



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

DIRECTIONS No. 01 OF 2021 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017

Directions Issued to Authorized Dealers on Temporary Special Foreign Currency Accounts for Licensed Finance Companies

In terms of the Foreign Exchange (Opening and Maintenance of Foreign Exchange Accounts) Regulations No. 3 of 2017 and Section 9 of the Foreign Exchange Act, No.12 of 2017 (the FEA) read with Section 6 of the FEA, Authorized Dealers (ADs) are permitted to open and maintain Temporary Special Foreign Currency Accounts (TSFCAs) for Licensed Finance Companies (LFCs) to hedge the foreign exchange risk pertaining to the repayment of foreign currency loans subject to the following.

1.1 Eligible Persons

- (a) LFCs licensed under the Finance Business Act, No. 42 of 2011 (as may be amended).

1.2 Opening and Maintaining the Accounts

- (a) TSFCAs may be opened and maintained in the form of savings or term deposit accounts in the domestic banking unit in designated foreign currency of the loan.

1.3 Permitted Credits

- (a) Proceeds relating to the foreign currency loans routed through the Inward Investment Accounts (IIAs) of the foreign lender.
- (b) Sri Lanka Rupees (LKR) converted into foreign currency (FCY) for the purpose of repaying the interest and any other charges with respect to the loan, as and when required.
- (c) Transfer of FCY from another AD upon maturity of SWAP agreements or any other derivative instrument until the respective loan is repaid in full.
- (d) Interest earned in FCY on the funds held in the account.



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1.4 Permitted Debits

- (a) Transfer of FCY to another AD to in order to enter in to SWAP or any other derivative instrument as per the respective agreements.
- (b) Transfer of funds to IIAs of the foreign lender for the repayment of the foreign currency loans (including capital, interest, fees and related charges) as per the repayment terms specified in the respective agreements.
- (c) Disbursements in Sri Lanka in LKR.

2. Other Conditions

- (a) The TSFCA shall not be overdrawn under any circumstances.
- (b) ADs shall maintain only one TSFCA with respect to each loan obtained by the LFCs. An affidavit on this effect shall be obtained by the AD from the LFC at the time of opening a TSFCA.
- (c) ADs shall obtain adequate documentary evidence, to establish the *bona-fide* of the transactions made through the TSFCA and ensure compliance with these Directions.
- (d) ADs shall maintain documentary evidence (either in hard copy or electronic/digital form) regarding the transactions made through the TSFCA beyond any statutory record keeping requirements during the maintenance of the account.

3. Closure of TSFCAs

- (a) ADs shall close the TSFCA, if the borrower has fully settled/ repaid the respective loan.
- (b) ADs shall inform such closure to the Director/ Department of Foreign Exchange (D/DFE) via an email to dfem@cbsl.lk within one week from the date of the closure.



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4. ADs shall require prior permission of the D/DFE, for any transaction/transfer to/from the TSFCA for any purpose which falls outside the purview of these Directions.

5. Reporting Requirements

Statements confirming the credits and debits made to the TSFCA shall be forwarded through the compliance officer of respective AD to the D/ DFE on quarterly basis on or before 15th day of the following month by email to dfem@cbsl.lk.

6. For purposes of these Directions

(a) “**Foreign currency loans**” mean loans obtained from a resident outside Sri Lanka (i.e. foreign lender) as permitted in terms of the Finance Business Act No. 42 of 2011 (as may be amended).

7. Nothing permitted by these Directions shall be construed as exempting, absolving or preventing ADs or any person dealing in foreign exchange under these Directions, from the requirement to comply with the provisions of any other law.

Addl. Director/ Department of Foreign Exchange

15 January 2021