



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

29 August 2019

BANKING ACT DIRECTIONS

No. 06 of 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 76(J)(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.

**1. Scope and
Applicability**

1.1 These Directions shall be applicable to:

- (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.
- (ii) Authorized Persons who are:
 - (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
 - (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.

1.2 These Directions shall be read in conjunction with Direction No. 07 of 2011 on Integrated Risk Management Framework.



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| 2. Policy Framework | 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. |
| | 2.2 | Licensed banks shall formulate a Board approved code of conduct for treasury operations. |
| | 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. |
| | 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. |
| | 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. |
| | 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. |
| | 2.7 | The policies and procedures at a minimum, shall cover the following: <ul style="list-style-type: none">(i) ethical market conduct,(ii) handling confidential information,(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,(iv) clear guidelines on use of non-public price sensitive information to ensure the best interest of the counterpart and the market in general,(v) practices of acceptance of entertainment, gifts or favours including a threshold value for gifts and entertainment, frequency and requirements to disclose such entertainment, |



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gifts or favours, etc.,

- (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 authorized 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.



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| 3. Ethics and Standards of Conduct | 3.1 | Market conduct |
| | 3.1.1 | Authorised Persons shall: <ul style="list-style-type: none">(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: <ul style="list-style-type: none">(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, |



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- (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 Authorized 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 Authorized Persons by duress, inducement, threat or promise, for information or action.
- 3.1.3 Licensed banks and Authorized 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 Authorized 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 Authorized 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 penalize the Authorized 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 Authorized Persons are based on documented policy and market rates, and that such compensation levels are designed so as to avoid



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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 Authorized Persons.

3.2 Confidentiality

- 3.2.1 Authorized 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 Authorized Persons shall not:

- (i) use non-public market sensitive information of counterparts for the benefit of the Authorized 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. Authorized 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 Authorized 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.



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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 Authorized 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 Authorized 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 Authorized 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



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recognized as income of the bank.

3.5 Bets and Gambling

- 3.5.1 Authorized 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



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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 authorized 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 realize 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



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spot Authorized Persons of other licensed banks quoting prices/rates in a way that jeopardizes 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.



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- 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.



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- 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 minimizing 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 Authorized 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



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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,



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- (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 authorized 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, authorized 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



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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



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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,



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- (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



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and all Authorized 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 Authorized 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.



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- 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 minimize 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 Authorized 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



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local and international markets and regulatory developments and systematically update and upgrade their professional knowledge through structured training and development.

6.1.2 Authorized 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 Authorized 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 Authorized 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



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approval on a case-by-case basis.

- 6.2.2 Authorized 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 Authorized 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 Authorized Persons do not have the relevant qualifications as specified in 6.2.1 above, at the time of such appointments.
- 6.2.4 Further, Authorized 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 Authorized
Persons**

- 7.1 Authorized 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 Authorized 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 Authorized 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:
- (i) direct the licensed bank to suspend or remove any Authorized Person, who has been in non-compliance with these Directions, from performing any function in relation to treasury operations in the respective licensed bank,



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

29 August 2019

BANKING ACT DIRECTIONS

No. 06 of 2019

- (ii) assess the officers performing executive functions as not fit and proper to continue in the capacity of an officer performing executive functions,
- (iii) suspend the Authorized dealership, Primary dealership or any other dealership licence/approval granted by the Central Bank of Sri Lanka,
- (iv) reduce the Net Open Position limits and/or other trading limits of the non-compliant licensed bank,
- (v) cancel the Authorized dealership, Primary dealership or any other dealership license/approval granted by the Central Bank of Sri Lanka,
- (vi) reprimand any Authorized Person who has been in non-compliance with these Directions, and
- (vii) any other regulatory sanctions as deemed fit by the Monetary Board.

**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*

To: Director of Bank Supervision

Name of Bank:

**Declaration to be submitted by the Persons engaged in transacting business in terms of
the Banking Act Directions No. 06 of 2019 on Market Conduct and Practices for
Treasury Operations of Licensed Banks in Sri Lanka**

I,
(full name)

holder of National Identity Card No. / Passport No.
of.....

..... (address)

being a (Buddhist / Hindu do hereby solemnly, sincerely and truly declare and affirm / Christian
/ Catholic / Muslim make oath and state) as follows:

1. I am the (designation)
of..... (name of bank) which is a licensed commercial
bank under the Banking Act, No. 30 of 1988.
2. I possess the following academic and/or professional qualification / s in terms of
Directions 6.2.1 of the Banking Act Direction No. 06 of 2019 on Market Conduct and
Practices for Treasury Operations of Licensed Banks in Sri Lanka: / [I engaged in
transacting business under 1.1 (i) of above Directions as at and will obtain
the relevant qualifications as specified in 6.2.1 of the aforementioned Banking Act,
Direction on or before]
3. I am in possession of the following qualification /s in addition to (2) above:
.....
.....
4. The effective experience that I possess in banking, finance, business or administration or
of any other relevant discipline is as follows:
.....
.....
5. I shall undergo continuous training through participation in training programs that are
appropriate and sufficient for the functions or activities I am involved in / expected to be
involved in, and conducted by appropriate professional, academic or educational
institutions.
6. I have not been found guilty by 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 I have committed or have been connected with the

commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.

7. I have not been found guilty, after being subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity or improper conduct, by any regulatory authority, supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.
8. I have not been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
9. I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad.
10. I have not failed, to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt.
11. I have not been declared to be of unsound mind by a Court of competent jurisdiction in Sri Lanka or abroad.
12. I have not been removed or suspended by an order of a regulatory or supervisory authority from serving in a licensed bank or any other financial institution in Sri Lanka or abroad.

**Declaration to be filled by the Person engaged in transacting business in terms of the
Banking Act Directions No. 06 of 2019 on Market Conduct and Practices for
Treasury Operations of Licensed Banks in Sri Lanka**

I am the [affirmant / deponent] above named and I confirm that the information contained herein are to the best of my knowledge and belief, true and complete and also I undertake to inform of any change of any of the above information, within a period not exceeding one week from such change.

Date :

.....
Signature

Name :

TO BE FILLED BY THE CHIEF EXECUTIVE OFFICER

Any other explanation / information in regard to the information furnished above and other information considered relevant for assessing the suitability of the person engaged in the foreign exchange business.

Date :

.....
Signature of Chief Executive Officer

Name :

**Persons engaged in transacting business in terms of the Banking Act Directions No. 06
of 2019 on Market Conduct and Practices for Treasury Operations of
Licensed Banks in Sri Lanka**

Name	Date of Birth	Academic/ Educational Qualifications	Professional Qualifications	Date of Joining the Bank	Experience in transacting business under 1.1(i) of the above Directions