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இலங்கை மத்திய வங்கி  
CENTRAL BANK OF SRI LANKA

23<sup>rd</sup> September 2020

Our Ref: 33/04/012/0011/002

To: Chief Executive Officers of All Licensed Commercial Banks

**"Inward Investments SWAPs - IIS" Scheme**

**1. Introduction of Inward Investments SWAPs - IIS Scheme**

In order to encourage fresh foreign inflows to the country, the Monetary Board of the Central Bank of Sri Lanka (CBSL) has decided to offer "USD / LKR Buy - Sell Currency SWAPs" for tenors beyond one year and up to two years to Licensed Commercial Banks (LCBs) under the scheme named "Inward Investments SWAPs Scheme (IIS Scheme)". The objective of offering "IIS Scheme" is to facilitate LCBs to hedge the foreign exchange risk pertaining to foreign currency inflows that are channeled through the Inward Investment Accounts (IIA).

2. Accordingly, LCBs are hereby invited to enter into SWAP agreements with the CBSL under "IIS Scheme" adhering to the following Operating Instructions and the Directions to be issued in that regard.
3. Key parameters of IIS Scheme are listed in Table A below.

**Table A - Key Parameters of IIS Scheme**

<b>3.1 Counterparties</b>	CBSL Vs Individual LCBs
<b>3.2 Eligible Investors</b>	Non-resident investors who are eligible to operate Inward Investment Accounts (IIA)
<b>3.3 Applicability</b>	New foreign currency inflows to the country channeled through IIA with effect from 23.09.2020
<b>3.4 Tenor of SWAP with CBSL</b>	Beyond one year and up to two years
<b>3.5 Minimum Deal Size</b>	USD 25 Mn. per non-resident investor
<b>3.6 Pricing Mechanism between CBSL and LCB</b>	The same exchange rate for the near and the far legs of the SWAP between the CBSL and LCB (i.e., zero cost SWAPs)

4. Conditions of IIS Scheme are listed in Table B below.

**Table B - Conditions of IIS Scheme**

<b>4.1 Availability</b>	Prior to entering into a SWAP deal with a non-resident investor, the limit availability under the IIS scheme should be checked by the LCB with International Operations Department (IOD) of the CBSL.
<b>4.2 Declaration of Sources of Funds</b>	Prior to entering into the deal with the CBSL, an LCB should disclose the source of funds, underlying transaction/s and the details of the respective non-resident investor, to IOD of the CBSL.
<b>4.3 Maximum SWAP Premium Chargeable</b>	A maximum of 0.10% on the investment value may be charged as a SWAP premium from a non-resident investor by the LCB.
<b>4.4 Pre-mature Unwinding of SWAPs</b>	<ul style="list-style-type: none"> <li>• The CBSL does not encourage pre-mature unwinding of SWAPs under "IIS Scheme".</li> <li>• However, in an unavoidable circumstance, if a non-resident investor requests for a pre-mature unwinding of an IIS, in return, the LCB should terminate the SWAP agreement with the CBSL.</li> <li>• In such a scenario, the "Settlement Exchange Rate" applicable for the settlement between the CBSL and LCB, shall be as follows: <ul style="list-style-type: none"> <li>(i) If prevalent USD / LKR spot rate is higher than the agreed settlement rate (i. e., LKR depreciated), the revised settlement rate should be the prevalent indicative USD/LKR spot exchange rate** plus the "Penalty".</li> <li>(ii) If prevalent USD / LKR spot rate is lower than the agreed settlement rate (i. e., LKR appreciated), the revised settlement rate should be the near leg USD / LKR spot rate plus the "Penalty".</li> </ul> </li> <li>• "Penalty" should be 2% on agreed USD / LKR "Settlement Exchange Rate".</li> </ul>

**\*\* Prevalent USD / LKR spot rate is the "Indicative USD/LKR Spot Exchange Rate" published by CBSL, on that particular day.**

5. LCBs are requested to follow the standard settlement procedure when settling the above SWAP transactions with the CBSL.
6. Further, LCBs are requested to comply with the applicable Directions issued by the CBSL, from time to time.
7. The CBSL has a right to withdraw the "IIS Scheme" without any notice, in advance.
8. For any further information, you may contact International Operations Department of the CBSL on 0112398715 or 0112477084.

A handwritten signature in blue ink, appearing to read 'W D Lakshman', with a horizontal line drawn underneath it.

**Deshamanya Professor W D Lakshman**  
**Governor**  
**Central Bank of Sri Lanka**



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CENTRAL BANK OF SRI LANKA

23 October 2020

Our Ref: 33/04/012/0011/003

**To: Chief Executive Officers of All Licensed Commercial Banks**

**Amendment to Operating Instructions for Licensed Commercial Banks on "Inward Investments SWAPs - IIS" Scheme**

This is with reference to the Operating Instructions (Ref. No: 33/04/012/0011/002) for Licensed Commercial Banks on "Inward Investment SWAPs - IIS Scheme" issued on 23.09.2020.

This is to inform that the penalty applicable for Pre-mature Unwinding of SWAPs under IIS Scheme which was 2.00% of the agreed USD / LKR "Settlement Exchange Rate" as referred to in paragraph 4.4 of the said Operating Instructions, is reduced to 0.25% with effect from 23.10.2020. The other parameters and conditions of previously issued Operating Instructions (Ref. No: 33/04/012/0011/002) remain unchanged.

For any further information, you may contact International Operations Department on 0761754680, 0112398715 and 0112477084.

**Deshamanya Prof. W D Lakshman**  
**Governor**  
**Central Bank of Sri Lanka**