENTRAL BANK OF SRI LANKA**

**DIRECTIONS NO. 01 OF 2019 UNDER FOREIGN EXCHANGE ACT, NO. 12 OF 2017**

**Directions Issued to Authorized Dealers on Payments for Imports Made on Advance Payment (Cash-In-Advance) Terms**

In terms of Section 3 read with Section 16 of the Foreign Exchange Act, No. 12 of 2017 (the Act), Authorized Dealers are hereby informed that the Directions No. 01 of 2018 dated 10 October 2018 on restricting release of foreign exchange for making payments for import of non-essential consumer goods under the advance payment (Cash-in-Advance) terms is withdrawn from the date of these Directions.

**Director-Department of Foreign Exchange**

26 March 2019

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

No. 2145/49 - THURSDAY, OCTOBER 17, 2019

(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

Heading F. of the Schedule IV of the Foreign Exchange (Classes of Capital Transactions in Foreign Exchange Carried on by Authorized Dealers) Regulations No. 1 of 2017 published under the Gazette (Extraordinary) Notification No. 2045/56 dated 17 November 2017 specifying requirements related to Repatriation of Export Proceeds to Sri Lanka by Exporters of Goods, is hereby repealed and substituted with the following.

1. Every exporter of goods shall repatriate to Sri Lanka payments received for the exportation of goods within 180 days from the date of exportation.
2. Every exporter of goods shall submit related documentary evidence on each exportation to the respective authorized dealer or restricted dealer that receives the payment.
3. Central Bank shall have the right to introduce an appropriate mechanism to monitor compliance of exporters of goods with this requirement and also to institute actions against any non-compliance with the aforesaid requirements of this Heading.

MANGALA SAMARAWEEERA,  
Minister of Finance.

Colombo,  
17 th October, 2019

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

No. 2123/14 - MONDAY MAY 13, 2019

(Published by Authority)

**PART I : SECTION (I) — GENERAL****Central Bank of Sri Lanka Notices****FINANCIAL TRANSACTIONS REPORTING ACT, No. 6 OF 2006**

RULES made by the Financial Intelligence Unit under section 2 of the Financial Transactions Reporting Act, No. 6 of 2006.

Financial Intelligence Unit.

Colombo,  
13 May, 2019.

**Rules**

1. These Rules may be cited as the Insurers (Customer Due Diligence) Rules, No. 1 of 2019.
2. These Rules shall apply to every institution engaged in-
  - (a) underwriting and placement of insurance; and
  - (b) insurance intermediation by agents and brokers,
 which carries on long term insurance business under the Regulation of Insurance Industry Act, No. 43 of 2000 (hereinafter referred to as the "Insurer").
3. Every Insurer shall take the measures specified in these rules for the purpose of identifying, assessing and managing money laundering and terrorist financing risks posed by its customers, by conducting ongoing customer due diligence (hereinafter referred to as "CDD") based on the risk based approach.

**PART I****MONEY LAUNDERING AND TERRORIST FINANCING RISK MANAGEMENT**

4. The intensity and extensiveness of risk management functions shall be in compliance with the risk based approach and be proportionate to the nature, scale and complexity of the Insurer's activities and money laundering and terrorist financing risk profile.
5. Every Insurer shall take appropriate steps to identify, assess and manage its money laundering and terrorist financing risks in relation to its customers, countries or geographical areas, products, services, transactions and delivery channels.
6. Every Insurer shall conduct the following processes in assessing money laundering and terrorist financing risks :-
  - (a) documenting their risk assessments and findings;
  - (b) considering all relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied;
  - (c) keeping the assessment up-to-date through a periodic review; and
  - (d) having appropriate mechanisms to provide risk assessment information to the Insurance Regulatory Commission of Sri Lanka.
7. Every Insurer shall have proper risk control and mitigation measures including the following:-
  - (a) have internal policies, controls and procedures to manage and mitigate money laundering and terrorist financing risks that have been identified;
  - (b) monitor the implementation of those policies, controls, and procedures and enhance them if necessary; and
  - (c) take appropriate measures to manage and mitigate the risks, based on the risk based approach.
8. Every Insurer shall conduct risk profiling on its customers considering the following :-
  - (a) risk level according to customer category (ex: different types of customers such as resident or nonresident, occasional or one-off, legal persons, politically exposed persons and customers engaged in different types of occupations);
  - (b) geographical location of business or country of origin of the customer;
  - (c) products, services, transactions or delivery channels of the customer (ex: cash-based, face-to-face or non-face-to-face, cross-border); and
  - (d) any other information regarding the customer.
9. The risk control and mitigation measures implemented by every Insurer shall be commensurate with the risk level of a particular customer as identified based on risk profiling.
10. Upon the initial acceptance of a customer, every Insurer shall regularly review and update the customer's risk profile based on his level of money laundering and terrorist financing risk.
11. An Insurer's money laundering and terrorist financing risk management shall be affiliated and integrated with the overall risk management relating to the Insurer.
12. Every Insurer shall provide a timely report of its risk assessment, Insurer's money laundering and terrorist financing risk profile and the effectiveness of risk control and mitigation measures to its Board of Directors. The frequency of reporting shall be commensurate with the level of risks involved and the operating environment thereof.
13. The report referred to in rule 12 shall include the following:-
  - (a) results of monitoring activities carried out by the Insurer for combating money laundering and terrorist financing risks(ex: level of the Insurer's exposure to money laundering and terrorist financing risks, break-down of money laundering and terrorist financing risk exposures based on key activities or customer segments, trends of suspicious transactions reports and threshold reports in terms of the Act, judicial pronouncements and freezing actions under the United Nations Security Council Resolutions);
  - (b) details of recent significant risks involved in either internally or externally, the modus operandi and its impact or potential impact on the Insurer; and
  - (c) recent developments in written laws on anti-money laundering and suppression of terrorist financing and its implications for the Insurer.

## Internal Controls, Policies, Compliance, Audit and Training

14. (1) Every Insurer shall formulate an internal policy approved by its Board of Directors subject to the written laws for the time being in force, on anti-money laundering and suppression of terrorist financing.
- (2) The detailed procedures and controls shall be developed by each Insurer in compliance with such policy.
15. Such policies, procedures and controls shall include, risk assessment procedures, CDD measures, manner of record retention, threshold reporting procedures, the detection and internal reporting procedure of unusual and suspicious transactions and the obligation to report suspicious transactions to the Financial Intelligence Unit.
16. Every Insurer shall in formulating policies, procedures and controls, take into consideration, money laundering and terrorist financing risks that may arise from the use of new or developing technologies, especially those having features of anonymity or inconsistency with the basic principles of CDD measures.
17. Every Insurer shall-
- (a) appoint a senior management level officer as the compliance officer who shall be responsible for ensuring the Insurer's compliance with the requirements of the Act and these rules;
  - (b) ensure that the compliance officer or any other person authorized to assist him or act on behalf of him, has prompt access to all customer records and other relevant information which may be required to discharge their functions;
  - (c) develop and implement a comprehensive employee due diligence and screening procedure to be carried out at the time of appointing or hiring of all employees whether permanent, contractual or outsourced;
  - (d) frequently design and implement suitable training programmes for relevant employees including Board of Directors, in order to effectively implement the Act and any regulation made thereunder and internal policies and procedures relating to money laundering and terrorist financing risk management; and
  - (e) maintain an independent audit function to ensure that it is adequately resourced and able to regularly assess the effectiveness of the Insurer's internal policies, procedures and controls and its compliance with the Act and any regulation made thereunder.

## Foreign Branches and Subsidiaries

18. Financial groups which consist of Insurers shall implement group-wide programmes which shall be applicable and appropriate for all branches and majority-owned subsidiaries of the financial group with a view of combatting money laundering and terrorist financing activities and shall include the following in addition to the measures referred to in rule 17:-
- (a) initiate measures and procedures for sharing information required for the purposes of conducting CDD and money laundering and terrorist financing risk management;
  - (b) provide information of customers, insurance policies and transactions, and of audits, with group level compliance, from all branches and subsidiaries of the financial group when necessary for implementing the anti-money laundering and suppression of terrorist financing measures; and
  - (c) maintain adequate safeguards on the confidentiality and use of information exchanged among the branches and subsidiaries of the financial group.
19. Every Insurer shall ensure that their foreign branches and majority-owned subsidiaries apply anti-money laundering and suppression of terrorist financing measures consistent with the domestic law requirements, where the relevant written laws of the relevant foreign country provide less stringent requirements than those provided for in the domestic law.
20. Where the foreign country does not permit the proper implementation of anti- money laundering or suppression of terrorist financing measures consistent with the domestic law requirements, every Insurer shall apply appropriate additional measures to manage money laundering and terrorist financing risks.

## Using New Technologies

21. Every Insurer shall identify and assess money laundering and terrorist financing risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms and the use of new or developing technologies for both new and pre-existing products.

## 22. Every Insurer shall-

- (a) undertake the risk assessments prior to the launch or use of new products, practices and technologies; and
- (b) take appropriate measures to manage and mitigate the risks which may arise in relation to the development of new products and new business practices.

**PART II****CUSTOMER DUE DILIGENCE (CDD)****CDD in general**

23. (1) In terms of the provisions of section 2 of the Act, no Insurer shall open, operate or maintain any anonymous insurance policy, any insurance policy in a false name or in the name of a fictitious person, or any insurance policy that is identified by a number only (hereinafter referred to as "Numbered Insurance Policy").

- (2) Numbered Insurance Policy includes an insurance policy that the ownership is transferrable without knowledge of the Insurer and an insurance policy that is operated and maintained with the insurance policy holder's name omitted.

24. (1) Where an Insurer enters into a business relationship with a customer through an agent, such Insurer shall require the agent to comply with the provisions of these rules in relation to CDD.

- (2) Such Insurer shall set out the processes that shall be undertaken by the agents in conducting CDD and the appropriate enforceable action taken by Insurer in the event of non compliance in its agreement with the agents.

25. Every Insurer shall conduct CDD measures specified in these rules, on customers, when-

- (a) entering into business relationships;
- (b) the Insurer has any suspicion that such customer is involved in money laundering or terrorist financing activities, regardless of amount; or
- (c) the Insurer has any doubt about the veracity or adequacy of previously obtained information.

26. Every Insurer shall –

- (a) identify its customers prior to entering into business relationships;
- (b) obtain the information specified in the Schedule hereto, verify such information as applicable and record the same for the purpose of identifying and initial risk profiling of customers, at the minimum ;
- (c) obtain the following information for the purpose of conducting CDD, at the minimum:-
  - (i) purpose of the transaction;
  - (ii) sources of funds;
  - (iii) expected monthly turnover;
  - (iv) expected mode of transactions(ex: cash, cheque, etc.);
  - (v) expected type of counterparties (if applicable);
- (d) verify whether any person purporting to act on behalf of the customer is so authorized, and identify and verify the identity of such person;
- (e) identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner, using relevant information or data obtained from a reliable source, to the satisfaction of the Insurer;
- (f) identify the beneficiary and obtain the following information for the purpose of conducting CDD:-
  - (i) for a beneficiary that is identified as specifically named natural or legal persons or legal arrangements: obtain the name of the person;
  - (ii) for a beneficiary that is designated by characteristics or by class or by other means: obtaining sufficient information (ex: under a will or testament) concerning the beneficiary to satisfy the Insurer that it will be able to establish the identity of the beneficiary at the time of the payout; and

(iii) in the case of a beneficiary referred to in sub-paragraphs (i) and (ii), the identity of the beneficiary shall be verified at the time of payout.

27. Every Insurer shall include the beneficiary information as a relevant risk factor in determining whether enhanced CDD measures are to be applicable. If the Insurer determines that a beneficiary who is a legal person or a legal arrangement presents a higher risk, it shall take enhanced CDD measures which shall include reasonable mechanisms to identify and verify the identity of the beneficial owner of the beneficiary, at the time of payout.

### Timing of Verification

28. Every Insurer shall verify the identity of the customer and beneficial owner before or during the course of entering into a business relationship:

Provided however, where the risk level of the customer is low according to the risk profile of the Insurer and verification is not possible at the point of entering into the business relationship, the Insurer may, subject to rule 29 allow its customer and beneficial owner to furnish the relevant documents subsequent to entering into the business relationship and subsequently complete the verification (hereinafter referred to as "delayed verification").

29. In any case where delayed verification is allowed, the following conditions shall be satisfied:-

- (a) verification shall be completed as soon as it is reasonably practicable but not later than fourteen working days from the date of entering into the business relationship;
- (b) the delay shall be essential so as not to interrupt the Insurer's normal conduct of business; and
- (c) no suspicion of money laundering or terrorist financing risk shall be involved.

30. Every Insurer shall adopt risk management procedures relating to the conditions under which the customer may utilize the business relationship prior to verification to mitigate the risk of delayed verification.

31. Where an Insurer is unable to comply with the relevant CDD measures, such Insurer shall, -

- (a) in relation to a new customer, not enter into the business relationship or perform the transaction; or
- (b) in relation to an existing customer, terminate the business relationship, with such customer and consider filing a suspicious transaction report in relation to the customer.

### Enhanced CDD

32. Every Insurer shall conduct the following enhanced CDD measures, in addition to the general CDD measures specified in rule 26, where the assessed money laundering and terrorist financing risk for a customer has been rated as high risk:-

- (a) obtain additional information on the customer and beneficial owner (ex: volume of assets and other information from public databases) ;
- (b) obtain approval from the Senior Management, if any, before entering into or in the case of an existing customer for continuing such business relationship with the customer ;
- (c) obtain additional information on the intended nature of the business relationship ;
- (d) regularly update the identification data of the customer and the beneficial owner ; and
- (e) enquire and record the reasons for prospective or performed transactions.

33. No Insurer shall under any circumstance enter into a business relationship or conduct any transaction with a customer with high money laundering and terrorist financing risk, prior to verifying the identity of the customer and beneficial owner.

### On-Going Customer Due Diligence

34. Every Insurer shall conduct on-going customer due diligence and on-going transaction scrutiny in terms of the provisions of section 5 of the Act on continuing business relationship with the customer, by-

- (a) scrutinizing transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the knowledge of the Insurer in respect of the customer, their business and risk profile, including where necessary, the source of funds;



- (b) ensuring that documents, data or information collected under the CDD process are kept up-to-date and relevant, by undertaking reviews of existing records particularly for customers from high risk countries referred to in rule 48; and
  - (c) taking into consideration the economic background and purpose of any transaction or business relationship which:-
    - (i) appears unusual;
    - (ii) is inconsistent with the expected type of activity and business model when compared to the volume of transactions;
    - (iii) does not have any apparent economic purpose; or
    - (iv) gives rise to suspicion as to the legality of such transaction, especially with regard to a complex and large transaction or a transaction involving high risk customers.
35. The frequency of on-going customer due diligence or enhanced on-going customer due diligence, shall commensurate with the level of money laundering and terrorist financing risks posed by the customer based on the risk profile and the nature of transactions.
36. Every Insurer shall, increase the number and timing of controls applied and select patterns of transactions that need further examination, when conducting enhanced on-going due diligence.

### Existing Customers

37. Every Insurer shall conduct CDD measures on its existing customers having regard to the assessment of materiality and risk of an existing customer. In assessing the materiality and risk, every Insurer may consider the following :-
- (a) the nature and circumstances surrounding the transaction including the significance of the transaction;
  - (b) any material change in the way the insurance policy or business relationship is operated; or
  - (c) the insufficiency of information held on the customer or change in customer's information.
38. An Insurer may not conduct further verification on previously conducted CDD in the following circumstances:-
- (a) renewal and reinstatement of insurance policies with no significant changes to the terms and conditions of the insurance policy (including benefits under the insurance policy); or
  - (b) applications of long term insurance covers which do not provide for payment of surrender values, including hospital and surgical insurance, critical illness insurance.
39. If an existing customer provides unsatisfactory information relating to CDD, the relationship with such customer shall be treated as a relationship posing a high risk and be subject to enhanced CDD measures.
40. Where an Insurer forms a suspicion of money laundering and terrorist financing risk relating to a customer and it reasonably believes that conducting the process of CDD measures would tip off the customer, it shall terminate conducting the CDD measures and proceed with the transaction and immediately file a suspicious transaction report.

### CDD for legal persons and legal arrangements

41. Every Insurer shall, in the case of a customer that is a legal person or legal arrangement,-
- (a) understand the nature of the customer's business, its ownership and control structure;
  - (b) identify and verify the customer in terms of the requirements set out in the Schedule hereto.
42. In order to identify the natural persons, if any, who ultimately has controlling ownership interest in a legal person, an Insurer shall at the minimum obtain and take reasonable measures to verify the following:-
- (a) identity of all directors and shareholders with equity interest of more than ten *per cent* with the requirement imposed on the legal person to inform of any change in such directors and shareholders;
  - (b) if there is a doubt as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interest, the identity of the natural person, if any, exercising effective control of the legal person through independent sources;
  - (c) authorization given for any person to represent the legal person either by means of Board resolution or otherwise;

- (d) where no natural person is identified under the preceding provisions, the identity of the relevant natural persons who hold the positions of senior management; and
  - (e) when a legal person's controlling interest is vested with another legal person, identity of the natural person who controls the legal person.
43. In order to identify the beneficial owners of a legal arrangement, the Insurer shall obtain and take reasonable measures to verify the following:-
- (a) for trusts, 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); or
  - (b) for other types of legal arrangements, the identities of persons in equivalent or similar positions.
44. The Insurer shall obtain sufficient information of the beneficiaries of trusts that are designated by characteristics or class of beneficiaries at the time of pay out or at the time of exercising their right for making a claim.

### **Non-Governmental Organizations, Not-for-Profit Organizations or Charities**

45. Every Insurer shall conduct enhanced CDD measures when entering into a business relationship with a Non-Governmental Organization (hereinafter referred to as "NGO") or a Not-for-Profit Organization (hereinafter referred to as "NPO") and Charities to ensure that their insurance policies are used for legitimate purposes and the transactions are commensurate with the declared objectives and purposes.
46. (1) Every Insurer shall conduct transactions in the name of the relevant NGO, NPO or Charity as per title given in the constituent documents thereof.
- (2) The individuals who are authorized to operate the insurance policies and members of their governing bodies shall also be subject to enhanced CDD measures.
- (3) Every Insurer shall ensure that the persons referred to in paragraph (2) are not affiliated with any entity or person designated as a proscribed entity or person, whether under the same name or a different name.
47. (1) Every Insurer shall review and monitor all existing relationships of a NGO, NPO or Charity to ensure that those organizations, their authorized signatories, members of their governing bodies and the beneficial owners are not linked with any entity or person designated as a proscribed entity and person, either under the same name or a different name.
- (2) In case of any suspicion on similarity in names, the Insurer shall file a suspicious transaction report or take other legal action or both.

### **Customers from High Risk Countries**

48. (1) Every Insurer shall apply the enhanced CDD measures to business relationships and transactions to customers from high risk countries.
- (2) The Financial Intelligence Unit in consultation with the Secretary to the Ministry of the Minister to whom the subject of Foreign Affairs has been assigned shall publish the list of high risk countries referred to in paragraph (1) on its official website-
- (a) based on the Financial Action Task Force listing ; or
  - (b) independently, taking into account , the existence of strategic deficiencies in anti- money laundering and suppression of terrorist financing policies and not making sufficient progress in addressing those deficiencies in those countries.
49. In addition to enhanced CDD measures, every Insurer shall apply appropriate counter measures, as follows, for countries specified in the list of high risk countries referred to in paragraph (2) of rule 48, corresponding to the nature of risk of listed high risk countries:-
- (a) limiting business relationships or transactions with identified countries or persons located in the country concerned; and
  - (b) conduct any other measure as may be specified by the Financial Intelligence Unit.

### **Politically Exposed Persons**

50. (1) Every Insurer shall implement appropriate internal policies, procedures and controls to determine whether the customer or the beneficial owner is a politically exposed person.

- (2) Every Insurer shall where a politically exposed person or an immediate family member and a close associate of a politically exposed person is a customer or a beneficial owner, -
- (a) obtain approval from the senior management of the Insurer, if any, to enter into or continue business relationship;
  - (b) identify, by appropriate means, the sources of funds and the sources of wealth; and
  - (c) conduct enhanced CDD and ongoing monitoring of their business relationships with the Insurer.

### **Reliance on Third-Parties**

51. An Insurer may rely on a third party financial institution or designated non-finance business to conduct CDD measures, including the identification of the customer, identification of the beneficial owner and understanding the nature of the business or initiating the business, when it is not practical to do so by the Insurer itself.
52. Where any Insurer relies on a third-party financial institution or designated non-finance business to conduct CDD measures, the ultimate responsibility for CDD measures shall remain with the Insurer relying on the third party, which shall-
- (a) obtain immediately the necessary information relating to CDD;
  - (b) take steps to satisfy itself that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay;
  - (c) satisfy itself that the third party is regulated, supervised or monitored, and has measures to adhere to CDD and record-keeping requirements in compliance with the Act.
53. Every Insurer which relies on third party shall-
- (a) have internal policies and procedures which enable the mitigation of money laundering and terrorist financing risks to the international financial system, including those from countries that have been identified by the Financial Action Task Force as having strategic deficiencies in anti-money laundering and suppression of terrorist financing policies;
  - (b) have regard to information available on the level of country risk, when determining the country of a third party to be relied on.

## **PART III**

### **RECORD KEEPING**

54. Every Insurer shall maintain all records of business relationships entered into by the Insurer including any insurance policies, business correspondence and documents relating to transactions, in particular, information and documents obtained during the CDD process, documents used to verify the identity of customers and beneficial owners, and results of any analysis undertaken.
55. The records shall be maintained up-to-date and be kept in original or copies with the Insurer's attestation.
56. Every Insurer shall retain the records for a minimum period of 6 years as specified in the Act. Where any record is subject to an on-going investigation or litigation or required to be produced in a court of law or before other appropriate authority such record shall be retained by the Insurer until such time the Insurer is informed by the relevant authority that such records are no longer required.
57. Every Insurer shall maintain the relevant records in a form that is admissible as evidence in a court of law and make such record available to the supervisory authorities and law enforcement authorities in a timely manner specified by such authorities.

## **PART IV**

### **CUSTOMER SCREENING**

58. Every Insurer shall verify whether any customer, prospective customer or beneficiary appears on any list of designated persons or entities issued under any regulation made in terms of the United Nations Act, No. 45 of 1968, with respect to any designated list on targeted financial sanctions related to terrorism and terrorist financing and proliferation of weapons of mass destruction and its financing or whether such customer, prospective customer or beneficiary acts on behalf of or under the direction of such designated persons or entities or for the benefit of such designated persons or entities.
59. In these rules –

“Act” means the Financial Transactions Reporting Act, No. 6 of 2006;

“beneficiary” means a natural or legal person, or a legal arrangement, or a category of persons who will be paid the insurance policy proceeds if or when an insured event, which is covered by the insurance policy, occurs;

“beneficial owner” means a natural person who ultimately owns or controls a customer or the natural person on whose behalf a transaction is being conducted and includes the person who exercises ultimate effective control over a legal person or a legal arrangement;

“Board of Directors” means the governing body or the group of directors of an Insurer, and in relation to an Insurer incorporated outside Sri Lanka means the senior management authority of such institution;

“customer” in relation to a transaction or an insurance policy includes-

- (a) the person in whose name a transaction or an insurance policy is arranged, opened or undertaken;
- (b) a signatory to a transaction or an insurance policy;
- (c) any person to whom a transaction an insurance policy has been assigned or transferred; or
- (d) any person who is authorized to conduct a transaction

“close associate” includes –

- (a) a natural person having joint beneficial ownership of legal entities and legal arrangements, or any other close business relationship; and
- (b) a legal person or legal arrangement whose beneficial owner is a natural person and is known to have been set up for the benefit of such person or his immediate family members;

“existing customer” means a customer who has commenced a business relationship on or before these rules come into force;

“Financial Action Task Force” means an independent inter -governmental body that develops and promotes the policies to protect the global financial system against money laundering, terrorist financing and financing for proliferation of weapons of mass destruction;

“financial group” means a group of companies that consists of a parent company or other type of a legal person, exercising control and coordinating function over the rest of the group, for the application of group supervision under the anti-money laundering and suppression of terrorist financing policies and procedures, together with branches and subsidiaries that are subject thereto;

“immediate family member” includes the spouse, children and their spouses or partners, parents, siblings and their spouses and grandchildren and their spouses;

“legal person” means any entity other than a natural person that is able to establish a permanent customer relationship with an Insurer or otherwise owns property and includes a company, a body corporate, a foundation, a partnership or an association;

“legal arrangement” includes an express trust;

“majority-owned subsidiary” means a subsidiary of a group of companies of which fifty percent or more of the shares are owned by the parent company;

“money laundering” means the offence of money laundering in terms of section 3 of the Prevention of Money Laundering Act, No 5 of 2006;

“person” means a natural or legal person and includes a body of persons whether incorporated or unincorporated and a branch incorporated or established outside Sri Lanka;

“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;

“risk based approach” in relation to the application of CDD measures to manage and mitigate money laundering and terrorist financing risks, means the use of simplified CDD measures in the case of customers with lower risk levels and the use of enhanced CDD measures in the case of customers with higher risk levels;

“suspicious transaction report” means a report of a suspicious transaction or attempted transaction as per section 7 of the Act;

“terrorist financing” means an act constituting an offence connected with the financing of terrorism under the Convention on

the Suppression of Terrorist Financing Act, No. 25 of 2005;

“threshold report” means a report under section 6 of the Act.

## SCHEDULE

[Rules 26 and 41]

### (1) Individual Customers:-

(a) The following information shall be obtained: –

(a1) In the case of all customers–

- (i) Full name as appearing in the identification document;
- (ii) Official personal identification or any other identification document that bears a photograph of the customer (ex: national identity card, valid passport, or valid driving licence);
- (iii) Permanent address as appearing on the identification document. If residential address differs from the permanent address residential address shall be supported by a utility bill not over three months old or any other reliable proof of residence. e.g. Utility bills are to be specified as electricity bill, water bill and fixed line telephone operator’s bill. No post-box number shall be accepted except for State owned enterprises. In the case of ‘C/o’, property owner’s consent and other relevant address verification documents are required to be obtained;
- (iv) Telephone number, facsimile number, and e-mail address (if available);
- (v) Date of Birth;
- (vi) Nationality;
- (vii) Occupation, business, designation held and the name of the employer and geographical areas involved (if available);
- (viii) Purpose for which the insurance policy is obtained;
- (ix) Expected turnover/volume of business;
- (x) Expected mode of transactions;
- (xi) Satisfactory reference, as applicable; and

(a2) In the case of non-resident customers-

- (i) The reason for obtaining the insurance policy in Sri Lanka;
- (ii) Name, address and the copy of Passport of the person or persons authorized to give instructions;

(b) The following documents shall be obtained (each copy shall be verified against the original)

- (i) Copy of identification document;
- (ii) Copy of address verification documents;
- (iii) Copy of the valid visa/permit in the case of policies for non-national customers.

