

**Directions, Rules, Determinations,
Notices, and Guidelines**
Applicable to Licensed Finance Companies



Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka



CENTRAL BANK OF SRI LANKA

**DIRECTIONS, RULES,
DETERMINATIONS, NOTICES, AND GUIDELINES
APPLICABLE TO LICENSED FINANCE COMPANIES**

Inclusive of amendments made up to 30th November 2012

Department of Supervision of Non-Bank Financial Institutions

November 2012

ISBN 978-955-575-253-4

Price : Rs. 200/-

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CONTENTS

Page

Preface

i

1. Licensing of Finance Companies

- 1.1 Finance Companies (Application) Rule No.01 of 2012 1
- 1.2 Finance Companies (Annual License Fees) Rule No.02 of 2012 28

2. Capital

- 2.1 Finance Companies (Capital Funds) Direction No.01 of 2003 28
- 2.2 Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006 29
- 2.3 Finance Companies (Minimum Core Capital) Direction No.01 of 2011 43

3. Credit

- 3.1 Finance Companies (Provision for Bad & Doubtful Debts) Direction No.03 of 2006 44
- 3.2 Finance Companies (Single Borrower Limit) Direction No.04 of 2006 46
- 3.3 Finance Companies (Lending) Direction No.01 of 2007 48

4. Investments

- 4.1 Finance Companies (Investments) Direction No.07 of 2006 50

5. Liquidity

- 5.1 Finance Companies (Liquid Assets) Direction No.01 of 2009 51

6. Operational

- 6.1 Finance Companies (Writing off of Loans & Advances) Direction No.03 of 1991 53
- 6.2 Finance Companies (Register of Written-off Loans) Direction No.10 of 1991 54
- 6.3 Finance Companies (Deposits) Direction No.01 of 2005 55
- 6.4 Finance Companies (Business Transactions with Directors and their Relatives)
Direction No.02 of 2007 58
- 6.5 Finance Companies (Insurance of Deposit Liabilities) Direction No.02 of 2010 59
- 6.6 Finance Companies (Information Systems Security Policy) Direction No.04 of 2012 60
- 6.7 Finance Companies (Interest Rates) Direction No.05 of 2012 62

7. Corporate Governance

- 7.1 Finance Companies (Corporate Governance) Direction No.03 of 2008 64
- 7.2 Finance Companies (Corporate Governance – Amendment) Direction No.04 of 2008 74
- 7.3 Finance Companies (Assessment of Fitness and Propriety of Directors and
Officers Performing Executive Functions) Direction No.03 of 2011 75

8. Reporting Requirement

- 8.1 Finance Companies (Audited Accounts) Direction No.16 of 1991 83
- 8.2 Finance Companies (Reporting Requirements) Direction No.02 of 2011 84

9. Other Directions

- 9.1 Finance Companies (Transfer of Assets) Direction No.04 of 1991 87
- 9.2 Finance Companies (Fixed Assets) Direction No.11 of 1991 87
- 9.3 Finance Companies (Accrued Interest) Direction No.15 of 1991 88
- 9.4 Finance Companies (Deposits-Incentive Schemes) Direction No.05 of 2001 88
- 9.5 Finance Companies (Closure of Office/s for Business) Direction No.04 of 2005 89
- 9.6 Finance Companies (Structural Changes) Direction No.05 of 2005 90

9.7	Finance Companies (Opening/Shifting/Closure of Branches/Offices) Direction No.06 of 2005	90
9.8	Finance Companies (Stimulus Package Conditions) Direction No.03 of 2009	91
10.	Rules, Circulars, Determinations and Notices, Guidelines and Instructions	
	<i>Rules</i>	
10.1	Finance Companies (Advertisements) Rule No.01 of 2006	93
	<i>Circulars</i>	
10.2	Finance Companies (Panel of External Auditors) Circular No.01 of 2012	95
	<i>Determinations and Notices</i>	
10.3	Determination on the Inclusion of Unsecured Debentures in the Capital Funds of Finance Companies	96
	<i>Guidelines</i>	
10.4	Finance Companies (Opening of Branches/ Offices) Guideline No.01 of 2006	97
10.5	Finance Companies (Publication of Half Yearly Financial Statements) Guideline No.02 of 2006	100
10.6	Finance Companies (Maintenance of Savings Accounts for Minors) Guideline No. 01 of 2007	102
	<i>Instructions</i>	
10.7	Collection of Information for the Facts Book	103
10.8	Operation of Investment Fund Account	105
11.	Circulars issued by other Departments of the Central Bank of Sri Lanka (which relevant to the LFCs)	
	<i>Bank Supervision Department</i>	
i.	Sri Lanka Deposit Insurance Scheme Regulations No. 01 of 2010	108
ii.	Sri Lanka Deposit Insurance Scheme Circular No. 01 of 2010	112
iii.	Sri Lanka Deposit Insurance Scheme Circular No. 02 of 2010	114
iv.	Sri Lanka Deposit Insurance Scheme Regulations No. 01 of 2011	116
v.	Sri Lanka Deposit Insurance Scheme Circular No. 01 of 2011	117
vi.	Sri Lanka Deposit Insurance Scheme Regulations No. 02 of 2011	118
	<i>Financial Intelligence Unit</i>	
i.	Compliance with the Reporting Requirements under the Financial Transaction Reporting Act, No. 06 of 2006 - Circular No. 04 of 2006	119
ii.	Letter referring to the Circular No. 04 of 2006	120
iii.	Letter referring to the Circular No. 04 of 2006	121
iv.	Letter – Compliance with the Section 2 of the Financial Transaction Reporting Act, No. 06 of 2006	122
v.	Web based information reporting system in submitting regular reports to the Financial Intelligence Unit	123
vi.	Know Your Customer (KYC) and Consumer Due Diligence (CDD) Rule No. 01 of 2011	125
vii.	Auditor’s Declaration on establishment on an audit functions to ensure compliance under the Financial Transaction Reporting Act, No. 06 of 2006 – Circular No. 01 of 2011	138
viii.	Compliance with the reporting requirements under the Section 7 of the Financial Transaction Reporting Act, No. 06 of 2006 – Circular No. 02 of 2011	139
ix.	Revisions to 40+9 Recommendations of the Financial Action Task Force – Circular No. 01 of 2012	140
x.	Compliance with the reporting requirements under the Financial Transaction Reporting Act, No. 06 of 2006 – Circular No. 03 of 2012	141
xi.	Know Your Customer (KYC) and Consumer Due Diligence (CDD) – Amendment Rule No. 01 of 2011	143

PREFACE

The Monetary Law Act (Chapter 422) established the Central Bank of Sri Lanka (CBSL) as the authority responsible for the administration, supervision and regulation of the monetary, financial and payment system of Sri Lanka. By the same Act, CBSL has been charged with the objectives of economic and price stability and financial system stability, with a view to encouraging and promoting the development of the productive resources of Sri Lanka.

In order to ensure financial system stability, the Finance Business Act, No. 42 of 2011 enacted on 09.11.2011 repealing and replacing the Finance Companies Act, No. 78 of 1988. Both Acts have empowered the Monetary Board to issue directions, rules, determinations, notices and guidelines to Licensed Finance Companies (LFCs). All such directions, rules, determinations, notices and guidelines currently applicable are presented in this book for the convenience of LFCs, their auditors and other stakeholders.

**FINANCE COMPANIES (APPLICATION)
RULE NO. 1 OF 2012**

1. This Rule may be cited as the Finance Companies (Application), Rule No.1 of 2012 and shall apply to every applicant company seeking for licence to carry on finance business in terms of sections 5(3)(a) or 5(7) of the Finance Business Act, No.42 of 2011. Citation.
2. Every application for a licence by a company shall be made in 'Form SNBFI/LFC/A' of the schedule hereto, which is available on-line in the Central Bank website; <http://www.cbsl.gov.lk> and shall come into operation with effect from the date of this Rule. Application form.
3. Every applicant company shall pay a non-refundable application fee of Rs. 100,000/- at the time of submitting the application form to the Department of Supervision of Non-Bank Financial Institutions. Application fee.
4. The Register of finance companies licensed under this act shall be maintained substantially in 'Form B1' of the schedule hereto.
5. Companies (Registration and Licensing), Rule No.1 of 2005 and Finance Companies (Registration and Licensing-Amendment), Rule No.1 of 2010 are hereby revoked. Register of finance companies.

This Rule was made by the Monetary Board on 27 February 2012 under section 16 of the Finance Business Act, No.42 of 2011 and published in the Government Gazette (Extraordinary) No. 1760/17 dated 31 May 2012.

**APPLICATION FOR A LICENCE UNDER
THE FINANCE BUSINESS ACT, NO. 42 OF 2011**

For office use

Applicant :

Date of receipt of Application :

Evaluation fee :

Remarks :

Important

Any person who submits information in this application, which is false, incomplete or incorrect shall be guilty of an offence under section 5(9) of the Finance Business Act, No.42 of 2011, punishable under section 56(2) of the said Act.

Instructions

- (1) Basic requirements to obtain a licence to carry on finance business under the Finance Business Act, No. 42 of 2011 are given at Schedule I.
- (2) A non-refundable application fee of Rs. 100,000/- should be paid on submission of this application.
- (3) All applications should be typewritten or written in clear block letters.
- (4) If the space provided to give full details pertaining to the relevant item of the application is not adequate, please use a separate sheet of paper wherever necessary. Such sheets should carry a cross reference to the relevant item. If an item is not applicable it must be clearly stated.
- (5) (a) Every page of the completed application including annexures should be initialed by at least two Directors.
(b) All documents and statements (except audited accounts) submitted with the application should be certified as true and accurate by at least two Directors.
- (6) Completed application signed by all members of the Board of Directors of the applicant company along with the other required documents set out in Schedule II should be submitted to:

*The Director
Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka
No. 30, Janadhipathi Mawatha,
Colombo 01
Sri Lanka*

**APPLICATION FOR A LICENCE UNDER THE
FINANCE BUSINESS ACT, NO. 42 OF 2011**

To : The Monetary Board of the Central Bank of Sri Lanka
Central Bank of Sri Lanka
Colombo 01.

