



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

**CORPORATE GOVERNANCE**

In terms of the powers conferred by Section 12 of the Finance Business Act, No. 42 of 2011(FBA), the Monetary Board of the Central Bank of Sri Lanka hereby issues the following directions on corporate governance and shall be applied to every finance company licensed under the FBA with a view to further strengthen the corporate governance practices of the finance company.

**1. Board's overall responsibilities**

**1.1.** The Board shall assume overall responsibility and accountability for the operations of the Finance Company (FC), by setting up the strategic direction, governance framework, establishing corporate culture and ensuring compliance with regulatory requirements. The Board shall carry out the functions listed in Direction 1.2 to 1.7 below, but not limited to, in effectively discharging its responsibilities.

**1.2. Business Strategy and Governance Framework**

- a) Approving and overseeing the implementation of the FC's overall business strategy with measurable goals for next three years and update it annually in view of the developments in the business environment.
- b) Approving and implementing FC's governance framework commensurate with the FC's size, complexity, business strategy and regulatory requirements.
- c) Assessing the effectiveness of its governance framework periodically.
- d) Appointing the Chairperson and the Chief Executive Officer (CEO) and define the roles and responsibilities.

**1.3. Corporate Culture and Values**

- a) Ensuring that there is a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.
- b) Playing a lead role in establishing the FC's corporate culture and values, including developing a code of conduct and managing conflicts of interest.
- c) Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

FINANCE BUSINESS ACT DIRECTIONS

No. 05 of 2021

- d) Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the FC's performance, position and prospects in public and regulators.

**1.4. Risk Appetite, Risk Management and Internal Controls**

- a) Establishing and reviewing the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework.
- b) Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.
- c) Adopting and reviewing the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically.
- d) Approving and overseeing business continuity and disaster recovery plan for the FC to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.

**1.5. Board Commitment and Competency**

- a) All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the FC.
- b) All members of the Board shall possess necessary qualifications, adequate skills, knowledge, and experience.
- c) The Board shall regularly review and agree the training and development needs of all the members.
- d) The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and maintain records of such assessments.
- e) The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the FC.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

**1.6. Oversight of Senior Management**

- a) Identifying and designating senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.
- b) Defining the areas of authority and key responsibilities for the senior management.
- c) Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.
- d) Ensuring there is an appropriate oversight of the affairs of the FC by senior management.
- e) Ensuring the FC has an appropriate succession plan for senior management.
- f) Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.

**1.7. Adherence to the Existing Legal Framework**

- a) Ensuring that the FC does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders.
- b) Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.
- c) Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.

**2. Governance Framework**

- 2.1.** Board shall develop and implement a governance framework in line with these directions and including but not limited to the following.
- a) role and responsibilities of the Board
  - b) matters assigned for the Board.
  - c) delegation of authority.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

3/ December 2021

FINANCE BUSINESS ACT DIRECTIONS

No. 05 of 2021

- d) composition of the Board.
- e) the Board's independence.
- f) the nomination, election and appointment of directors and appointment of senior management.
- g) the management of conflicts of interests
- h) access to information and obtaining independent advice.
- i) capacity building of Board members.
- j) the Board's performance evaluation.
- k) role and responsibilities of the chairperson and the CEO.
- l) role of the company secretary.
- m) Board sub committees and their role; and
- n) limits on related party transactions.

**3. Composition of the Board**

- 3.1. The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC.
- 3.2. The number of directors on the Board shall not be less than seven (07) and not more than thirteen (13).
- 3.3. The total period of service of a director other than a director who holds the position of CEO/executive director shall not exceed nine years, subject to direction 3.4.
- 3.4. Non-executive directors, who directly or indirectly holds more than 10% of the voting rights or who appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. Provided, however number of non- executive directors eligible to exceed 9 years are limited to one-fourth ( $\frac{1}{4}$ ) of the total number of directors of the Board.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

**3.5. Executive Directors**

- a) Only an employee of a FC shall be nominated, elected and appointed, as an executive director of the FC, provided that the number of executive directors shall not exceed one-third ( $\frac{1}{3}$ ) of the total number of directors of the Board.
- b) A shareholder who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an executive director or as senior management. Provided however, existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/senior management until the retirement age of the FC and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3. Existing executive directors without a contract of employment and functional reporting line need to step down from the position of executive director from the effective date of this direction and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3.
- c) In the event of presence of the executive directors, CEO shall be one of the executive directors and may be designated as the managing director of the FC.
- d) All Executive directors shall have a functional reporting line in the organization structure of the FC.
- e) The executive directors are required to report to the Board through CEO.
- f) Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.