### (2) Proprietorship/Partnership:-

(a) The following information shall be obtained:-

- (i) Full names of the partners or proprietors as appearing in the business registration document;
- (ii) Nature of the business;
- (iii) Registered Address of the registered place of business or the principal place of business;
- (iv) Identification details of the proprietor/partners as in the case of individual accounts;
- (v) Contact telephone, fax numbers;
- (vi) Income Tax file number;
- (vii) The extent of the ownership controls;
- (viii) Other connected business interests;

(b) The following documents shall be obtained (each copy shall be verified against the original)

- (i) Copy of the business registration document;
- (ii) Proprietors' information / Partnership Deed;
- (iii) Copy of identification and address verification documents.

### (3) Corporations/Limited Liability Company:-

(a) The following information shall be obtained: -

- (i) Registered name and the Business Registration Number of the institution;
- (ii) Nature and purpose of business;
- (iii) Registered address of the principal place of business;
- (iv) Mailing address, if any;
- (v) Telephone/Fax/E-mail;
- (vi) Income Tax File Number;
- (vii) Bank references (if applicable);
- (viii) Identification of all Directors as in the case of individual customers;
- (ix) List of Major shareholders with equity interest of more than ten percent;
- (x) List of subsidiaries and affiliates;
- (xi) Details of Names of the Signatories;

Note: 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, the Insurer may use the information available from reliable sources to identify the Directors and Major Shareholders;

(b) The following documents shall be obtained (each copy shall be verified against the original):-

- (i) Copy of the Certificate of Incorporation;
- (ii) Copy of Form 40 (Registration of an existing company) or Form 1 (Registration of a company) under the Companies Act, No. 7 of 2007 (hereinafter referred to as the "Companies Act") and Articles of Association;
- (iii) Board Resolution authorizing to obtain the insurance policy;
- (iv) Copy of Form 20 (Change of Directors/Secretary and Particulars of Directors/Secretary) under the Companies Act;
- (v) Copy of Form 44 (Full address of the registered or principal office of a company incorporated outside Sri Lanka and its principal place of business established in Sri Lanka) under the Companies Act;
- (vi) Copy of Form 45 (List and particulars of the Directors of a company incorporated outside Sri Lanka with a place of business established in Sri Lanka) under the Companies Act;
- (vii) Copy of the Board of Investment Agreement if a Board of Investment approved company;
- (viii) Copy of the Export Development Board (EDB) approved letter if EDB approved company;
- (ix) Copy of the certificate to commence business if a public quoted company;
- (x) Name of the person or persons authorized to give instructions for transactions with a copy of the Power of Attorney or Board Resolution, as the case may be;
- (xi) Latest audited accounts if available.

### (4) Clubs, Societies, Charities, Associations and Non- Governmental Organizations:

(a) The following information shall be obtained: -

- (i) Registered Name and the Registration Number of the institution;
- (ii) Registered address as appearing in the Charter, Constitution etc;
- (iii) Identification of at least two office bearers, signatories, administrators, members of the governing body or committee or any other person who has control and influence over the operations of the entity as in the case of individual accounts;
- (iv) Committee or Board Resolution authorizing to obtain the insurance policy;
- (v) The source and level of income/funding;

- (vi) Other connected institutions/associates/organizations;
  - (vii) Telephone/Facsimile numbers/e-mail address.
- (b) The following documents shall be obtained and be verified against the original:-
- (i) Copy of the registration document/constitution, charter etc.;
  - (ii) Board Resolution authorizing to obtain the insurance policy;
  - (iii) Names of the persons authorized to give instructions for transactions with a copy of the Power of Attorney or Board/Committee Resolution;

**(5) Trusts:-**

- (a) The following information shall be obtained: -
- (i) Identification of all trustees, co-trustees, author of the trust and beneficiaries in case of trusts as in the case of individual policies;
  - (ii) Whether the customer is acting as a trustee, nominee, or other intermediary;
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Copy of the Trust Deed, as applicable;
  - (ii) Particulars of all individuals.

**Circular No. 01/19**

May 23, 2019

CEOs/ General Managers of all Licensed Banks

Dear Sir/Madam

**CONDUCTING ENHANCED DUE DILIGENCE WITH RESPECT OF THE NON-GOVERNMENTAL ORGANIZATIONS, NOT-FOR-PROFIT ORGANIZATIONS OR CHARITIES UNDER FINANCIAL INSTITUTIONS (CUSTOMER DUE DILIGENCE) RULES, NO. 1 OF 2016**

As required by the Rule 51 of the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016, "Every Financial Institution shall conduct enhanced CDD measures when entering into a relationship with a Non-Governmental Organization (hereinafter referred to as "NGO") or a Not-for-Profit Organization (hereinafter, referred to as "NPO") and Charities to ensure that their accounts are used for legitimate purposes and the transactions are commensurate with the declared objectives and purposes".

Further, the National Secretariat for Non-Governmental Organizations has informed that the Circular No. RAD/99/01 issued by the Secretary to the President on 06.02.1999 requires all international and national level **foreign funded** voluntary social services organizations/Non-Governmental Organizations (NGOs) to re-register with the National Secretariat for Non-Governmental Organizations.

Accordingly, you are required to monitor and report any Non-Governmental Organization,

- a) not registered with the National Secretariat for Non-Governmental Organizations,
- b) registered with any other institution including the District Secretariat or the Divisional Secretariat or any other institutions and
- c) receives direct foreign funds / remittances into their accounts.

You may submit such report under Section 7 of the Financial Transactions Reporting Act, No. 6 of 2006

Yours sincerely  
**D M Rupasinghe**  
 Director  
 Financial Intelligence Unit

Cc : Compliance Officer, Licensed Banks

**Guidelines-01/2019****Ref: 037/08/001/0032/019**

August 22, 2019

To: Chief Executive Officer/ General Manager/ Proprietor

Dear Sir/Madam,

**GUIDELINES FOR DESIGNATED NON-FINANCE BUSINESSES ON SUSPICIOUS  
TRANSACTIONS REPORTING, NO. 01 OF 2019**

The above mentioned guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 6 of 2006, Designated Non-Finance Business (Customer Due Diligence) Rules No. 1 of 2018 and the Suspicious Transactions (Format) Regulations of 2017.

Yours faithfully,

E H Mohotty

**Actg. Director/ Financial Intelligence**

Cc : Compliance Officers

**GUIDELINES FOR DESIGNATED NON-FINANCE BUSINESSES ON SUSPICIOUS TRANSACTIONS  
REPORTING, NO. 01 OF 2019****Introduction**

1. These Guidelines are issued pursuant to Section 15 (1) (i) of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), and be applicable to Designated Non-Finance Businesses (herein after referred to as DNFBs) engaged in or carrying out "designated non-finance business" as defined in Section 33 of the FTRA.
2. These Guidelines provide an aid to interpret and apply Suspicious Transactions (Format) Regulations of 2017 issued under Gazette Extraordinary No. 2015/56 on April 21, 2017 to Institutions that engaged in or carrying out "designated non-finance business" as defined in Section 33 of the FTRA.
3. These Guidelines are not intended to be exhaustive and cannot be interpreted as legal advice from the Financial Intelligence Unit (FIU).

**Legal Obligation**

4. As per Section 7 of the FTRA all "Institutions", should report suspicious transactions to the FIU. "Institution" is defined as any person or body of persons engaged in or carrying out any finance business or designated non-finance business. The following businesses and professions are included in the definition of "designated non-finance business" under Section 33 of the FTRA among others.
  - a) casinos, gambling houses or conducting of a lottery, including a person who carries on such a business through the internet when their customers engage in financial transactions equal to or above the prescribed threshold.
  - b) real estate agents, when they are involved in transactions for their clients in relation to the buying and selling of real estate.
  - c) 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 when they engage in cash transactions with a customer, equal to or above the prescribed threshold.
  - d) lawyers, notaries, other independent legal professionals and accountants when they prepare for or carry out transactions for their clients in relation to any of the following activities :-
    - (i) buying and selling of real estate;
    - (ii) managing of client money, securities or other assets;
    - (iii) management of bank, savings or securities accounts;
    - (iv) organization of contributions for the creation, operation or management of companies; and
    - (v) creation, operation or management of legal person or arrangements and the buying and selling of business entities.



- e) a trust or company service provider not otherwise covered by this definition, which as a business provides and one or more of the following services to third parties :-
    - (i) formation or management of legal persons;
    - (ii) acting as or arranging for another person to act as, a director or secretary of a company, a partner or a partnership or a similar position in relation to other legal persons;
    - (iii) providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or for any other legal person or arrangement;
    - (iv) acting as or arranging for another person to act as, a trustee of an express trust;
    - (v) acting as or arranging for another person to act as, a nominee shareholder for another person.
5. Section 7 (1) of the 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 Terrorist Financing 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 FIU”.
- Such reports are herein referred to as Suspicious Transaction Reports (STRs).
- 6. As specified above, all DNFBs are required to report STRs to the FIU.
  - 7. DNFBs are required to establish and maintain procedures and systems to implement the reporting requirement under Section 7 of the FTRA. Further, the FTRA requires DNFBs to train its officers, employees and agents to recognize suspicious transactions.
  - 8. As per the Rule 6 (f) and 6 (g) (iii) of the Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 (CDD Rules), DNFBs are required to formulate an internal AML/CFT Policy approved by its Senior Management or Board of Directors and that policy must include procedures and controls on reporting suspicious transactions to the FIU.
  - 9. Under the FTRA every DNFB is required to maintain the records of transactions and of correspondence relating to transactions and records of all reports furnished to the FIU for a period of six years from the date of the transaction, correspondence or the furnishing of the report, as the case may be. ‘All reports furnished to the FIU’ shall also include the records of STRs.

### Importance of Reporting Suspicious Transactions

- 10. Reporting of suspicious transactions is an important mode of detection of money laundering, terrorist financing and related transactions of proceeds of crime.
- 11. Reporting of suspicious transactions is a major function of an effective AML/CFT programme of an Institution.
- 12. For the AML/CFT function to be meaningful, it must result an effective implementation of the FTRA, and other Rules and Regulations issued thereunder. Ineffective implementation can result in DNFBs either submitting STRs that are inaccurate, incomplete or inappropriate or DNFBs failing to report suspicious transactions entirely. Such failures expose the DNFBs to regulatory, reputational, operational, and legal risks. In some cases, such failures may also expose both natural and legal persons to criminal liability.
- 13. Whatever the source of customer information and knowledge of transactions, there must be an institutional will to make the system work. That is, there must be the will of the DNFB to detect suspicious transactions, to recognize in good faith such suspicious transactions, and fully and accurately report such transactions when recognized. Such institutional will and implementation is most effective when there is a clear commitment from those at the Senior Management level

including the Board of Directors/Owners of the DNFBs and propagated through concrete actions and demonstrations to the rest of the staff of the DNFBs (e.g. development of effective internal policies, processes and training programmes, audits of AML/CFT functions).

14. The key to being able to identify unusual and possibly suspicious transactions is the DNFB's knowledge of their customer and the customer's business and related transactions.

## Suspicion

15. DNFBs must develop their own operating definition for suspicion. It may incorporate persistent feelings of doubt about circumstances relating to a behavior, to a single transaction, to a series of transactions, an 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, since proof will rarely be available. The definition should allow formation of a belief that is not necessarily firmly grounded or perfectly clear. At the same time, the definition should not allow these beliefs to be fanciful or brief. Certainly, the definition should count as suspicious behaviors and activities that are unusual for the circumstances and not adequately or credibly explained.

The operating definition for suspicion must pass a test of reasonableness. If the definition is too narrow or rigid, it may exclude transactions which are unanticipated unlawful circumstances and may also result in avoidance behavior by criminals. On the other hand, a definition that is too broad or flexible might result in large number of STRs that do not reflect possible unlawful circumstances. Suspicious indicators and typologies may be the main element of identifying such suspicious transactions and "unusual" patterns of behavior and transactions should also be considered in identifying such suspicions.

A non-exhaustive and unofficial list of suspicious indicators for transactions and behaviours is provided in Appendix I. The DNFBs should identify and prepare their own indicators based on nature and size of its business. When using indicators, the DNFBs need to consider that these indicators are not formulae and do not necessarily indicate criminal activity. The DNFB's identification of suspicious transactions should not be limited to the circumstances set out in the indicators but should ultimately be based on the knowledge of the customer and the customer's business and related transactions.

16. After gaining a thorough understanding of the FTRA and other Rules, Regulations, Circulars and Guidelines issued thereunder and after consideration of facts and circumstances available to the DNFBs and if such facts are identified in good faith and within the context of the DNFB's understanding of suspicion and risks for the DNFB, transactions that are deemed "suspicious" must be reported to the FIU regardless of the amount of the transaction.
17. DNFBs are not expected to establish the unlawful activity before submitting the STR to the FIU rather they may report the unusual circumstances surrounding a transaction or transactions or set of behaviours that lead to a suspicion.

## Reporting of STRs

18. The STR duly completed and signed by the Compliance Officer must be submitted to the FIU using Schedule V of the Suspicious Transactions (Format) Regulations of 2017 (Appendix II).
19. The DNFB must submit STRs in writing through the prescribed format and these may be delivered by way of mail, fax or electronic mail or such other manner as may be determined by the FIU.
20. The suspicion may be informed through telephone; however it must be followed up in writing within twenty-four hours through the prescribed format.

## Timing of Reporting

21. The Section 7 (1) of the FTRA requires STRs to be submitted to the FIU as soon as practicably possible but no later than two working days after formation of a suspicion. This means that, regardless of the respective DNFBs' processes, procedures and steps after the initial formation of suspicion, the suspicion itself must be reported even if the DNFB's process has not been completed. The process of the DNFB for dealing with suspicion may proceed concurrently with the filing of an STR. It is to be noted that the suspicion can be formed at any time for the business relationship with customer and at any stage of the business relationship - for example – as suspicion can be formed when establishing the business relationship, when verifying the identity, when the DNFB is monitoring the accounts and transactions of the customers.

For example, a customer approaches a real estate agent to purchase an apartment. He continually emphasized that he does not want his name to be appeared in any document relating to the property and instead requested to include a non-related third party's name in all the documents. This formed an immediate suspicion about the customer and as soon as practicable but within two working days from the transaction this suspicion should be reported to the FIU while the DNFB may continue with its internal processes to verify the authenticity and details of the payment.

22. If, after sending the STR, the DNFB discovers additional facts and circumstances to either support or refute the initial suspicion after sending the STR, then the DNFB should provide such additional information to the FIU appropriately.

### Content of Reporting

- 23. Completeness:** A single STR must stand alone and contain complete information about the suspicion. An STR should provide a full picture of the suspicion itself as well as the circumstances that gave rise to and support that suspicion. Where multiple transactions and/or behaviours are connected with a suspicion, a single STR should be filed capturing all of these.

- 24. Form Narrative:** The narrative portion of the STR is most important. When submitting the STR, the DNFB may provide full detailed narrative in the Schedule V of the Suspicious Transactions (Format) Regulations of 2017. The narrative should attempt to answer to the extent possible the basic descriptive questions of **what, who, when, where, why and how.**

The DNFB should provide clear quantitative and qualitative data as much as possible such as;

- Amount of money involved
- Place where the respective transaction was made
- The date of the transaction(s)

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

Common attributes to be questioned;

- What is the nature of the suspicion?
- Any likely offenses that may have been committed?
- What transactions, attempted transactions, behaviours, facts, beliefs and circumstances are involved and relevant to the suspicion?
- Who are the natural and legal persons involved?
- Who are the beneficial owners (if relevant)?
- What identifying information such as names, ID numbers, registration numbers, etc. is available?
- What are the addresses/locations involved?
- What are their occupations or 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?
- When and where did the transactions or attempted transactions or behaviours occur?
- How does the timing or location of the transactions contribute to the suspicion?
- Why do these facts and circumstances support the suspicion?
- How was the suspicion formed?
- Actions taken by the DNFB, if any?
- Are there any related STRs already submitted by the DNFB?

The narrative should be structured in a logical manner so that information can be conveyed to the FIU as efficiently, completely and accurately as possible. Essay formats could be used for an 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.

- 25. Accuracy:** It is imperative that factual information provided in the STR 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 a NIC, or a misplaced or transposed character in a name, can make the difference between a successful or an unsuccessful analysis by the FIU. 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 any official registration documents.

## Submission of Supporting Documents

26. DNFBs are required to submit relevant supporting documents along with the STR.
27. 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 purchase of a real estate, all the details relating to purchase that are related to the suspicion should be included in the narrative.
28. An indicative but non-exhaustive list of supporting documents along with corresponding scenarios are given below for reference

Scenario	Indicative List of Supporting Documents
Suspicion regarding forged / altered identity (NIC/ Passport / Driving License)	<ul style="list-style-type: none"> <li>• Copy of the documents</li> </ul>
Discrepancy between the source of funds of the owner and the property in a property deal	<ul style="list-style-type: none"> <li>• Sales and purchase agreement</li> <li>• Receipts relating to the property transaction</li> </ul>
Occupation details does not match with the transaction value of a gem	<ul style="list-style-type: none"> <li>• Receipts involved with the gem sale</li> </ul>
Customers regular purchases of casino value instruments and frequent wagers in cash just below the identification threshold	<ul style="list-style-type: none"> <li>• Receipts involved with the casino transaction</li> </ul>
Customer of a lawyer transfers a deed to a third party without physically meeting the customer and without a power of attorney	<ul style="list-style-type: none"> <li>• Transfer deed</li> <li>• Payment receipts</li> </ul>
Customer of accountants have overpaid their invoices	<ul style="list-style-type: none"> <li>• Statement of accounts</li> <li>• Overpaid invoices</li> </ul>

## Miscellaneous

### Confidentiality

29. As per the Section 9 of the FTRA, DNFBs are prohibited from informing any person, including the customer, about the contents of an STR and even that the DNFB has filed or is contemplating filing such a STR to the FIU.
30. As per CDD Rules, where a DNFB forms a suspicion of money laundering or terrorist financing risk relating to a customer and reasonably believes that conducting the process of CDD measures would tip off the customer, then the DNFB can proceed without conducting the CDD measures. However, the DNFB is required to immediately file a STR in compliance with Section 7 of the FTRA.

### Breach of Confidentiality

31. If any customer is tipped off about the reporting of STRs by any officer of the DNFB it would be considered as a violation under the Section 9 and 10 of the FTRA. 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 for a term not exceeding two years, or both.

### Protection for Persons Reporting STRs

32. As per Section 12 of the FTRA:

"No civil, criminal or disciplinary proceedings shall lie against —

- (a) an 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".

33. Pursuant to Section 7 and 10 of the FTRA, all information in an STR, or additional information provided in support of the STR, including the identity of any officer or employee of a DNFB, will be treated in the strictest confidence by the FIU.

### Failure to Report STRs

34. If a DNFB fails to submit STRs when reasonable grounds exist to suspect that a transaction is related to money laundering or terrorist financing, it is considered as non-compliance with the FTRA. As per Section 19 of the FTRA, who fails to conform with Section 7 of the FTRA, shall be liable to a penalty as may be prescribed taking into consideration the nature and gravity of relevant non-compliance: provided however such penalty shall not exceed a sum of rupees one million in any given case. Where a person who has been subjected to a penalty on a previous occasion, subsequently fails to conform to a requirement on any further occasion such person shall be liable to the payment of an additional penalty in a sum consisting of double the amount imposed as a penalty on the first occasion and for each non-compliance after such first occasion.
35. Further, in terms of Section 28 of the FTRA, a person who is making an STR under Section 7 makes any statement that the person knows is false or misleading in a material particular or omits from any statement any matter or thing without which the person knows that the statement is false or misleading in a material particular is guilty of an offence punishable on conviction to a fine not exceeding one hundred thousand rupees or imprisonment of either description for a term not exceeding one year, or to both such fine and imprisonment.

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

36. The FTRA does not prohibit DNFBs from continuing business relationships with customers about whom STRs has been submitted or suspicion has been formed. Especially the behaviour of the DNFB towards the customer should not amount to any tipping off subject to the provisions of the Section 3 of the FTRA.

### Obligations of DNFBs which have submitted an STR in relation to a customer and is continuing the business relationship

37. After the submission of an initial STR, the DNFB 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

38. Pursuant to Section 7 (3) of the FTRA, where the FIU has requested further information regarding any STR, the DNFBs should take all necessary measures to provide such information promptly to the FIU.
39. In addition, as specified in Section 15 (1) (b) of the FTRA, the DNFBs must submit any information that the FIU requests relevant to an act constituting an unlawful activity, or an offence of money laundering or financing of terrorism, or a terrorist activity whether or not publicly available, including commercially available databases, or information that is collected or maintained, including information that is stored, in databases maintained by the Government.

## 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 DNFB. 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 DNFB 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 DNFB to believe that unlawful activity may be involved.
- Any unresolved and persistent feelings of doubt related to customers and their transactions or 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 any correspondence sent to home address.
- 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 premises.
- Customer shows unusual curiosity about internal systems, controls and policies.
- Customer presents confusing or inconsistent details about the transaction.
- Customer over justifies or explains the transaction.
- Customer tries to convince the staff to alter or omit reporting data.
- Customer is secretive and reluctant to meet in person.
- Customer seems nervous when doing the transaction.
- Customer insists to do the transaction quickly.
- Customer attempts to develop a close rapport with the staff.
- Customer offers money, huge commissions, or unusual favours for the transactions or 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.

### **Identity Indicators**

- Customer provides doubtful or vague information.
- Customer produces false identification or identification that appears to be counterfeited, altered or inaccurate.
- Customer refuses to produce personal identification documents.
- Customer doesn't have the original identification documents and only possesses copies of such documents.
- Customer's supporting documentation lacks important details.
- Customer unnecessarily delays presenting identity documents or any other document relating to CDD.
- A foreign customer produces identification documents which do not reflect his/her nationality and are difficult to be verified.
- Customer presents identification documents appearing as new or have recent 'issued dates'.
- Customer is unemployed, or switches jobs frequently.
- Customer displays large amount of cash to do the transaction.

### **Indicators for a Business**

- Business is having irregular business hours.
- Business is an unusually profitable business.
- Business is a profitable business in a failing industry.
- Business receipts and income seems far above the industry norms.
- 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 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.

### **Red Flag Indicators for Specific Sectors**

#### **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.
- A casino player seems to be funded by a third party.
- Dramatic or rapid increase in size and frequency of transactions seen from a established customer.
- Gambling activity that is inconsistent with the financial situation and/or known occupation of the person gambling.
- Purchase of winning tickets from 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 by a third party 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 provide doubtful or unverifiable identification information.

#### **Real Estate Agents**

- Customer 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 (other than their own children) who do not have the economic capacity to carry out such purchases.
- Customer tries to hide the identity of the beneficial owner or requests that the transaction be structured to hide the identity of the beneficiary.
- Purchaser is a shell company and the representative of the company does not like to disclose the identity of the beneficial owner.
- Address given by the customer is unknown, believed to be false, or simply a correspondence address.
- Customer purchases the property however, it seems that the property has not been used for a long time after the purchase.
- The person who is making the payment for the property is different from the person who occupies the property.
- Customer does not satisfactorily explain the last-minute substitution of the purchasing party’s name.
- Customer pays substantial down payment in cash and balance is funded by an unusual source or offshore bank.
- 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.

- 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.
- Customer is known to have paid large remodeling or home improvement invoices with cash, on a property for which property management services are provided.
- Transaction does not match the business activity known to be carried out by the customer.
- Transaction is entered at a value significantly different (much higher or much lower) from the real or market value of the property.
- Property is sold in a series of successive transactions each time at a higher price between the same parties.
- Buyer takes on a debt significantly higher than the value of the property.
- Customer suddenly cancels/aborts transaction and requests refund either back to himself/herself/itself or to a third party.
- 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.

### Gem and Jewellery Dealers

Customer and customer behaviour:

- Customer executes transaction/transactions which is/are not consistent with his usual profile.
- A frequent customer, who buy/sell precious stone/metal or jewellery products makes a transaction/transactions inconsistent with his usual financial status/profile.
- Customer pays the value of the precious stone/metal or jewellery producing an unusual payment method.
- Customer conducts large or frequent transactions using foreign currency without any economic rationale.
- 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.
- 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.
- Customer is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping documents.
- Customer is unusually concerned and/or makes inquiries about the AML/CFT requirements and internal compliance policies, procedures or controls.
- Customer attempts to maintain a high degree of secrecy with respect to transactions, for example by requesting not to keep normal business records.
- Customer avoids answering questions related to the source of money to buy the precious stone/metal or jewellery product.
- Customer is known to have a criminal/terrorism background.
- Customer appears to be related to a country or entity that is associated with ML/TF activities.

In addition to the above mentioned indicators, the following suspicious indicators on suppliers and supplier behaviours are depicted for the enhanced awareness of the gem and jewellery dealers;

Supplier and supplier behaviour:

- Supplier under/over invoice the value of the precious gem stone/metal.
- Supplier uses third parties in transactions related to precious gem stones/metals. Ex: funds paid to a third party who is not related to the supplier without any legitimate business purpose.
- Precious stones/metals/jewellery products delivered from a third party who is not related to the supplier, without any legitimate business purpose.
- The origin of the precious stones/metals/jewellery products appears to be fictitious.
- Supplier is unusually concerned with the AML/CFT requirements.
- Supplier attempts to maintain a high degree of secrecy with respect to the transactions and requests not to keep the normal business records.
- Supplier is not willing to disclose beneficial owners or controlling interests.



- Supplier demands the payment for the gem/jewellery via an unusual payment method. Ex: Request for a bank deposit to a third party bank account, Request to handover cash to a third party, etc.
- For Diamonds;
  - a. Rough Diamonds are not accompanied by a valid Kimberley Process (KP) certificate, or broadly recognized equivalent scheme for certification.
  - b. No KP certificate attached to the shipment of rough diamonds
  - c. The KP certificate is/appears to be forged.
- Supplier appears to be related to a country or entity that is associated with high ML/TF risk or a person that has been designated as terrorist.
- Supplier transports precious stones/metals through a country which is associated with high ML/TF risk, for no apparent economic reason.