.....
(Name of the Company)
of
(Address)
.....

do hereby apply to the Monetary Board of the Central Bank of Sri Lanka for a licence in terms of the provisions of the Finance Business Act, No. 42 of 2011. The following information and documents are furnished in support of the application.

Part 1

1. General Information of the Company

1.1 Date of incorporation as a company : –

1.2 Date of commencement of business : –

1.3 Address of : –

1.3.1 Registered Office : –

1.3.2 Head/Administrative Office : –

1.3.3 Branch Office(s) : –

<i>Location</i>	<i>District</i>	<i>Province</i>	<i>Contact Details</i>

1.4 Financial year of the company : –

1.5 Description of the main lines of business : –

.....
.....
.....

1.6 Listing with the Colombo Stock Exchange :

1.6.1 Whether the company is a listed company. If so, since when?

1.6.2 If not listed, expected date of listing?

1.7 Shareholding Structure of the Applicant Company as at the date of application :

1.7.1 Total number of shares : –

1.7.2 Number of shareholders : –

1.7.3 Names of the ten major shareholders :

<i>Name of Shareholder</i>	<i>No. of Shares</i>	<i>% of Issued Share Capital</i>

1.8 Names and addresses of the company's bankers :

.....

1.9 Name, address and contact details of the Secretary of the company :

.....

1.10 Auditors (External) :

1.10.1 Name of the Auditor, Address and Contact Details :

.....

1.10.2 Since which financial year has the said auditor audited the company?

1.10.3 Whether any of the partners/directors of the audit firm is a shareholder of the company. (If yes please give details)

.....

1.10.4 Audit fees paid for the last three financial years (Rs. million):

1.10.5 Any financial accommodation granted to the audit firm or a partner/director of the firm. (If yes please give details.)

.....

1.11 Auditors (Internal) :

1.11.1 Name of the authority to which the internal auditor reports:

1.11.2 State whether the internal audit function is outsourced.

1.11.3 State the following details:

1.11.3.1 Name of the internal auditor (If outsourced please state address and contact details) :

.....

1.11.3.2 Qualifications and experience:

.....

1.11.3.3 Number of years of service in the company :

1.11.4 Total staff available to the internal auditor and their qualifications :

<i>Name</i>	<i>Qualifications</i>	<i>No. of years in service</i>

2. Core Capital^{1/} confirmed by the company's external auditor

(As at end of the last three financial years and at end of the month immediately preceding the month in which the application is made.)

(Rs. '000)

		20....	20...	20...	As at
2.1	Issued and fully paid up Ordinary Shares/Common Stock – Amount only issued for cash (2.1.1 + 2.1.2)				
	2.1.1 Ordinary Shares/Common Stock (Voting)				
	2.1.2 Ordinary Shares/Common Stock (Non-voting)				
2.2	Issued and fully paid up non-cumulative non-redeemable Preference Shares				
2.3	General reserves and other free reserves				
2.4	Accumulated profit or loss as shown in last audited statement of accounts				
2.5	Unpublished current year's profits/(losses) subject to certification by the company's external auditor				
2.6	Core Capital (sum from 2.1 to 2.5)				

2.7 If the company has revalued its assets, please indicate the following.

Type of Asset	Location	Cost	Date of revaluation	Surplus/Deficit

2.7.1 Certified copy of each Valuation Report of revalued properties.

.....

3. Board of Directors

Full Name of Director (Please begin with the name of the Chairman)	Residential Address	Date of Birth	NIC No.	Passport No.	Date of appointment to the applicant company	No. of years he/she has been a Director in the applicant company	For Office use

Part II

4. State whether the company is a subsidiary or an associate of another company or a member of a group of companies :

4.1 If so please provide the detail of the Holding Company in the format given at SNBFI/LFC/HC :

.....

4.2 Please submit the audited annual accounts of the Holding Company for the past three years :

.....

1/ Definition given in section 74 of the Finance Business Act, No. 42 of 2011.

5. Please provide the details of the related parties^{2/} as per the following format :

Name of Company	Equity Investments		Inter Company Current Account Receivables	Any Other Exposures (Please Specify)	Nature of Business
	Cost (Rs. '000)	Shareholding (%)			
Own Subsidiaries					
(i)					
(ii)					
(iii)					
Own Associates					
(i)					
(ii)					
(iii)					
Other investee entities					
(i)					
(ii)					
(iii)					
Any other related party					
(i)					
(ii)					
(iii)					

5.1 Names of the Board of Directors and quantum of shares held by them in respective related companies :

5.2 Please provide the audited accounts of the related company/companies for the last financial year :

Part III – duplicate

6. If the company has been engaged in lending, please give details as at the date of the application, as per the format below :

6.1 Lending to related parties

Item	No. of A/Cs	Granted Value (Rs. '000)	Interest & Other Charges Accrued (Rs. '000)	Interest & Other Charges held in Suspense as at end of last financial year (Rs. '000)
i. Loans to the holding company				
ii. Loans to subsidiary and associate companies				
iii. Loans and advances to Directors of the company and their relatives ^{3/}				
iv. Loans or any other financial accommodation given to individuals on the guarantee or indemnity of a Director, a relative of a director of the Company or any employee of the company				
v. Unsecured loans (promissory notes and commercial papers are not considered as a security)				
vi. Loans and advances to purchase its own shares				
vii. Loans and advances granted on the security of its own shares or on the security of the shares of any of its subsidiary company				

2/ A company which is the holding company, subsidiaries or associates of the holding company, subsidiaries or associates of the holding company's holding company, subsidiaries, associates of the applicant company or a company which is a member of the group in which the applicant company is a member.

3/ Relative shall mean the spouse and dependent child of such individual.

6.2 Accommodation by the company to related parties^{4/}. Please provide the following details for each entity separately :

<i>Name of the Related Party</i>	<i>Relationship</i>	<i>Type of Facility</i>	<i>Amount Granted</i>	<i>Amount Outstanding</i>	<i>Collateral Provided</i>	<i>Date of Granting Loans</i>	<i>Annual Interest Rate</i>

6.3 Asset Quality

<i>Product</i>	<i>Performing Loans</i>		<i>Non-Performing Loans</i>				<i>Total</i>	
	<i>0 – 6 months in arrears</i>		<i>6 – 12 months in arrears</i>		<i>over 12 months in arrears</i>			
	<i>No. of Accounts</i>	<i>Amount Outstanding (Rs. '000)</i>	<i>No. of Accounts</i>	<i>Amount Outstanding (Rs. '000)</i>	<i>No. of Accounts</i>	<i>Amount Outstanding (Rs. '000)</i>	<i>No. of Accounts</i>	<i>Amount Outstanding (Rs. '000)</i>
Term Loans								
Finance Lease								
Hire Purchase								
Pawning								
Other products								
Total								

7. Borrowers of Applicant Company exceeding 10% of shareholder funds as per last audited accounts :

<i>Name of Borrower</i>	<i>Amount Granted (Rs. '000)</i>	<i>Annual Interest Rate (%)</i>	<i>Date of Granting Loans</i>	<i>Nature of Security</i>	<i>Amount Outstanding (as at the date of application) (Rs. '000)</i>
1. Individuals					
i.					
ii.					
iii.					
2. Group of Borrowers					
i.					
ii.					
iii.					

4/ As defined in section 5 above.

8. Borrowings by the company as at the date of application :

(Please provide details of individual borrowings as per below categories.)

<i>Source</i>	<i>Amount Received (Rs. '000)</i>	<i>Annual Interest Rate (%)</i>	<i>Date of Receipt of the Loan</i>	<i>Nature of Security</i>	<i>Amount Outstanding (as at the date of application) (Rs. '000)</i>
A. From Banks					
i.					
ii.					
iii.					
B. From Directors					
i.					
ii.					
iii.					
C. From other sources					
i.					
ii.					
iii.					
Total					

9. Off-balance Sheet Items of the applicant company as at the date of application :

<i>Liabilities</i>	<i>Date given</i>	<i>Value (Rs. '000)</i>
Guarantees given on behalf of Directors		
Guarantees given on behalf of subsidiaries and associates		
Guarantees given on behalf of others (Please specify)		
Any other off-balance sheet liabilities		

10. Lending Rates / Charges during one year period prior to the date of application :

<i>Category</i>	<i>Lending rates (Range) (annual)</i>				<i>Default Charges</i>	
	<i>Less than 12 months</i>	<i>12 months</i>	<i>24 months</i>	<i>Over 24 months</i>	<i>%</i>	<i>Amount (Rs. '000)</i>
Loans						
Hire Purchase						
Finance Leasing						
Pawning						
Other Products						

We declare that we have taken note of the contents of section 5(9) of the Finance Business Act, No.42 of 2011 and we declare that the particulars stated in this application have been verified and are complete in all respects, and that the information is to our knowledge and belief true and accurate.

