



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

30 November 2020 FINANCE BUSINESS ACT DIRECTIONS

No. 08 of 2020

**MAXIMUM PERCENTAGE LIMITS OF SHARE CAPITAL
OF LICENSED FINANCE COMPANIES**

Issued under section 12 of the Finance Business Act, No. 42 of 2011

The Monetary Board of the Central Bank of Sri Lanka issues Directions as follows for the maximum shareholding limits of Licensed Finance Companies (LFCs) under the provisions of section 12 of the Finance Business Act, No. 42 of 2011.

1. Empowerment 1.1 In terms of the provisions of section 12 (1) (n) of the Finance Business Act, No. 42 of 2011, the Monetary Board may give directions to licensed finance companies or to any group or category of licensed finance companies regarding the manner in which any aspect of the business and corporate affairs of such finance companies are to be conducted and, in particular, *inter alia*, the maximum percentage of the share capital in a finance company which may be held –
- (i) by a company, an incorporated body, or an individual; and
 - (ii) in the aggregate by-
 - (a) a company and one or more of the following:-
 - (aa) its subsidiary companies;
 - (bb) its holding company;
 - (cc) a subsidiary company of its holding company; or
 - (dd) 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:-
 - (aa) his relative;
 - (bb) a company in which he has a substantial interest or in which his relative has a substantial interest;
 - (cc) a subsidiary company of such company;
 - (dd) the holding company of such company;

(ee) a subsidiary company of such company's holding company;

(ff) a company in which such company, or its subsidiary company, or its holding company, or a subsidiary of its holding company has a substantial interest; or

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

(c) 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.

2. Applicability of the Direction

2.1 The provisions of these Directions shall apply on all LFCs other than an LFC which is a subsidiary of a licensed bank or a special approval is given to an LFC by the Monetary Board for an exemption to hold shares carrying voting rights in excess of the limits specified herein.

2.2 A special approval by the Monetary Board may be given to hold shares carrying voting rights of an LFC in excess of the limits specified in Direction 4.1, below, and shall require such LFC to reduce such shareholding to the limit as may be determined by the Monetary Board, on case-by-case basis, on a staggered basis over a longer time period, subject to submission of a viable plan by the respective LFC, under following special circumstances:

- i. Restructuring of a problematic/weak LFC;
- ii. LFCs undergoing a consolidation process; or
- iii. In view of stability of an LFC or the sector as a whole.

3. Effective Date

3.1 These Directions are effective from 01 January 2022.

4. Maximum Shareholding Limits

4.1 LFCs shall reduce the direct or indirect holding of shares carrying voting rights by any shareholder up to a maximum limit of 50% of

the issued capital carrying voting rights in the LFC, by 31.12.2033.

4.2 The above maximum limits of shares carrying voting rights as specified in Direction 4.1, above shall be achieved in 2 phases, whereby the LFC shall reduce the holding of shares carrying voting rights to a maximum limit of 75% of the issued capital carrying voting rights of the LFC, by 31.12.2029 and, thereafter LFCs to a maximum limit of 50% by 31.12.2033 on a staggered basis as suggested by the Board of Directors of the LFC which will be approved by the Director, as may deem fit.

4.3 Notwithstanding Directions 4.1 and 4.2 above, the Monetary Board may restrict the maximum limit of shares carrying voting rights held by a major shareholder of a LFC to a limit below 50% of the issued capital carrying voting rights of the LFC, on the following grounds:-

- i. such major shareholder, being an individual, is determined by the Monetary Board as an individual not fit and proper,
- ii. such major shareholder, being a company, a body corporate or an unincorporated body, has one or more directors or chief executive officer who are determined by the Monetary Board as individuals not fit and proper; or
- iii. in the opinion of the Monetary Board that such major shareholder exerts significant influence or excessive power in decision making and operations of the LFC that would threaten the sound and prudent management of the LFC.

5. Regulatory Measures for non-compliance

5.1 In the event any LFC contravenes or fails to comply with any provisions of this Direction or requirement made or imposed thereunder, the Monetary Board, having considered a report made by the Director, shall take any measure including the following:

- i. freeze distribution of dividends or repatriation of profits of such LFC, as and when necessary;
- ii. restrict voting rights on shares held by any shareholder in excess

- of the specified limits, with effect from 01.01.2030;
- iii. prohibit the issue of further shares carrying voting rights or pursue any offer made to shareholders who hold such shares in excess of specified limits;
 - iv. restrict expansion of business operations of such LFC;
 - v. impose monetary penalties as determined by the Monetary Board; or
 - vi. impose disclosure requirements on non-compliances.

6. Interpretations

In this Direction,

‘Director’ shall have the same meaning as in section 74 of the Finance Business Act, No. 42 of 2011.

‘Major shareholder’ shall mean an individual or corporate body or an unincorporated body, or acting in concert with any other individual, corporate body or unincorporated body or a group holds directly or indirectly 25% of the issued capital carrying voting rights in the LFC.

‘Acting in concert’ shall mean acting pursuant to an understanding (whether formal or informal) to actively co-operate in acquiring shares carrying voting rights in a LFC.

‘Directly or indirectly held by a shareholder’ 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) his relatives – “relative” shall have the same meaning as contained in the definition in section 74 of the Finance Business Act, No. 42 of 2011;
 - (ii) a company in which he has a substantial interest or in which his relative has a substantial interest; the subsidiary company of such company; a holding company of such company; a 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 relative has a substantial interest;
- or
- c. companies in each of which an individual or company as the case may be, has either directly, indirectly or beneficially a substantial interest or significant management interest.



Prof. W D Lakshman
*Chairman of the Monetary Board and the
Governor of the Central Bank of Sri Lanka*