## Appendix II

## Schedule V

## CONFIDENTIAL

Province :

District :

SUSPICIOUS TRANSACTION REPORT		
a. This report is made pursuant to the requirement to report suspicious transactions under the Financial Transaction Reporting Act, No. 6 of 2006		
b. Under Section 12 of the Act, no civil, criminal or disciplinary proceedings shall be brought against a person who makes such report in good faith		
PART A - DETAILS OF REPORT		
1	Date of Sending Report	
2	Is this replacement to an earlier report?	Yes <input type="checkbox"/> No <input type="checkbox"/>
PART B - INFORMATION ON SUSPICION		
3.	Name in Full (if organization, provide registered business/ organization name)	
4.	Residential/ Registered Address	
5.	NIC No. / Passport No./ Business Registration No.	
6.	Gender	Male <input type="checkbox"/> Female <input type="checkbox"/>
7.	Country of Residence and Nationality (if an individual)	
8.	Business/ Employment Type	
9.	Occupation (where appropriate, principal activity of the person conducting the transaction)	
10.	Name of Employer (where applicable)	
11.	Contact Details	
PART C - DESCRIPTION OF SUSPICION		
12.	Details of Transaction / Activity	

13.	Ground / Reasons for Suspicion	
<b>PART D - DETAILS OF REPORTING PERSON</b>		
14	Date of Reporting	
15	Signature	
16	Name of Reporting Person/Agency	
17	NIC Number	
18	Designation / Occupation	
19	Address	
20	Contact Details	

**Guidelines-02/2019**

Ref: 037/08/001/0036/019

September 02, 2019

To: Chief Executive Officer/ General Manager/ Proprietor

Dear Sir/Madam,

**GUIDELINES FOR DESIGNATED NON-FINANCE BUSINESSES ON IDENTIFICATION OF BENEFICIAL OWNERSHIP, NO. 02 OF 2019**

The above mentioned guidelines will come into force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 6 of 2006 and the Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018.

Yours faithfully,

E H Mohotty

**Actg. Director/ Financial Intelligence**

Cc: Compliance Officers

**GUIDELINES FOR DESIGNATED NON-FINANCE BUSINESSES ON IDENTIFICATION OF BENEFICIAL OWNERSHIP, NO. 02 OF 2019****PART I****Introduction**

1. These Guidelines are issued pursuant to Section 15 (1) (j) of the Financial Transactions Reporting Act No, 6 of 2006 (hereinafter referred to as FTRA). The Financial Intelligence Unit (hereinafter referred to as FIU), acting within the powers vested with it under the FTRA, issued the Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 (CDD Rules for DNFBs) by Gazette Extraordinary No. 2053/20, dated January 10, 2018, effective from the date of issue, applicable to institutions that engage in "non-finance business" (hereinafter referred to as DNFBs) as defined under Section 33 of the FTRA. Rules 10-13, 17-19 of the CDD Rules for DNFBs established, inter alia, provisions requiring DNFBs 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 43 of the CDD Rules for DNFBs.
2. The following businesses and professions are considered as DNFBs under the FTRA.
  - a) Casinos/gambling houses/conducting of a lottery, including a person who carries on such business through the internet.
  - b) Real estate agents, when they are involved in transactions for their clients in relation to the buying and selling of real estate.
  - c) Dealers in precious metals and dealers in precious and semi-precious stones.
  - d) Lawyers, notaries, other independent legal professionals/accountants.
  - e) Trusts or company service providers.
3. These Guidelines provide an aid for DNFBs to identify and verify the beneficial owner and apply the CDD Rules for DNFBs. These Guidelines are not intended to be exhaustive and do not impose legally binding practices on any DNFB, and do not

constitute legal advice from the FIU. Nothing in these Guidelines should be interpreted as releasing DNFBs from any of their obligations under the CDD Rules for DNFBs or the FTRA.

## PART II

### A) Who is a Beneficial Owner?

4. The “beneficial owner” is a natural person who ultimately owns or controls 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.
5. DNFBs conduct transactions or establish business relationships with individual customers as well as with corporate customers. Transactions with corporate customers can be any transaction conducted with a natural person, a “legal person” or a “legal arrangement”. “Legal person” means “an entity other than a natural person that is able to establish a permanent customer relationship with a non- finance business or otherwise owns property and includes a company, a body corporate, a foundation, a partnership or an association” whereas “legal arrangement” means “an express trust<sup>1</sup>, a fiduciary account or a nominee” (as defined in the CDD Rules for DNFBs).
6. It is a DNFB’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. If the customer is acting on behalf of another person, the individual may not be the beneficial owner.

### B) 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)<sup>2</sup>, bribery and corruption, insider dealings, tax fraud, terrorist financing (TF)<sup>3</sup>, and other unlawful activities. This is because, corporate entities provide an attractive avenue to disguise the ownership and hide the illicit origin for criminals who are trying to evade anti-money laundering (AML) and countering the financing of terrorism (CFT) measures.
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 a transaction executed by a corporate entity, and/or
  - c) the source or use of funds associated with a corporate entity.

## PART III

### Establishing the Beneficial Owner

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

10. 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 DNFB 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 the transaction.
11. Acting on behalf of the customer means 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’. There are instances where persons are acting on behalf of a customer may not necessarily be the beneficial owners of that customer.
12. DNFBs have to identify the natural persons that act on behalf of the customer and verify the identity of such persons<sup>4</sup>. 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.

1. In terms of Section 03 of the Trust Ordinance No. 07 Of 1917 as amended by Section 2 of the Trusts (Amendment) Act No. 6 of 2018 (“Trusts Amendment Act”), an ‘express trust’ is defined as a trust that is created by the author of the trust generally in the form of an instrument in writing with certainty indicating the intention of the trust, but does not include a constructive or a de facto trust, whether charitable or not.

2. “Money Laundering” (ML) means the offence of money laundering in terms of section 3 of the Prevention of Money Laundering Act, No 5 of 2006

3. “Terrorist Financing” means an act constituting an offence under section 3 of the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005..

4. Please refer Rule No. 11 of the CDD Rules for DNFBs

**B) Elements of identifying the Beneficial Owners of Legal Persons**

13. DNFBs should consider following three main elements in the process of identifying Beneficial Owners of a legal person:

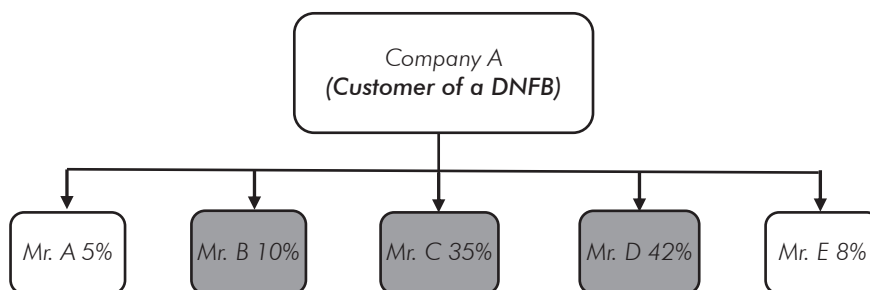
- a) Which natural person(s) owns or controls more than ten percent (10%) of the legal person’s equity? (Controlling Ownership)
- b) Which natural person(s) has “effective control” of the legal person? (Effective Control)
- c) On behalf of which natural person(s) the transaction is being conducted? (Person on whose behalf a transaction is being conducted)

**i) Element I – Controlling Ownership**

14. DNFBs are required to understand the ownership and control structure of their customers which are legal persons<sup>5</sup>. Controlling ownership interest is defined as “an interest acquired by providing more than ten per cent of the capital of a legal person”. Accordingly, under this element, DNFBs are required to identify shareholders of the legal person having more than 10% of shares as the beneficial owners of the legal person. The prescribed threshold for controlling interest is interpreted as owning more than ten percent (10%) of the customer that is a legal person<sup>6</sup>. The ownership could be direct as well as indirect through aggregated ownership as illustrated below.

**Figure 1: Direct Shareholding**

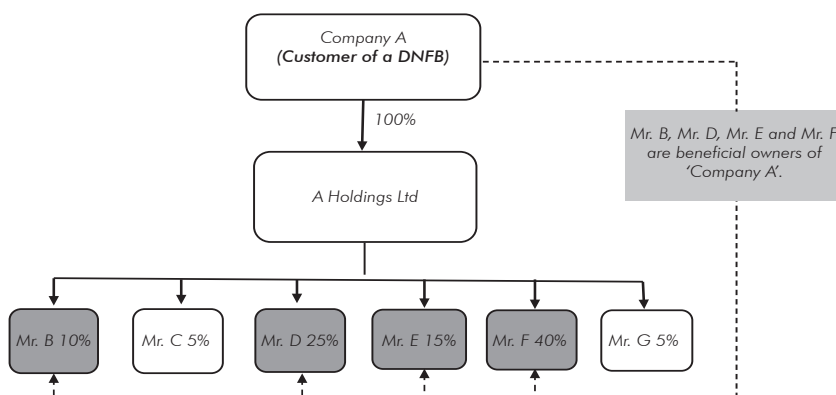
‘Company A’ is a customer of a DNFB that is a legal person. Mr. A, Mr. B, Mr. C, Mr. D and Mr. E are direct shareholders of the ‘Company A’ whereas Mr. B, Mr. C and Mr. D are the beneficial owners having more than 10% of the ownership.



15. In addition, there can be indirect ownership structures as follows.

**Figure 2: Indirect Shareholding**

‘Company A’ is a customer of a DNFB that is a legal person. ‘A Holdings Ltd’ holds 100% of the shares of ‘Company A’ and Mr. B, Mr. C, Mr. D, Mr. E, Mr. F and Mr. G are the shareholders of the ‘A Holdings Ltd’.



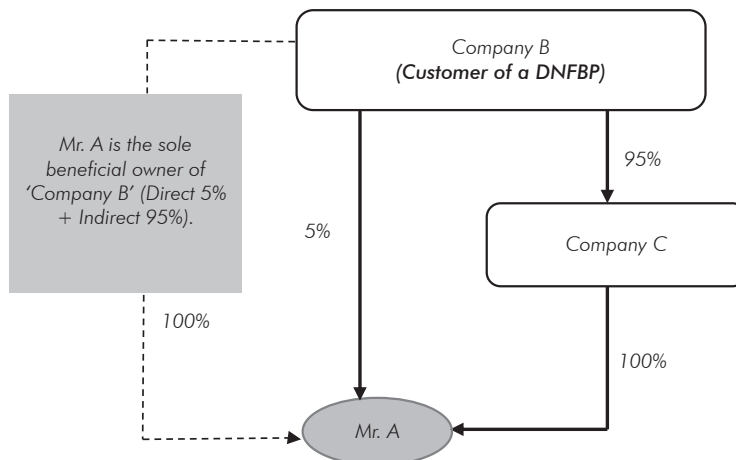
5. Please refer Rule No. 17 of the CDD Rules for DNFBs

6. Please refer Rule No. 18 (a) of the CDD Rules for DNFBs.

16. Some businesses maintain complex structures of ownership which would make it difficult to understand the ultimate beneficial owners.

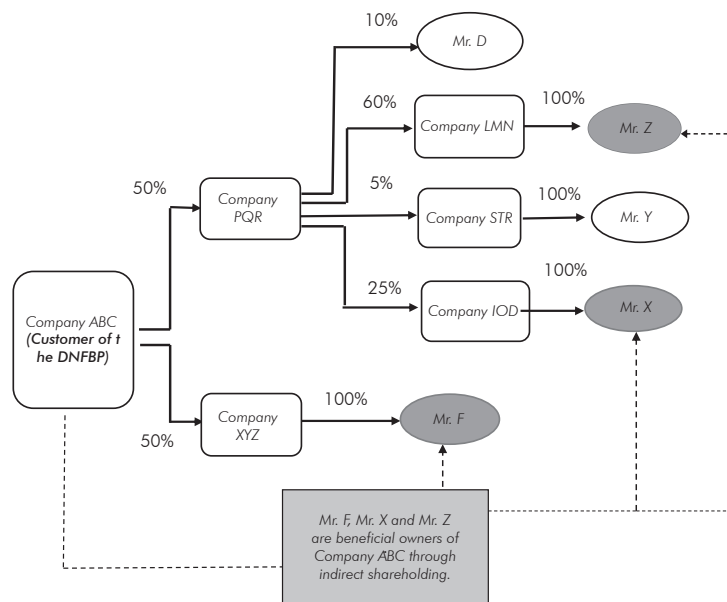
**Figure 3: Direct and Indirect Shareholding**

Company B' is a customer of a DNFB that is a legal person. 'Company C' holds 95% of the shares of 'Company B' and Mr. A holds the rest 5%. On the other hand, Mr. A holds the 100% of the shares of 'Company C'.



**Figure 4: Multi-level indirect shareholdings**

'Company ABC' is a customer of a DNFB that is a legal person. Both 'Company PQR' and 'Company XYZ' holds 50% of the shares of 'Company ABC'. Shares of the 'Company PQR' are respectively held by Mr. D (10%), 'Company LMN' (60%), 'Company STR' (5%) and 'Company IOD' (25%). However, Mr. Z holds 100% of the shares of 'Company LMN', Mr. Y holds 100% of the shares of 'Company STR' and Mr. X holds 100% of the shares of 'Company IOD'. Further, the 100% of the shares of 'Company XYZ' is held by Mr. F.



17. For some customers that are legal persons, ownership may be spread over a large number of individuals with all individuals 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).

**ii) Element II: Effective Control**

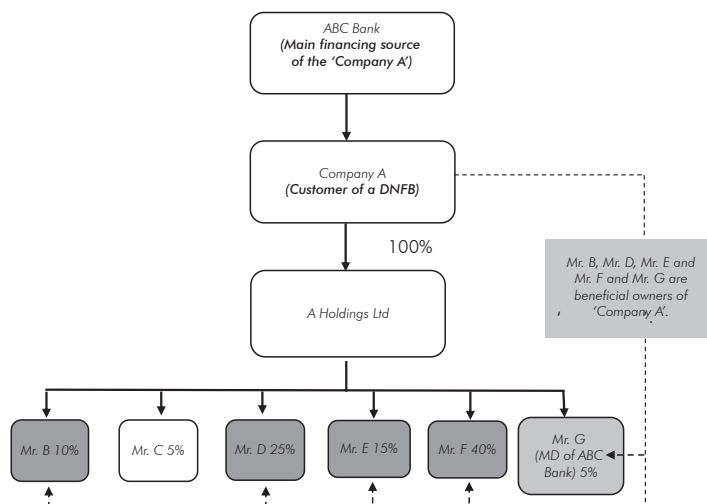
18. Effective control of a legal person is another important component that determines the beneficial ownership. Such control can be direct or indirect, formal or informal. At a direct and formal level, it is essential to understand a legal person’s governance structure to identify the natural persons that exercise effective control over the legal person. In deciding the effective controller(s) in relation to a customer that is a legal person, DNFBs 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).

19. Natural persons may also control the legal person through other means such as:

- a) Personal connections to persons in positions such as an Executive Director/CEO/ 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;
- d) Use, enjoyment or benefiting from the assets owned by the legal person even if control is never exercised.

**Figure 5: Effective Control**



Mr. G is the Managing Director of the ‘ABC Bank’, which is the main financing source of the ‘Company A’ (the customer of DNFB that is a legal person). 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.

20. Where no natural person is identified under (13-17) above, DNFBs should identify and take reasonable measures to verify the identity of the relevant natural person who holds the position of senior managing officials.

**C) Identifying Beneficial Owner of Legal Arrangements**

21. 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.

22. The DNFBs 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 protector, where applicable, and any other natural person exercising ultimate effective control over the trust (including those who control through the chain of control or ownership)<sup>7</sup>.

7. Please refer Rule No. 19 of the CDD Rules for DNFBs.

23. DNFBs 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 DNFBs should take reasonable measures to verify trust document through independent means (e.g. Registry of Trust, Notary).

## PART IV

### Ways in which Beneficial Ownership information can be hidden

24. Beneficial ownership information can be concealed through various ways, including but not limited to;
- a) use of shell companies<sup>8</sup> (which can be established with various forms of ownership structures). Especially if the shell companies are involved in foreign ownerships, the impact will spread across jurisdictions,
  - b) complex ownership and control structures involve many layers of ownership. Sometimes, it can be in the name of another legal person and sometimes it may use a chain of ownership that is spread across several jurisdictions,
  - c) purchase of properties under the names of third parties where no relationship can be found,
  - d) use of legal persons as directors,
  - e) formal nominee shareholders<sup>9</sup> and directors where the identity of the person who nominates such shareholders or directors is hidden,
  - 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, and
  - h) use of intermediaries in forming legal persons, including professional intermediaries such as accountants, lawyers, notaries, trust and company service providers.

### Case Study on Identifying Beneficial Owners of a Legal Person

ABC Company Ltd is a private limited liability company registered under the Companies Act, No. 7 of 2007. ABC Company Ltd comes to a Real Estate Agent to buy a land plot.

Mr. A owns 30% of the shares of ABC Company Ltd and XYZ Company Ltd holds the balance 70% of shares of ABC Company. Further, Mr. S is the Managing Director of ABC Company and the Board of Directors are his wife, Mrs. S and their three children.

In this example the Real Estate Agent is required to identify the following in relation to ABC Company Ltd as required by Rule 17 of the CDD Rules for DNFBs:

1. Understand the nature of the customer's business, its ownership and control structure.
  - the ownership of the ABC Company Ltd - shared by Mr. A (30% of the shares) and XYZ Company Ltd (70% of the shares);
  - the ownership structure of the entity - ABC Company Ltd is a business owned by family members and traded privately;
2. Identify the customer and verify its identity as required by Rule 17 (b) of the CDD Rules for DNFBs.
  - the identification of all members of the Board of Directors (Mr. S's Family) as they are having effective control;
3. Identify and verify the identity of beneficial owners as required by Rule 18 of the CDD Rules for DNFBs.
  - identification and verification of identity 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 XYZ Company Ltd since it owns 70% of the shares, it also exercises control;
  - however, in a case like this, Real Estate Agent must research further to determine whether any individual owns enough shares of XYZ Company Ltd that would constitute 10% of ABC Company Ltd, or until Real Estate Agent determines that there is no such individual;
  - the manner in which DNFBs obtained this information; and
  - the measures taken to verify accuracy of information.

## PART V

### What should you do to Identify and Verify Beneficial Ownership Information?

25. DNFBs identify and take reasonable measures to verify the identity of the beneficial owner(s) of the customers that are legal persons and legal arrangements.

8. Shell companies are companies that are incorporated with no significant operations or related assets, including an absence of physical presence.

9. A nominee shareholder refers to a company member holding the shares on behalf of the actual owner or beneficial owner. He/she is the registered owner of the share. A nominee shareholder holds the share under a custodial agreement.

26. Accordingly, the identification of beneficial owner is mandatory. Once the DNFBs establishes who the beneficial owner(s) of a customer is/are, the DNFBs must collect at least the following information in relation to each individual beneficial owner,
- a) the full name;
  - b) permanent residential or mailing address;
  - c) occupation, name of employer, business or principal activity;
  - d) an official personal identification number or any other identification document that bears a photograph of the customer or beneficial owner such as the National Identity Card, passport or driving license;
  - e) date of birth;
  - f) nationality;
  - g) source of funds;
  - h) purpose of transaction;
  - i) telephone numbers (residence, office or mobile).
27. DNFBs are also required to take reasonable measures 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<sup>10</sup> by requiring the customer to furnish the original document and making a copy of the said document.
28. The reasonable measures for verification should be taken subject to the risk and complexities of the ownership and control structure of the legal person or arrangement.

## PART VI

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

29. DNFBs are required to implement appropriate internal policies, procedures and controls to determine if the beneficial owner is a Politically Exposed Person<sup>11</sup>. Through such processes, if the DNFB identifies any beneficial owner as a PEP, the relationship should be subject to enhanced due diligence as required in the CDD Rules for DNFBs.

### B) Record keeping obligations

30. The DNFBs are required to maintain records of identification and verification information relating to beneficial ownership as prescribed under CDD Rules for DNFBs<sup>12</sup> and FTRA.

### C) Reporting Obligations

31. When a DNFB is unable to comply with CDD measures as required in CDD Rules for DNFBs including identification and verification of beneficial ownership information, and/or CDD measures would tip off the customer, it shall immediately file a Suspicious Transaction Report in compliance with Section 7 of the FTRA<sup>13</sup>.

### D) Sanctions

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

Ref: 037/07/006/0013/018

October 01, 2019

To : CEOs / General Managers / Managing Directors of All Financial Institutions and Designated Non- Finance Business

Dear Sir/Madam,

### GUIDELINES ON IDENTIFICATION OF POLITICALLY EXPOSED PERSONS, NO. 03 OF 2019

The above Guidelines will come in to force with immediate effect and shall be read together with the Financial Transactions Reporting Act, No. 6 of 2006, Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016 and Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018.

Yours faithfully,

D M Rupasinghe

**Director/ Financial Intelligence**

10. Please refer Rule No. 13 of the CDD Rules for DNFBs

11. Please refer Rule No. 24 of the CDD Rules for DNFBs.

12. Please refer Rule No. 38(1) of the CDD Rules for DNFBs.

13. Please refer Rule No. 14 of the CDD Rules for DNFBs.



- Cc;
1. Director, Bank Supervision Department of Central Bank of Sri Lanka
  2. Director, Department of Supervision of Non – Bank Financial Institutions of Central Bank of Sri Lanka
  3. Director General, Securities and Exchange Commission of Sri Lanka
  4. Director General , Insurance Regulatory Commission of Sri Lanka
  5. Director General, National Gem and Jewellery Authority of Sri Lanka
  6. Compliance Officers, all Financial Institutions and Designated Non- Finance Business

## GUIDELINES ON IDENTIFICATION OF POLITICALLY EXPOSED PERSONS, NO. 03 OF 2019

### A. Introduction

1. These Guidelines are issued pursuant to section 15(1) (j) of the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA).
2. These Guidelines are issued to the Institutions defined under Section 33 of the FTRA for the purpose of determining whether a customer or the beneficial owner is a Politically Exposed Person (herein after referred as PEPs).
3. Further, these guidelines should be read along with the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016 by Gazette Extraordinary No. 1951/13, dated January 27, 2016, and Designated Non- Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 by Gazette Extraordinary No. 2053/20, dated January 10, 2018. These Customer Due Diligence (CDD) Rules are hereinafter referred to as FIs CDD Rules and DNFBs CDD Rules respectively.
4. Rule 59 of the FIs CDD Rules and Rule 24 of the DNFBs CDD Rules establishes the procedure to be followed by the FIs and DNFBs in dealing with customers /beneficial owners who are Politically Exposed Persons, or their immediate family members and closed associates.
5. These Guidelines are provided as an aid to interpret and apply CDD Rules. These Guidelines are not intended to be exhaustive and cannot be considered as legal advice from the Financial Intelligence Unit (FIU). Nothing in these Guidelines should be construed as releasing FIs or DNFBs from any of their obligations under the CDD Rules or the FTRA.

### B. Background/ Context

#### Who is a Politically Exposed Person (PEP)?

6. Rule 99 of the FIs CDD Rules and Rule 43 of the DNFBs CDD Rules define PEPs, their immediate family members and close associates.
7. As per these CDD Rules, “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 ranking or junior ranking individuals. The CDD Rule is also applicable to family members and close associates of a PEP as well.
8. Accordingly, PEPs can be identified under following categories
  - a) *Domestic PEPs*: individuals who are entrusted with prominent public functions in Sri Lanka.
  - b) *Foreign PEPs*: individuals who are entrusted with prominent public functions by a foreign country.
  - c) *International organization PEPs*: persons who are entrusted with a prominent function by an international organization.
  - d) *Immediate Family members*: individuals who are related to a PEP either directly (on grounds of consanguinity) or through marriage or similar (civil) forms of partnership.
  - e) *Close associates*: individuals who are closely connected to PEP, either socially or professionally.
9. Immediate family members of PEPs include any of the following relations:
  - i. spouse (current and past);
  - ii. siblings, (including half-siblings) and their spouses;
  - iii. children (including step-children and adopted children) and their spouses;
  - iv. parents (including step-parents);
  - v. grand children and their spouses.
10. Close associates of PEPs or their family members includes;

- i. a natural person having joint beneficial ownership of legal entities and legal arrangements, or any other close business relationship with any person identified in guidelines 7 or 9 above; and
  - ii. a legal person or legal arrangement whose beneficial owner is a natural person and is known to have been set up for the benefit of such person or his immediate family members identified in guidelines 7 and 9;
  - iii. a PEP's widely- and publicly-known close business colleagues or personal advisors, in particular, persons acting in a financial fiduciary capacity.
11. For the purposes of the PEP definition, "international organizations" are organizations established by formal political agreements between its member countries, where such agreement has the status of an international treaty, and the organization is recognized in the law of the member countries. The examples of international organizations provided by FATF include:
- a) the United Nations and its affiliates such as the International Maritime Organization;
  - b) regional international organizations;
  - c) international military organizations such as the North Atlantic Treaty Organization;
  - d) economic organizations such as the World Trade Organization, International Monetary Fund, World Bank, Asian Development Bank, etc.
12. CDD Rules require FIs/ DNFBs to establish specific procedures in relation to PEPs as well as their immediate family members and close associates.

### **C. Money Laundering, Terrorism Financing and Proliferation Financing Risks Associated with PEPs**

13. Due to their official status or position held and influence, it is recognized that many PEPs are in positions that potentially can be abused for money laundering and related predicate offences, including bribery and corruption, as well as activity related to terrorism financing. The potential risks associated with PEPs justify the application of additional Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures to prevent, detect and manage these risks emanating from their conduct.
14. However, it should be noted that if a person is a PEP, this does not mean that there is an automatic link to criminal activities or abuse of the financial system. The additional AML/CFT measures applied in the case of PEPs are preventative, and should not be interpreted as stigmatizing PEPs as being involved in criminal activity; rather these measures recognize the increased risk, including opportunity, associated with holding this type of role.