For and on behalf of
(Applicant Company)

Names of Directors

Signatures

Date:

(Common seal of the company)

Basic Requirements for licensing under the Finance Business Act, No. 42 of 2011

1. To be eligible to be licenced as a finance company an applicant company;
 - a. Should be a company registered under the Companies Act, No. 07 of 2007
 - b. Should not be a company limited by guarantee, a private company, an offshore company or an overseas company within the meaning of the Companies Act, No. 07 of 2007.
2. Should have a minimum core capital of Rs. 400 million as per the Finance Companies (Minimum Core Capital), Direction No. 01 of 2011.

Schedule II

The following documents should be submitted along with the application form

1. A certified copy of the Certificate of Incorporation.
2. Confirmation from the Auditors on the availability of core capital.
3. Articles of Association of the company or Memorandum and Articles of Association of the company.
4. Certified copy of each of the latest forms filed with the Registrar of Companies regarding the registered address, list of directors and the annual return (Forms 13, 15 and 20).
5. Affidavits and declarations of the directors as per Forms SNBFI/A1, SNBFI/D1, SNBFI/A2 and SNBFI/D2.
6. Organization Chart of the applicant company.
7. A copy of the Manual of Operations of the applicant company.
8. A feasibility report on carrying on finance business.
9. Projections of deposits, lending and other operations and profit and loss for the first 03 years of operation after obtaining licence.
10. Board of Directors' assessment of the company's ability to comply with the Directions issued and Rules made under the Finance Companies Act, No. 78 of 1988 and Finance Business Act, No.42 of 2011.
11. Audited financial statements for the last three financial years and financial statements as at end of the month immediately preceding the month in which the application is made.
12. A certified copy of the Auditor's confidential letter to the Board of Directors at the completion of their audit for the last financial year.
13. Tax clearance certificate issued by the Inland Revenue Department.

If an existing company acts as the promoter of the applicant company the format given at SNBFI/LFC/P is needed to be submitted along with the following additional documents.

14. Articles of Association of the promoting company.
15. Resolution passed by the Board of Directors to form a new company for the purpose of carrying on finance business, with an issued and paid up share capital of not less than the minimum required core capital.
16. Audited annual accounts of the promoting company for the last 3 years.

Form on Promoting Company’s Details

1. General Information of the Promoting Company

1.1 Date of incorporation as a company : –

1.2 Date of commencement of business : –

1.3 Address of :

1.3.1 Registered Office : –

1.3.2 Head/Administrative Office : –

1.3.3 Branch Office(s) : –

1.4 Description of the main lines of business : –

.....

1.5 Shareholding Structure of the Promoting Company :

1.5.1 Names of the **ten** major shareholders :

<i>Name of Shareholder</i>	<i>No. of Shares</i>	<i>% of Issued Share Capital</i>

2. Board of Directors

<i>Full Name and Address of Director (Please begin with the name of the Chairman)</i>	<i>Date of Birth</i>	<i>Qualifications</i>	<i>Experince</i>	<i>NIC No.</i>	<i>Passport No.</i>

We declare that the particulars stated in the form SNBFI/LFC/P have been verified and are complete in all respects, and that the information is to our knowledge and belief true and accurate.

For and on behalf of
(Promoting Company)

Names of Directors

Signatures

Date:

(Common seal of the company)

Form on Holding Company's Details

1. General Information of the Holding Company

1.1 Date of incorporation as a company : –

1.2 Date of commencement of business : –

1.3 Address of :

1.3.1 Registered Office : –

1.3.2 Head/Administrative Office : –

1.3.3 Branch Office(s) : –

1.4 Description of the main lines of business : –

.....

1.5 Shareholding Structure of the Holding Company :

1.5.1 Names of the **ten** major shareholders :

<i>Name of Shareholder</i>	<i>No. of Shares</i>	<i>% of Issued Share Capital</i>

2. Board of Directors

<i>Full Name and Address of Director (Please begin with the name of the Chairman)</i>	<i>Date of Birth</i>	<i>Qualifications</i>	<i>Experince</i>	<i>NIC No.</i>	<i>Passport No.</i>

We declare that the particulars stated in the form SNBFI/LFC/HC have been verified and are complete in all respects, and that the information is to our knowledge and belief true and accurate.

For and on behalf of
(Holding Company)

Names of Directors

Signatures

Date:

(Common seal of the company)

Name of the Applicant Company :

Affidavit to be submitted by Directors in the Applicant Company

AFFIDAVIT

I, (full name)
holder of National Identity Card No. / Passport No. of
..... (address)
being a [Buddhist / Hindu / Christian / Catholic / Muslim] do hereby solemnly, sincerely and truly declare and
affirm / make oath and state^{1/} as follows :

- 1. I am the [affirmant / deponent] above named and I am a / the (designation)
of (name of the applicant company).
2. I [affirm / state] that I possess the following academic and / or professional qualification/s:
.....
3. I [affirm / state] that the effective experience that I possess in banking, finance, business or administration
or of any other relevant discipline is as follows:
.....
4. I [affirm / state] that I am not subjected to any disqualifications given in Annex 1, annexed hereto as part
and parcel of this Affidavit.

The averments contained
herein were read over to
the [affirmant / deponent]
who having understood the
contents hereof and hav-
ing accepted same as true,
affirmed / swore to and
placed his / her signature at
..... on this
..... day of
.....



Affix Stamps as
applicable

Before me

JUSTICE OF THE PEACE /
COMMISSIONER FOR OATHS

1/ Delete the inapplicable words.

Buddhists, Hindus, Muslims and persons following any other religion must solemnly, sincerely and truly declare and affirm,
Christians and Catholics must make oath and state.

**Disqualifications under Section 21 of the Finance Business Act, No. 42 of 2011 and
Section 2.1 of the Finance Companies
(Assessment of Fitness and propriety of Directors and officers performing executive functions)
Directions No. 3 of 2011**

1. A person shall be disqualified from being appointed or elected, as a director of a finance company if such person—
 - (a) does not possess academic or professional qualifications or effective experience in banking, finance, business or administration or of any other relevant discipline;
 - (b)
 - (i) is being subjected to any investigation or inquiry in respect of a fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body, established by law, in Sri Lanka or abroad;
 - (ii) has been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, at any time during the period of fifteen years immediately prior to being so appointed or elected;
 - (iii) has been found by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, that such person has committed or has been connected with the commission of any act which involves fraud, deceit, dishonesty, improper conduct or non-compliance with any Statute or rules, regulations, directions or determinations issued thereunder.
 - (c) has failed to satisfy any judgment or order of any court or to repay a debt;
 - (d) has been convicted in any court in Sri Lanka or abroad for an offence involving moral turpitude;
 - (e) has been convicted by any court for any offence under the Finance Business Act, No.42 of 2011 or the Companies Act, No.07 of 2007;
 - (f) is a person against whom action has been taken by the Board under section 51 of the Finance Business Act, No.42 of 2011;
 - (g)
 - (i) is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;
 - (ii) has been convicted by any court for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity at any time during the period of fifteen years immediately prior to being so appointed or elected;
 - (h) has been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive or other officer in any bank, finance company or corporate body in Sri Lanka or abroad;
 - (i) has been determined by the Board –
 - (i) as having carried on finance business –
 - (a) in contravention of subsection (1) of section 2 of the Finance Business Act; or
 - (b) in contravention of subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal); or
 - (ii) as having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act; or

- (i) has been a director, chief executive or held any other position of authority in any body corporate or unincorporate body which the Board has determined as having carried on finance business in contravention of subsection (1) of section 2 of this Act or subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal) or having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act.
 - (j) has been declared an undischarged insolvent or a bankrupt, by any court in Sri Lanka or abroad;
 - (k) has been declared by a court of competent jurisdiction to be of unsound mind;
2. If the Monetary Board so determines, any person who has been a director, chief executive officer or held any other position of authority in any bank, finance company or financial institution whose licence or registration has been cancelled, shall be disqualified from being appointed or elected as the case may be, as a director, chief executive officer, secretary or key management personnel/officer performing executive functions of a finance company or from holding such post.
 3. Any person, who acts as a director, chief executive officer, secretary or key management personnel of a finance company while being under any disqualification set out in subsection (1) of Section 21 of the Finance Business Act, shall be guilty of an offence under the said Act.
 4. In addition to the above, criteria set out in Section 5 of the Directions No.3 of 2008 on Corporate Governance for Finance Companies shall also be applicable to a director of a finance company.

Name of the Applicant Company :

Affidavit to be submitted by Directors selected for appointment in a Applicant Company

AFFIDAVIT

I, (full name)
holder of National Identity Card No. / Passport No. of
..... (address)
being a [Buddhist / Hindu / Christian / Catholic / Muslim] do hereby solemnly, sincerely and truly declare and
affirm / make oath and state^{1/} as follows :

- 1. I am the [affirmant / deponent] above named and I have been selected for appointment as
a / the (designation) of (name
of the applicant company).
2. I [affirm / state] that I possess the following academic and / or professional qualification/s:
.....
3. I [affirm / state] that the effective experience that I possess in banking, finance, business or administration
or of any other relevant discipline is as follows:
.....
4. I [affirm / state] that I am not subjected to any disqualifications given in Annex 1, annexed hereto as part
and parcel of this Affidavit.

The averments contained
herein were read over to
the [affirmant / deponent]
who having understood the
contents hereof and hav-
ing accepted same as true,
affirmed / swore to and
placed his / her signature at
..... on this
..... day of
.....



Affix Stamps as
applicable

Before me

JUSTICE OF THE PEACE /
COMMISSIONER FOR OATHS

1/ Delete the inapplicable words.
Buddhists, Hindus, Muslims and persons following any other religion must solemnly, sincerely and truly declare and affirm,
Christians and Catholics must make oath and state.

