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Introduction of a Regulatory Framework to Facilitate Foreign Currency Borrowings by Licensed Finance Companies

The Monetary Board of the Central Bank of Sri Lanka (CBSL) issued directions on foreign currency borrowings by Licensed Finance Companies (LFCs) on 9th April 2021 with a view to provide flexibility for LFCs to obtain low-cost funding from foreign sources to support their business expansions. The objectives of these directions are to stabilise any financial volatilities created by the foreign funding exposures of LFCs and provide a risk management framework for such foreign currency borrowings.

Prior to these directions, CBSL permitted LFCs satisfying criteria such as utilization for purposes with national interest, maturities over 5 years, complying with the prudential requirements, etc. to raise foreign currency borrowings on a case-by-case basis up to 10 per cent of total assets.

Considering that several LFCs have been raising foreign borrowings at relatively lower costs to finance their business operations, their satisfactory track record in loan repayments and the current market developments, the new directions have been introduced with the following features.

- LFCs are allowed to borrow foreign currency up to 20 per cent of a company's total assets under three stages based on the overall performance of each company including capital and liquidity levels, utilization purposes, nature of collaterals and the credit rating.
- Any foreign currency borrowings up to 10 per cent of a company's total assets do not require CBSL approval except prior notification, while the borrowings exceeding 10 per cent require prior approval of CBSL.
- The tenure of the foreign currency borrowings shall be 2 years or more.
- CBSL has facilitated the hedging of foreign exchange risk of the loan proceeds through the Licensed Commercial Banks, while LFCs are required to manage the foreign exchange risk of loan interest payments through appropriate derivative products.
- LFCs are required to maintain the cost of such foreign currency borrowings within the limits stipulated by CBSL.

PRESS RELEASE

Communications Department, 30, Janadhipathi Mawatha, Colombo 01, Sri Lanka
+94 11 2477424 / +94 11 2477423 +94 11 2346257
communications@cbsl.lk / dcommunications@cbsl.lk www.cbsl.gov.lk



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Overall, the new directions have provided greater flexibility to LFCs to raise funds from foreign sources in a prudent manner for their future business expansions which will support development activities of the economy.