### **D. Identification of PEPs**

15. Every FI/ DNFB is required to implement appropriate internal policies, procedures and controls to determine if the customer or the beneficial owner is a politically exposed person. This is applicable for all new and ongoing business relationships with customers.
16. The ability to determine if customers or beneficial owner is a PEP fully depends upon the effective implementation of CDD measures, including the identification, verification, and ongoing due diligence requirements as set out in the CDD Rules. CDD measures are the indispensable starting point as these should be applied to any type of customer. Key factors in the CDD process such as principal occupation or employment would be a good starting point in such determination.
17. The PEP definition specifically excludes identifying middle ranking or junior individuals as PEPs. However, there should be awareness that middle ranking and junior officials could act on behalf of a PEP to circumvent AML/CFT controls. These less prominent public functions could be appropriately taken into account as customer risk factors in the framework of the overall assessment of risks associated with the business relationship in accordance with CDD Rules when they are acting on behalf of a PEP.
18. FIs/ DNFBs doing business with a foreign PEP may not have had much first-hand knowledge or direct access to information about variables such as what a reasonable income would be for a foreign public official at a particular level or in a particular position. Consequently, appropriate risk management systems need to be implemented to address these particular risks both at the account opening/CDD stage, and when existing foreign customers become PEPs.
19. In case the customer is determined to be a domestic/international organization PEP, then FIs/DNFBs should gather sufficient information to understand the particular characteristics of the public functions that the PEP has been entrusted with and, in the case of an international organization, the business model of that organization. Information on international organizations, for example, may be found on their respective website.

20. FIs/ DNFBs may refer to the non-exhaustive list at Annex A as examples of types of customers, whether domestic or foreign or in relation to international organizations and with political exposure. However, FIs/DNFBs are required to identify any individual who falls within the definition of PEP even though such person/designation is not listed within the Annex A.

#### **E. Beneficial owners**

21. When conducting CDD, FIs/ DNFBs are required to identify the beneficial owners and take reasonable measures to verify the identity of the beneficial owners. This should include legal persons and arrangements whose ultimate beneficial owners or controllers are PEPs or their family members or associates.
22. If there are reasonable grounds to believe that a beneficial owner is a PEP, a FIs/DNFBs entity required to verify if the beneficial owner is a PEP.
23. FIs/DNFBs are required to inquire the reason for a person purporting to act on behalf of a beneficial owner in order to determine whether the beneficial owner of the customer or client is a PEP.
24. FIs/DNFBs required to apply all the requirements applicable to a PEP for:
- a) a person who is acting on behalf of a PEP, or
  - b) a customer or beneficial owner of a customer who is identified as a family member or close associate of a PEP.

#### **F. Methods used in PEP identification**

25. There is no single method of identifying PEPs, their family members, or close associates. Whereas PEPs and family members can be identified using objective criteria, criteria for close associates are sometimes (but not always) relatively more subjective. It is highly unlikely that any single method of identification will be adequate. Instead a combination of methods will yield the best results. Some of those methods include:
- a. Screening of customer and beneficial owner identifiers using commercial databases compiled for this purpose. These databases are populated from public sources of information and, accordingly may not be complete or up-to-date.
  - b. Screening of customer and beneficial owner identifiers using an internally maintained database of PEPs, family members, and close associates.
  - c. Screening against publicly available registries of people with financial declaration /disclosure requirements in their home country in case of foreign PEPs.
  - d. Conducting and utilizing ad-hoc customer research. This involves researching customers using available tools such as search engines, social media, company registries, company websites, news websites, trade websites, government websites, commercial information aggregators, in-person interviews, etc.
  - e. Self- declaration obtained from a customer - FIs/DNFBs can obtain information from customers on their PEP status as a part of the CDD process However, FIs/DNFBs who confirm customer's PEP status through a self-declaration should ensure that they do not rely solely on such self-declarations as customers may not be able to determine if they are indeed a PEP. Institutions are advised to actively engage with customers and elicit information pertinent to the different elements of the PEP definition if they deploy self-declaration.

#### **G. Review/Update of Customer Status**

26. Existing customers may become PEPs after they enter a business relationship, therefore, it is essential that FIs /DNFBs monitor non-PEP accounts for a change in the customer status/profile or account activity and update customer information accordingly. Such monitoring is required to be based on risk, consistent with the requirements under the CDD Rules. Following are some instances where institutions are required to update its customer status relating to PEPs.
- a. when a customer spontaneously submits a new declaration of political exposure;
  - b. when ongoing monitoring reveals activities or information that deviate significantly from the customer and/or account profile in a manner that suggests previously unknown political exposure;
  - c. when an election is held that affects any of the customer's PEP status;
  - d. whenever the FIs/DNFBs becomes aware, through any means, of the need for such an update.
27. Existing PEP customer relationships should be subject to periodic review to ensure that due diligence information remains current and the associated controls remain appropriate.

## H. Managing PEP Risks

28. FIs/DNFBs are required to conduct enhanced due diligence of the business relationships of any customer identified as a PEP.
29. Once identified, PEPs, their family members, and close associates always represent additional risk that requires appropriate management. The precise nature and magnitude of that risk and commensurate risk mitigations, however, may vary widely. Factors that affect risk relating to PEPs may include:
- a. the perceptions of corruption and financial transparency in the PEP's country of citizenship;
  - b. the nature of the political exposure;
  - c. the nature of the relationship with the PEP, in the case of family members and close associates ;
  - d. the elapsed time since the PEP held the position(s) that qualified him to be a PEP;
  - e. the nature of the claimed sources of funds and the ability to fully and confidently verify those sources and their legitimacy;
  - f. has business interests, which are related to his/her public functions (conflict of interest);
  - g. involved in public procurement processes; where the PEP holds several (related or unrelated) prominent public functions that may enable influence to be exerted at several key decision making points in a process, especially relating to payments;
  - h. holds a prominent public function in sectors known to be exposed to corruption; or
  - i. holds a prominent public function that would allow him/her to exert a negative impact on the effective implementation of the AML/CFT framework in the country.
30. FIs /DNFBs are required to apply following measures relating to PEPs as per the CDD Rules;
- a. Obtain approval from the institution's board of directors/ senior management prior to entering in to a new business relationship or continuing an existing relationship;
  - b. Identify the source of funds and wealth by appropriate means;
  - c. Enhanced ongoing monitoring of the business relationship is performed.

## I. Establishment of the Source of Wealth and Source of Funds of the PEP

31. FIs/DNFBs are required to take reasonable measures to establish the *source of wealth* and the *source of funds* of PEPs, as required in the CDD Rules.
32. "Wealth" and "funds" are two different concepts. The *source of wealth* refers to the origin of the PEP's entire body of wealth (i.e., total assets). This information will usually give an indication as to the volume of wealth the customer would be expected to have, and a picture of how the PEP acquired such wealth. Although FIs/DNFBs may not have specific information about assets not deposited or processed by them, it may be possible to gather general information from commercial databases or other open sources.
33. The *source of funds* refers to the origin of the particular funds or other assets that are the subject of the business relationship between the PEP and the FIs/DNFBs (e.g., the amounts being invested, deposited, or transferred/wired as part of the business relationship). Normally, it will be easier to obtain this information but it should not simply be limited to knowing from which institution it may have been transferred/wired. The information obtained should be substantive and establish a source or reason for having been acquired.
34. Information about the source of wealth and source of funds is useful for ongoing due diligence purposes. When conducting ongoing due diligence of the business relationship, it is important for FIs/DNFBs to ensure that the level and type of transactions are consistent with the institution's knowledge of the PEP's source of wealth and source of funds. The aim is to ensure that the reason for the business relationship is commensurate with what one could reasonably expect from the PEP, given his/her particular circumstances.
35. Where the level or type of activity in the business relationship is different from what can be reasonably explained, given the knowledge of a PEP's sources of funds and sources of wealth, an entity should undertake a further assessment on the business relationship to establish whether to:
- a. continue with or terminate the business relationship; or
  - b. file a suspicious transaction report to the FIU.

## J. Time Limits of PEP Status

36. The handling of a customer who is no longer entrusted with a prominent public function should be based on an assessment of risk and not on any predetermined time limits.

37. Such risk-based approach requires that FIs/ DNFBs assess the ML/TF risks of a PEP who is no longer entrusted with a prominent public function, and take effective action to mitigate this risk. Possible risk factors are:
- a. the level of (informal) influence that the individual could still exercise; the seniority of the position that the individual held as a PEP; or
  - b. whether the individual's previous and current function are linked in any way (e.g., formally by appointment of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).
38. PEPs are not immune from the application of the requirements under the CDD Rule or from being the subject of the obligation to report suspicious transactions under Section 7 of the FTRA.

#### **K. PEPs Red Flags / Indicators**

39. The Financial Action Task Force (FATF) has developed a collection of red flags / indicators (**Annex B**) that can be used to assist in the detection of misuse of the financial systems by PEPs during a customer relationship. This list of red flags / indicators is relevant to detect those PEPs that abuse the financial system, and does not intend to stigmatize all PEPs. Often, matching one or more of these red flags / indicators may only raise the risk of doing business with a customer (red flags, risk factors), and several red flags may need to be met to create a suspicion. However, in some cases and depending on the specific circumstances, matching just one or more of these red flags / indicators will directly lead to a ML suspicion (indicators of suspicion).
40. These PEP red flags are not an exhaustive list and are complementary to the usual ML red flags that a reporting entity may be using. The methods of those PEPs that engage in illicit activity change and therefore indicators of their activity will do so as well. Also, there may be other red flags that should be considered as equally important in a particular country or region.

#### **L. Board of Directors/ Senior Management**

41. Consistent with the requirement for FIs/DNFBs to obtain senior management approval for establishing or continuing a business relationship with PEP, a FIs/DNFBs should determine what constitutes senior management within the FIs/DNFBs.
42. What would constitute as senior management should depend on the size, structure, and nature of the entity involved.
43. FIs/DNFBs should ensure that senior management are aware of relationships with PEPs and in no circumstances the FIs/ DNFBs undertake business relationships with PEPs in the absence of adequate controls by senior management.
44. In assessing whether FIs/DNFBs should undertake a business relationship with a PEP, senior management involved shall:
- a. have full knowledge and understanding of the FI/DNFB's AML or CFT internal control programs;
  - b. have a strong understanding of the potential or existing client's or customer's ML or TF risk profile; and
  - c. have active involvement in the approval process of the entity's AML or CFT policies and procedures.
45. Without limiting the determination or otherwise of FIs/DNFBs assessing what constitutes senior management, an entity may establish monitoring committees, or comparable decision-making structures that:
- a. review establishment of business relationships with PEPs at the acceptance stage and on an on-going basis;
  - b. ensure that all relevant internal information is carefully considered in specific cases;
  - c. manage the termination of a business relationship with a PEP in appropriate circumstances; and
  - d. ensure that appropriate information, which include internal policies, procedures, and controls regarding PEPs, is available within the reporting entity when and where necessary.

#### **M. Record Keeping Obligations**

46. The FIs/DNFBs are required to maintain records of identification and verification information relating to PEPs as prescribed under Part V and Part III of the FIs and DNFBPs CDD Rules respectively and FTRA.

#### **N. Internal control policies-training and group-wide policies**

47. FIs/DNFBs should establish and maintain internal control policies that include ongoing employee training programs.
48. The training programs, which should be regularly updated, shall be designed to address effective ways of determining whether a client or customer is a PEP and to understand, assess and handle the potential risks associated with PEPs.

49. FIs/DNFBPs that are part of a financial group should establish and maintain group-wide internal controls, policies and procedures.

## O. Information Sharing

50. FIs/DNFBPs that are part of financial groups may share information amongst themselves on PEPs for AML/CFT purposes, provided that there are adequate safeguards on the confidentiality and use of information exchanged.

### ANNEX - A

#### NON-EXHAUSTIVE LIST CATEGORIES OF CUSTOMERS THAT CAN BE CONSIDERED AS PEPs

##### DOMESTIC PEPs

A.	1	The President
	2	The Prime Minister
	3	The Speaker and the Deputy Speaker of the Parliament
	4	Cabinet Ministers, Non-Cabinet Ministers, State Ministers, Deputy Ministers
	5	Members of Parliament
	6	Leaders of Political Parties

B	7	Governors of Provinces
	8	Chief Ministers of Provinces
	9	Mayor, Chairman of Municipal Councils
	10	Chairman of Provincial Councils
	11	Members of Municipal Councils/ Provincial Councils / Local Government Bodies
	12	Commissioners/ Secretaries to Municipal Councils/ Provincial Councils / Local Government Bodies

C	13	Chief Justice
	14	Attorney General
	15	Judges of Supreme Court
	16	Judges of the Court of Appeal
	17	Solicitor General of the Attorney General's Department
	18	Judges of High Courts/Provincial High Courts
	19	Judges of District Courts
	20	Judges of Magistrate Courts
	21	Registrar of Supreme Court
	22	Registrar of the Court of Appeal
	23	Registrars of Judges of High Courts/Provincial High Courts
	24	Registrars of District Courts
	25	Registrars of Magistrate Courts

D	26	Ambassadors /High Commissioners
	27	Consul-General/ Deputy Head of Mission/Charge d'affaires/Honorary Consul
	28	Ministers plenipotentiary and Envoys Extraordinary
	29	Representatives of UN agencies and Heads of other international organizations

E	30	Secretary/ Senior Additional Secretaries/ Additional Secretaries to the President
	31	Secretary/ Senior Additional Secretaries/ Additional Secretaries to the Prime Minister

	32	Secretary /Senior Additional Secretaries/ Additional Secretaries to the Cabinet of Ministers, Non-Cabinet Ministers, State Ministers, Deputy Ministers
	33	Deputy Secretary to the Treasury
	34	Secretary/ Senior Additional Secretaries /Additional Secretaries/ Deputy Secretaries to Ministries
	35	Members of the Monetary Board
	36	Governor / Deputy Governors / Assistant Governors and Heads and Additional Heads of Department of the Central Bank of Sri Lanka
	37	Advisors to the President/ Prime Minister / Ministers/ Ministries
	38	Chief of staff of presidential secretariat
	39	Auditor General
	40	Secretary General of Parliament
	41	District Secretaries/ Government Agent and Secretaries
	42	Heads and Senior Officials of Government Departments
	43	Chairmen and Senior Officials of State Enterprises
	44	Chairmen and Senior Officials of State Corporations / Statutory Boards/ Authorities/ Public Corporations

F	45	Field Marshall / Admiral of the Fleet/ Marshal of the Air Force
	46	Chief of Defence Staff
	47	General of Sri Lanka Army/Admiral of Sri Lanka Navy/ Air Chief Marshal of Sri Lanka Air Force
	48	Officers in the Rank of Lieutenant Colonel and above of Sri Lanka Army
	49	Officers in the Rank of Commander and above of Sri Lanka Navy
	50	Officers in the Rank of Wing Commander and above of Sri Lanka Air Force
	51	Inspector General of Police
	52	Police officers above the rank of Asst. Superintendent of Police

G	53	Chairman/ members and senior officers of the Public Service Commission
	54	Chairman/ members and senior officers of the National Police Commission
	55	Chairman/ members and senior officers of the Human Right Commission
	56	Chairman/ members and senior officers of the Commission to Investigation Allegations of Bribery or Corruption
	57	Chairman/ members and senior officers of the Finance Commission
	58	Chairman/ members and senior officers of the Election Commission
	59	Members of Constitutional Council
	60	Chairman/ members and senior officers of the Audi Service Commission
	61	Chairman/ members and senior officers of the Delimitation Commission
	62	Chairman/ members and senior officers of the National Procurement Commission
	63	Members of Cabinet appointed committees

H	64	Chairman, Members and senior officers of University Grant Commission
	65	Chairman, members of University Councils
	66	Chancellor
	67	Vice Chancellor
	68	Registrar of universities

**FOREIGN PEPS**

1	69	Officials of international organizations who hold or have held, in the course of the last 5 years, management positions in such organizations (directors, heads of the boards or their deputies)
	70	Officials of international organization who perform or performed any other management functions on the highest level, particularly in international and intergovernmental organizations,
	71	Members of international parliamentary assemblies,
	72	Judges and management officials of international courts

**ANNEX B****DETECTING MISUSE OF THE FINANCIAL SYSTEM BY PEPS – RED FLAGS AND INDICATORS FOR SUSPICION****A. PEPS attempting to shield their identity:**

1. Use of corporate vehicles (legal entities and legal arrangements) to obscure i) ownership, ii) involved industries or iii) countries.
2. Use of corporate vehicles without valid business reason.
3. Use of intermediaries when this does not match with normal business practices or when this seems to be used to shield identity of PEP.
4. Use of family members or close associates as legal owner.

**B. Red flags and indicators relating to the PEP and his behavior**

1. The PEP makes inquiries about the institution's AML policy or PEP policy.
2. The PEP seems generally uncomfortable to provide information about source of wealth or source of funds.
3. The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries.
4. The PEP is unable or reluctant to explain the reason for doing business in the country of the FIs/DNFBs.
5. The PEP provides inaccurate or incomplete information.
6. The PEPs seeks to make use of the services of a FIs/ DNFBs that would normally not cater to foreign or high value clients.
7. Funds are repeatedly moved to and from countries to which the PEPs does not seem to have ties with.
8. The PEP is or has been denied entry to the country (visa denial).
9. The PEP is from a country that prohibits or restricts its/certain citizens to hold accounts or own certain property in a foreign country.

**C. PEP's position or involvement in businesses:**

1. The PEP has a substantial authority over or access to state assets and funds, policies and operations.
2. The PEP has control over regulatory approvals, including awarding licences and concessions.
3. The PEP has the formal or informal ability to control mechanisms established to prevent and detected ML/TF.
4. The PEP (actively) downplays importance of his/her public function, or the public function s/he is relates to associated with.
5. The PEP does not reveal all positions (including those that are *ex officio*).
6. The PEP has access to, control or influence over, government or corporate accounts.
7. The PEP (partially) owns or controls FIs/ DNFBs, either privately, or *ex officio*.
8. The PEP (partially) owns or controls the FIs/ DNFBP (either privately or *ex officio*) that is a counter part or a correspondent in a transaction.
9. The PEP is a director or beneficial owner of a legal entity that is a client of a FIs/DNFB.

**D. Red flags and indicators relating to the industry/sector with which the PEP is involved:**

1. Arms trade and Defence industry.
2. Banking and finance.
3. Businesses active in government procurement, i.e., those whose business is selling to government or state agencies.



4. Construction and (large) infrastructure.
5. Development and other types of assistance.
6. Human health activities.
7. Privatization.
8. Provision of public goods, utilities.

**Circular – 02/19****Ref: 37/02/008/0016/016**

December 3, 2019

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

Dear Sir/Madam,

**DEBITING WITHHOLDING TAXES FROM SUSPENDED ACCOUNTS**

The Financial Intelligence Unit (FIU) is empowered by Section 15(2) of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), to direct financial institutions not to proceed with any transaction or transactions for a period of seven days. Further, in terms of Section 15(3) of the FTRA, the High Court of the Western Province holden in Colombo may subsequently extend such suspension for a further period.

In terms of Sections 84 and 86 of the Inland Revenue Act, No. 24 of 2017 (IRA) withholding taxes should be deducted at the time of interest paid to the account holder and should be paid to the Commissioner-General of Inland Revenue within 15 days after the end of each calendar month. Section 179 of the IRA empowers the Commissioner-General of Inland Revenue to impose penalties in an event of non-payment of the due amount within the stipulated time period.

All financial institutions are hereby directed to deduct withholding taxes before crediting the interest to the suspended accounts and **credit only the net interest** (withholding taxes deducted from interest) to such accounts. Further, you are requested to pay the withholding taxes related to interest of suspended accounts to the IRD as specified in the IRA.

This circular will come into effect immediately and shall be applicable from the next immediate cycle of the interest payment.

Yours faithfully,

**Director  
Financial Intelligence Unit**

Cc: Compliance Officers of All Licensed Banks and Licensed Finance Companies

**Ref. No.: 08/25/004/0003/001****Circular No.: SSSS/01/2019**

January 29, 2019

To: All Participants of the LankaSettle System

**REAL-TIME SMS AND/OR EMAIL NOTIFICATION TO THE CUSTOMERS REGISTERED IN  
THE CENTRAL DEPOSITORY SYSTEM OF LANKASECURE**

1. The LankaSecure System has been upgraded to deliver a real-time notification to the Customers registered in the Central Depository System by Dealer Direct Participants, for each and every debit and credit record of scripless securities in the LankaSecure System, carried out for each Securities Account. The method of delivery of the notifications will be via Email or Short Message Service (SMS) or both.
2. In order to accommodate the above facility, Section 2.2.1 of Volume 3 of the LankaSettle System Rules is hereby amended to read as follows with effect from 25.02.2019.

**Section 2.2.1 of Volume 3 of the LankaSettle System Rules version 2.1**

## 2.2 Custodial Responsibilities

Dealer Direct Participants shall comply with applicable laws, regulations and directions issued by CBSL in the conduct of their business as a Dealer Direct Participant.

Dealer Direct Participants shall act as custodians for their Customers in the LankaSecure System. This custodial role includes the following responsibilities:

2.2.1 On mandatory basis, promptly and accurately record the name, valid postal address and National Identification Number or Company Registration Number or the number of any other identification document approved by CBSL of each Customer in the LankaSecure System when the Customer obtains legal ownership of securities. A valid email address and a valid mobile number (in International Phone Number Format, e.g. 94nnnnnnnn), shall be recorded subject to 2.2.1.1 and 2.2.1.2 below.

2.2.1.1 It is mandatory for all Dealer Direct Participants in the LankaSecure System to obtain a written confirmation of a preferred real-time notification method from every Customer. The real-time notification method shall be recorded in the LankaSecure System as "Email", "SMS", "Email and SMS" or "None" (where "None" means Customers do not intend to receive notifications by either Email or SMS). Above Customer consent on real-time notification method shall be preserved for future reference.

2.2.1.2 A valid email address shall be recorded for the method of notification opted as "Email" option, a valid mobile number shall be recorded for the method of notification opted as "SMS" option and, both a valid email address and a valid mobile number shall be recorded for "Email and SMS" option.

2.2.1.3 Postal/email address will be used by the Central Depository System to send statements to Customers, and email address/mobile number will be used by the Central Depository System for real-time notification via Email/SMS of each and every debit and credit record of scripless securities carried out for each Securities Account of the LankaSecure System.

3. Accordingly, Dealer Direct Participants are required to record a preferred real-time notification method, for all existing Customers in the LankaSecure System by 18.03.2019 and apply the same rule for all new Customers.
4. The transmission of above real-time notifications from the LankaSecure System will commence from 25.03.2019.

M Z M Aazim  
**Superintendent**  
**Public Debt Department**

D Kumaratunge  
**Director**  
**Payments and Settlements Department**

Ref: 08/21/005/012/005

July 09, 2019

### DIRECTIONS ON PRIMARY ISSUANCE OF TREASURY BONDS

The following amendments to the Directions on Primary Issuance of Treasury Bonds dated 24 July 2017, issued in terms of Regulation 11(1) of the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009 dated 24 June 2009 made by the Minister of Finance under the Registered Stock and Securities Ordinance No.7 of 1937, shall be in force from 09 July 2019.

8.1 Two or more T-bond series are offered at each monthly issuance.

8.6 Phase III: Issuance of the remaining volume (the difference between announced amount and aggregate allocated amount under Phase I and Phase II in each series), if any, on a mandatory basis at WAYR among PDs based on each such PD's successful participation at Phases I and II. However, this phase will not be executed unless CBSL accepts 70% of the offered amount in minimum at Phase I. Issuance under this phase will be limited to PDs.

9.7 Each PD is required to secure a minimum Successful Subscription (SS) of 50 per cent of Average Issuances (AI) per PD in each quarter. AI per PD within each quarter of a given calendar year, excluding issuances made to designated non-dealer bidders, is calculated as follows.

$$\text{AI per PD} = \frac{\text{Total issuance under phase I} - \text{issuances made to designated non\_dealer bidders under phase I}}{\text{Number of PDs}^*}$$

\* the maximum number of PDs that have been eligible to bid at primary auctions on any given date during the quarter concerned.

In calculation of SS of a PD, any subscription made by such PD under Phase II up to a limit not exceeding 2 per cent of minimum SS, is allowed.

- 11.1 For a given T-bond series, if the entire amount tendered at the issuance is not fully issued under Phase I and Phase II of the issuance process, Phase III is expected to be executed electronically soon after the end of Phase II around 1430 hrs of the auction day, provided 70% of the offered amount in minimum is accepted at Phase I.

Dr. M Z M Aazim  
**Superintendent**  
**Public Debt Department**

**Ref. No.: 08/25/001/0005/001**

**Circular No.: SSSS/02/2019**

October 01, 2019

To: All Participants of the LankaSettle System

**INCLUSION OF SETTLEMENT VALUE, PRICE AND INTEREST RATE OF SECONDARY MARKET TRANSACTIONS IN GOVERNMENT SECURITIES**

1. With a view of enhancing transparency in conducting Government securities transactions, the Central Bank of Sri Lanka has decided to capture key attributes of such transactions, as per Rule 5.6 of Volume 3 of the LankaSettle System Rules.
2. Accordingly, all Participants are required to fill the relevant fields in the MT540, MT541, MT542 and MT543 SWIFT message formats as given below, when conducting Government securities transactions.
- a. Settlement Value for Deliver Free (DvF)/Receive Free (RvF) transactions shall be indicated in the field :19A::SETT// under Optional Repetitive Subsequence E3 Amounts block in MT540 and MT542 in the format given below. The said attributes in this block support up to two decimal places.

:16R:AMT

:19A::SETT//[N]3!a15d

:16S:AMT

The above Settlement Value is recorded in a similar manner to Delivery versus Payment (DvP)/Receive versus Payment (RvP) transactions, in the fields as per the MT541 and MT543 message formats.

- b. Price and Interest Rate for all Government securities transactions shall be indicated in the field :90A::INDC//PRCT for Price and the field :90A::EXER//YIEL for Interest Rate under Optional Subsequence B1 Financial Instrument Attributes block in MT540, MT541, MT542 and MT543 in the formats given below. The said attributes in this block support up to four decimal places.