**Disqualifications under Section 21 of the Finance Business Act, No. 42 of 2011 and
Section 2.1 of the Finance Companies
(Assessment of Fitness and propriety of Directors and officers performing executive functions)
Directions No. 3 of 2011**

1. A person shall be disqualified from being appointed or elected, as a director of a finance company if such person—
 - (a) does not possess academic or professional qualifications or effective experience in banking, finance, business or administration or of any other relevant discipline;
 - (b)
 - (i) is being subjected to any investigation or inquiry in respect of a fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body, established by law, in Sri Lanka or abroad;
 - (ii) has been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, at any time during the period of fifteen years immediately prior to being so appointed or elected;
 - (iii) has been found by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, that such person has committed or has been connected with the commission of any act which involves fraud, deceit, dishonesty, improper conduct or non-compliance with any Statute or rules, regulations, directions or determinations issued thereunder.
 - (c) has failed to satisfy any judgment or order of any court or to repay a debt;
 - (d) has been convicted in any court in Sri Lanka or abroad for an offence involving moral turpitude;
 - (e) has been convicted by any court for any offence under the Finance Business Act, No.42 of 2011 or the Companies Act, No.07 of 2007;
 - (f) is a person against whom action has been taken by the Board under section 51 of the Finance Business Act, No.42 of 2011;
 - (g)
 - (i) is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;
 - (ii) has been convicted by any court for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity at any time during the period of fifteen years immediately prior to being so appointed or elected;
 - (h) has been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive or other officer in any bank, finance company or corporate body in Sri Lanka or abroad;
 - (i) has been determined by the Board –
 - (i) as having carried on finance business –
 - (a) in contravention of subsection (1) of section 2 of the Finance Business Act; or
 - (b) in contravention of subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal); or
 - (ii) as having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act; or

- (i) has been a director, chief executive or held any other position of authority in any body corporate or unincorporate body which the Board has determined as having carried on finance business in contravention of subsection (1) of section 2 of this Act or subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal) or having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act.
 - (j) has been declared an undischarged insolvent or a bankrupt, by any court in Sri Lanka or abroad;
 - (k) has been declared by a court of competent jurisdiction to be of unsound mind;
2. If the Monetary Board so determines, any person who has been a director, chief executive officer or held any other position of authority in any bank, finance company or financial institution whose licence or registration has been cancelled, shall be disqualified from being appointed or elected as the case may be, as a director, chief executive officer, secretary or key management personnel/officer performing executive functions of a finance company or from holding such post.
 3. Any person, who acts as a director, chief executive officer, secretary or key management personnel of a finance company while being under any disqualification set out in subsection (1) of Section 21 of the Finance Business Act, shall be guilty of an offence under the said Act.
 4. In addition to the above, criteria set out in Section 5 of the Directions No.3 of 2008 on Corporate Governance for Finance Companies shall also be applicable to a director of a finance company.

Name of Applicant Company :

Declaration to be submitted by Directors in the Applicant Company^{1/}

1. Personal Details

- 1.1 Full name :
- 1.2 National Identity Card Number :
- 1.3 Passport Number :
- 1.4 Local or Expatriate :
- 1.5 Date of birth :
- 1.6 Permanent address :
- 1.7 Present address :

2. Appointment to the Applicant Company

- 2.1 Date of appointment as a Director :
- 2.2 Designation :
- 2.3 Annual remuneration (with details) :
- 2.4 Annual value of benefits derived by director and/or his/her family from company assets :
(Example by use of company land, building, vehicles, etc).
- 2.4.1 Annual value of expenses borne by the company on account of maintenance of assets referred to in 2.4 or for reimbursement of any expenses (credit card bills, utility bills etc.)
.....
- 2.4.2 Purchased value and book value of assets referred to in 2.4 and the location of immovable assets :
.....

3. Personal Details of Relatives

- 3.1 Full name of spouse :
- 3.1.1 National Identity Card No. :
- 3.1.2 Passport Number:
- 3.2 Details of dependant children :

	<i>Full name</i>	<i>NIC No.</i>	<i>Passport No.</i>
3.2.1			
3.2.2			
3.2.3			

1/ If the space provided is not adequate please annex a separate sheet of paper giving full details, with a cross reference to the relevant item.

4. Background and Experience

4.1 Names of companies/societies/body corporates in which the director presently is a director or is employed as an officer performing executive functions^{2/} :

<i>Name of the Institution</i>	<i>Designation</i>

4.2 Names of companies/societies/body corporates in which the director has been a director or has been employed as an officer performing executive functions :

<i>Name of the Institution</i>	<i>Period of office</i>	<i>Designation</i>

5. Shareholdings in Licensed Finance Companies and their Related Companies

Share ownerships in licensed finance companies, their holding companies, subsidiaries and associates, if any, presently held :

<i>Name of the Institution</i>	<i>No. of shares</i>		<i>Percentage holding</i>	
	<i>Direct</i>	<i>Indirect</i>	<i>Direct</i>	<i>Indirect</i>

2/ See definition at the end

6. Business Transactions^{3/}

Any business transaction the director presently has with the applicant company, its holding company, subsidiaries or associates, if any :

Name of the Institution	Date of transaction	Amount as at		Classification (performing/ non-performing)	Type and value of collateral (Rs. '000)	% of the finance company's Capital Funds
		Limit	Outstanding			
Loans and such other accommodation obtained						

Investments (Promissory Notes / Commercial Paper etc.) made :

Name of the Institution	Date of transaction	Amount as at
		(Rs. '000)

Deposits :

Name of the Institution	Date of transaction	Amount as at
		(Rs. '000)

7. Appointments, Shareholdings and Business Transactions of Relatives^{4/}

7.1 Any relative/s presently employed as a director or an officer performing executive functions in any finance company.

Name of the finance company	Full name of the relative	Position held

3/ "Business Transaction" shall mean any accommodations, investments and deposits.

4/ See definition at the end.

7.2 Direct or indirect share ownership in the finance company, if any, presently held by any relative of the director/an officer performing executive functions :

<i>Full name of the relative</i>	<i>No. of Shares</i>		<i>Percentage holding</i>	
	<i>Direct</i>	<i>Indirect</i>	<i>Direct</i>	<i>Indirect</i>

7.3 Any business transaction, any relative of the director currently has with the applicant company :

<i>Full Name of the relative</i>	<i>Nature of business transaction</i>	<i>Date of transaction</i>	<i>Limit as at (Rs. '000)</i>	<i>Outstanding as at (Rs. '000)</i>	<i>Type and value of collateral (Rs. '000)</i>	<i>% of Applicant Company's paid-up capital</i>

8. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of a director in a licensed finance company.

DECLARATION:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the applicant company and the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka duly informed, as soon as possible, all subsequent changes to the information provided above.

I state that I am not prevented by any Statute from being appointed to the above post.

Date :

*Signature of Director/Chairman
in the Applicant Company*

TO BE COMPLETED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS WITH REFERENCE TO DIRECTORS

Any other explanation/information considered relevant in assessing the suitability of the director to be a director in a licensed finance company.

Date :

*Signature of the Chairman of the Board of Directors
and the official stamp*

Definitions

1. Officers performing executive functions in a finance company are as follows :
 - i. Chief Executive Officer/General Manager
 - ii. Additional General Manager
 - iii. Senior Deputy General Manager
 - iv. Deputy General Manager
 - v. Assistant General Manager
 - vi. Chief Operating Officer
 - vii. Chief Risk Officer
 - viii. Chief Accountant
 - ix. Chief Financial Officer
 - x. Chief Internal Auditor
 - xi. Compliance Officer
 - xii. Head of Treasury
 - xiii. Head of Legal
 - xiv. Head of Information Technology
 - xv. Company Secretary
 - xvi. Officers serving as consultants or advisors to the board of directors of the finance companies
 - xvii. Officers involving authorizing credit, decisions on assets and marketing of products of the respective finance company

2. Relative shall mean the spouse or dependent child of such individual.

Name of the Applicant Company :

Declaration to be submitted by Directors selected for appointment in the Applicant Company^{1/}

1. Personal Details

- 1.1 Full name :
- 1.2 National Identity Card Number :
- 1.3 Passport Number :
- 1.4 Local or Expatriate :
- 1.5 Date of birth :
- 1.6 Permanent address :
- 1.7 Present address :

2. Appointment to the Applicant Company

- 2.1 Proposed date of appointment as a Director :
- 2.2 Proposed Designation :
- 2.3 Annual remuneration to be paid (with details) :
- 2.4 Annual value of benefits that would be derived by the director, selected for appointment, and/or his/her family from company assets :
(Example by use of company land, building, vehicles, etc.).
- 2.4.1 Annual value of expenses offered to be borne by the company on account of maintenance of assets referred to in 2.4 or for reimbursement of any expenses (credit card bills, utility bills etc.)
.....
- 2.4.2 Purchased value and book value of assets referred to in 2.4 and the location of immovable assets :
.....

3. Personal Details of Relatives

- 3.1 Full name of spouse :
- 3.1.1 National Identity Card No. :
- 3.1.2 Passport Number:
- 3.2 Details of dependant children :

	<i>Full name</i>	<i>NIC No.</i>	<i>Passport No.</i>
3.2.1			
3.2.2			
3.2.3			

1/ If the space provided is not adequate please annex a separate sheet of paper giving full details, with a cross reference to the relevant item.