**3.6. Non-Executive Directors**

- a) Non-executive directors shall possess credible track records, and have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

3 / December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

- b) A non-executive director cannot be appointed or function as the CEO/executive director of the FC.

**3.7. Independent Directors**

- a) The number of independent directors of the Board shall be at least three (03) or one-third ( $\frac{1}{3}$ ) of the total number of directors, whichever is higher.
- b) Independent directors appointed shall be of highest caliber, with professional qualifications, proven track record and sufficient experience.
- c) A non-executive director shall not be considered independent if such:
- i. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC.
  - ii. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.
  - iii. Director has been employed by the FC or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director.
  - iv. Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as director.
  - v. Director has a relative, who is a director or senior management of the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20%



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

FINANCE BUSINESS ACT DIRECTIONS

No. 05 of 2021

of the voting rights of another FC.

- vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC.
- vii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, in which any of the other directors of the FC is employed or is a director.
- viii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, which has a transaction with the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC.
- d) The nomination committee and Board should determine whether there is any circumstance or relationship, which is not listed at direction 3.7, which might impact a director's independence, or the perception of the independence.
- e) An independent director shall immediately disclose to the Board any change in circumstances that may affect the status as an independent director. In such a case, the Board shall review such director's designation as an independent director and notify the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation.

**3.8. Alternate Directors**

- a) Representation through an alternate director is allowed only;
  - i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

- ii) If the current director is unable to perform the duties as a director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad.
- b) The existing directors of the FC cannot be appointed as an alternate director to another existing director of the FC.
- c) A person appointed as an alternate director to one of the directors cannot extend the role as an alternate director to another director in the same Board.
- d) An alternate director cannot be appointed to represent an executive director.
- e) In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to an independent director.

**3.9. Cooling off Periods**

- a) There shall be a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC. Any variation thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of a FC which needs restructuring, shall be made with prior approval of the Monetary Board.
- b) A director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent under the provisions of this Direction.

**3.10. Common Directorships**

Director or a senior management of a FC shall not be nominated, elected or appointed as a director of another FC except where such FC is a parent company, subsidiary company or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f).





**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**3/ December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

**3.11.** The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a FC shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.

**4. Assessment of  
Fitness and  
Propriety  
Criteria**

**4.1.** No person shall be nominated, elected or appointed as a director of the FC or continue as a director of such FC unless that person is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.

**4.2.** A person over the age of 70 years shall not serve as a director of a FC.

**4.3.** Notwithstanding provisions contained in 4.2 above, a director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to maximum of 75 years of age subject to the following,

a) Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.

b) Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a).

c) The maximum number of directors exceeding 70 years of age is limited to one-fifth ( $\frac{1}{5}$ ) of the total number of directors.

d) The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.

**5. Appointment and  
resignation of  
directors and  
senior  
management**

**5.1.** The appointments, resignations or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

**6. The  
Chairperson and  
the CEO**

- 6.1.** There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing.
- 6.2.** The chairperson shall be an independent director, subject to 6.3 below.
- 6.3.** In case where the chairperson is not independent, the Board shall appoint one of the independent directors as a senior director, with suitably documented terms of reference to ensure a greater independent element. Senior director will serve as the intermediary for other directors and shareholders. Non-executive directors including senior director shall assess the chairperson's performance at least annually.

**6.4. Responsibilities of the Chairperson**

The responsibilities of the chairperson shall at least include the following:

- a) Provide leadership to the Board.
- b) Maintain and ensure a balance of power between executive and non-executive directors.
- c) Secure effective participation of both executive and non-executive directors.
- d) Ensure the Board works effectively and discharges its responsibilities.
- e) Ensure all key issues are discussed by the Board in a timely manner.
- f) Implement decisions/directions of the regulator.
- g) Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary.
- h) Not engage in activities involving direct supervision of senior management or any other day to day operational activities.
- i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.
- j) Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

**6.5. Responsibilities of the CEO**

The CEO shall function as the apex executive-in-charge of the day-to-day-management of the FC's operations and business. The responsibilities of the CEO shall at least include:

- a) Implementing business and risk strategies in order to achieve the FC's strategic objectives.
- b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions.
- c) Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.
- d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.
- e) Strengthening the regulatory and supervisory compliance framework.
- f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.
- g) CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10.