:16R:FIA

:90A::INDC//PRCT/15d

:90A::EXER//YIEL/15d

:16S:FIA

3. In the case of outright transactions, the "Interest Rate" refers to the yield to maturity and in the case of repurchase or reverse repurchase transactions the "Interest Rate" refers to the applicable rate per annum for the given period of time according to the contract. The "Price" refers to the clean price of the Government security.
4. A sample MT542 message format is given in **Annexure 01** with the relevant blocks highlighted.
5. The Settlement Values indicated in the relevant fields of Deliver Free/Receive Free message types, will not be considered in the settlement process as the System will only use the Face Value to debit and credit the respective Government securities accounts of LankSecure.
6. In addition to the Government securities transaction messages sent through SWIFT system, the Settlement Value, Price and Interest Rate shall be incorporated into the Government securities transactions submitted through the CSS Trades, i.e. the web based application provided by Central Bank of Sri Lanka, as instructed under Rule 5.4 in Volume 3 of the LankaSettle System rules.

7. The information required in above fields must be entered in the relevant message formats when effecting Government securities transactions in the LankaSecure system on a mandatory basis with effect from 01.01.2020.

M Z M Aazim  
**Superintendent**  
**Public Debt Department**

D Kumaratunge  
**Director**  
**Payments and Settlements Department**

**Annexure 01**

**Sample MT542 Message Format**

```
:16R:GENL
:20C::SEME//DVF010SetPrice
:23G:NEWM
:16S:GENL
:16R:TRADDET
:98A::SETT//20180222
:98A::TRAD//20180222
:35B:ISIN LKB01518H150
:16R:FIA
:90A::INDC//PRCT/98,6653
:90A::EXER//YIEL/9,9999
:16S:FIA
:22F::PRIR//0080
:16S:TRADDET
:16R:FIAC
:36B::SETT//FAMT/15000,
:97A::SAFE//OWN
:16S:FIAC
:16R:SETDET
:22F::SETR//TRAD
:16R:SETPRTY
:95P::REAG//CBCELKLOEPF
:16S:SETPRTY
:16R:SETPRTY
:95P::PSET//ZYACKLOXXX
:16S:SETPRTY
:16R:AMT
:19A::SETT//LKR19999,99
:16S:AMT
:16S:SETDET
```

**Payment and Settlement Systems Circular No. 01/2019**

26 February 2019

To: All Financial Institutions Facilitating Electronic Payment Instruments/Mechanisms

**PROVIDING REAL TIME NOTIFICATIONS FOR TRANSACTIONS EFFECTED THROUGH ELECTRONIC  
 PAYMENT INSTRUMENTS/MECHANISMS**

This Circular is issued in terms of Section 44 of the Payment and Settlement Systems Act, No. 28 of 2005 on providing real time notifications for transactions effected through electronic payment instruments/mechanisms in order to enhance security of transactions carried out using such payment instruments/mechanisms.

Financial Institutions providing payment services through electronic payment instruments/mechanisms (FIs) shall use an appropriate communication method such as Short Message Service (SMS) or any other secured reliable instant notification method, as consented

by the customer to receive real time notifications for all transactions effected through electronic payment instruments/mechanisms. FIs are required to obtain a written consent from each customer to transmit real time notifications and a mobile number for the purpose of providing such real time notifications.

1. FIs shall enable real time notifications for all mobile phone based transactions (such as mobile apps, QR code, JustPay etc.), web based transactions and payment card based transactions carried out in new accounts opened after 02 April 2019. For other types of transactions, FIs may provide real time transaction notifications at the request of the customer.
2. For existing customers who are already using electronic payment instruments/mechanisms, FIs shall make aware the benefits/advantages on receiving real time transaction notifications and encourage such customers to obtain the said facility.
3. FIs shall advise customers to notify them of any unauthorized transactions with a request to block the fund movement of the particular account at the earliest, and upon being notified, FIs shall take action to block such accounts immediately.
4. In providing real time notifications, FIs shall;
  - 4.1 establish a helpline and help desk facilities 24x7 basis for customers to report unauthorized /suspicious transactions;
  - 4.2 adopt appropriate security measures to ensure that any unauthorized person gaining access will not be able to misuse such information or carry out fraudulent transactions using such information;
  - 4.3 ensure safety of customer information when entering in to agreements with third parties for provision of real time notification facility;
  - 4.4 disclose fees/charges (if any) involved in obtaining real time notification facility at the time of obtaining the consent from the customer;
  - 4.5 advise customers to inform FIs immediately of any change of mobile numbers or any other information provided to receive real time notifications and develop a mechanism to update new ownership of mobile numbers or such other information immediately after receiving such customer requests; and
  - 4.6 develop a mechanism to periodically verify the ownership of mobile numbers used to send real time notifications in order to minimize the risk of customer transaction details being exposed to unauthorized parties.

D Kumaratunge  
Director/Payments and Settlements

### Payment and Settlement Systems Circular No. 02/2019

11 March 2019

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 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 a National Quick Response Code Standard for Local Payments. The Central Bank of Sri Lanka (CBSL) hereby issues a National QR code standard; titled LANKAQR Specifications (Annexure 1).

This Circular shall replace the Payment and Settlement Systems Circular No. 06 of 2018 – Establishment of a National Quick Response Code Standard for Local Currency Payments and shall come into effect on 11 March 2019 and all Financial Institutions (Licensed Banks and 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 two (02) 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 – Financial Institutions which facilitate QR code based payments from current accounts, savings accounts, credit card accounts, and Operators of Mobile Phone Based e-Money Systems.
- 1.2 Merchant 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. The Merchant Acquirer also facilitates generation of merchant presented LANKAQR code.

\* Financial Institutions or Mobile Phone Based e-Money Operators not connected to the Common Electronic Fund Transfer Switch (CEFTS) will be required to complete the settlement of their LANKAQR transactions through a Licensed Financial Institution connected to CEFTS operated by LankaClear (Pvt) Ltd (LCPL).

- 1.3 Network Facilitator - When the Issuer and acquirer (Merchant Acquirer and Transaction Acquirer) are different, the Network Facilitator would be responsible for routing transactions between the respective Financial Institutions involved in the transaction. Processing and clearing of all payments acquired using LANKAQR code, which are effected through current accounts, savings accounts and Mobile Phone Based e-Money accounts will be routed through the LankaClear (Pvt) Ltd (LCPL) network. It must be noted that LANKAQR based payments effected through international payment networks will be processed and cleared through existing mechanisms.
- 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 which provides acquiring facilities for the mobile application provider or Mobile Phone Based e-Money Operator to process LANKAQR transactions. This party would facilitate the financial transactions via respective payment network.

## 2. Fees and Charges

- 2.1 No charge shall be levied on the customer 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 customer.
- 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 country.
- 2.5 Initially, 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 may vary, the allocation for each stakeholder identified below shall not be changed, with the exception of the Merchant Acquirer. The Issuer Fee and Transaction Acquirer Fee shall be distributed by LCPL, in accordance with the allocations provided in Table 1 of this Circular. The LCPL Fee payment by the Merchant Acquirer will be added to the existing LankaPay – CEFTS monthly invoice.
- 2.7 In the instance of a reversal of a transaction, the 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			

\*\* Percentages given in the table are calculated from the total transaction amount (x).

## 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 Merchant 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

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 Department, CBSL. All participants engaging in LANKAQR code initiated transactions shall adhere to the above Guidelines issued by LCPL.

D Kumaratunge  
Director/Payments and Settlements

Ref. No. : 34/07/029/0001/002

04 April 2019

Payment and Settlement Systems Circular No. 03/2019

To : All Participants of the LankaSettle System

### RESTRICTION OF BUSINESS HOURS OF THE LANKASETTLE SYSTEM ON 12 APRIL 2019

The Central Bank of Sri Lanka has decided to restrict business hours of the LankaSettle System on 12 April 2019 from 0800 hrs. to 1500 hrs., since it has been declared half-holiday in lieu of the Day Prior to Sinhala and Tamil New Year Day which falls on Saturday, 13 April 2019. Accordingly, the events after 1200 noon of the Operating Schedule of the LankaSettle System for 12 April 2019 will be revised as follows:

Event	Revised time
OMO-Repo/Reverse Repo (Auction) Settlement	1245 hrs.
MLNS-SLIPS (Cycle 2)/CAS (Cycle 3)	1300 hrs.
MLNS-CEFTS (Cycle 3)	1315 hrs.
MLNS- Adjustment Clearing and Settlement Clearing	1400 hrs.
Cut-off time for third party transactions	1415 hrs.
CAS (Cycle 4)	will be settled at 0845 hrs. on 16/04/2019
CEFTS (Cycle 4)	will be settled at 0900 hrs. on 16/04/2019
MLNS-SLIPS (Cycle 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

24 April 2019

Payment and Settlement Systems Circular No. 04/2019

To : All Participants of the LankaSettle System

### LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM THE DISASTER RECOVERY SITE (DRS) ON 24, 25 & 26 APRIL 2019

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 24, 25 & 26 April 2019 (Wednesday, Thursday & Friday) for the purpose of testing the business continuity arrangements.

The computers of your institutions which have been connected to the CBSL Net have already been configured to access the CBSL DRS. However, you are requested to contact the Information Technology (IT) Department of the CBSL and test the connectivity to ensure the readiness. The contact details of the CBSL IT officials are given below.

- Mr. V Kamalnath 0112477126 (kamalnath@cbsl.lk)
- Mrs. Bhagya Mallawa 0112477016 (bhagyam@cbsl.lk)

D Kumaratunge  
Director/Payments and Settlements

Copies : Director/ Information Technology – CBSL  
CEO – LankaClear (Pvt) Ltd.  
Secretary General – Sri Lanka Banks’ Association  
President – Association of Primary Dealers  
CEO – Lanka Financial Services Bureau Ltd

Ref. No. : 34/07/029/0001/002

14 June 2019

**Payment and Settlement Systems Circular No. 05/2019**

To : All participants of LankaSettle System

**AMENDMENT TO DAILY OPERATING SCHEDULE OF THE LANKASETTLE SYSTEM**

1. The LankaPay Common POS Switch (CPS) of LankaClear (Pvt) Ltd. is planned to go live from 24 June 2019. The fund settlement of CPS will be implemented in four (04) clearing cycles and RTGS settlement times for each Clearing Cycle will be as follows:

Cycle	LCPL Clearing Cycle	RTGS Settlement Time
1	14:00:01 hrs. – 07:00:00 hrs. (next day)	0900 hrs.
2	07:00:01 hrs. – 10:00:00 hrs.	1115 hrs.
3	10:00:01 hrs. – 12:00:00 hrs.	1315 hrs.
4	12:00:01 hrs. – 14:00:00 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 24 June 2019.**

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 LankaClear	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
0900 hrs.	MLNS Batch from LankaClear	Common POS Switch (CPS) 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
1115 hrs.	MLNS Batch from LankaClear	CPS 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.	MLNS Batch from LankaClear	CPS 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
1515 hrs.	MLNS Batch from LankaClear	CPS 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 ensure sufficient funds are available in the settlement accounts at the time of settlement of Multilateral Net Settlement (MLNS) batches in the RTGS system.

C P S Bandara

Actg. Director/Payments and Settlements

M Z M Aazim

Superintendent/Public Debt

Ref. No. : 34/07/029/0001/002

05 September 2019

Payment and Settlement Systems Circular No. 06/2019

To : All participants of LankaSettle System

#### AMENDMENT TO DAILY OPERATING SCHEDULE OF THE LANKASETTLE SYSTEM

1. A Liquidity Support Facility under Open Market Operations (OMO) will be introduced by the Central Bank of Sri Lanka for Standalone Primary Dealers with effect from 06 September 2019.
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 06 September 2019.**

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 LankaClear	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
0900 hrs.	MLNS Batch from LankaClear	Common POS Switch (CPS) Cycle 1
1100 hrs.	Reveal of Reverse Repos and Standing Lending Facility (SLF)	Settlement of second leg of Reverse Repos under OMO and SLF.
1100 hrs.	Reversal of Liquidity Support Facility (LSF)	Settlement of second leg of LSF under OMO
1100 hrs.	MLNS Batch from LankaClear	CAS Cycle 2
1115 hrs.	MLNS Batch from LankaClear	CEFTS Cycle 2
1115 hrs.	MLNS Batch from LankaClear	CPS 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.	MLNS Batch from LankaClear	CPS Cycle 3
1315 hrs.	Short Term Repos/Reverse Repos (Auction)	Settlement of first leg of Short Term Repos/Reverse Repos under OMO
1315 hrs.	Liquidity Support Facility (Auction)	Settlement of first leg of LSF 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
1515 hrs.	MLNS Batch from LankaClear	CPS 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 ensure sufficient funds are available in the settlement accounts at the time of settlement of Multilateral Net Settlement (MLNS) batches in the RTGS system.

D Kumaratunge  
Director/Payments and Settlements

D S T Wanaguru  
Actg. Superintendent/Public Debt

Ref. No. : 34/01/024/0106/06

04 October 2019

Payment and Settlement Systems Circular No. 07/2019

To : All Participants of the LankaSettle System

**LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM THE DISASTER RECOVERY SITE (DRS)  
ON 9, 10 & 11 OCTOBER 2019**

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 9, 10 & 11 October 2019 (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 8 October 2019** to ensure the readiness. The contact details of CBSL IT officials are given below.

- Mrs. Ruvindee Rupasinghe                      011 2398738 (e-mail: ruvindee@cbsl.lk)
- Ms. Nayomi Ranamuka                          011 2477122 (e-mail: nayomi@cbsl.lk)

D Kumaratunge  
Director/Payments and Settlements

Copies : Director/ Information Technology-CBSL  
CEO- LankaClear (Pvt.) Ltd.  
Secretary General – Sri Lanka Banks' Association  
President- Association of Primary Dealers  
CEO- Lanka Financial Services Bureau Ltd.

Payment and Settlement Systems Circular No. 08/2019

25 November 2019

To : CEOs of Licensed Operators of Mobile Phone based e-Money Systems

**NUMBER OF E-MONEY ACCOUNTS, INDIVIDUAL STORED VALUE LIMITS, DAY LIMITS AND  
TRANSACTION LIMITS APPLICABLE FOR CUSTOMER E-MONEY ACCOUNTS**

This Circular is issued to specify the number of e-money accounts that can be opened for each customer and individual stored value limits, day limits and transaction limits applicable for such e-money accounts as per the regulation No. 18 of the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013 and the Mobile Payments Guidelines No. 2 of 2011 for Custodian Account based Mobile Payment Services.

1. Opening and/or maintaining e-money accounts shall be limited to one e-money account per individual in each mobile phone based e-money system irrespective of the mobile network used by the e-money account holder to connect to the mobile phone based e-money system.

## 2. Applicable Limits

### 2.1 Individual Stored Value Limit

2.1.1 Enhanced e-money accounts - Maximum hold value Rs. 50,000.00

2.1.2 Basic e-money accounts - Maximum hold value Rs. 10,000.00

Operators of mobile phone based e-money systems shall allow the maximum hold value of Rs. 50,000.00 only for e-money accounts that have completed enhanced Know Your Customer (KYC) requirements.

### 2.2 Day limits

2.2.1 Enhanced e-money accounts - The total amount of e-money received and/or topped up to an enhanced wallet shall not exceed Rs. 50,000/- per day and the total amount of e-money transferred and/or withdrawn from an enhanced wallet shall not exceed Rs. 50,000/- per day.

2.2.2 Basic e-money accounts - The total amount of e-money received and/or topped up to a basic wallet shall not exceed Rs. 10,000/- per day and the total amount of e-money transferred and/or withdrawn from a basic wallet shall not exceed Rs. 10,000/- per day.

### 2.3 Transaction limits

Individual stored value limit of the e-money account shall be the maximum limit per transaction for each type of transaction facilitated by the mobile phone based e-money system.

3. This Circular will be effective from 02 December 2019.

D Kumaratunge  
Director/Payments and Settlements

Ref. No.: 34/01/025/0038/001

30 October 2019

To : Chief Executive Officers of All Licensed Banks, Licensed Finance Companies and Licensed Operators of Mobile Phone Based e-Money Systems

## **CIRCULAR NO. 02 OF 2019 ESTABLISHMENT OF A NATIONAL QUICK RESPONSE CODE STANDARD FOR LOCAL PAYMENTS – ADDENDUM 1**

Reference is made to Circular No. 02 of 2019 – Establishment of a National Quick Response Code Standard for Local Payments. This document shall be read as Addendum 1 to the above Circular.

The following shall come into effect from 01 January 2020 with regards to LANKAQR initiated transactions:

1. Government entities shall decide whether to pay a charge (Merchant Discount Rate (MDR)) to their Merchant Acquirers for each transaction, as per the laws and regulations applicable to the particular Government entity.
2. A convenience fee may only be levied on the customer for payments made to Government entities in circumstances where Government entities are not permitted to pay MDR to the Merchant Acquirer and shall be done with special approval from the Central Bank of Sri Lanka.
3. No MDR shall be applicable for the purchase of fuel from authorised dealers.
4. For the purchase of fuel from authorized dealers, a surcharge of not more than 0.5% of the total transaction amount may be levied, at the discretion of the Issuing Bank of the payment instrument. The surcharge shall be distributed among the relevant stakeholders as follows:

**Table 1: Distribution of a 0.5% surcharge for the purchase of fuel from authorised dealers\***

Transaction Amount x in LKR	LCPL Fee in LKR	Issuer Fee	Transaction Acquirer Fee	Merchant Acquirer Fee
x ≤ 1000	0.05	Up to 0.13%	0.17% (To be shared with Mobile Application Provider)	0.20% - LCPL Fee
1000 < x ≤ 5000	0.50			
5000 < x	1.50			

\* Percentages given in the table are calculated from the total transaction amount (x).

Though the surcharge may vary, the allocation for each stakeholder given above in Table 1 shall not be changed, with the exception of the Issuer fee. However, the Issuers shall be allowed to decide whether to levy the entire surcharge amount on to the customer or to bear the surcharge amount themselves, fully or partially.

- The MDR to be a maximum of 0.5% for all transactions, except for transactions in 1 and 3 above, for a period of 12 months.
- The fee structure defined in Table 1 of Circular No. 02 of 2019, issued on 11 March 2019, shall be replaced with the following table for a period of 12 months, commencing from 01 January 2020, for transactions which are not subject to 1 and 3 above. At the end of 12 months, the distribution of the MDR shall be as per Table 1 in Circular No. 02 of 2019.

**Table 2: Distribution of a 0.5% 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	0.13%	0.17% (To be shared with Mobile Application Provider)	Up to 0.20% (Determined by market forces) - LCPL Fee
100 < x ≤ 1000	0.05			
1000 < x ≤ 5000	0.50			
5000 < x	1.50			

\*\* Percentages given in the table are calculated from the total transaction amount (x).

Though the MDR may vary, the allocation for each stakeholder given above in Table 2 shall not be changed, with the exception of the Merchant Acquirer fee. However, the Merchant Acquirers shall be allowed to decide whether to levy the entire MDR on to the merchant or to bear the MDR themselves, fully or partially. The MDR shall not be recovered from the customer.

- No proprietary QR codes shall be allowed to operate in the market beyond 01 January 2020, and only LANKAQR Code shall be in operation thereafter.

D Kumaratunge  
Director/Payments and Settlements

Operating Instructions No: RDD/SAPP/ RF/2019/01

Regional Development Department  
Central Bank of Sri Lanka  
P O Box 590  
No. 30, Janadhipathi Mawatha  
Colombo 01  
06.08.2019

To : All PFIs

### OPERATING INSTRUCTIONS FOR THE RF AGRIBUSINESS, RF INCOME GENERATION AND RF YOUTH LOAN SCHEMES UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIPS PROGRAMME (SAPP)

This is further to the Operating Instructions No: RDD/SAPP/ RF /2018/01 dated 10.04.2018 (as amended on 05.12.2018) issued by the Director, Regional Development Department of the Central Bank of Sri Lanka.

#### 1. Introduction

With the intention of enhancing the operational efficiency of Smallholder Agribusiness Partnerships Programme (SAPP) Loan Schemes, it has been decided to restructure the loan schemes implemented under the credit component of the SAPP considering the recommendations made by the Rural Finance Mission of the International Fund for Agricultural Development (IFAD) and the request of the Project Management Unit (PMU) of SAPP operated under the Presidential Secretariat.

These Operating Instructions primarily intend to restrict the operations of **Revolving Fund (RF) Capital and RF Seasonal Loan Schemes** introduced by the Operating Instructions No: RDD/SAPP/ RF /2018/01 dated 10.04.2018 (as amended on 05.12.2018) w.e.f. 19.08.2019 as given in the Section 17 of these Operating Instructions. Further, **RF Agribusiness Loan Scheme, RF Youth Loan Scheme** will be introduced and the Income Generation Loan Scheme will be renamed as **RF Income Generation Loan Scheme**. Accordingly, hereafter the Consolidated Revolving Fund of the SAPP will be utilised to finance **RF Agribusiness, RF Income Generation and RF Youth Loan Schemes** (the RF Loan Schemes), in terms of SAPP Component 2: Access to Rural Finance and sub component 2.1: Financing of 4Ps.

The effective date of this Operating Instructions will be 20.08.2019. All the loans granted prior to this date will fall within the purview of the Operating Instructions No: RDD/SAPP/ RF/2018/01 dated 10.04.2018 (as amended on 05.12.2018).

## 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 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

- a. Any agribusiness activity carried out by the farmers, farmer groups, Farmer Organizations (FOs) and Producer Organizations (POs) engaged in 4P arrangements.
- b. Income Generation activities in agriculture, fisheries and livestock.
- c. Entrepreneurial activities carried out by the youth connected to any agricultural value chain

## 5. Sub-loan Categories

The sub loan categories granting from the Loan Proceeds for Credit will be as follows;

- a. RF Agribusiness Loan
- b. RF Income Generation Loan
- c. RF Youth Loan

## 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. Provide a list of all documents required to process loans under the RF Loan Schemes and the special requirements specific to the PFI, to the PMU of SAPP at the initial discussions of the 4P arrangements.
- b. Ensure that required staff is allocated to implement the RF Loan Schemes.
- c. Take full responsibility of the delivery of credit and recoveries.
- d. 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 (c) below, under the RF Loan Schemes.

- e. Satisfy itself that each sub project is economically and financially viable and feasible in terms of marketing.
- f. Maintain Accounts and Financial Statements
- (i) PFIs are required to maintain appropriate ledger accounts and records to indicate inter alia, sub loan appraisal, approvals, disbursement and recovery.
- (ii) PFIs are required to maintain separate accounts for the utilization of loan proceeds and refinance operations.
- (iii) 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.
- g. 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. Farmers, farmer groups, FOs/POs engaged in 4P arrangements.
- b. Individuals engaged in income generation activities in agriculture, fisheries & livestock.
- c. Youth entrepreneurs connected to any agriculture value chain and fall within the age group of 18-40 years.

Beneficiaries of the previous IFAD funded programmes such as NADeP, SPEnDeP, Dry Zone – RF can also be eligible as beneficiaries under the Line of Credit.

## 8. Main Features of the RF Loan Schemes

Main features of the RF Loan Schemes are given in the Table below.

Feature	RF Agribusiness Loan Scheme	RF Income Generation Loan Scheme	RF Youth Loan Scheme
(a) Maximum Loan Limit	- Rs.300, 000.00 for repeat out-grower farmers under 4Ps - In case of farmer groups, FOs and POs, the cumulative member's loan or organization loan limit shall be decided by the PMU of SAPP and the respective PFI subject to the approval of the National Steering Committee	- Rs.300, 000.00 for individual Sub-borrowers	- Rs. 2 Million
(b) Eligible Sub-borrowers and Sub-Loan Activities	- Farmers, farmer groups, FOs and POs engaged in 4P arrangements - To use as capital investment and/or working capital agreed by the PFI and recommended by PMU of SAPP	- Individuals engaged in income generation activities in agriculture, fisheries & livestock	- Youth entrepreneurs and/or group of youth entrepreneurs connected to any agriculture value chain and fall within the age category of 18 -40 years - To use as capital investment and/or working capital as per the business proposal agreed by the PFI and recommended by PMU of SAPP
(c) Interest Rate payable to the PFI by the Sub-Borrower	6.5 % per annum	6.5 % per annum	6.5 % per annum
(d) Interest Rate payable to the CBSL by the PFI	3.0 % per annum	3.0 % per annum	3.0 % per annum

(e) Grace Period*	<p>- Maximum duration of eighteen (18) months for bullet/lump sum repayment</p> <p>- Maximum duration of twelve (12) months for monthly repayment</p> <p>Note : Granting grace period will be decided by the PMU of SAPP and respective PFI in consultation with relevant authorities such as Department of Agriculture, 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</p> <p>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(A)]</p>	Maximum duration of twelve (12) months depending on the requirement of the project	Maximum duration of twelve (12) months depending on the requirements of the project
(f) Repayment Period	<p>- Maximum duration of eighteen (18) months for bullet/lump sum repayment</p> <p>-Maximum duration of thirty-six (36) months for monthly repayment including the grace period.</p> <p>- In case of FOs/POs and farmer groups maximum duration of sixty (60) months for monthly repayment including the grace period.</p> <p>Note :Repayment period for Agribusiness loans will be decided by the PMU of SAPP together with respective PFIs based on the first harvest/harvesting pattern of the crop as specified in the 4P project appraisal carried out by PMU of SAPP.</p>	Maximum duration of thirty six (36) months including the grace period	<p>Maximum duration of sixty (60) months including the grace period</p> <p>Note :-Repayment period will be decided by the PMU of SAPP and respective PFI based on the first harvest/harvesting pattern of the crop as specified in the project appraisal carried out by PMU of SAPP</p>
(g) Collateral	<p>Buy back agreement between the Purchaser and the farmer or inter-se guarantee or the corporate guarantee for the group of farmers.</p> <p>Note 1 : Where Inter-se guarantee is not possible, personal guarantees will apply</p> <p>Note 2: Purchaser is an individual or an entity involved in the 4P arrangement and having buy back agreement with the farmer.</p>	Inter – se Guarantee of two other borrowers or guarantee of two family members.	Service agreement between the company and the beneficiary/s or other collateral as decided by the PFIs

\* Sub-borrowers are required to pay interest during the grace period.



## 9. Registration of Borrowers

- a. 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.
- b. 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.
- c. If the borrower is a farmer group/FO/PO, PFI should forward separate Annex 1 (b) for each farmer group/FO/PO.
- d. PMU will recommend the list of applicants or the farmer group/FO/PO 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 as given in Annex I (a) and Annex I (b) as applicable 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.