4. Background and Experience

- 4.1 Names of companies/societies/body corporates in which the director selected for appointment presently is a director or is employed as an officer performing executive functions^{2/} :

<i>Name of the Institution</i>	<i>Designation</i>

- 4.2 Names of companies/societies/body corporates in which the director selected for appointment presently has been a director or has been employed as an officer performing executive functions :

<i>Name of the Institution</i>	<i>Period of office</i>	<i>Designation</i>

5. Shareholdings in Licensed Finance Companies and their Related Companies

Share ownerships in licensed finance companies, their holding companies, subsidiaries and associates, if any, presently held :

<i>Name of the Institution</i>	<i>No. of shares</i>		<i>Percentage holding</i>	
	<i>Direct</i>	<i>Indirect</i>	<i>Direct</i>	<i>Indirect</i>

2/ See definition at the end

6. Business Transactions^{3/}

Any business transaction the director, selected for appointment, presently has with the applicant company, its holding company, subsidiaries or associates, if any :

Name of the Institution	Date of transaction	Amount as at		Classification (performing/ non-performing)	Type and value of collateral (Rs. '000)	% of the finance company's Capital Funds
		Limit	Outstanding			
Loans and such other accommodation obtained						

Investments (Promissory Notes / Commercial Paper etc.) made :

Name of the Institution	Date of transaction	Amount as at
		(Rs. '000)

Deposits :

Name of the Institution	Date of transaction	Amount as at
		(Rs. '000)

7. Appointments, Shareholdings and Business Transactions of Relatives^{4/}

7.1 Any relative/s presently employed as a directors or an officers performing executive functions, in any licensed finance company.

Name of the finance company	Full name of the relative	Position held

3/ "Business Transaction" shall mean any accommodations, investments and deposits.

4/ See definition at the end.

7.2 Direct or indirect share ownership in applicant company, if any, presently held by any relative of the director selected for appointment :

<i>Full name of the relative</i>	<i>No. of Shares</i>		<i>Percentage holding</i>	
	<i>Direct</i>	<i>Indirect</i>	<i>Direct</i>	<i>Indirect</i>

7.3 Any business transaction, any relative of a director selected for appointment currently has with the applicant company :

<i>Full Name of the relative</i>	<i>Nature of business transaction</i>	<i>Date of transaction</i>	<i>Limit as at (Rs. '000)</i>	<i>Outstanding as at (Rs. '000)</i>	<i>Type and value of collateral (Rs. '000)</i>	<i>% of Applicant Company's paid-up capital</i>

8. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of a director, selected for appointment, in a licensed finance company.

DECLARATION:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the applicant company and the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka duly informed, as soon as possible, all subsequent changes to the information provided above.

I state that I am not prevented by any Statute from being appointed to the above post.

Date :

*Signature of Director/Chairman
selected for appointment, in the Applicant Company*

TO BE COMPLETED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS WITH REFERENCE TO DIRECTOR SELECTED FOR APPOINTMENT

Any other explanation/information considered relevant in assessing the suitability of the director selected for appointment to be a director in a licensed finance company.

Date :

*Signature of the Chairman of the Board of Directors
and the official stamp*

Definitions

1. Officers performing executive functions in a finance company are as follows :
 - i. Chief Executive Officer/General Manager
 - ii. Additional General Manager
 - iii. Senior Deputy General Manager
 - iv. Deputy General Manager
 - v. Assistant General Manager
 - vi. Chief Operating Officer
 - vii. Chief Risk Officer
 - viii. Chief Accountant
 - ix. Chief Financial Officer
 - x. Chief Internal Auditor
 - xi. Compliance Officer
 - xii. Head of Treasury
 - xiii. Head of Legal
 - xiv. Head of Information Technology
 - xv. Company Secretary
 - xvi. Officers serving as consultants or advisors to the board of directors of the finance companies
 - xvii. Officers involving authorizing credit, decisions on assets and marketing of products of the respective finance company

2. Relative shall mean the spouse or dependent child of such individual.

Form B1

**Register of Licensed Finance Companies
(In terms of Section 16 of the Finance Business Act, No.42 of 2011)**

<i>Name of Finance Company</i>	<i>Registered Address</i>	<i>Date of Licence under the Finance Business Act</i>	<i>Licence No.</i>	<i>Remarks</i>	<i>Signature of the Secretary to the Monetary Board</i>

**FINANCE COMPANIES (ANNUAL LICENSE FEE)
RULE NO. 2 OF 2012**

1. This Rule may be cited as the Finance Companies (Annual License Fee), Rule No.2 of 2012 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011. Citation.
2. The license fee payable by a finance company in the year of licensing shall be Rs. 500,000/- from the date of this Rule and shall be paid to the Central Bank of Sri Lanka on or before the date of licensing. License fee for the first year.
3. Every finance company licensed under the Finance Business Act, No.42 of 2011 shall pay an annual license fee applicable for the year 2013 and every subsequent year to the Central Bank of Sri Lanka on or before 31st December of the preceding calendar year, as set out below based on the total assets as shown in the audited balance sheet as at end of the preceding financial year; Annual license fee.

Total Assets	Annual License Fee (Rs.)
Rs.1 billion or below	300,000/-
Above Rs.1 billion up to Rs.5 billion	500,000/-
Above Rs.5 billion up to Rs.10 billion	750,000/-
Over Rs.10 billion	1,000,000/-

This Rule was made by the Monetary Board on 27 February 2012 under section 16 of the Finance Business Act, No.42 of 2011 and published in the Government Gazette (Extraordinary) No. 1760/17 dated 31 May 2012.

**FINANCE COMPANIES (CAPITAL FUNDS)
DIRECTION NO. 1 OF 2003^{1/}**

1. This Direction may be cited as Finance Companies (Capital Funds) Direction No.1 of 2003, and shall apply to every finance company registered under the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991, and shall come into operation with effect from 01 July 2003.
2. Every finance company shall maintain capital funds which shall not at any time be less than ten (10) per cent of its total deposit liabilities.
3. Every finance company shall :-
 - (a) maintain a reserve fund; and
 - (b) transfer to such reserve fund out of the net profits of each year, after due provision has been made for Taxation and Bad and Doubtful Debts :-
 - (i) so long as the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits;
 - (ii) so long as the capital funds are less than twenty five (25) per cent of total deposit liabilities, but not less than ten (10) per cent thereof, a sum equal to not less than twenty (20) per cent of the net profits; and
 - (iii) so long as the capital funds are less than ten (10) per cent of the total deposit liabilities, a sum equal to not less than fifty (50) per cent of the net profits.
4. In this Direction :-
 - (i) “capital funds” shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No.78 of 1988;

^{1/} This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Capital Funds) Direction No. 9 of 1991 which was made on 16 September 1991 and published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991.

- (ii) “total deposit liabilities” mean the average of a finance company’s month-end deposit liabilities during the final three months of the financial year, for the purpose of para 3(b) of this Direction.
5. The Finance Companies (Capital Funds) Direction No.9 of 1991 is hereby revoked.

This Direction was made by the Monetary Board on 23 June 2003 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.1295/35 dated 6 July 2003.

**FINANCE COMPANIES (RISK WEIGHTED CAPITAL ADEQUACY RATIO)
DIRECTION NO. 2 OF 2006 ^{1/}**

1. This Direction may be cited as the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006 and shall apply to every finance company registered under the Finance Companies Act, No.78 of 1988 as amended by Act No. 23 of 1991, and shall come into operation with effect from 01 February 2006.
2. For the purpose of computing the capital adequacy ratio of finance companies, the constituents of capital shall be :-
 - (i) Tier 1 – Core capital: representing permanent shareholders’ equity (paid-up shares/common stock) and reserves created or increased by appropriations of retained earnings or other surpluses, *i.e.*, share premia, retained profits and other reserves; and
 - (ii) Tier 2 – Supplementary capital: representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as, hybrid capital instruments and unsecured subordinated term debt.
3. Every finance company shall, subject to the provisions of the Finance Companies (Minimum Core Capital) Direction No. 1 of 2006, at all times, maintain its capital (adjusted for the items that may be specified by the Director) at a level not less than 10 per cent of its risk weighted assets with the core capital constituting not less than 5 per cent of its risk weighted assets, computed as per instructions issued by the Director.
4. Every finance company shall furnish to the Director :-
 - (i) A return in respect of each quarter, on the format given in the instructions issued under paragraph 3 within thirty days from the end of each quarter;
 - (ii) A return based on the audited balance sheet as at the end of the each financial year, on the same format given for the quarterly return, referred to in sub paragraph 4(i) above, within six months from the end of each financial year.
5. In this Direction “the Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
6. The Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2003 is hereby revoked.

This Direction was made by the Monetary Board on 30 January 2006 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1430/11 dated 31 January 2006.

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2003 which was published in the *Government Gazette (Extraordinary)* No. 1294/24 dated 25 June 2003.

**INSTRUCTIONS ISSUED UNDER FINANCE COMPANIES
(RISK WEIGHTED CAPITAL ADEQUACY RATIO)
DIRECTION NO. 2 OF 2006***

General Instructions

1. Every finance company shall furnish to the Director, the following returns, as required in sub-paragraphs (i) & (ii) of paragraph 4 of the Direction:—

<i>Return No.</i>	<i>Content</i>
(i) SNBFI/RWCA/RETURN 1 :	Certification
(ii) SNBFI/RWCA/RETURN 2 :	Computation of Total Risk Weighted Assets
(iii) SNBFI/RWCA/RETURN 3 :	Conversion of off-balance sheet items into on-balance sheet equivalents
(iv) SNBFI/RWCA/RETURN 4 :	Computation of Capital Base
(v) SNBFI/RWCA/RETURN 5 :	Computation of Risk Weighted Capital Adequacy Ratios

2. The returns referred to in (1) above, are to be furnished on the specimen formats given in Section B.
3. Definitions and clarifications that will be necessary for completing the returns referred to in (1) above are given in Section C.

