



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka. Tel :
2477424, 2477423, 2477311
Fax: 2346257, 2477739
E-mail: dcommunications@cbsl.lk, communications@cbsl.lk
Web: www.cbsl.gov.lk

Press Release

Issued By

Department of Supervision of Non-Bank Financial Institutions

Date

9 September 2016

The Central Bank further strengthens resolution measures on finance companies

The Central Bank has observed certain erroneous news items published in few newspapers raising concerns over financial problems confronted by a few licensed finance companies. Therefore, the Central Bank wishes to clarify facts behind the inaccuracy of such news in the public interest.

- These companies are under specific supervision of the Central Bank to restructure their businesses under prevailing laws. Problems of these companies are not new as these have been revealed to the general public since mid-2008. While the Central Bank was able to resurrect a number of companies successfully, few other companies still continue in the process of resurrection at various stages since the recovery of some large bad loans given by these companies in the past is delayed due to legal complexities and non-cooperation of those borrowers.
- The Central Bank has attached highest priority to resurrection of these companies. The latest initiative in this regard includes joint action by the Government, Central Bank and Finance House Association (FHA) in launching a new policy to resolve financial problems of these companies. As announced in the Government Budget 2016, the Financial Asset Management Company (FAMA) is to be set up in due course to help these companies to recover and manage their non-performing loans with state support in line

with a model adopted by East Asian Countries. The FHA is proposed to help by arranging for leading finance companies and their investors to provide funding support to these companies for business operations in the interest of safeguarding and promoting the non-banking financial sector as a whole. The Central Bank will provide regulatory facilitation and arrange infusion of fresh capital from investors. A good number of investors with overseas links are in negotiation with the Central Bank.

- As a policy, the Central Bank will not issue any new licenses and, therefore, licenses of existing companies will have a high market value in the future which is a key factor encouraging new investors. A major overhaul of the regulatory framework to strengthen the safety and soundness of the sector as a whole is also an essential component in this process.
- The Central Bank has now set up a new “Resolution Division” to take all necessary measures to address financial problems of these companies expeditiously. This specialized Division will help the Monetary Board to implement necessary policy measures on a fast track basis. A new set of regulatory and supervisory measures will be introduced in due course in line with the above joint initiative. The examination and supervision methodology has already been revisited to assess the financial condition and the business models of the regulated entities by focusing on material risks to their future sustainability of businesses in place of the history-based assessment. In this context, the respective Boards of Directors will be directly responsible for early resolution of supervisory concerns over such risks.
- The financial system stability of the country is one of the two statutory objectives of the Central Bank, supported with a large number of statutory powers and, therefore, the Central Bank will continue to resolve all problems affecting the financial system stability. However, the Central Bank alone is not able to do it and the support of all other stakeholders would also be necessary.
- The Central Bank is aware that certain parties who have the vested interest in taking over the management of these companies or preventing recovery action on account of large loans defaulted by them are spreading such erroneous news for their personal and business interests at the expense of depositors’ interests. In fact, these are the parties who are directly responsible for mismanagement of funds of these companies in the past which

led to current financial problems. The Central Bank is also concerned about the publication of such erroneous reports in the national newspapers without checking their validity and authenticity as they may cause unwarranted stresses on the financial system stability in the event such reports affect the public confidence in the system. This can have an adverse impact on the whole country as any confidence issues regarding some could be easily contagious across the whole financial system. Accordingly, the Central Bank also wishes to seek the co-operation of the authorities of such newspapers and encourage them to be more concerned over national interests attached to this sensitive subject.

- Therefore, depositors and other stakeholders of all regulated entities are advised to be cautious regarding such misleading information and co-operate with the companies and the Central Bank to enhance business operations of these companies in their interest. As such, the general public should have no reason for concern arising from such erroneous reports.