- a. 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.
- b. 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 VII
- 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:

- a. **RF Agribusiness Loan Scheme** – The PFIs shall repay the CBSL under this loan product in maximum eighteen (18) months for bullet/lump sum repayment loans and in maximum duration of thirty-six (36) months for monthly repayment loans. In case of loans provided to farmer group/FO/PO, maximum repayment period would be sixty (60) months.
- b. **RF Income Generation Loan Scheme-** The PFIs shall repay the CBSL under this loan product in maximum thirty-six (36) months.
- c. **RF Youth Loan Scheme** -The PFIs shall repay the CBSL under this loan product in maximum duration of sixty (60) months including the grace period

### 13. Rescheduling/Restructuring of the Loans

- a. The Head Office of the PFI may request CBSL to reschedule/restructure the repayment period of the loans granted under the RF loan schemes with the recommendation of the PMU of the SAPP.
- b. The outstanding capital and interest of the existing loan given to the beneficiary will be early settled by the CBSL, notionally and a new loan will be created providing a new repayment period as follows;
  - i. For the loans granted under the RF Agribusiness, RF Income Generation and RF Youth Loan schemes, rescheduled loans will be created under same loan scheme under which it has been registered earlier, subject to the prevailing terms and conditions.
  - ii. For the loans granted under the RF Capital and RF Seasonal Loan schemes as per the terms and conditions of the Operating Instructions No: RDD/SAPP/ RF/2018/01 dated 10.04.2018 (as amended on 05.12.2018), rescheduled loans will be created under the RF Agribusiness Loan scheme subject to the prevailing terms and conditions of RF Agribusiness Loan scheme.
  - iii. For the loans granted under the Income Generation Loan scheme as per the terms and conditions of the Operating Instructions No: RDD/SAPP/ RF/2018/01 dated 10.04.2018 (as amended on 05.12.2018), rescheduled loans will be created under the RF Income Generation Loan scheme subject to the prevailing terms and conditions of RF Income Generation Loan scheme.
- c. All loans rescheduled under this section shall be recognized subject to Banking Direction No. 03 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning and any other related Directions which will be introduced in this regard in future, as appropriate.
- d. No refinance will be provided by the CBSL with regard to this new loan and PFI is required to maintain proper records in this regard.
- e. PFI should repay the CBSL according to the new recovery schedules issued to the PFI for the rescheduled/restructured loan by the CBSL.

### 14. Reporting

PFI 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. PFI should report quarterly the NPL status of the disbursed Sub-Loans as per the Annex IX.

### 15. Auditing of Accounts

RDD will prepare annual financial statements of RF Loan Schemes and such financial statements will be audited by the Auditor General. PFI are also required to get the financial statements of this programme audited as required by the IFAD.

### 16. Effective Date

The effective date of this Operating Instructions will be 20.08.2019. For all the loans granted prior to this date will fall within the purview of the Operating Instructions No: RDD/SAPP/ RF /2018/01 dated 10.04.2018 (as amended on 05.12.2018).

### 17. Operations related to the previous Operating Instructions No: RDD/SAPP/ RF /2018/01 dated 10.04.2018 (as amended on 05.12.2018)

- a. PFI should send all the loans currently processing under the RF Capital and RF Seasonal Loan Schemes, on or before 19.08.2019 to be registered under the Operating Instructions No: RDD/SAPP/ RF /2018/01 dated 10.04.2018(as amended on 05.12.2018).
- b. PFI are expected to disburse the loans registered under the Operating Instructions No: RDD/SAPP/ RF /2018/01 dated 10.04.2018 (as amended on 05.12.2018) and claim refinance from the CBSL following the due procedure, on or before 18.11.2019. No refinance will be granted by the CBSL for the refinance applications received under this section, after 18.11.2019.
- c. PFI can request the CBSL for restructuring/rescheduling of the loans granted under the Operating Instructions No: RDD/SAPP/RF/2018/01 dated 10.04.2018 (as amended on 05.12.2018) following the procedure stipulated under the Section 13 of this Operating Instructions.

**18. Other**

CBSL, upon the request of the PMU of SAPP, will provide the PFI with the Process of 4P Project Identification & Implementation, the Process of Youth Entrepreneurship Development and other processes related to RF Loan Schemes designed and drafted by the PMU of SAPP for the reference of the PFI.

The CBSL reserves the right to revise the terms and conditions in respect of RF Loan Schemes as and when necessary.

Yours faithfully  
M S K Dharmawardena  
**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			

- 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.)
RF Agribusiness		
RF Income Generation		
RF 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) : RF 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 RF and Youth Loan Schemes of **Smallholder Agribusiness Partnership Program** ( SAPP) between the Central Bank of Sri Lanka (CBSL) and us dated .....2018. (as amended on.....)
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 Project name

\*\* Indicate as 1st loan, 2nd loan, 3rd loan etc.

**Annex IV: Promissory Note**

REFINANCE APPLICATION NO. :- .....

(Under Operating Instructions No..... dated .....2019)

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 .....2019)

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 ..... per cent 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**

**DISBURSEMENT LETTER**

(To Operating Instructions : ..... dated .....2019)

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 VIII**

**PROGRESS REPORTING RF LOAN SCHEMES – SAPP**

Name of the PFI :

Month & the Year :

Loan Scheme :

4P Project Name	Status Registered/Disbursed *	Number of beneficiaries / Sub borrower			Total Amount Rs.
		Male	Female	Total	

Date:

Designation & Signature:

- Please report registered and disbursed loan information separately

**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 & Advances of the Bank (Rs.Mn.) : .....

Total NPL of the Bank (Rs.Mn.) : .....

**Name & Designation of Authorized Officer**

## Annex A

## GRACE PERIODS PROVIDED UNDER THE NEW COMPREHENSIVE RURAL CREDIT SCHEME (NCRCS)

Category of Crop	Crop	Maximum Grace Period
Paddy	Paddy	270 days
Chillies	Chillies	
Onion	Onion	
Pulses	Cowpea, Green Gram, Black Gram, Soya Beans, Maize, Kurakkan	
Oil Seeds	Ground Nut, Gingelly, Sunflower	
Root & Tuber	Potato, Sweet Potato, Manioc, Kiri Ala	
Vegetables	Brinjal, Ladies Fingers, Beet Root, Beans, Cabbage, Carrot, Capsicum, Tomato, Leeks, Radish, Knolkhol, Luffa, Bitter Gourd, Snake Gourd, Pumpkin	
Other	Ginger	270 days
	Sugarcane	360 days

Operating Instructions No: RDD/SAPP/4P/2019/01

Regional Development Department  
Central Bank of Sri Lanka  
P O Box 590  
No. 30, Janadhipathi Mawatha  
Colombo 01  
06.08.2019

To: All PFIs

**OPERATING INSTRUCTIONS FOR THE 4P AGRIBUSINESS AND 4P YOUTH LOAN SCHEMES UNDER SMALLHOLDER AGRIBUSINESS PARTNERSHIPS PROGRAMME (SAPP)**

This is further to the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018 (as amended on 05.12.2018) issued by the Director, Regional Development Department of the Central Bank of Sri Lanka.

**1. Introduction**

With the intention of enhancing the operational efficiency of Smallholder Agribusiness Partnerships Programme (SAPP) Loan Schemes, it has been decided to restructure the loan schemes implemented under the credit component of the SAPP considering the recommendations made by the Rural Finance Mission of the International Fund for Agricultural Development (IFAD) and the request of the Project Management Unit (PMU) of SAPP operated under the Presidential Secretariat.

These Operating Instructions primarily intend to restrict the operations of **Public-Private-Producers Partnerships (4P) Capital and 4P Seasonal Loan Schemes** introduced by the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018(as amended on 05.12.2018) w.e.f. 19.08.2019 as given in the Section 17 of these Operating Instructions. Further, **4P Agribusiness Loan Scheme** will be introduced and **Youth Loan Scheme** will be renamed as **4P Youth Loan Scheme**. Accordingly, hereafter the Loan Proceeds for Credit provided by the IFAD will be utilised to finance **4P Agribusiness and 4P 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 effective date of this Operating Instructions will be 20.08.2019. All the loans granted prior to this date will fall within the purview of the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018(as amended on 05.12.2018).

**2. The Objective of 4P Loan Schemes**

The primary objective of the 4P 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 county'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

- a. Any agribusiness activity carried out by the farmers, farmer groups, Farmer Organizations (FOs) and Producer Organizations (POs) engaged in 4P arrangements
- b. Entrepreneurial activities carried out by the youth connected to any agricultural value chain

### 5. Sub-loan Categories

The sub loan categories granting from the Loan Proceeds for Credit will be as follows;

- a. 4P Agribusiness Loan
- b. 4P Youth Loan

### 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;

- a. Provide a list of all documents required to process loans under the 4P Loan Schemes and the special requirements specific to the PFI, to the PMU of SAPP at the initial discussions of the 4P arrangements.
- b. Ensure that required staff is allocated to implement the 4P Loan Schemes.
- c. Take full responsibility of the delivery of credit and recoveries.
- d. 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 (c) below, under the 4P Loan Schemes.
- e. Satisfy itself that each sub project is economically and financially viable and feasible in terms of marketing.
- f. Maintain Accounts and Financial Statements
  - (i) PFIs are required to maintain appropriate ledger accounts and records to indicate inter alia, sub loan appraisal, approvals, disbursement and recovery.
  - (ii) PFIs are required to maintain separate accounts for the utilization of loan proceeds and refinance operations.
  - (iii) 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.
- g. 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. Farmers, farmer groups, FOs and POs engaged in 4P arrangements.

b. Youth entrepreneurs connected to any agriculture value chain and fall within the age group of 18-40 years.

Beneficiaries of the previous IFAD funded programmes such as NADeP, SPEnDeP, Dry Zone – RF can also be eligible as beneficiaries under the Line of Credit.

## 8. Main Features of the 4P Loan Schemes

Main features of the 4P Loan Schemes are given in the Table below.

Feature	4P Agribusiness Loan Scheme	4P Youth Loan Scheme
(a) Maximum Loan Limit	- Rs.300, 000 for out-grower farmers under 4Ps - In case of farmer groups, FOs and POs, the cumulative member's loan or organization loan limit shall be decided by the PMU of SAPP and the respective PFI subject to the approval of the National Steering Committee.	- Rs. 2 Million
(b) Eligible Sub-borrowers and Sub- Loan Activities	- Farmers, farmer groups, FOs and POs engaged in 4P arrangements - To use as capital investment and/or working capital agreed by the PFI and recommended by PMU of SAPP	- Youth entrepreneurs and/or group of youth entrepreneurs connected to any agriculture value chain and fall within the age category of 18 -40 years. - To use as capital investment and/or working capital as per the business proposal agreed by the PFI and recommended by PMU of SAPP
(c) Interest Rate payable to the PFI by the Sub-Borrower	6.5 % per annum	6.5 % per annum
(d) Interest Rate payable to the CBSL by the PFI	3.0 % per annum	3.0 % per annum
(e) Grace Period <sup>1</sup>	- Maximum duration of eighteen (18) months for bullet/lump sum repayment - Maximum duration of twelve (12) months for monthly repayment  Note : Granting grace period will be decided by the PMU of SAPP and respective PFI in consultation with relevant authorities such as Department of Agriculture, 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.  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(A)]	- Maximum duration of twelve (12) months depending on the requirements of the project
(f) Repayment Period	- Maximum duration of eighteen (18) months for bullet/ lump sum repayment - Maximum duration of thirty six (36) months for monthly repayment including the grace period. - In case of FOs/POs and farmer groups maximum duration of sixty (60) months for monthly repayment including the grace period.  Note :-Repayment period for Agribusiness loans will be decided by the PMU of SAPP together with respective PFIs based on the first harvest/ harvesting pattern of the crop as specified in the 4P project appraisal carried out by PMU of SAPP.	Maximum duration of sixty (60) months including the grace period

(g) Collateral	Buy back agreement between the Purchaser and the farmer or inter-se guarantee or the corporate guarantee for the group of farmers. Note 1: Where Inter-se guarantee is not possible, personal guarantees will apply Note 2: Purchaser is an individual or an entity involved in the 4P arrangement and having buy back agreement with the farmer.	Service agreement between the company and the beneficiary/s or other collateral as decided by the PFIs
----------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------

\* Sub-borrowers are required to pay interest during the grace period.

## 9. Registration of Borrowers

- a. The Head Office of the PFI should direct details of the applicants who wish to obtain loans under the 4P 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.
- b. In case of both individual borrowers and borrowers from the farmer group/FO/PO, 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.
- c. If the borrower is a farmer group/FO/PO, PFI should forward separate Annex 1 (b) for each farmer group/FO/PO.
- d. PMU will recommend the list of applicants or the farmer group/FO/PO 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 as given in Annex I (a) and Annex I (b) as applicable 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.

- a. 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 provide valid reasons within 90 days is subject to cancellation by the RDD within 14 days, lapsing 90days period.
- b. 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 VII
- 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:

- a. **4P Agribusiness Loan Scheme**—The PFIs shall repay the CBSL under this loan product in maximum eighteen (18) months for bullet/lump sum repayment loans and in maximum duration of thirty-six (36) months for monthly repayment loans. In case of loans provided to farmer group/FO/PO, maximum repayment period would be sixty (60) months.
- b. **4P Youth Loan Scheme** -The PFIs shall repay the CBSL under this loan product in maximum duration of sixty (60) months including the grace period

### 13. Rescheduling/Restructuring of the Loans

- a. The Head Office of the PFI may request CBSL to reschedule/restructure the repayment period of the loans granted under the 4P loan schemes with the recommendation of the PMU of the SAPP.
- b. The outstanding capital and interest of the existing loan given to the beneficiary will be early settled by the CBSL, notionally and a new loan will be created providing a new repayment period as follows;
  - i. For the loans granted under the 4P Agribusiness and 4P Youth Loan schemes, rescheduled loans will be created under same loan scheme under which it has been registered earlier, subject to the prevailing terms and conditions.
  - ii. For the loans granted under the 4P Capital and 4P Seasonal Loan schemes as per the terms and conditions of the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018 (as amended on 05.12.2018), rescheduled loans will be created under the 4P Agribusiness Loan scheme subject to the prevailing terms and conditions of 4P Agribusiness Loan scheme.
  - iii. For the loans granted under the Youth Loan scheme as per the terms and conditions of the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018 (as amended on 05.12.2018), rescheduled loans will be created under the 4P Youth Loan scheme subject to the prevailing terms and conditions of 4P Youth Loan scheme.
- c. All loans rescheduled under this section shall be recognized subject to Banking Direction No. 03 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning and any other related Directions which will be introduced in this regard in future, as appropriate.
- d. No refinance will be provided by the CBSL with regard to this new loan and PFI is required to maintain proper records in this regard.
- e. PFI should repay the CBSL according to the new recovery schedules issued to the PFI for the rescheduled/restructured loan by the CBSL.

### 14. 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.

### 15. 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.

### 16. Effective Date

The effective date of this Operating Instructions will be 20.08.2019. All the loans granted prior to this date will fall within the purview of the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018(as amended on 05.12.2018).

### 17. Operations related to the previous Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018 (as amended on 05.12.2018)

- a. PFIs should send all the loans currently processing under the 4P Capital and 4P Seasonal Loan Schemes, on or before to 19.08.2019 to be registered under the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018(as amended on 05.12.2018).
- b. PFIs are expected to disburse the loans registered under the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018 (as amended on 05.12.2018) and claim refinance from the CBSL following the due procedure, on or before 18.11.2019. No refinance will be granted by the CBSL for the refinance applications received under this section, after 18.11.2019.
- c. PFIs can request the CBSL for restructuring/rescheduling of the loans granted under the Operating Instructions No: RDD/SAPP/ 4P /2018/01 dated 10.04.2018 (as amended on 05.12.2018) following the procedure stipulated under the Section 13 of this Operating Instructions.

**18. Other**

CBSL, upon the request of the PMU of SAPP, will provide the PFI with the Process of 4P Project Identification & Implementation, the Process of Youth Entrepreneurship Development and other processes related to 4P Loan Schemes designed and drafted by the PMU of SAPP for the reference of the PFI.

The CBSL reserves the right to revise the terms and conditions in respect of 4P Loan Schemes as and when necessary.

Yours faithfully  
 M S K Dharmawardena  
**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.)

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 and the Signature of the Beneficiary

.....  
 Name,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 SMALL HOLDER 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 Scheme of **Small Holder Agribusiness Partnership Program** (SAPP) between the Central Bank of Sri Lanka (CBSL) and us dated .....2019. (as amended on ....)
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 .....2019)

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 .....2019)

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 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****DISBURSEMENT LETTER**

(To Operating Instructions : ..... dated .....2019)

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                    )       s.  
    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 VIII**

**PROGRESS REPORTING 4P LOAN SCHEMES – SAPP**

Name of the PFI :

Month & the Year :

Loan Scheme :

4P Project Name	Status Registered/Disbursed *	Number of beneficiaries / Sub borrower			Total Amount Rs.
		Male	Female	Total	

Date :

Designation & Signature :

\* Please report registered and disbursed loan information separately

**Annex IX – NPL Status**

..... LOAN SCHEME

Name of the PFI :  
Performance as at :

(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 & Advances of the Bank (Rs.Mn.) : .....

Total NPL of the Bank (Rs.Mn.) : .....

**Name & Designation of Authorized Officer**



## Annex A

## GRACE PERIODS PROVIDED UNDER THE NEW COMPREHENSIVE RURAL CREDIT SCHEME (NCRCS)

Category of Crop	Crop	Maximum Grace Period
Paddy	Paddy	270 days
Chillies	Chillies	
Onion	Onion	
Pulses	Cowpea, Green Gram, Black Gram, Soya Beans, Maize, Kurakkan	
Oil Seeds	Ground Nut, Gingelly, Sunflower	
Root & Tuber	Potato, Sweet Potato, Manioc, Kiri Ala	
Vegetables	Brinjal, Ladies Fingers, Beet Root, Beans, Cabbage, Carrot, Capsicum, Tomato, Leeks, Radish, Knolkhol, Luffa, Bitter Gourd, Snake Gourd, Pumpkin	270 days
Other	Ginger	
	Sugarcane	360 days

Operating Instructions No: RDD/STaRR-IS/2019/01

Regional Development Department  
Central Bank of Sri Lanka  
P O Box 590  
No. 30, Janadhipathi Mawatha  
Colombo 01  
13thNovember2019

To: All PFIs

### OPERATING INSTRUCTIONS SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) INTEREST SUBSIDY SCHEME

#### 1. Introduction

With the main objective of revitalizing the smallholder tea and rubber industry in Sri Lanka by encouraging replanting of tea, new planting of rubber and related activities, the Government of Sri Lanka (GOSL) has made arrangements with the International Fund for Agricultural Development (IFAD) to implement **Smallholder Tea and Rubber Revitalization (STaRR) Project**.

STaRR Project which is jointly funded by GOSL and IFAD is implemented by the Project Management Unit (PMU) of the STaRR Project operated under the Ministry of Plantation Industries (MPI) which is the Lead Programme Agency. The implementation period of the STaRR Project will be from year 2016 to 2021.

STaRR Interest Subsidy Scheme (the Scheme) implemented by the Central Bank of Sri Lanka (CBSL), is introduced under the "Component C: Inclusive Rural Finance" of the STaRR Project and will be effective from 15.10.2019 to 31.12.2024.

#### 2. Objective of the Scheme

The objective of the Scheme is to provide concessionary financial facilities for the smallholder farmers involved in STaRR Project, who experience delays in income generation from replanted tea and new planted rubber plantations, by supporting them to establish a self-employment or a short-term income generating activity until such time the income is generated from their replanted tea and new planted rubber plantations.

#### 3. Funding

Funds will be provided by the Ministry of Finance (MoF) on behalf of the GOSL for the interest subsidy under the Scheme whereas the loans to the eligible borrowers to be provided by the Participating Financial Institutions (PFIs).

#### 4. Management of the Scheme

The Regional Development Department (RDD) of the CBSL will implement the Scheme with the participation of the MPI and the PMU of the STaRR Project.

## 5. Definitions

- 5.1 **“Cabinet Approval”** means the approval given by the Cabinet of Ministers at the Cabinet Meeting held on 19.07.2019 to implement the STaRR Interest Subsidy Scheme under the Inclusive Rural Finance Component of the STaRR Project and subsequent amendments which shall be made to the approval given by the Cabinet of Ministers at the Cabinet Meeting held on 19.07.2019, if any.
- 5.2 **“Participating Financial Institution”** means any Licensed Bank which participate in the STaRR Interest Subsidy Scheme in accordance with the Cabinet Approval, after entering into a Subsidiary Agreement with the CBSL.
- 5.3 **“Subsidiary Agreement”** means the loan agreement entered into by and between the CBSL and each of the PFIs with regard to the implementation of the STaRR Interest Subsidy Scheme.
- 5.4 **“Operating Instructions”** means the Operating Instructions prepared and issued to the PFIs by the CBSL on the implementation of the STaRR Interest Subsidy Scheme and subsequent amendments to the Operating Instructions, if any.
- 5.5 **“STaRR Beneficiary”** means a person who is involved and benefitted from the STaRR Project.
- 5.6 **“Eligible Borrower”** means a person who satisfies the eligibility criteria for obtaining loans or accommodation from any PFI under the Scheme as specified in the Operating Instructions.
- 5.7 **“Sub-loan”** means the loans provided by the PFIs directly to the Eligible Borrowers using the funds of the PFIs under the STaRR Interest Subsidy Scheme.
- 5.8 **“Interest Subsidy”** means the interest subsidy provided to the PFIs at a rate specified in the Operating Instructions, by the CBSL using the funds provided by the MoF, for the Sub-loans disbursed by the PFIs to the Eligible Borrowers in accordance with the Operating Instructions.
- 5.9 **“Funds Provided by the MoF”** means the funds allocated and transferred to the CBSL by the MoF through the MPI for granting interest subsidy under the STaRR Interest Subsidy Scheme.
- 5.10 **“Project Management Unit (PMU)”** means the Project Management Unit of STaRR Project established under the MPI in accordance with the Financing Agreement and operates under the direction and supervision of the MPI.
- 5.11 **“On-Farm Activities”** means activities mainly related to the agriculture and animal husbandry, informed to the CBSL by the PMU in consultation with the MPI as the On-Farm Activities to be included in the Operating Instructions.
- 5.12 **“Off-Farm Activities”** means activities mainly related to the trade, services and industries, informed to the CBSL by the PMU in consultation with the MPI as the Off-Farm Activities to be included in the Operating Instructions.

## 6. Main Features of the Interest Subsidy Scheme

- 6.1 Sub-Loan Limit : Maximum limit of Rs. 250,000
- 6.2 Eligible Borrowers : Tea and rubber smallholder farmers involved with the STaRR Project and recommended by the PMU in consultation with MPI to obtain Sub-loan under the STaRR Interest Subsidy Scheme.
- 6.3 Eligible Activities: On-farm and Off-farm income generating activities recommended by the PMU in consultation with MPI.
- (i) On-farm Activities:**  
**Nurseries** - Tea, Fruits, Vegetables, Agro forestry  
**Animal Husbandry** – Poultry, Cattle, Goat  
**Fisheries** - Inland, Ornamental  
**Intercrops**–Seasonal, Perennial, and Semi- Perennial  
**Processing and Value Addition**
- (ii) Off-farm Activities:**  
**Small Scale Industries** – Brick making, Handloom etc.  
**Small Scale Trading** – Argo Product Collection  
**Small Scale Services** – Plumbing, Saloon, Carpentry, Masonry etc.
- 6.4 Interest Rate to Eligible Borrowers: 6.5 per cent per annum
- 6.5 Interest Subsidy to PFIS 7.0 per cent per annum  
 PFIs will be provided with interest subsidy quarterly by the CBSL, as specified in the Section 12.3 in the Operating Instructions.

- 6.6 Collateral : Inter-se guarantees.  
Note: Where Inter-se guarantee is not possible, any guarantee acceptable to the PFIs, will apply
- 6.7 Grace Period : Maximum of three(3) months  
Borrowers are required to pay interest of the Loan during the grace period.
- 6.8 Repayment period of Sub-loans : Maximum repayment period of three (3) years (36 months) including the grace period depending on the nature of the income generating activity
- 6.9 Areas of Operation : (i) Galle, Matara, Ratnapura, Badulla, Kandy and Nuwara Eliya Districts for loans related to Tea Smallholders; and  
(ii) Monaragala and Ampara Districts for loans related to Rubber Smallholders.

## 7. The Role and Responsibilities of PFIs

The PFIs are required to play an active role in the implementation of the Scheme. The PFIs, in addition to the responsibilities stipulated in the following sections, shall

- 7.1 Nominate a senior official within the Head Office of the PFI to co-ordinate and supervise Sub-loan operations with the branch offices and with the RDD of the CBSL.
- 7.2 Ensure that required staff is allocated to implement the STaRR Interest Subsidy Scheme, throughout the branch network.
- 7.3 Designate an appropriate number of branches for granting of Sub-loans and make such branch staff aware on the implementation of the Scheme.
- 7.4 Undertake full responsibility of the delivery of credit and recoveries.
- 7.5 Ensure that the select and grant Sub-loans solely based on the document issued by the PMU mentioned in the Section 10.3 in the Operating Instructions.
- 7.6 Ensure that any branch of the PFIs shall not, in any circumstance, grant loans for the Eligible Borrowers under the Scheme, at any interest rate higher than the rate mentioned in Section 6.4 above.
- 7.7 Satisfy itself that each sub project is economically and financially viable and feasible.
- 7.8 Maintain records and a separate database with regard to the Scheme facilitating to trace all information regarding a Sub-loan.
- 7.9 Co-operate with the PMU fully, in order to achieve the goals of the Scheme with respect to credit delivery and capacity development of beneficiaries to ensure complete absorption of funds earmarked for the component.
- 7.10 Furnish data and information related to the STaRR Interest Subsidy Scheme requested time to time by CBSL in the relevant formats, through the respective Head Offices.
- 7.11 Perform pre and post-supervision of the loans granted under the scheme.
- 7.12 Observe normal care and prudence in disbursing the loans to the Eligible Borrowers and to take all reasonable steps to ensure that the Sub-loans are utilized for the purposes for which they have been granted.
- 7.13 Maintain Accounts and Financial Statements
- (a) PFIs are required to maintain appropriate records and ledger accounts to indicate inter alia, sub loan appraisal, approvals, disbursement and recovery.
  - (b) PFIs are required to maintain separate accounts for the utilization of loan proceeds and interest subsidy operations.
  - (c) PFIs should make available the Accounts and Financial Statements for the inspection and review of RDD. Further, the PFI should submit the Accounts and Financial Statements to RDD as and when required.
- 7.14 Follow the procedure stipulated in the Operating Instructions in claiming interest subsidy.