* The last revision was on 15 March 2007.

SECTION B

SNBFI/RWCA/RETURN 1

**QUARTERLY/ANNUAL RETURN ON RISK WEIGHTED CAPITAL ADEQUACY RATIO OF
FINANCE COMPANIES IN SRI LANKA
AS AT**

.....
(Name of the Finance Company)

We certify that –

- (1) to the best of our knowledge and belief, these returns provide true and correct information;
- (2) The capital adequacy ratio at any time during the quarter/financial year under review was not less than that determined in terms of Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2006.

.....
Officer in Charge of Accounts / Finance

.....
Chairman / Managing Director

.....
Name

.....
Name

Date:

Date:

Note: A finance company which is not in a position to make the declaration given in (2) above relating to any particular quarter, is required to submit additional returns for the first two months of the respective quarter together with the quarterly return.

**QUARTERLY/ANNUAL RETURN ON RISK WEIGHTED CAPITAL ADEQUACY RATIO OF
FINANCE COMPANIES IN SRI LANKA
AS AT**

.....
(Name of the Finance Company)

(In Rupees Thousand)

Code	On-Balance Sheet Assets Item	(1) Principal Amount of On-Balance Sheet Item	(2)* Credit Equivalent of Off-Balance Sheet Items (B/F from SNBFI/RWCA/ RETURN 3)	(3) Total (1)+(2)	(4) Risk Weight (%)	(5) Total Risk Weighted Assets Amount (3)x(4)
01.	Cash in hand & bank balances				0	
02.	Fixed Deposits with other institutions					
02.01	Fixed Deposits with Banks				20	
02.02	Fixed Deposits with licensed finance companies					20
03.	Due from Central Bank of Sri Lanka				0	
04.	Treasury Bills				0	
05.	Other Government Securities/Central Bank Securities				0	
06.	Securities guaranteed by the Government of Sri Lanka				0	
07.	Investments (excluding items deducted from total capital)				100	
08.	Loans and Advances: **					
08.01	Against Fixed Deposits held with the company				0	
08.02	Against item 2 above				20	
08.03	Against items 3 – 6 above				0	
08.04	Loans against gold and gold jewellery					
	If share of such advances is:					
08.04.01	Less than 10% in total advances				0	
08.04.02	Between 10% to 50% in total advances				10	
08.04.03	Greater than 50% in total advances				25	
08.05	Staff loans secured by provident fund balances				0	
08.06	Loans against sales of real estate on an instalment payment basis (SRE Loans)					
08.06.01	Performing SRE Loans				50	
08.06.02	Non-performing SRE Loans				100	
08.07	Other loans & advances (Other than specified above)				100	
09.	Fixed Assets				100	
10.	Other Assets				100	
11.	Total					

* Credit equivalents of off-balance sheet items computed in Column 3 of SNBFI/RWCA/RETURN 3 should be recorded in this column against the appropriate on-balance sheet items. For example if a general guarantee is fully secured by a fixed deposit, the credit equivalent of such guarantee should be recorded against the on-balance sheet item 'Loans against Fixed Deposits.'

** Should be net of specific provisions and interest in suspense.

**QUARTERLY/ANNUAL RETURN ON RISK WEIGHTED CAPITAL ADEQUACY RATIO OF
FINANCE COMPANIES IN SRI LANKA
AS AT**

.....
(Name of the Finance Company)

(In Rupees Thousand)

Code	Off-Balance Sheet Asset Item	(1) Principal Amount of Off-Balance Sheet Item	(2) Credit Conversion Factor (%)	(3)* Credit Equivalent of Off-Balance Sheet Items (1) x (2)
12.	Direct Credit Substitutes			
12.01	General Guarantees of Indebtedness		100	
12.02	Stand-by LCs serving as Financial Guarantees		100	
12.03	Others (please specify)		100	
13.	Transaction-related Contingencies			
13.01	Performance Bonds, Bid Bonds & Warranties		50	
13.02	Stand-by LCs related to particular transactions		50	
13.03	Others (please specify)		50	
14.	Sale and Repurchase Agreement and Sale of Assets with Recourse where the credit risk remains with the Company		100	
15.	Partly paid Shares/Securities		100	
16.	Obligations under an on-going underwriting Agreement			
16.01	Underwriting of Shares/Securities Issue		50	
16.02	Others (please specify)		50	
17.	Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time			
17.01	Formal stand-by facilities and Credit Lines		0	
17.02	Undrawn Term Loans		0	
17.03	Undrawn Credit lines		0	
17.04	Others (please specify)		0	
18.	Other commitments with an original maturity of over one year			
18.01	Formal stand-by facilities and credit lines		50	
18.02	Undrawn Term Loans		50	
18.03	Others (please specify)		50	
19.	Total			

* To be carried forward to SNBFI/RWCA/RETURN 2

**QUARTERLY/ANNUAL RETURN ON RISK WEIGHTED CAPITAL ADEQUACY RATIO OF
FINANCE COMPANIES IN SRI LANKA
AS AT**

.....
(Name of the Finance Company)

(In Rupees Thousand)

Code	Constituents of Capital	Amount
	TIER 1 : CORE CAPITAL	
20.	Issued and Paid-up Ordinary Shares/Common Stock	
21.	Non-cumulative, Non-redeemable Preference Shares	
22.	Share Premium	
23.	Statutory Reserve Fund	
24.	General and Other free Reserves	
25.	Published Retained Profits/(Accumulated Losses)	
26.	Surplus/Loss after tax arising from the sale of fixed and long-term investments	
27.	Unpublished Current Year's Profits/(Losses)	
28.	Sub Total	
29.	Deductions	
	Goodwill	
30.	TOTAL TIER 1 CAPITAL	
	TIER 2 : SUPPLEMENTARY CAPITAL	
31.	Eligible Revaluation Reserves	
32.	General Provisions	
33.	Approved hybrid (debt/equity) Capital instruments	
34.	Approved Unsecured Subordinated Term Debt (Actual amount is)	
35.	TOTAL TIER 2 CAPITAL	
36.	Eligible Tier 2 Capital	
37.	TOTAL CAPITAL	
38.	Deductions	
38.01	Equity Investments in unconsolidated financial and banking subsidiaries (.....)	
38.02	Investments in capital of other Financial Associates/Banks (.....)	
39.	CAPITAL BASE	

Limits:

1. General Provisions should not exceed 1.25 per cent of Risk Weighted Assets.
2. Approved Unsecured Subordinated Term Debt is limited to 50 per cent of Total Tier 1 Capital.
NB: The actual amount of the unsecured subordinated debt should be reported.
3. The total of Tier 2 Supplementary Elements should not exceed a maximum of 100 per cent of Tier 1 Elements.

**QUARTERLY/ANNUAL RETURN ON RISK WEIGHTED CAPITAL ADEQUACY RATIO OF
FINANCE COMPANIES IN SRI LANKA
AS AT**

.....
(Name of the Finance Company)

(In Rupees Thousand)

Code		Amount
30.	Total Tier 1 (Core Capital)	
39.	Capital Base	
40.	Total Risk Weighted Assets	

CORE CAPITAL RATIO

$$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100 = \dots\dots \text{ (Required minimum level 5\%)}$$

TOTAL RISK WEIGHTED CAPITAL RATIO

$$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}} \times 100 = \dots\dots \text{ (Required minimum level 10\%)}$$

DEFINITIONS AND CLARIFICATIONS

C 1 : ON-BALANCE SHEET ITEMS

01. CASH IN HAND AND BANK BALANCES

Notes and coins which are the legal tender in Sri Lanka and the credit balances in current and savings accounts of licensed commercial banks (LCBs) and savings accounts of licensed specialised banks (LSBs) and licensed finance companies (LFCs).

02. FIXED DEPOSITS WITH OTHER INSTITUTIONS**02.01 Fixed Deposits with banks**

Fixed deposits maintained with LCBs and LSBs.

02.02 Fixed Deposits with LFCs

Note: A 100 per cent risk weight should be assigned to the deposits with any financial institution whose business activities have been suspended by the Central Bank of Sri Lanka (CBSL).

03. DUE FROM CENTRAL BANK OF SRI LANKA

Any amount due from CBSL.

04. TREASURY BILLS

Holdings of Treasury bills issued by CBSL.

05. OTHER GOVERNMENT SECURITIES/CENTRAL BANK SECURITIES

Holdings of Sri Lankan Government Securities other than Treasury bills – *eg.*: Treasury bonds, Rupee loans *etc.* and Central Bank securities.

06. SECURITIES GUARANTEED BY THE GOVERNMENT OF SRI LANKA

Holdings of securities guaranteed by the Government of Sri Lanka.

07. INVESTMENTS

Investments in equity or other capital instruments in quoted or unquoted companies as reported in the balance sheet that are not deducted from the total capital in the computation of capital.

08. LOANS AND ADVANCES**08.01 Loans – Against Fixed Deposits**

Loans and advances collateralized by fixed deposits with the licensed finance company and covered by the legal rights to set-off.

08.02 Loans – Against Item 02 of SNBFI/RWCA/RETURN 2

Loans and advances collateralized by fixed deposits with banks and other licensed finance companies, which are covered by the legal rights to set-off.

Note: A 100 per cent risk weight should be assigned to the facilities granted against a deposit/deposits with any financial institution whose business activities have been suspended by CBSL.

08.03 Loans – Against Item No. 03 to 06 of SNBFI/RWCA/RETURN 2

Loans and advances collateralized by dues from CBSL, Treasury bills, Central Bank Securities, Government Securities, Securities guaranteed by the Government of Sri Lanka which are covered by the legal rights to set-off.