**7. Meetings of the Board**

- 7.1. The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.
- 7.2. The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings.
- 7.3. A notice of at least 3 days shall be given for a scheduled Board meeting. For all other Board meetings, a reasonable notice shall be given.
- 7.4. A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

- 7.5. A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one fourth ( $\frac{1}{4}$ ) of the number of directors that constitute the quorum at such meeting are independent directors.
- 7.6. The chairperson shall hold meetings with the non-executive directors only, without the executive directors being present, as necessary and at least twice a year.
- 7.7. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item in the Board meeting.
- 7.8. A director who has not attended at least two-thirds ( $\frac{2}{3}$ ) of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance, subject to applicable directions for alternate directors.

**7.9. Scheduled Board Meetings and Ad Hoc Board Meetings**

For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where director cannot attend on a short notice, participation through electronic means is acceptable.

**8. Company  
Secretary**

- 8.1. a) The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations.
- b) The Board shall appoint its company secretary, subject to transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the company



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

secretary, such person shall become an employee of FC and shall not become an employee of any other institution.

- 8.2. All directors shall have access to advice and services of the company secretary with a view to ensuring the Board procedures laws, directions, rules and regulations are followed.
- 8.3. The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function.
- 8.4. The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.
- 8.5. The company secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.
- 8.6. Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly include the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual director; (d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions; (e) the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.
- 8.7. The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.
- 9.1. The Board shall approve a Delegation of Authority (DA) and give clear directions to the senior management, as to the matters that shall be approved

**9. Delegation of  
Functions by the  
Board**



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

by the Board before decisions are made by senior management, on behalf of the FC.

- 9.2. In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.
- 9.3. The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.
- 9.4. The Board shall not delegate any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
- 9.5. The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the FC.

**10. Board Sub-Committees**

- 10.1. a) For the purpose of specifying the requirements for board committees, FCs are divided into two categories based on the asset base as per the latest audited statement of financial position as FCs with asset base of more than Rs. 20 bn and FCs with asset base of less than Rs. 20 bn, subject to transitional provisions stated in direction 19.3.

	<b>FCs with asset base of more than Rs. 20 bn</b>	<b>FCs with asset base of less than Rs. 20 bn</b>
<b>Board Sub-Committees</b>	Shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee	Shall establish at least the BAC, BIRMC and Related Party Transactions Review Committee
<b>Meetings</b>	Meetings shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually	Meetings shall be held at least quarterly for BAC and BIRMC. Other committees shall meet at least annually



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

FINANCE BUSINESS ACT DIRECTIONS

No. 05 of 2021

- b) Each Board sub-committee shall have a board approved written terms of reference specifying clearly its authority and duties.
- c) The Board shall present a report on the performance of duties and functions of each Board sub-committee, at the annual general meeting of the FC.
- d) Each sub-committee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee.
- e) Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee.
- f) The Board may consider occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives.

**10.2. Board Audit Committee (BAC)**

The following shall apply in relation to the BAC.

- a) The chairperson of BAC shall be an independent director who possesses qualifications and experience in accountancy and/or audit.
- b) The Board members appointed to the BAC shall be non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC.
- c) The secretary to the BAC shall preferably be the Chief Internal Auditor (CIA).
- d) External Audit Function
  - i. The BAC shall make recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

- ii. Engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.
- iii. Audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.
- iv. The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- v. Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.
- vi. The BAC shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the FC's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.
- vii. The BAC shall review the financial information of the FC, in order to monitor the integrity of the financial statements of the FC in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In





**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

FINANCE BUSINESS ACT DIRECTIONS

No. 05 of 2021

reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.

- viii. The BAC shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of senior management, if necessary.
- ix. The BAC shall review the external auditor's management letter and the management's response thereto within 3 months of submission of such, and report to the Board.
- e) The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.
- f) The BAC shall ensure that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the FC.
- g) Internal Audit Function
  - i. The committee shall establish an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes.
  - ii. The internal audit function shall have a clear mandate, be accountable to the BAC, be independent and shall have sufficient expertise and authority within the FC to carry out their assignments effectively and



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

objectively.