## 8. Role of the RDD of the CBSL

- 8.1 Issue Operating Instructions and amendments to PFIs as and when necessary.
- 8.2 Implement the necessary policy actions as and when requested by the MPI.
- 8.3 Release interest subsidy under the Scheme on the first-come first-served basis, upon arrival of the duly completed interest subsidy application in compliance with the Operating Instructions of the Scheme and inform the particulars of the release of interest subsidy to the respective Head Office of the PFIs.
- 8.4 Ensure that interest subsidy is provided quarterly within forty five (45) days of the receipt of the duly completed interest subsidy application.

- 8.5 Manage the fund and maintain accounts.
- 8.6 Conduct progress review of the fund disbursement of the PFIs against the submitted beneficiaries by the STaRR with participation of the MPI, the PMU and relevant PFIs as and when necessary.
- 8.7 Conduct awareness programs to the PFIs on the implementation of STaRR Interest Subsidy Scheme as and when required.

## 9. Role of the MPI

- 9.1 Carry out the monitoring and evaluating process of the Scheme, implement the necessary policy actions and monitoring and evaluating post disbursement of Sub-loans liaise with the PMU and the PFIs.
- 9.2 Oversee the functions of the PMU to ensure its operations are in line with the terms and conditions of this Agreement.
- 9.3 Make arrangements to transfer funds to the CBSL enabling timely payment of interest subsidy to the PFIs.
- 9.4 Recommending Interest Subsidy Claims made by the PFIs through the PMU, to the CBSL for making the payments.
- 9.5 Ensure to provide estimate of interest subsidy due for fourth quarter of each year on or before 25th December of the same quarter.
- 9.6 Ensure that the initial loan projections and interest subsidy calculations given in the Cabinet Approval are maintained within the approved limitations during the process of recommending the loan amounts to the PFIs by the PMU.
- 9.7 Involve conducting progress review of the fund disbursement of the PFIs against the submitted beneficiaries by the STaRR by the CBSL, with participation of the PMU and relevant PFIs as and when necessary.
- 9.8 Supervise and conduct the fund flow of the STaRR Interest Subsidy Scheme in collaboration with the PMU

## 10. Role of the PMU

- 10.1 Select STaRR Beneficiaries to obtain the Sub-loan under the STaRR Interest Subsidy Scheme.
- 10.2 Provide opportunity to the STaRR Beneficiaries selected by the PMU to obtain Sub-loans, to select the PFI based on their own preferences.
- 10.3 Direct the beneficiaries with a valid document including all details to prove their eligibility to the PFIs and shall inform the PFI to grant the loan under the STaRR Interest Subsidy Scheme and recommend the loan amount whilst maintaining the initial calculations given in the Cabinet Approval.
- 10.4 Ensure to take actions to avoid single customer obtaining several loans from the PFIs under the STaRR Project.
- 10.5 Recommend Interest Subsidy Claims made by the PFIs to the MPI, for making payments by the CBSL.
- 10.6 Maintain records of the beneficiaries directed to the PFIs, loans disbursed to them and the interest subsidy provided by the CBSL for each of the Sub-loans disbursed.
- 10.7 Supervise and conduct the fund flow of the Scheme in collaboration with the MPI.
- 10.8 Organize financial literacy programmes to the STaRR Beneficiaries with the support of MPI and the CBSL.

## 11. Providing Loans to Eligible Borrowers

- 11.1 The PFIs shall grant Sub-loans using PFIs' own resources, complying with the terms and conditions of the STaRR Interest Subsidy Scheme, only to the sub-borrowers recommended by the PMU of STaRR Project, at the interest rate specified in the Section 6.4 above.
- 11.2 The PFIs shall not grant Sub-loans under the Scheme after 31.10.2021. However, interest subsidy for the loans granted under the STaRR Interest Subsidy Scheme will be provided until 31.12.2024.
- 11.3 The PFI shall disburse the sub-loans to the Eligible Borrowers through Bank Accounts of such Eligible Borrowers.
- 11.4 The PFI shall provide the information on the disbursed loans to the PMU as and when such loans are disbursed.

## 12. Interest Subsidy Payments

- 12.1 The CBSL will provide an interest subsidy at a rate determined by the MoF for Sub-loans provided by the PFIs out of their own funds according to the terms and conditions specified in this Operating Instructions.
- 12.2 PFIs, in order to be qualified for the interest subsidy under the STaRR Interest Subsidy Scheme, are required to provide loans to the Eligible Borrowers at the interest rate mentioned in Section 6.4 above, in all circumstances. Sub-loans which do not fulfil this requirement will not be eligible for interest subsidy under the STaRR Interest Subsidy Scheme.
- 12.3 The procedure to follow is given below;

- (a) Duly completed interest subsidy applications given in Annex I should be submitted to RDD quarterly by the Head Office of PFI, adhering to the deadlines given in the section 12.3 (c) below, through the PMU and the MPI after releasing the Sub-loans. Both soft and hard copies of the interest subsidy applications are to be made available to the RDD.
- (b) Interest Subsidy will be provided by the CBSL quarterly and will be calculated on monthly basis using the Reducing Balance Method and Actual/365 day count basis.<sup>1</sup> In calculating the capital outstanding, fully or partly early settlement of sub-loans will also be taken in to consideration.
- (c) The Head Office of the PFI should submit the interest subsidy applications through the PMU and/or the MPI on or before 15th day of the months of January, April, July, and October each year for the loans disbursed in the preceding four quarters.
- (d) All hard copies of applications claiming interest subsidy under the STaRR Interest Subsidy Scheme should reach Director, Regional Development Department, Central Bank of Sri Lanka, No.30, Janadhipathi Mawatha, Colombo 01 and the soft copies should be send to the e-mail addresses informed by RDD time to time.
- (e) Upon approval of the interest subsidy application, RDD will sanction the interest subsidy application and release interest subsidy within forty five (45) days after receiving duly completed interest subsidy application, first come first served basis, subject to the availability of Funds provided by the MoF.

12.4 RDD reserves the right to refer the interest subsidy application to the PFI, in the event of further clarifications are required.

### 13. Reporting

- 13.1 Monthly report the commitment, disbursement and Interest Subsidy Loan details according to the Annex II, on or before 15th of each month for the preceding month, to the CBSL with a copies to the MPI and the PMU until the interest subsidy is being paid for the Sub-loans granted under the STaRR Interest Subsidy Scheme.
- 13.2 Monthly report the early settlement of sub-loans and over-payment of loan instalments by the borrowers, according to the Annex III, on or before 15th of each month for the preceding month, to the CBSL with copies to the MPI and the PMU.
- 13.3 Bi-annually report the NPL status of the disbursed Sub- Loans as per the Annex IV.
- 13.4 All hard copies of Annex II, III and IV mentioned above should reach Director, Regional Development Department, Central Bank of Sri Lanka, No.30, Janadhipathi Mawatha, Colombo 01 and the soft copies should be send to the e-mail addresses informed by RDD time to time.

### 14. Auditing of Accounts

RDD will prepare annual financial statements of the STaRR Interest Subsidy Scheme and such financial statements will be audited by the Auditor General. PFIs are also required to get the financial statements of the STaRR Interest Subsidy Scheme audited as required by the IFAD.

### 15. General Conditions

The CBSL reserves the right to;

- 15.1 conduct field inspection, visit PFIs and inspect the ledgers and books etc. and any other supervisory and regulatory action where deemed to be necessary,
- 15.2 recall any sums paid on a claim to a PFI where there is evidence that the PFI has wilfully neglected to take adequate steps to ensure proper supervision, care and prudence in lending resulting in fictitious loans, misutilization of loans by the borrowers or where there is evidence of any misdemeanour committed by the PFI in the grant of Sub-loans, the CBSL will deny liability and where a claim has been admitted,
- 15.3 revoke the eligibility of any Bank to operate as a PFI under the STaRR Interest Subsidy Scheme in an event of non-compliance to the Operating Instructions of STaRR Interest Subsidy Scheme and
- 15.4 revise the terms and conditions of the STaRR Interest Subsidy Scheme as and when necessary.

Yours faithfully  
M S K Dharmawardena  
**Director/Regional Development**  
**Central Bank of Sri Lanka**

1. Following calculation will be carried out to determine the Outstanding Capital, irrespective of whether the loan installments have been defaulted or not.

$$\text{Outstanding Capital} = \left[ \frac{\text{Original Sub Loan Amount}}{\text{No of Initial Installments}} \times \text{Remaining No of Installments} \right] - \text{Capital Over Payment}^*$$

\* Capital Over Payment includes both full and part capital over payments

Annex I

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) INTEREST SUBSIDY SCHEME  
INTEREST SUBSIDY CLAIM APPLICATION

Reporting Period (Quarterly):

Bank:

Branch:

Serial No.	PMU Registration No.	Details of the Borrower			Capital Repayment Details of Sub-loans (LKR)				Total Interest Subsidy Claim for the Period (LKR)	
		Name	NIC No.	Address	District	Outstanding as at opening day of the period	Amount Paid During the Period			
						1st month	2nd month	3rd month	Outstanding as at End of the period	
<b>Total</b>										

I do hereby certify that the loan details indicated above are true & correct and were granted out of the Bank's own resources at an interest rate of ..... Per annum and that the bank is eligible to receive the interest subsidy in terms of operating Instruction No. RDD/STARR-IS/2019/01

.....

Name of the Branch Manager

Signature of Branch Manager

.....

Date

.....

Branch Stamp

Note: Each and every sheet need to be placed the stamp and the signature of the authorised officer.







## Annex IV

## SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) INTEREST SUBSIDY SCHEME

Name of the Bank:

Reporting Period (Bi annually):

District	Total Outstanding Balance as at .....		Special Mention		Substandard		Doubtful		Loss		Total NPL (LKR)	NPL* (%)	NPL** (%)	NPL*** (%)
	No. of Loans (LKR)	Amount	No. of Loans (LKR)	Amount	No. of Loans (LKR)	Amount	No. of Loans	Amount (LKR)	No. of Loans	Amount (LKR)				

\* NPL of the particular STaRR Interest Subsidy Scheme as a percentage of total Loans given under the same Scheme

\*\* NPL of the particular STaRR Interest Subsidy 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 (LKR.Mn.) : .....

Total NPL of the Bank (LKR.Mn.) : .....

.....

Name &amp; Designation of Authorized Officer

.....  
Signature & date

Note: Each and every sheet need to be placed the stamp and the signature of the authorized officer.

## Microfinance Act Directions No. 01 of 2019

06 March, 2019

**DEPOSITS**

Issued under Section 11 of the Microfinance Act, No. 6 of 2016.

- |    |                                                                  |     |                                                                                                                                                                                                                |
|----|------------------------------------------------------------------|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Repealing of Directions No. 3 of 2016 on Deposits                | 1.1 | Microfinance Act Directions, No. 3 of 2016 on Deposits is hereby repealed                                                                                                                                      |
| 2. | Restrictions on accepting time and savings deposits              | 2.1 | Every Licensed Microfinance Company (LMFC) shall: <ul style="list-style-type: none"> <li>i. Accept deposits only as collateral deposits.</li> <li>ii. Not accept any deposit from minors.</li> </ul>           |
| 3. | LMFCs to be a net lender and every customer to be a net borrower | 3.1 | LMFCs shall always be in the position of a net lender. The total deposits of a LMFC shall not be more than sixty percent (60%) of its total performing loans and advances.                                     |
|    |                                                                  | 3.2 | If a customer of a LMFC has fully repaid a loan obtained from a LMFC, such LMFC shall not hold the collateral deposit for a period of more than six (6) months from the date the loan repayment was completed. |
| 4. | Prohibition of incentive schemes                                 | 4.1 | No LMFC shall introduce any incentive scheme for soliciting deposits.                                                                                                                                          |
| 5. | Interpretations                                                  | 5.1 | A <i>Collateral Deposit</i> means a savings deposit obtained as a collateral from a borrower against a lending facility granted to such borrower.                                                              |
|    |                                                                  | 5.2 | A <i>minor</i> means a person who has not attained the legal age of majority within the meaning of the Age of Majority Ordinance (Chapter 66) and any amendments thereto.                                      |
|    |                                                                  | 5.3 | An <i>Incentive Scheme</i> means an arrangement to confer a monetary or material benefit on the depositors other than by way of interest.                                                                      |

Dr. Indrajit Coomaraswamy

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

## Finance Business Act Directions No. 01 of 2019

26 April 2019

**MAXIMUM INTEREST RATES ON DEPOSITS AND DEBT INSTRUMENTS**

Issued under Section 12 of the Finance Business Act, No. 42 of 2011

Considering the high real interest rates on deposits and lending products prevailing in the economy and the need to strengthen and expedite monetary policy transmission through the financial system, and for Licensed Finance Companies (LFCs) to reduce its interest rates on lending and thereby enhance credit flows to the real economy, the Monetary Board hereby issues Directions on maximum interest rates to be paid in respect of deposit products and debt instruments of LFCs.

- |    |                        |     |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----|------------------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Maximum interest rates | 1.1 | Except as provided for in this Direction, the maximum interest rates that may be offered or paid by an LFC on Sri Lanka Rupee (LKR) deposits shall; <ul style="list-style-type: none"> <li>(i) not exceed the interest rates derived in accordance with Table 01 below, and</li> <li>(ii) be based on the Standing Deposit Facility Rate (SDFR) or the Weighted Average Yield Rate (WAYR) of 364 days Treasury Bills (T-bill rate)</li> </ul> |
|----|------------------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Table 01**  
**Maximum Interest Rates at Maturity for deposits of LFCs**

Tenure of Deposit	Maximum Interest Rate Per annum
Savings and other deposits of a tenure of less than 01 month or maturity is not specified	SDFR
<b>Term Deposits</b>	
01 month and less than 03 months	T-bill rate – 0.50%
03 months and less than 06 months	T-bill rate
06 months and less than 01 year	T-bill rate + 0.50%
01 year and less than 02 years	T-bill rate + 2.25%
02 years and less than 03 years	T-bill rate + 3.00%
03 years and less than 05 years	T-bill rate + 3.50%
05 years	T-bill rate + 4.00%

(iii) Further, the rate at which any periodic interest payments are made on term deposits during the tenure of the deposit should be computed so that the Annual Effective Rate (AER) does not exceed the specified maximum interest rates stipulated above.

(iv) Notwithstanding the provisions in 1.1 (i) above, the maximum rate payable by an LFC for savings deposits of children under the age of 18 years and for term deposits with a tenure of 01 year or more of senior citizens shall be 50 basis points (0.5%) higher than rates given in Table 01. With respect to joint accounts of senior citizens, all account holders shall be senior citizens in order for the enhanced rate Direction 1.1 (iv) to apply.

1.2 The maximum interest rates that may be offered or paid by an LFC on debt instruments shall not exceed the rates derived in accordance with Table 02 below,

**Table 02**  
**Maximum Interest Rates at Maturity for debt instruments of LFCs**

Tenure of debt instruments	Maximum Interest Rate
Less than 01 year	T-bill rate + 0.50%
01 year and less than 02 years	T-bill rate + 2.25%
02 years and less than 03 years	T-bill rate + 3.00%
03 years and less than 05 years	T-bill rate + 4.00%
05 years or more	T-bill rate + 4.50%

2. Applicable SDFR and Yield Rate

2.1 The maximum interest rate in Direction 1.1(i) in respect of savings and other deposits of tenure less than 01 month to be based on SDFR and to be reviewed quarterly. Accordingly, the reference rate of SDFR for the quarter will be the SDFR as at the end of the immediately preceding quarter.

2.2 The limits in Direction 1.1 (i) in respect of term deposits of tenure of 01 month and above and Direction 1.2 in respect of debt instruments will be reviewed quarterly based on the simple average WAYR of last 04 primary auctions for 364 days T-bills in the previous quarter.

2.3 Applicable SDFR and WAYR of 364 days T-bills referred to in Directions 1.1(i) and 1.2 shall be announced by the Director at the end of the months of March, June, September and December of each year.

- |    |                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3. | Interest rate applicable to early withdrawals | 3.1 In the case of an early withdrawal of any term deposit prior to its original contracted maturity date, the interest payable on the deposit up to the date of maturity shall be computed on the basis of the lower of, the published interest rate of the LFC applicable to the completed period prevailing at the time of withdrawal or at a rate of 100 basis points less than the contracted rate. The LFC shall at the time of early withdrawal recover any excess interest that may have been paid above the interest amount so computed during the period the deposit was held. However, LFCs may apply a different formula that would result in the interest and any benefit paid on the early withdrawal of the deposit not exceeding the amount of interest that would have been paid from the application of the formula given in this Direction provided that the basis of calculation is made known to the depositor at the time of making the deposit. |
| 4. | Regulatory reporting                          | 4.1 Every LFC shall submit details of the interest rates in accordance with the monthly web based return on 'NBD-MF-06-ID-Rate of Interest/Deposits'.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 5. | Interpretations                               | <p>5.1 Term deposit products shall mean any deposit other than savings deposits accepted or renewed by an LFC with an agreement to repay after a specified period of time;</p> <p>5.2 Debt instruments shall mean a bond, debenture, commercial paper, promissory note or any other instrument used for borrowing as may be determined by the Director.</p> <p>5.3 Senior Citizens shall mean persons who are over sixty (60) years of age at the time of accepting or renewal of a deposit.</p> <p>5.4 Director shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p>                                                                                                                                                                                                                                                                                                                     |
| 6. | Implementation                                | 6.1 These Directions shall come into effect commencing 26 April 2019 and shall be applicable for existing saving deposits, new term deposits, debt instruments and at renewal of term deposits.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 7. | Revocation of previous Direction              | 7.1 The Finance Companies (Interest Rates) Direction, No.02 of 2016 is hereby revoked.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

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

### Microfinance Act Directions No. 02 of 2019

26 April 2019

#### MAXIMUM RATE OF INTEREST ON MICROFINANCE LOANS

Issued under Section 11 of the Microfinance Act, No. 06 of 2016

- |    |                                  |                                                                                                                                                                                                                                                                                                                                                                                                          |
|----|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Applicability and scope          | <p>1.1 The Central Bank of Sri Lanka (CBSL) introduces a maximum rate of interest for microfinance loans with the objective of protecting the customers being charged with exorbitant interest rates on microfinance loans granted by LMFCs.</p> <p>1.2 This Direction will be applicable for all Microfinance loans granted from the date of this Direction.</p>                                        |
| 2. | Maximum Rate of Interest         | 2.1 LMFCs shall not charge a rate exceeding 35 percent per annum (effective annual interest rate), inclusive of all other charges for 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, but excluding all lending facilities granted against the security of moveable or immovable properties including gold articles, Government Securities and Time deposits in a licensed bank or a licensed finance company. |

4. Interpretations
- 4.1 "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 2019**

21 May 2019

### **CONCESSIONS GRANTED TO TOURISM INDUSTRY**

In view of the adverse impact on tourism industry due to the current situation of the country, Licensed Finance Companies / Specialised Leasing Companies (LFCs/SLCs) are requested to grant the following concessions to those individuals and entities in the tourism industry, who wish to avail such concessions.

- (i) LFCs/SLCs may grant a moratorium to individuals and entities who have registered with sri lanka tourism development authority or any other authority/agency to provide services to tourism, on a case-by-case basis (Annex I)
- (ii) The moratorium shall be granted for performing loans (both capital and interest) till march 2020, in respect of outstanding credit facilities as at 18 April 2019.
- (iii) The board of directors of the LFCs/SLCs or any authority delegated by the board of directors shall approve the granting of moratorium.
- (iv) LFCs/SLCs shall convert the capital and interest falling due during the moratorium period into a term loan which shall be recovered from July 2020 onwards. A concessionary rate of interest may be charged for this facility.
- (v) LFCs/SLCs and the borrower shall agree on the repayment period and the rate of interest on the above loans.
- (vi) LFCs/SLCs may maintain non-performing loans in the same category for classification and provisioning purpose, during the moratorium period.
- (vii) LFCs/SLCs shall waive off the penal interest to be charged on non-performing loans, during the moratorium period.
- (viii) LFCs/SLCs shall maintain necessary documents to substantiate the granting of such concessions.
- (ix) LFCs/SLCs shall report the moratorium availed by borrowers as per the format in Annex II, to the director, department of supervision of non-bank financial institutions on a monthly basis by 15<sup>th</sup> of the succeeding month.

W. Ranaweera  
**Director, Department of Supervision of  
 Non-Bank Financial Institutions,  
 Central Bank of Sri Lanka**

**Annex I**

### **INTERPRETATIONS FOR CIRCULAR NO.01 OF 2019**

#### **1. Individuals**

Individuals include persons providing services to tourism sector and permanent employees of entities who provide services to tourism sector.

#### **2. Registration**

- (i) Persons and entities providing services to tourism sector shall be registered with any of the following Institutions, as at 18.04.2019.
  - (a) Sri Lanka Tourism Development Authority
  - (b) Agencies under Sri Lanka Tourism Development Authority

- i. Sri Lanka Tourism Promotion Bureau
- ii. Sri Lanka Tourism Convention Bureau
- iii. Sri Lanka Institute of Tourism and Hotel Management

(c) The Hotels Association of Sri Lanka

- (ii) Persons and entities who have not registered with any of the Institutions referred in 2(i) above as at 18.04.2019, shall have at least registered their business/services with the local government authorities such as Pradeshya Sabha, Urban Council or Municipal Council as at 18.04.2019 and in order to avail the moratorium, such persons and entities shall now be required to register with the relevant institution/s referred in 2(i) above.

### **3. Granting of moratorium**

- (i) Individuals or entities who wish to avail the moratorium shall make a request to the relevant LFC/SLC seeking such moratorium.
- (ii) LFCs/SLCs shall evaluate such request individually, including the requirement stipulated in para 2 above, in order to assess the eligibility.
- (iii) The moratorium shall be granted for any performing credit facilities (both capital and interest) as at 18.04.2019 of such individuals or entities.

### **4. Accounting treatment under SLFRS 9**

LFCs/SLCs shall comply with the instructions provided by the Chartered Accountants of Sri Lanka in relation to recognitions of interest income and accounting for financial assets.

## Annex II

**CIRCULAR NO 01 OF 2019**  
**DETAILS OF BORROWERS AVAILING CONCESSIONS GRANTED TO TOURISM INDUSTRY**

Name of LFC/SLC: .....

as at end of : .....

Serial Number	Name of the Borrower	Amount Outstanding as at 18.04.2019 (Rs.'000)	Amount Considered for Moratorium (Rs.'000)	Loan Classification (Performing/NPL category)	New loans for dues during moratorium	
					Repayment period	Interest rate

I certify that the information submitted above, is to the best of my knowledge and belief, correct.

.....  
**Name & Designation of Authorized Officer**

Please e-mail to dsbnbf@cbsl.lk by 15<sup>th</sup> of the succeeding month.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**  
**EXTRAORDINARY**  
 No. 2125/58 - FRIDAY MAY 31, 2019  
 (Published by Authority)

**PART I : SECTION (I) — GENERAL**  
**Government Notifications**  
**THE FINANCE BUSINESS ACT, No. 42 OF 2011**

REGULATIONS made by the Minister of Finance under Section 33 of the Finance Business Act, No. 42 of 2011.

Mangala Samaraweera,  
**Minister of Finance.**

Colombo,  
 31st May, 2019

**REGULATIONS**

1. These regulations may be cited as the Finance Business (Priority of Claims in a winding up of finance company) Regulations No. 01 of 2019.
2. These regulations shall be applicable to preferential claims in a winding up of a finance company.
3. (1) The liquidator shall pay out of the assets of the company the expenses, fees and claims according to its tenor, to the extent and in the order of priority set out in the Schedule hereto.  
 (2) The word "assets" in paragraph (1) shall not include assets subject to a charge, unless
  - (a) the charge is surrendered or taken to be surrendered or redeemed under Section 358 of the Companies Act, No. 7 of 2007 ; or
  - (b) the charge was, a floating charge in respect of those assets when created.
4. After paying the preferential claims in accordance with regulation 3(1), the liquidator shall apply the assets of the company in satisfaction of all other claims in accordance with the provisions of the Companies Act, No. 7 of 2007.
5. The preferential claims set out in the Ninth Schedule of the Companies Act, No. 7 of 2007, shall not apply in winding up of a finance company after the coming into operation of these regulations.

[Regulation 3]

**SCHEDULE**

**Preferential Claims**

The claims set out in this Schedule shall have the priority as against the assets of the finance company in the order set out below. The claims as specified in Paragraph 3 of this Schedule shall rank equally among themselves and shall be paid in full, unless the assets are insufficient to meet them, in which case they abate in equal proportions :

1. The fees and expenses incurred by the liquidator in carrying out the duties and exercising powers as a liquidator and the remuneration of the liquidator.
2. Unpaid premium due to Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS).
3. The following claims are to be settled thereafter :
  - (a) all provident fund dues, employees trust fund dues and gratuity payments due to any employee.
  - (b) all rates and taxes due from the company at the date of commencement of the liquidation which became due and payable within the period of twelve months prior to that date.



- (c) all dues to the government as recurring payments, for any services given or rendered periodically.
- (d) industrial court awards and any other statutory dues payable to any employee ; and
- (e) wages or salaries of any employee whether or not earned wholly or in part by way of commission and payable in respect of the services rendered to the finance company during the three-month period immediately preceding the commencement of winding up proceedings.

Provided however, the sum payable to any employee shall not exceed the maximum amount determined by the liquidator at the commencement of the liquidation.

Provided however,

- (i) an employee ;
- (ii) the director or officer performing executive functions who are ;
  - (a) being subject to an investigation or inquiry for an act involving fraud, deceit, dishonesty or 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 abroad ; or
  - (b) found guilty for any act which involves fraud, deceit, dishonesty, improper conduct or non-compliances with provisions of any law or rules, regulations, directions, 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 abroad.

shall not be entitled to the claims of wages or salaries or other respective claims.

4. Depositors who are not covered under the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) and depositors whose deposits are partly paid under the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS).

Provided however deposit liabilities of,

- (i) Directors of the finance company ;
- (ii) Officer performing executive functions of the finance company ;
- (iii) Subsidiaries of the finance company ;
- (iv) Associates of the finance company ;
- (v) A relative of a director or officer performing executive functions of the finance company and
- (vi) A shareholder who owns substantial interest of the finance company

shall not be included, if such party is ;

- (a) being subject to an investigation or inquiry for an act involving fraud, deceit, dishonesty or 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 abroad ; or
- (b) found guilty for any act which involves fraud, deceit, dishonesty, improper conduct or non-compliances with provisions of any law or rules, regulations, directions, 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 abroad.