08.04 Loans Against Gold and Gold Jewellery

Loans and advances granted against the pledge of gold or gold jewellery.

08.05 Staff Loans Secured by Provident Fund Balances

Loans and advances granted to the staff members of the licensed finance company against their provident fund balances maintained by the licensed finance company.

08.06 Loans Against Sales of Real Estate Made on an Instalment Payment Basis (SRE Loans)**08.06.01 Performing SRE Loans**

Loans in respect of which instalments are in arrears for six months or less.

08.06.02 Non-Performing SRE Loans

Loans in respect of which instalments are in arrears for more than six months.

Note: The licensed finance company should enter into an agreement with the buyer of the real estate specifying that the title of the property will not be transferred to the borrower until the amount agreed is fully

paid. Also, performing and non-performing SRE loans should be shown, separately, in the general ledger of the licensed finance company.

08.07 Other Loans & Advances

The aggregate of loans and advances which have not been qualified for low risk-weights according to their counter party or collateral and not included in any other loan item in the Return.

09. FIXED ASSETS

Immovable property, machinery and equipment, motor vehicles, furniture and fittings and other fixed assets, reported at cost or at revalued amount, net of accumulated depreciation.

10. OTHER ASSETS

All other assets or investments not included elsewhere in the Return.

11. TOTAL RISK WEIGHTED ASSETS

Total of Column 5 of SNBFI/RWCA/RETURN 2.

C 2: OFF-BALANCE SHEET ITEMS

12. DIRECT CREDIT SUBSTITUTES

12.01 General Guarantees of Indebtedness

General guarantees of indebtedness where the risk of loss in the transaction may crystallise into a direct liability and become a direct claim on the counterparty. These include Guarantees in respect of counterparties like insurance agents, sales agents, *etc.* to cover any non-payment by them of premium, sales proceeds, *etc.* to their beneficiaries.

12.02 Stand-by LCs serving as Financial Guarantees

Stand-by Letters of Credit (LC), which are direct credit substitutes where the risk of loss in the transaction is equivalent to that of a direct claim on the counterparty. This includes stand-by Letters of Credit serving as financial guarantees for loans, securities and other financial liabilities.

12.03 Others

Any other obligation which carries the same risk of loss in the transaction and is equivalent to that of a direct claim on the counterparty.

13. TRANSACTION-RELATED CONTINGENCIES

13.01 Performance Bonds, Bid Bonds & Warranties

Transaction-related contingent items such as Performance Bonds, Bid Bonds and Warranties, where the risk of loss arises from an irrevocable obligation to pay a third party, the non-financial obligation of the customer upon his failure to fulfil obligations under a contract or a transaction. Such contingencies would crystallise into actual liabilities dependent upon the occurrence or non-occurrence of an event other than that of a default in payment by the counterparty.

13.02 Stand-by LCs Related to Particular Transactions

Contingent liabilities relating to particular transactions. Here too, there is a likelihood of the contingencies crystallising into actual liabilities depending upon the occurrence or non-occurrence of an event other than that of a default in payment of a counterparty.

13.03 Others

Other contingent liabilities arising from an irrevocable obligation to pay a third party, the non-financial obligation of a customer upon his failure to fulfil such obligation or terms under contract or transaction.

14. SALE AND REPURCHASE AGREEMENTS AND SALE OF ASSETS WITH RECOURSE WHERE THE CREDIT RISK REMAINS WITH THE COMPANY

Risk-weight for these items should be determined according to the underlying assets or the issuer of the assets rather than the counterparty with whom the transaction had been entered into.

14.01 Sale and Repurchase Agreements

Sale and Repurchase Agreement (REPO) is an agreement whereby a licensed finance company sells an asset to a third party with a commitment to repurchase it at an agreed price on an agreed future date. Purchase and Resale Agreements (Reverse REPO) should be considered as collateralised loans. The risk is to be measured as an exposure to the counterparty unless the underlying asset has been reported as an on-balance sheet item where the risk weight appropriate to the underlying asset should be used.

14.02 Housing Loans sold with Recourse

The amount of housing loans sold to a counterparty with recourse where the credit risk remains with the licensed finance company.

14.03 Other Assets sold with Recourse

Assets sold with recourse where the credit risk remains with the reporting institution. The holder of the asset is entitled to put the assets back to reporting institution within an agreed period or under certain prescribed circumstances. *e.g.* : deterioration in the value or credit quality of the asset concerned.

14.04 Forward Asset Purchases

Commitment to purchase, at a specified future date and or on pre-arranged terms, a loan, security or other asset from another party.

14.05 Others

Placements of forward forward deposits and other commitments with certain drawdown. A forward forward deposit is an agreement between two parties whereby one will place and the other will receive, at a predetermined future date, a deposit, at an agreed rate of interest. A commitment to place a forward forward deposit should be reported under this item and weighted according to the risk-weights appropriate to the counterparty.

15. PARTLY-PAID SHARES/SECURITIES

Unpaid amounts on partly-paid shares and securities where the issuer may call upon the company to pay at a pre-determined or unspecified date in the future.

16. OBLIGATIONS UNDER AN ON-GOING UNDERWRITING AGREEMENT**16.01 Underwriting of Shares/Securities Issue**

Obligations due to underwriting of issue of shares and securities, net of the amount sub-underwritten by another institution.

16.02 Others

Other obligations due to on-going underwriting agreements.

17. OTHER COMMITMENTS WITH AN ORIGINAL MATURITY OF UP TO ONE YEAR OR WHICH CAN BE UNCONDITIONALLY CANCELLED AT ANY TIME**17.01 Formal Stand-by Facilities and Credit Lines**

Commitments include the undrawn portion of any binding arrangements, which obligate the reporting institution to provide funds at some future date. Such commitments would have an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting licensed finance company at its discretion. Formal stand-by facilities and credit lines for LCs, Trust Receipts, *etc.*; should be included under this item.

17.02 Undrawn Term Loans

Undrawn portion of a term loan with an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting licensed finance company.

17.03 Undrawn Credit Lines

The undrawn portion of facilities and credit lines with an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting licensed finance company.

17.04 Others

Any other commitment with an original maturity up to one year or which can be unconditionally cancelled at any time.

18. OTHER COMMITMENTS WITH AN ORIGINAL MATURITY OF OVER ONE YEAR**18.01 Formal Stand-by Facilities and Credit Lines**

Commitments under formal stand-by facilities and credit lines with an original maturity of over one year.

18.02 Undrawn Term Loans

The undrawn portion of term loans where the original maturity is over one year.

18.03 Others

Any other commitment with an original maturity of over one year. Original maturity is defined as the length of time between the date the commitment is made and the earliest date on which the reporting company, at its option unconditionally cancel the commitment.

19. TOTAL OF CREDIT EQUIVALENT OF OFF-BALANCE SHEET ITEMS

C 3: CAPITAL ELEMENTS

20. ISSUED AND PAID-UP ORDINARY SHARES/COMMON STOCK

Issued and fully paid ordinary shares or common stock. For the computation, only the paid up portion of partly paid shares or stock should be taken as capital. Shares issued against any reserves/surpluses/retained profits other than those eligible in terms of these instructions to be included in core capital, should not be included.*

21. NON-CUMULATIVE, NON-REDEEMABLE PREFERENCE SHARES

Issued and fully paid non-cumulative, non-redeemable preference shares where the payment of dividends could be reduced or waived off permanently in the event of profitability being inadequate to support such payment in part or full.

22. SHARE PREMIUM

The excess of issue price over the par value of the ordinary shares, common stock or non-cumulative non-redeemable preference shares.

23. STATUTORY RESERVE FUND

Balance as per last audited statement of accounts in the Reserve Fund set up by licensed finance companies in terms of paragraph 3 of the Finance Companies (Capital Funds) Direction No.1 of 2003.

24. GENERAL AND OTHER FREE RESERVES

Disclosed reserves in the form of general or other free reserves created or increased by appropriation of retained earnings, share premium or other realised surpluses as per last audited statement of accounts.

25. PUBLISHED RETAINED PROFITS /(ACCUMULATED LOSSES)

Balance in the profit and loss account brought forward from the previous financial years and as reported in the last audited statement of accounts. Accumulated losses should be reported in parentheses and deducted from the other capital constituents. Retained profits arising from the revaluation of investment property should not be included.

26. SURPLUS/LOSS AFTER TAX ARISING FROM SALE OF FIXED & LONG TERM INVESTMENTS

Any surplus/loss after tax, arising from the sale of fixed and long term investments since the closing date of the last audited accounts. Net loss arising from the sale of fixed and long term investments should be reported in parentheses and deducted from the other capital constituents.

27. UNPUBLISHED CURRENT YEAR'S PROFITS/LOSSES

Current year's profits/losses (excluding any surplus/loss after tax, arising from the sale of fixed and long term investments) earned/incurred since the closing date of the last audited accounts and subject to certification by the licensed finance company's external auditor.

28. SUB TOTAL

Total of core capital items 20 to 27.

29. GOODWILL

The amount of goodwill as shown in the balance sheet.

30. TOTAL TIER 1 CAPITAL

To arrive at total Tier 1 capital, deduct goodwill (item 29) from the sub total at item 28.

31. ELIGIBLE REVALUATION SURPLUSES/RESERVES AND SHARES ISSUED AGAINST REVALUATION SURPLUSES/RESERVES

Revaluation surpluses/reserves, any shares issued against revaluation surpluses/reserves and retained profits/revaluation surpluses arising from the revaluation of investment property and shares issued against such profits/surpluses may be included in Tier 2 (Supplementary) Capital provided that such revaluation is prudently done reflecting fully the possibility of price fluctuations and forced sale, with prior approval of CBSL. (Guidelines approved by the Monetary Board for this purpose are at Annex II).