- iii. The BAC shall take the following steps with regard to the internal audit function of the FC:
  - (i) Review the adequacy of the scope, functions and skills and resources of the internal audit department and ensure the internal audit department has the necessary authority to carry out its work.
  - (ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit.
  - (iii) Assess the performance of the head and senior staff members of the internal audit department.
  - (iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.
  - (v) Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.
  - (vi) Examine the major findings of internal investigations and management's responses thereto.
- h) The BAC shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly.
- i) Meetings of the Committee
  - i. The BAC shall meet as specified in 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
  - ii. Other Board members, senior management or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

FINANCE BUSINESS ACT DIRECTIONS

No. 05 of 2021

- iii. BAC shall meet at least twice a year with the external auditors without any other directors/senior management/employees being present.

**10.3. Board Integrated Risk Management Committee (BIRMC)**

The following shall apply in relation to the BIRMC:

- a) The BIRMC shall be chaired by an independent director. The Board members appointed to BIRMC shall be non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.
- b) The secretary to the committee may preferably be the CRO.
- c) The committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the FC at least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.
- d) Developing FC's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision making and establishing the means to raise risk issues and strategic concerns throughout the FC.
- e) The BIRMC shall review the FC's risk policies including RAS, at least



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

annually.

- f) The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- g) The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.
- h) BIRMC shall annually assess the performance of the compliance officer and the CRO.
- i) **Compliance Function**
  - i. BIRMC shall establish an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.
  - ii. For FCs with asset base of more than Rs. 20 bn, a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.
  - iii. For FCs with asset base of less than Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.
  - iv. The BIRMC shall ensure responsibilities of a compliance officer would broadly encompass the following: (i) develop and implement



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements; (ii) ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture; (iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards; (iv) understand and apply new legal and regulatory developments relevant to the business of FC; (v) secure early involvement in the design and structuring of new products and systems, to ensure conformity with the regulatory requirements, internal compliance and ethical standards; (vi) highlight serious or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and (vii) maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity.

**j) Risk Management Function**

- i. BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.
- ii. For FCs with asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO considered to be senior management shall carry out the risk management function and report to the BIRMC periodically.
- iii. The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.
- iv. The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

framework that covers: (i) various potential risks and frauds; (ii) possible sources of such risks and frauds; (iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing ; (iv) effective measures to control and mitigate risks at prudent levels; and (v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.

- v. The CRO shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and make recommendations on risk management.
- vi. The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.
- vii. The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.

**10.4. Nomination Committee**

The following shall apply in relation to the Nomination Committee:

- a) The committee shall be constituted with non-executive directors and preferably the majority may be independent directors. An independent director shall chair the committee. The CEO may be present at meetings by invitation of the committee.
- b) Secretary to the nomination committee may preferably be the company secretary.
- c) The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management are to be appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer.
- d) The committee shall ensure that directors and senior management are fit and proper persons to perform their functions as per the Finance Business



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

Act (Assessment of Fitness and Propriety of Key Responsible Persons)  
Direction.

- e) The selection process shall include reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.
- f) The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.
- g) The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.
- h) Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent.
- i) The committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.
- j) The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management
- k) A member of the nomination committee shall not participate in decision



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

making relating to own appointment/ reappointment and the Chairperson of the board should not chair the committee when it is dealing with the appointment of the successor.

**10.5. Human Resource and Remuneration Committee**

The following shall apply in relation to the Human Resources and Remuneration Committee:

- a) The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.
- b) The secretary to the human resource and remuneration committee may preferably be the company secretary.
- c) The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors.
- d) There shall be a formal and transparent procedure in developing the remuneration policy.
- e) The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. The policy shall be subject to periodic review of the Board, including when material changes are made.
- f) The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.
- g) The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.





**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

h) The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.

**11. Internal Controls**

**11.1.** FCs shall adopt well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks.

**11.2.** A proper internal control system shall: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies.

**11.3.** All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.

**12. Related Party Transactions**

**12.1.** Board shall establish a policy and procedures for related party transactions, which covers the following.

a) All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.

b) All related party transactions shall be prior reviewed and recommended by the RPTRC.

c) The business transactions with a related party that are covered in this Direction shall be the following:

i. Granting accommodation.

ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable.

iii. Providing financial or non-financial services to the FC or obtaining those services from the FC.

iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

domain or otherwise sensitive information that may give benefits to such related party.