5. Compensation paid to the depositors of the company under liquidation by the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS).
6. Dues to the Central Bank of Sri Lanka other than those specified in paragraph 2 and 5 of the Schedule hereto.

#### Finance Leasing Act Directions No. 01 of 2019

04 June 2019

### 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.

The Central Bank of Sri Lanka issues Directions as follows for implementation of loan to value ratios in respect of credit facilities granted by Specialized Leasing Companies (SLCs) for the purpose of purchase or utilisation of motor vehicles.

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.

- (i) Credit facilities granted by SLCs 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.
- (a) 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%
Light trucks	B	90%	90%
Any other vehicle	A1, A and single cabs categorized under B	90%	70%
Hybrid Motor Cars, Vans and SUVs	B (other than light trucks & single cabs)	50%	

- (b) 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. Loan to Value Ratio for credit facilities granted for importation or purchase of motor vehicles under permits on concessionary terms shall be computed based on the proforma invoice value, instead of the market value of the motor vehicle.
3. The Finance Leasing Act Directions No. 07 of 2018 dated 01.10.2018 on Measures to Curtail imports of Motor Vehicles is withdrawn with effect from the date of this Directions.

W. Ranaweera  
**Director, Department of Supervision  
of Non-Bank Financial Institutions,  
Central Bank of Sri Lanka**

Finance Business Act Directions No. 02 of 2019

04 June 2019

### 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.

The Central Bank of Sri Lanka issues Directions as follows for implementation of loan to value ratios in respect of credit facilities granted by Licensed Finance Companies (LFCs), for the purpose of purchase or utilisation of motor vehicles.

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.
- (i) Credit facilities granted by LFCs 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.
- (a) 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%

Light trucks	B	90%	90%
Any other vehicle	A1, A and single cabs categorized under B	90%	70%
Hybrid Motor Cars, Vans and SUVs	B (other than light trucks & single cabs)	50%	

(b) 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. Loan to Value Ratio for credit facilities granted for importation or purchase of motor vehicles under permits on concessionary terms shall be computed based on the proforma invoice value, instead of the market value of the motor vehicle.
3. The Finance Business Act Directions No. 09 of 2018 dated 01.10.2018 on Measures to Curtail imports of Motor Vehicles is withdrawn with effect from the date of this Directions.

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

**Explanatory Note No.01 of 2019**

18 July 2019

### INTERPRETATIONS FOR CIRCULAR NO. 01 OF 2019 ON CONCESSIONS GRANTED TO TOURISM INDUSTRY

The following interpretations are issued in relation the Circular No.01 of 2019 dated 21 May 2019 on Concessions Granted to Tourism Industry.

#### 1. Registration

- (i) Persons and entities providing services to tourism sector and have not been registered with any of the Institutions referred in Annex I of the Circular No.01 of 2019, shall now be required to register with the Sri Lanka Tourism Development Authority, in order to avail the moratorium.

#### 2. Granting of moratorium

- (i) The moratorium shall be granted for any performing credit facilities (both capital and interest) as at 18.04.2019 of eligible individuals or entities (herein after referred to as eligible borrowers). However, if such eligible borrowers wish to avail the moratorium only for capital or interest, Licensed Finance Companies (LFC) Specialized Leasing Companies (SLC) may grant such moratorium for such eligible borrowers, as requested.
- (ii) LFC/SLC may convert the capital or interest or both, as the case may be, falling due during the moratorium period into a new credit facility or extend the maturity of the original credit facility by the moratorium period with the consent of the eligible borrower.
- (iii) LFC/SLC may grant the moratorium for a lesser period, if the eligible borrower wishes to avail the moratorium for a period less than the period stipulated in Circular No. 01 of 2019 dated 21 May 2019 on concessions Granted to Tourism Industry. However, the repayment of capital, interest or both falling due during the moratorium period shall commence after three months from the end of the applicable moratorium period.
- (iv) In the event, capital, interest or both falling due during the moratorium period are converted into a new facility, LFC/SLC may charge a concessionary rate of interest not exceeding the latest auction rate for 364 days Treasury Bill, at the end of the moratorium period, plus 2.50 per cent per annum, for a repayment period not exceeding two years. LFC/SLC and the borrower shall agree on the interest rate, if the repayment period exceeds two years.
- (v) LFC/SLC shall report the details of concessions granted to eligible borrowers and denied borrowers on a cumulative basis for the week ending on each Friday by Wednesday of the following week as per the revised format at Annex I & II.

## Annex I

**Circular No. 01 of 2019**  
**Details of Borrowers Availing Concession Granted to Tourism Industry**  
**FORM 01 - Applied/Granted contracts**

Serial No.	Contract No	Name of the Borrower	Amount Outstanding Rs. '000' (as at 18.04.2019)	Amount Considered for Moratorium Rs. '000	Type of Moratorium	Period of Moratorium	The week ending .....			Remarks
							Repayment Period	New loan for dues during Moratorium	Interest Rate	
1	2	3	4	5	6	7	8	9	10	11

## Notes:

- Column 4 - Total exposure of the contract as at the date (capital outstanding and interest due outstanding)
- Column 6 - Granted extension to original maturity of the Facility (E), converted capital (C), Interest (I) or both (CI) to a new facility
- Column 7 - Report the moratorium period
- Column 9 - Report the applicable interest rate for the new facility or interest free facility
- Column 10 - Report whether moratorium has been granted or under approval process
- Column 11 - Provide additional information, if any

Please email to [snbfidb@cbsl.lk](mailto:snbfidb@cbsl.lk) by Wednesday of the following week



## Explanatory Note No.02 of 2019

30 August 2019

## INTERPRETATIONS FOR CIRCULAR NO. 01 OF 2019 ON CONCESSIONS GRANTED TO TOURISM INDUSTRY

The following interpretations are issued in relation to the Circular No.01 of 2019 dated 21 May 2019 on Concessions Granted to Tourism Industry.

### 1. Registration Requirements

In line with the Cabinet decision to extend the concessions granted to tourism sector to music groups who are registered at the Department of Cultural Affairs, Licensed Finance Companies and Specialized Leasing Companies are informed that such persons and entities are exempted from the requirement to register with Sri Lanka Tourism Development Authority, in order to avail the concessions granted to tourism industry.

### Finance Business Act Directions No. 03 of 2019

18 October 2019

## AMENDMENTS TO THE MAXIMUM INTEREST RATES ON DEPOSITS AND DEBT INSTRUMENTS

Issued under Section 12 of the Finance Business Act, No. 42 of 2011

The Monetary Board hereby issues Direction on maximum interest rates to be paid in respect of deposits and debt instruments of Licensed Finance Companies (LFCs).

1. The following will replace Direction 1.1.(i) and Direction 1.2 of the Finance Business Act Direction No.01 of 2019 on Maximum Interest Rates on Deposits and Debt Instruments of LFCs.

1.1. The maximum interest rates that may be offered or paid by an LFC on Sri Lanka Rupee (LKR) deposits shall;

(i) Not exceed the interest rates derived in accordance with Table 01 below,

**Table 01**

**Maximum Interest Rates at Maturity for deposits of LFCs**

Tenure of Deposit	Maximum Interest Rate Per annum
Savings and other deposits of a tenure of less than 01 month or maturity is not specified	SDFR
Term Deposits	
01 month and less than 03 months	T-bill rate + 0.50%
03 months and less than 06 months	T-bill rate + 1.00%
06 months and less than 01 year	T-bill rate + 1.50%
01 year and less than 02 years	T-bill rate + 3.25%
02 years and less than 03 years	T-bill rate + 4.00%
03 years and less than 05 years	T-bill rate + 4.50%
05 years	T-bill rate + 5.00%

1.2. The maximum interest rates that may be offered or paid by an LFC on debt instruments shall not exceed the rates derived in accordance with Table 02 below,

**Table 02**

**Maximum Interest Rates at Maturity for debt instruments of LFCs**

Tenure of debt instruments	Maximum Interest Rate
Less than 01 year	T-bill rate + 1.50%
01 year and less than 02 years	T-bill rate + 3.25%
02 years and less than 03 years	T-bill rate + 4.00%

03 years and less than 05 years	T-bill rate + 5.00%
05 years	T-bill rate + 5.50%

S R Attygalle  
**Actg. Senior Deputy Governor / Chief executive  
 Officer of the Central Bank of Sri Lanka**

**Finance Business Act Directions No.04 of 2019**

19 December 2019

### AMENDMENT TO VALUATION OF IMMOVABLE PROPERTIES

In terms of the powers conferred by section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board hereby issues the following amendments to the Finance Business Act Direction No. 04 of 2018 on Valuation of Immovable Properties issued for Licensed Finance Companies in Sri Lanka.

Accordingly, the following Directions of the Finance Business Act Direction No. 04 of 2018 on Valuation of Immovable Properties of Licensed Finance Companies shall be replaced with the following.

4. Eligibility Criteria for Valuers
- 4.1 Every Licensed Finance company 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 Professional Associate member with 5 years of experience in such grade of membership.  
 For the purpose of determining number of years of experience in the grade of Professional Associate Membership, the transitional provisions stated in the Section 24 of the IVSL (Amendment) Act, No. 9 of 2019, shall be applicable.
    - a.2. A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be;
      - i. A Fellow member of RICS and a member of IVSL; or
      - ii. Other members of RICS who have passed the final examination of RICS in the General Practice Division with 05 years of experience in such grade of membership and a member of IVSL.
  - b. Valuers selected for the panel of valuers of the Licensed Finance Companies as per the qualifications set out in Direction 4.1 a) above shall acquire Continuous Professional Development as approved/ recommended by respective professional body.
  - c. Valuation of immovable property undertaken by internal valuers shall satisfy the eligibility criteria set out in the Direction 4.1 a) above.
6. Frequency of Valuation
- 6.1 The frequency of valuation of immovable property shall be as follows.
- a. Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be made at the frequency as follows for any regulatory purpose.
    - i. In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes: a report that is not more than five years old.
    - ii. All other credit facilities: a report that is not more than four years old.
  - b. Valuation of immovable property obtained as collateral against loans and advances which are performing, shall be made at the time of initial granting and at a time of any subsequent enhancement of credit facilities.

- c. Revaluation of immovable property as referred to in Directions 3.1 b) and c) of the Finance Business Act Direction No. 04 of 2018 on Valuation of Immovable Properties shall be made in line with the internal policies approved by Board of Directors or depending on any significant and volatile changes in fair value of such immovable property are experienced. However, such gains can only be included in Tier 2 capital once in three years.

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

## Finance Leasing Act Directions No. 02 of 2019

20 December 2019

### AMENDMENT TO VALUATION OF IMMOVABLE PROPERTIES

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 the following amendments to the Finance Leasing Act Direction No. 04 of 2018 on Valuation of Immovable Properties issued for Specialised Leasing Companies in Sri Lanka.

Accordingly, the following Directions of the Finance Leasing Act Direction No. 04 of 2018 on Valuation of Immovable Properties of Specialised Leasing Companies shall be replaced with the following.

5. Eligibility Criteria for Valuers
- 5.1 Every Specialised Leasing Company 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 Professional Associate member with 5 years of experience in such grade of membership.  
 For the purpose of determining number of years of experience in the grade of Professional Associate Membership, the transitional provisions stated in the Section 24 of the IVSL (Amendment) Act, No. 9 of 2019, shall be applicable.
    - a.2. A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be;
      - i. A Fellow member of RICS and a member of IVSL; or
      - ii. Other members of RICS who have passed the final examination of RICS in the General Practice Division with 05 years of experience in such grade of membership and a member of IVSL.
  - b. Valuers selected for the panel of valuers of the Specialised Leasing Companies as per the qualifications set out in Direction 5.1 a) above shall acquire Continuous Professional Development as approved/ recommended by respective professional body.
  - c. Valuation of immovable property undertaken by internal valuers shall satisfy the eligibility criteria set out in the Direction 5.1 a) above.
7. Frequency of Valuation
- 7.1 The frequency of valuation of immovable property shall be as follows.
- a. Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be made at the frequency as follows for any regulatory purpose.
    - i. In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes: a report that is not more than five years old.
    - ii. All other credit facilities: a report that is not more than four years old.



- b. Valuation of immovable property obtained as collateral against loans and advances which are performing, shall be made at the time of initial granting and at a time of any subsequent enhancement of credit facilities.
- c. Revaluation of immovable property as referred to in Directions 4.1 b) and c) of the Finance Leasing Act Direction No. 04 of 2018 on Valuation of Immovable Properties shall be made in line with the internal policies approved by Board of Directors or depending on any significant and volatile changes in fair value of such immovable property are experienced. However, such gains can only be included in Tier 2 capital once in three years.

J.P Gamalath

**Acting Director, Department of Supervision of Non-bank  
Financial Institutions, Central Bank of Sri Lanka**

## **Registered Stock And Securities Ordinance And Local Treasury Bills Ordinance Directions No. 01 of 2019**

20 December 2019

### **REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS OF DEALER DIRECT PARTICIPANTS IN SCRIPLESS TREASURY BONDS AND SCRIPLESS TREASURY BILLS**

Issued under Section 21C(3) of the Registered Stock and Securities Ordinance No. 7 of 1937, as amended and Section 8(2) of the Local Treasury Bills Ordinance No. 8 of 1923, as amended.

The Monetary Board issues Directions as follows for the manner in which repurchase and reverse repurchase transactions in Scripless Treasury Bonds and Scripless Treasury Bills shall be carried out by Dealer Direct Participants (DDPs).

- |                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Empowerment under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance | 1.1 In terms of Section 21C(3) of the Registered Stock and Securities Ordinance No. 7 of 1937, as amended and Section 8(2) of the Local Treasury Bills Ordinance No. 8 of 1923, as amended, the Central Bank may issue Directions to Direct Participants or any category thereof to provide for the manner and means by which Scripless Treasury Bonds and Scripless Treasury Bills, or interests therein, may be purchased, sold, transferred, pledged or encumbered.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2. Applicability                                                                                          | <p>2.1 These Directions shall be applicable to all repurchase and reverse repurchase transactions in Scripless Treasury Bonds and Scripless Treasury Bills entered into by a DDP, except for Intra Day Liquidity Facility (ILF) transactions and repurchase and reverse repurchase transactions entered into with the Open Market Operations and Standing Facilities of the Central Bank of Sri Lanka (CBSL).</p> <p>2.2 These Directions shall be applicable in addition to the Scripless Treasury Bonds (Transactions) Regulations of No. 02 of 2004 and Scripless Treasury Bills (Transactions) Regulations of No. 02 of 2004 and the LankaSettle System Rules.</p>                                                                                                                                                                                                                                                                                                  |
| 3. Eligible Securities for Repurchase and Reverse Repurchase Transactions                                 | 3.1 For the purposes of these Directions, a DDP shall use only the Scripless Treasury Bonds and Scripless Treasury Bills issued by CBSL on behalf of the Government, as securities for repurchase and reverse repurchase transactions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4. Valuation of Eligible Securities, Haircut Requirements and Replenishment of Eligible Securities        | <p>4.1 Eligible securities used for repurchase and reverse repurchase transactions shall be valued at market value. Market value of such eligible securities shall be calculated using the dirty price corresponding to the average of the buying and selling yield quotes for the relevant security, as indicated in the Daily Summary Report compiled based on the information provided by Primary Dealers and circulated by the Public Debt Department of CBSL, for the relevant date or any other basis which may be prescribed for this purpose by CBSL. In the event that the Daily Summary Report for the relevant date is not available at the time of entering into the transaction, the Daily Summary Report for the immediately preceding working day shall be used.</p> <p>4.2 Notwithstanding Direction 4.1 above, a DDP may use any other input to calculate the market value of eligible securities, subject to such alternative input source being;</p> |

- (i) approved by the Director of Bank Supervision (DBS) in case of DDPs which are Licensed Banks and Director of the Department of Supervision of Non-Bank Financial Institutions (DSNBFI) in case of DDPs which are Primary Dealer Companies;
  - (ii) provided for in a documented internal policy of the DDP, and;
  - (iii) consistently applied by the DDP.
- 4.3 A DDP shall assess and agree in writing, with the counterparty, the haircut requirement for each repurchase and reverse repurchase transaction, taking into consideration the tenor of the transaction, maturity date and marketability of the eligible securities, assessment of counterparty risk, requirements of the counterparty and any other factor which is deemed relevant.
- 4.4 Notwithstanding Direction 4.3 above, a DDP shall ensure that, at the time of entering into a repurchase transaction, the market value of eligible securities adequately covers the repurchase value of the securities (maturity value of the repurchase transaction), i.e., amount borrowed by the DDP plus the interest that will accrue on the repurchase transaction over its tenor, with a minimum haircut as specified below.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)
up to 1 year	4.0
more than 1 year and up to 3 years	6.0
more than 3 years and up to 5 years	8.0
more than 5 years and up to 8 years	10.0
more than 8 years	12.0

- 4.5 Notwithstanding the Direction 4.3 above, a DDP shall ensure that, at the time of entering into a reverse repurchase transaction, the market value of eligible securities adequately covers the resale value of the securities (maturity value of the reverse repurchase transaction), i.e., amount lent by the DDP plus the interest that will accrue on the reverse repurchase transaction over its tenor, with a minimum haircut as specified below.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)
up to 1 year	4.0
more than 1 year and up to 3 years	6.0
more than 3 years and up to 5 years	8.0
more than 5 years and up to 8 years	10.0
more than 8 years	12.0

- 4.6 Notwithstanding the Directions 4.4 and 4.5 above, haircuts less than those required by Directions 4.4 and 4.5 above may be used for repurchase and reverse repurchase transactions entered into between two Direct Participants, with the written agreement of both parties.
- 4.7 In the event of the market value of securities falling below the repurchase value of the securities (maturity value of the repurchase transaction), at any time prior to the maturity of the transaction, a DDP shall allocate additional eligible securities for the said transaction or settle part of the transaction in cash, prior to the closure of the LankaSettle System on the relevant day, to the extent required to ensure that the total market value of eligible securities adequately covers the said maturity value of the repurchase transaction.

- 4.8 In the event of the market value of securities falling below the resale value of the securities (maturity value of the reverse repurchase transaction), at any time prior to the maturity of the transaction, a DDP shall obtain additional eligible securities for the said transaction or obtain cash for partial settlement of the transaction, prior to the closure of the LankaSettle System on the relevant day, to the extent required to ensure that the total market value of eligible securities adequately covers the said maturity value of the reverse repurchase transaction.
5. Sale, Substitution and Maturity of Eligible Securities
- 5.1 A DDP shall not sell on outright basis, the eligible securities received for reverse repurchase transactions.
- 5.2 A DDP may use the securities received for reverse repurchase transactions for repurchase transactions only if such use is explicitly provided for in the Repurchase or Reverse Repurchase Agreement entered into with the counterparty and if so provided for, in accordance with conditions included in the Repurchase or Reverse Repurchase Agreement.
- 5.3 A DDP may sell, either on outright or repurchase basis, the securities used for a repurchase transaction only if such trading is explicitly provided for in the Repurchase or Reverse Repurchase Agreement entered into with the counterparty and if so provided for, in accordance with conditions included in the Repurchase or Reverse Repurchase Agreement.
- 5.4 If a DDP decides to sell the securities used for a repurchase transaction in terms of the provisions of Direction 5.3 above or transfer the securities used for a repurchase transaction out of the securities account of the counterparty held at the Central Depository System (CDS), the DDP shall ensure that the securities being sold or transferred out are substituted in the securities account of the counterparty held at the CDS, by other eligible securities to the extent required by Directions 4.4 or 4.6, depending on which is applicable to the relevant transaction, prior to or simultaneously with the removal of the securities from the securities account of the counterparty held at the CDS.
- 5.5 Where a counterparty of a DDP intends to sell the securities used for a reverse repurchase transaction or transfer the securities used for a reverse repurchase transaction out of the securities account of the counterparty held at the CDS, the DDP shall obtain other eligible securities to the extent required by Directions 4.5 or 4.6, depending on which is applicable to the relevant transaction, in substitution of the securities being sold or transferred out of the securities account of the counterparty held at the CDS, prior to or simultaneously with the removal of the securities from the securities account of the counterparty held at the CDS.
- 5.6 Where the eligible securities used for a repurchase transaction or securities received for a reverse repurchase transaction matures during the tenor of the transaction, the DDP shall allocate or obtain, as the case may be, eligible securities with a market value equivalent to or exceeding the market value of the maturing eligible securities, in substitution of the maturing eligible securities.
6. Responsibilities of the DDP, Board of Directors, Risk Management, Compliance and Internal Audit
- 6.1 In entering into repurchase and reverse repurchase transactions, a DDP shall manage all relevant risks including counterparty credit risk, market risk, operational risk, liquidity risk and legal risk associated with such transactions.
- 6.2 In entering into repurchase and reverse repurchase transactions, the DDP shall ensure that relevant requirements stipulated in all applicable Laws, Regulations, Directions, Codes of Conduct, LankaSettle System Rules and other guidelines are strictly adhered to.
- 6.3 The Board of Directors of a DDP shall ensure DDP's compliance with these Directions and formulate policies, procedures and guidelines covering repurchase and reverse repurchase transactions and establish an effective risk management framework and internal controls on repurchase and reverse repurchase transactions including the preparation of periodic reconciliations of securities, in order to ensure such compliance.

- 6.4 The Compliance Officer or any other officer heading the compliance function of a DDP shall conduct independent verifications to ascertain the DDP's compliance with these Directions and report the findings of such verifications to the Board of Directors or to a relevant sub-committee of the Board of Directors on a regular basis, at least quarterly.
- 6.5 The DDP shall assess the adequacy of internal controls on repurchase and reverse repurchase transactions by conducting internal audits at least bi-annually and by obtaining a certification from the external auditor on a regular basis, at least annually.
7. Disclosure and Reporting Requirements
- 7.1 A DDP shall disclose in its annual audited financial statements;
- (i) the carrying value of securities allocated for repurchase transactions as at the period end date
  - (ii) the market value of securities received for reverse repurchase transactions as at the period end date
  - (iii) DDP's policy on haircuts for repurchase and reverse repurchase transactions
  - (iv) any penalties imposed on the DDP under Direction 8 below
- 7.2 DDPs which are Licensed Banks shall report to the DBS, the details of the repurchase and reverse repurchase transactions in such format and at such intervals as may be required by the DBS.
- 7.3 DDPs which are Primary Dealer Companies shall report to the DSNBFI, the details of the repurchase and reverse repurchase transactions in such format and at such intervals as may be required by the DSNBFI.
8. Penalties for Non-compliance with Directions
- 8.1 Where a DDP fails to allocate or obtain sufficient eligible securities as required by Directions 4.4, 4.5, 4.7, 4.8 and 5.5 above or as agreed with a Direct Participant in terms of Direction 4.6 above, DBS, in case of DDPs which are Licensed Banks, and DSNBFI, in case of DDPs which are Primary Dealer Companies, may impose on such DDP, a penalty of 2.0 per cent (2.0%) of the difference between the market value of allocated or obtained eligible securities and the market value of eligible securities required to be allocated or obtained with respect to the relevant repurchase or reverse repurchase transaction, per day.
- 8.2 Where a DDP uses the securities received for reverse repurchase transactions in violation of the provisions of Directions 5.1 and 5.2 above or sells the securities used for a repurchase transaction or transfers the securities used for a repurchase transaction out of the securities account of the counterparty held at the CDS in violation of the provisions of Directions 5.3 and 5.4 above, DBS in case of DDPs which are Licensed Banks and DSNBFI in case of DDPs which are Primary Dealer Companies, may impose on such DDP, a penalty of 2.0 per cent (2.0%) of the face value of the securities so misused, per day.
- 8.3 Where a DDP is unable to comply with any provision of these Directions due to reasons beyond the control of the DDP, such DDP shall inform of such circumstances to the DBS or DSNBFI, as the case may be, not later than 4.00 p.m. on the following working day, and if such reasons are acceptable to the relevant Director, penalties in terms of Directions 8.1 and 8.2 above shall not be imposed on such DDP.
9. Effective Date, Transitional Provisions and Rescinding of Previous Directions
- 9.1 These Directions shall be effective from 01.01.2020 subject to the transitional provisions in Directions 9.2 and 9.3 below.
- 9.2 Where the templates of the Repurchase or Reverse Repurchase Agreement or any other documentation used by a DDP contains any clause which is in contradiction to any Direction herein, the DDP shall make necessary amendments to such template to ensure compliance with these Directions, before 31.03.2020.

- 9.3 Where the existing Repurchase or Reverse Repurchase Agreements entered into with any of the counterparties of a DDP contains any clause which is in contradiction with any Direction herein, the DDP shall enter into a new Repurchase or Reverse Repurchase Agreement or make necessary amendments to the existing Repurchase or Reverse Repurchase Agreement with such counterparties, to ensure compliance with these Directions, before 30.06.2020.
- 9.4 Direction on Repurchase or Reverse Repurchase Agreements dated 02.05.2002 and Direction on Accounting for Repo Transactions dated 19.12.2003, both issued by the Superintendent of Public Debt, are hereby rescinded.
10. Definitions
- 10.1 For the purposes of these Directions;
- (i) **a repurchase transaction** shall mean a transaction where a DDP sells an eligible security with an agreement to purchase it on an agreed date at an agreed price.
  - (ii) **a reverse repurchase transaction** shall mean a transaction where a DDP purchases an eligible security with an agreement to sell it on an agreed date at an agreed price.
  - (iii) **haircut** shall mean the discount applied on the market value of a security.
  - (iv) **direct participant** shall mean a person appointed as a direct participant in terms of the Registered Stock and Securities Ordinance (Chapter 420) and Local Treasury Bills Ordinance (Chapter 417).
  - (v) **dealer direct participant** shall mean a person appointed as a dealer direct participant in terms of the Registered Stock and Securities Ordinance (Chapter 420) and Local Treasury Bills Ordinance (Chapter 417).
  - (vi) **counterparty** shall mean the person or entity with whom a DDP enters into a repurchase or a reverse repurchase transaction.
  - (vii) **dirty price** shall mean the price of the eligible security inclusive of interest that has accrued on the relevant security from the date of last coupon payment, to the relevant date.
  - (viii) **carrying value** shall mean the value at which the eligible security is reported in the annual audited financial statements.

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

