



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**09 April 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 04 of 2021**

**Foreign Currency Borrowings**

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|--|--|
| 1. Legal provisions                      | 1.1 In terms of the powers conferred by Section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board issues these directions on foreign currency borrowings by the Licensed Finance Companies (LFCs).  |
| 2. Objectives of the directions          | 2.1. Stabilise any unwarranted macro-economic and financial sector volatilities in the country created by the foreign funding exposures of LFC sector.<br>2.2. Provide a risk management framework for LFCs on the exposures to foreign currency borrowings.   |
| 3. Applicability and scope               | 3.1 These directions shall be applicable to all foreign currency borrowings by LFCs.   |
| 4. Responsibility of Board of Directors  | 4.1. All foreign currency borrowings of an LFC shall be approved by the Board of Directors after evaluating the rationale, cost benefit analysis of borrowings and availability of adequate risk management practices.<br>4.2. Board of Directors shall establish board approved prudent foreign exchange risk management policies and procedures, and oversee the implementation of the same. |
| 5. Tenure                                | 5.1. Foreign currency borrowings shall be with a maturity of 2 years or more.  |
| 6. Limits on Foreign Currency Borrowings | 6.1. The maximum outstanding amount of foreign currency borrowings by an LFC at a particular time shall be determined as a percentage of its total assets.<br>6.2. The percentage of foreign currency borrowings of an LFC shall be based on the criteria given for each level in Table 1, below.  |



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**Table 1: Foreign currency borrowing limits, criteria and approvals required**

| Level | Criteria  | Limit as a % of total assets | Approvals required                               |
|-------|---|------------------------------|--|
| 1     | LFCs meeting the prudential requirements stipulated in section 8.2 at the time of borrowing   | 10.0                         | Notify the Director prior to and after borrowing |
| 2     | <ul style="list-style-type: none"> <li>i. Meet criteria in level 1.</li> <li>ii. Maintain capital conservation buffer of 1% in addition to the minimum capital adequacy requirement, and</li> <li>iii. Availability of a publishable credit rating of investment grade (BBB-) and above.</li> </ul>   | Over<br>10.0 -<br>15.0       | Prior approval of the Director                   |
| 3     | <ul style="list-style-type: none"> <li>i. Meet criteria in level 2.</li> <li>ii. Such borrowings shall be unsecured and subordinated to the claims of depositors, and</li> <li>iii. Utilize such borrowings solely to lend/invest for the purposes of exports, import substitutions, government development projects, small and medium enterprises, projects generating foreign income, any other sector deemed to be priority sector as determined by the Monetary Board.</li> </ul> | Over<br>15.0 –<br>20.0       | Prior approval of the Monetary Board             |



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7. Requirements for approvals
- 7.1 Any LFC shall meet the following requirements when notifying or obtaining approval for foreign currency borrowings on the levels as specified in section 6, above.
- i. Level 1 -
    - a. Submit the approval granted by the Board of Directors of LFC, term sheet and other relevant details of the prospective foreign currency borrowings to the Director prior to obtaining the facility, and
    - b. Notify the details and the bank confirmation of the foreign currency borrowing to the Director within 3 working days after obtaining the borrowing.
  - ii. Level 2 - Obtain the prior written approval of the Director by submitting the approval granted by the Board of Directors of LFC, term sheet and other relevant details of the prospective foreign currency borrowing.
  - iii. Level 3 - Obtain the prior written approval of the Monetary Board by submitting the approval granted by the Board of Directors of LFC, term sheet and other relevant details of the prospective foreign currency borrowing.
- 7.2 Foreign currency borrowings approved by the Director or the Monetary Board, as the case may be, shall be obtained within 3 months from the date of such approval.
8. Other terms and conditions
- 8.1. Foreign currency borrowings by LFCs shall comply with the applicable provisions of the Foreign Exchange Act, No. 12 of 2017 and directions/regulations issued thereunder.
- 8.2. LFCs shall comply with the prudential requirements, including, but not limited to, Directions on minimum capital adequacy ratios, minimum core capital and liquid assets.



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- 8.3. LFCs shall use the foreign currency borrowings strictly for the purpose(s) given in the loan agreement with the counterparty.
- 8.4. LFCs shall hedge the foreign exchange risk of the foreign currency loan proceeds by using currency SWAPS with the Central Bank of Sri Lanka (CBSL) through Licensed Commercial Banks as per the prevailing guidelines for SWAP arrangements with the CBSL. Further, LFCs shall appropriately hedge the foreign exchange risk on the interest payment by using appropriate market derivative products and manage the interest rate risk arising from such foreign currency borrowings.
- 8.5. The total borrowing cost including interest rate, hedging cost and all related costs of the borrowing shall be less than the interest rates ceiling stipulated for debt instruments given in the Maximum Interest Rates on Deposits and Debt Instruments Direction or any amendment thereto.
9. Transitional Arrangements Any LFC which has obtained foreign currency borrowings as at the date of these Directions in excess of the maximum limits as specified under section 6 above are permitted to service the existing arrangements.
10. Interpretations
- 10.1. 'Foreign currency' shall mean any designated foreign currency.
- 10.2. 'Director' shall mean Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka
- 10.3. 'Total assets' shall be the amount as per the latest annual audited financial statements or interim financial statements as certified by the External Auditor of the LFC.

**Prof. W D Lakshman**  
*Chairman of the Monetary Board and  
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