**12.2.** The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.

- a) Directors and senior management.
- b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.
- c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.
- d) Directors and senior management of legal persons in paragraph (b) or (c).
- e) Relatives of a natural person described in paragraph (a), (b) or (d).
- f) Any concern in which any of the FC’s directors, senior management or a relative of any of the FC’s director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.

**12.3.** The committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, “more favorable treatment” shall mean:

- a) Granting of “total accommodation” to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee.
- b) Charging of a lower rate of interest or paying a rate of interest exceeding



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

the rate paid for a comparable transaction with an unrelated comparable counterparty.

- c) Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties.
- d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or
- e) Maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.

**13. Group  
Governance**

**13.1. Responsibilities of the FC as a Holding Company**

- a) The FC is responsible for exercising adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them.
- b) The Board of the FC shall:
  - i) Ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies.
  - ii) Ensure that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework.
  - iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries.
  - iv) Assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and
  - v) Ensure that there are adequate resources to effectively monitor



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements.

- c) The FC, as the apex entity, shall ensure that the group structure does not undermine its ability to exercise effective oversight. The Board shall establish a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls.
- d) The Board and senior management of the FC shall validate that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed.
- e) The FC shall avoid setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.

**13.2. Responsibilities as a Subsidiary**

If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.

**14. Corporate Culture**

**14.1.** A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.

**14.2.** The FC shall maintain records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity.

**14.3.** A FC shall establish a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. The BAC shall review the policy periodically.

**15. Conflicts of Interest**

**15.1.** a) Relationships between the directors shall not exercise undue influence or coercion. A director shall abstain from voting on any Board resolution in



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting.

- b) The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall,
- i. Identify circumstances which constitute or may give rise to conflicts of interests.
  - ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.
  - iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest.
  - iv. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest.
  - v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and
  - vi. Articulate how any non-compliance with the policy to be addressed.

**16. Disclosures**

- 16.1.** The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English.

The Board shall ensure that at least following disclosures are made in the Annual Report of the FC.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

<i>Subject</i>	<i>Disclosure</i>
i. Financial statements	<p>In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,</p> <ul style="list-style-type: none"> <li>• A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</li> <li>• A statement of responsibility of the Board in preparation and presentation of financial statements.</li> </ul>
ii. Chairperson, CEO and Board related disclosures	<ul style="list-style-type: none"> <li>• Name, qualification and a brief profile.</li> <li>• Whether executive, non-executive and/or independent director.</li> <li>• Details of the director who is serving as the senior director, if any.</li> <li>• The nature of expertise in relevant functional areas.</li> <li>• Relatives and/or any business transaction relationships with other directors of the company.</li> <li>• Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity.</li> <li>• Number/percentage of board meetings of the FC attended during the year; and</li> <li>• Names of board committees in which the director serves as the Chairperson or a member.</li> </ul>
iii. Appraisal of board performance	<ul style="list-style-type: none"> <li>• An overview of how the performance evaluations of the Board and its committees have been conducted</li> </ul>
iv. Remuneration	<ul style="list-style-type: none"> <li>• A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non-</li> </ul>



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

	<p>financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation)</p> <ul style="list-style-type: none"> <li>• The aggregate values of remuneration paid by the FC to its directors and senior management.</li> </ul>
v. Related party transactions	<ul style="list-style-type: none"> <li>• The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board.</li> <li>• Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital.</li> <li>• The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.</li> </ul>
vi. Board appointed committees	<ul style="list-style-type: none"> <li>• The details of the chairperson and members of the board committees and attendance at such meetings.</li> </ul>
vii. Group Structure	<ul style="list-style-type: none"> <li>• The group structure of the FC within which it operates.</li> <li>• The group governance framework.</li> </ul>
viii. Director's report	<p>A report, which shall contain the following declarations by the Board:</p> <ul style="list-style-type: none"> <li>• The FC has not engaged in any activity, which contravenes laws and regulations.</li> <li>• The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.</li> <li>• The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.</li> <li>• The business is a going concern with supporting</li> </ul>



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

	<p>assumptions; and</p> <ul style="list-style-type: none"><li>• The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.</li></ul>
ix. Statement on Internal Control	<ul style="list-style-type: none"><li>• A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</li><li>• The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.</li><li>• A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</li><li>• A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions</li></ul>
x. Corporate governance report	<ul style="list-style-type: none"><li>• Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.</li></ul>
xi. Code of Conduct	<ul style="list-style-type: none"><li>• FC's code of business conduct and ethics for directors, senior management and employees.</li><li>• The Chairperson shall certify that the company has no violations of any of the provisions of this code.</li></ul>
xii. Management report	<ul style="list-style-type: none"><li>• Industry structure and developments</li><li>• Opportunities and threats</li></ul>





