



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 July 2020

BANKING ACT DIRECTIONS

No. 06 of 2020

EXTRAORDINARY REGULATORY MEASURES AMIDST COVID-19

The Central Bank of Sri Lanka (CBSL), considering the national importance of reviving business sectors that were adversely affected by the COVID-19 and the exceptional circumstances of the economic impact of COVID-19 pandemic, has implemented a Credit Guarantee and Interest Subsidy scheme under Phase III of Saubagya COVID 19 Renaissance Facility and a liquidity facility to construction sector against “Letter of Acceptance of Payments of Outstanding Bills to Contractors” issued by the Government to settle dues to contractors by 31 December 2020.

In this regard, the Monetary Board, in terms of the powers conferred by Sections 21(1), 86, 46(1) and 76J(1) of the Banking Act No. 30 of 1988, as amended, has approved the following extraordinary regulatory measures.

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| 1. Empowerment under the Banking Act | 1.1 In terms of Section 21(1) of the Banking Act, every licensed commercial bank shall maintain liquid assets in such amount as may from time to time be determined by the Monetary Board having regard to the nature of the business carried on by such bank provided that the percentage determined by the Monetary Board shall not be less than 20 per cent and not more than 40 per cent. |
| | 1.2 In terms of Section 86 item (g) under Liquid Assets, the Monetary Board is empowered to determine such other assets as “liquid assets”. |
| | 1.3 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 commercial banks and licensed specialised banks, hereinafter referred to as licensed banks, regarding the manner in which any aspect of the business of such bank or banks is to be conducted. |
| 2. Liquid Assets for Computation of Statutory Liquid Assets Ratio | 2.1 Licensed commercial banks shall consider the new credit facilities granted to the construction sector against “Letter of Acceptance of Payments of Outstanding Bills to Contractors” issued by the Government as referred to in the Operating |



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- Instructions No. 35/03/023/0001/002 or any other subsequent amendments issued by the Domestic Operations Department of CBSL, as liquid assets for the purpose of computation of Statutory Liquid Assets Ratio (SLAR), until 31 December 2020, subject to a haircut of 10% of such credit facilities.
3. Classification of Loans and Advances, Income Recognition and Provisioning
- 3.1 In terms of Banking Act Directions No. 03 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning and any subsequent amendments, licensed commercial banks are permitted to initially classify the new credit facilities granted to the construction sector against “Letter of Acceptance of Payments of Outstanding Bills to Contractors” issued by the Government, as performing loans without considering the current classification status of other existing facilities, provided that the new facility is granted for the purpose of new economic activities.
- 3.2 Licensed commercial banks shall ensure compliance with all other requirements relating to classification of loans and advances, in case of subsequent default or potential risk of such borrowers.
4. Computation of Capital Adequacy Ratio
- 4.1 In terms of Part III (C) of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks, the following will qualify as acceptable credit risk mitigants for credit facilities granted against the same and shall be risk weighted at zero per cent
- (i) The “Letter of Acceptance of Payment of Outstanding Bills due to Contractors” issued by the Government.
- (ii) The Credit Guarantee provided under Phase III of Saubagya COVID-19 Renaissance Facility.


-Prof. W D Lakshman

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