**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

31 December 2021

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

	<ul style="list-style-type: none"><li>• Risks and concerns</li><li>• Sustainable finance activities carried out by the company</li><li>• Prospects for the future</li></ul>
xiii. Communication with shareholders	<ul style="list-style-type: none"><li>• The policy and methodology for communication with shareholders.</li><li>• The contact person for such communication.</li></ul>

**17. Definitions**

“Act” shall mean the Finance Business Act, No.42 of 2011 or as amended

“Affiliate” in relation to a FC refers to any corporation that directly or indirectly controls, is controlled by, or is under common control with, the FC, and includes subsidiary, associate, holding company, companies under common group.

“Board” shall, include executive directors or otherwise, and shall include alternate directors as well.

“Relative” shall have the same meaning as Section 74 of the FBA.

“Direct or indirect shareholding” shall mean holding of shares carrying voting rights by a company, an incorporated body, or an individual, or held in aggregate by:

- a. a company and one or more of the following:
  - (i) its subsidiary companies.
  - (ii) its holding company.
  - (iii) a subsidiary company of its holding company; or
  - (iv) a company in which such company or its subsidiary company, or its holding company, or a subsidiary company of its holding company has a substantial interest; or
- b. an individual and one or more of the following:
  - (i) relatives – “
  - (ii) a company in which he/she has a substantial interest or in which his/her relative has a substantial interest; the subsidiary company of such company; a holding company of such company; a



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

subsidiary company of such company's holding company; a company in which such company, or its subsidiary company or its holding company or a subsidiary company of its holding company has a substantial interest; or

(iii) an incorporated body other than a company in which such individual; or his/her relative has a substantial interest; or

companies in each of which an individual or a company as the case may be, has either directly, indirectly or beneficially a substantial interest or significant management interest.

“Executive Director” is a full-time salaried employee of the FC, who is in the FC's payroll and employed under an employment contract and is involved in day-to-day management responsibilities.

Non-Executive Director is not an employee of the FC and not under the FC's payroll and not involved in day-to-day management of the FC.

Non-audit service shall have the same meaning as guideline for panel of external auditors issued in December 2012 or as amended

“Senior management” of the FC means

- i. Chief Executive Officer (CEO)
- ii. Officers in the immediate two layers below the level of CEO on the FC organization structure including Compliance Officer, Internal Chief Auditor, Chief Risk Officer, Chief Information Security Officer and Company Secretary. Such officers shall have authority and responsibility for planning, directing, and controlling the activities of the entity and any other persons within the definition of the ‘key management personnel’ of the Finance Business Act, No.42 of 2011, as may be determined by the Director/Department of Supervision of Non-Bank Financial Institutions.

“Substantial interest” shall have the same meaning as Section 74 of the FBA.



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**31 December 2021**

**FINANCE BUSINESS ACT DIRECTIONS**

**No. 05 of 2021**

- 18. Effective Date**                      The Direction will be effective from 01.07.2022 subject to transitional provisions stated below.
- 19. Transitional Provisions**
- 19.1.** a) Direction 3.2, Direction 3.5(a) and Direction 3.7 will be effective from 01.07.2024. During the transitional period, the provisions contained in “Section 4: Composition of the Board” of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 will be applicable  
b) Direction 3.4 will be effective immediately
- 19.2.** Direction 8.1(b): A transitional period until 01.07.2024 will be granted.
- 19.3.** Direction 10.1: A transitional period until 01.07.2024 will be granted. However, during the transitional period provisions contained in “Section 8: Board appointed committees” of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 will be applicable.
- 20. Revocation of previous directions**      **20.** Subject to the transitional provisions as expressly provided in direction 19, the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Finance Companies (Corporate Governance-Amendment) Direction No. 04 of 2008 and Finance Companies (Corporate Governance-Amendment) Direction No. 06 of 2013 Finance Business Act (Amendment to Corporate Governance) Direction and No. 05 of 2020 will be revoked from the effective date of this Direction.

**Nivard Ajith Leslie Cabraal**  
*Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka*