* The decisions of the Monetary Board on treatment of shares issued by LFCs against non-cash considerations and other related matters were conveyed to licensed finance companies by the Director, Dept. of Supervision of Non-Bank Financial Institutions by her letter dated 15.03.2007, a copy of which is at Annex I.

Shares issued against goodwill, promoters role and other similar non-cash considerations should not be included in Tier 2 (Supplementary) Capital.

32. GENERAL PROVISIONS

General provisions or general loan loss reserves created against the possibility of future losses. Where they are not ascribed to a particular asset and do not reflect deduction in the valuation of a particular asset, they qualify for inclusion in Tier 2 (Supplementary) Capital. General provisions should not exceed 1.25 per cent of the sum of all risk weighted assets.

33. APPROVED HYBRID (DEBT/EQUITY) CAPITAL INSTRUMENTS

Capital instruments having certain characteristics of both equity capital and debt.

e.g.: perpetual loan stock, non-redeemable preference shares, *etc.* which satisfy the following characteristics:

- (i) Unsecured, subordinated and fully paid.
- (ii) Not redeemable at the initiative of the holder or without the prior consent of CBSL.
- (iii) Available to participate in losses without the company being obliged to cease trading.
- (iv) Obligation to pay interest that can be deferred where the profitability of the company would not support such payment.

Prior approval of CBSL is required for the inclusion of such items in the capital base.

34. APPROVED UNSECURED SUBORDINATED TERM DEBT

This constituent includes:

(A) An unsecured subordinated term debt which satisfies the following conditions:

- (i) Unsecured, fully paid up and subordinated to the interests of all creditors other than holders of unsecured subordinated term debt instruments and hybrid (debt/equity) capital instruments.
- (ii) A minimum original maturity of an instrument to be 5 years.
- (iii) No early repayment or redemption to be made without the prior consent of CBSL.
- (iv) Discounting of the amount counted as capital by 1/5th each year during the four years preceding maturity; and

(B) Redeemable Cumulative Preference Shares, which satisfy the following conditions:

- (i) Such preference shares should be issued and redeemed in accordance with the provisions of the Companies Act, No. 17 of 1982, in particular, section 57 thereof;
- (ii) Such preference shares should not be redeemed within the first five years from the date of issue without the prior approval of CBSL;
- (iii) Such preference shares should be unsecured, subordinated and fully paid; and
- (iv) During the last five years to maturity, a cumulative discount factor of 20 per cent per year should be applied to reflect the diminishing value of those instruments as a continuing source of strength.

Prior approval of CBSL is required for inclusion of any debt instrument and/or redeemable cumulative preference shares in Tier 2 Capital.

Approved unsecured subordinated term debts (including Redeemable Cumulative Preference Shares) are limited to 50 per cent of Total Tier 1 capital. The actual amount of unsecured subordinated term debts and Redeemable Cumulative Preference Shares should be reported separately.

35. TOTAL TIER 2 CAPITAL

Total of supplementary capital from items 31 to 34.

36. ELIGIBLE TIER 2 CAPITAL

Eligible Tier 2 capital is limited to a maximum of 100 per cent of Tier 1 capital. In the event of Tier 1 capital being less than the total of Tier 2 capital, eligible Tier 2 capital would be equivalent to Tier 1 capital. If Tier 1 capital is negative a "Nil" amount should be reported as eligible Tier 2 capital.

37. TOTAL CAPITAL

Sum of Tier 1 capital (30) and eligible Tier 2 capital (36).

38. DEDUCTIONS

38.01 Equity Investments in Unconsolidated Financial and Banking Subsidiaries

Equity investments in banking and financial subsidiaries; In the case of consolidated statements this would include, only investments in unconsolidated banking and financial subsidiaries.

38.02 Investment in Capital of Other Financial Associates/Banks

Holdings in other financial associates and banks by way of shares, hybrid capital instruments or unsecured subordinated term debt.

An "Associate" is deemed to be an institution in which the licensed finance company holds –

- (a) twenty per cent or more but less than fifty per cent of the institution's issued share capital; and/or
- (b) has a controlling interest over the institution's Board of Directors.

39. CAPITAL BASE

Total capital (Item 37) less items 38.01 and 38.02.

40. TOTAL RISK WEIGHTED ASSETS

The total risk weighted assets of on-balance sheet items and off-balance sheet items which is the total shown in column 5 of SNBFI/RWCA/RETURN 2 (please refer 11 above).



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இலங்கை மத்திய வங்கி

CENTRAL BANK OF SRI LANKA

ජනවාරි මාවත,
කැරැල්ල පෙරිට්ට 590,
කොළඹ 1, ශ්‍රී ලංකාව
විදුලි දුර: 'මහබැංකුව'

ஜனாதிபதி மாலத்தை,
க.பெ. இல. 590,
கொழும்பு - 1, ஸ்ரீ லங்கா
தந்தி : 'மத்தியவங்கி'

Janadhipathi Mawatha,
P.O. Box 590,
Colombo 1, Sri Lanka
Telegrams: 'CENTRABANK'

Ref : 24/03/2002/0011/001

Dept. of Supervision of
Non-Bank Financial Institutions

15 March 2007

To : CEOs of all RFCs

Dear Sir/Madam

TREATMENT OF SHARES ISSUED BY THE REGISTERED FINANCE COMPANIES AGAINST NON-CASH CONSIDERATIONS AND OTHER RELATED MATTERS

The Monetary Board has taken the following decisions in respect of treatment of shares issued by registered finance companies (RFCs) against revaluation surpluses/reserves and other non-cash considerations and retained profits/revaluation surpluses arising from the revaluation of investment property, for the purposes of the Finance Companies (Minimum Core Capital) Direction No. 01 of 2006 and the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 02 of 2006.

- (i) Not permitting the inclusion of the following in the 'core capital' of RFCs for the purposes of the Finance Companies (Minimum Core Capital) Direction No. 01 of 2006 and the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 02 of 2006:
 - (a) Retained profits arising from the revaluation of investment property; and
 - (b) Shares issued against any reserves/surpluses/retained profits other than those eligible to be included in core capital;
- (ii) Permitting the inclusion of the following in the Tier 2 (Supplementary) Capital of RFCs for the purposes of the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 02 of 2006, subject to the restrictions imposed under the Direction:
 - (a) Revaluation surplus/reserves and any bonus shares issued against revaluation surpluses/reserves; and
 - (b) Retained profits/revaluation surpluses arising from the revaluation of investment property and bonus shares issued against such profits/surpluses.
- (iii) Not permitting the inclusion of shares issued against goodwill, promoter's role and other similar non-cash considerations in the Tier 2 (Supplementary) Capital.
- (iv) Requiring RFCs to report the following, separately, in the financial statements submitted to the Director, Department of Supervision of Non-Bank Financial Institutions of the CBSL (D/SNBFI):
 - (a) Bonus shares issued against revaluation surpluses/reserves and other non-cash considerations and revaluation surpluses/reserves;
 - (b) Retained profits arising from the revaluation of investment property.
- (v) Requiring RFCs to obtain prior written approval of D/SNBFI for any utilization of retained profits arising from the revaluation of investment property revaluation surpluses.
- (vi) Granting time upto 31.03.2008 to RFCs that are required to exclude shares and retained profits from their core capital as per (i) above to replenish by eligible means, the amount so excluded from Core Capital.

You are informed of the above for immediate compliance.

Yours faithfully
Sgd./ (Mrs.) **L K Gunatilake**
Director

**GUIDELINES ON INCLUSION OF ELIGIBLE REVALUATION RESERVES IN
CAPITAL FUNDS/ TIER 2 SUPPLEMENTARY CAPITAL**

Revaluation reserves may be included in capital funds as defined in section 46 of the Finance Companies Act and Tier 2 supplementary capital for the purpose of the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006, with the prior approval of the Director, Supervision of Non-Bank Financial Institutions Department, Central Bank of Sri Lanka.

For the purpose of the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction, only fifty per cent (50%) of the revaluation surplus or any shares issued against 50% of the revaluation surplus can be included in Tier 2 capital.

In both instances, revaluation should have been done subject to the following conditions:

- (i) The valuation is to be undertaken with the prior approval of the Central Bank;
- (ii) An asset would qualify for revaluation only after 7 years from the previous date of valuation or from the date of purchase, whichever is later;
- (iii) The asset should be valued by a valuer who is:
 - (a) a chartered valuation surveyor;
 - (b) a fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience over 15 years;
 - (c) a graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years;
 - (d) an associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years; or
 - (e) a licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.

**FINANCE COMPANIES (MINIMUM CORE CAPITAL)
DIRECTION NO. 1 OF 2011**

In terms of Section 9 of the Finance Companies Act, No. 78 of 1988, as amended by Act, No. 23 of 1991, the Monetary Board is empowered to issue Directions to registered finance companies regarding the manner in which any aspect of the business of such companies is to be considered.

Capital is a key aspect of the business of registered finance companies as it is a source of funding for the business and a necessary ingredient of solvency of such companies. Therefore, in the exercise of the powers conferred by Section 9 of the Finance Companies Act, the Monetary Board hereby issues Finance Companies (Minimum Core Capital) Direction No.1 of 2011 to registered finance companies to be effective from the date of these directions.

1. Every registered finance company shall at all times maintain an unimpaired core capital not less than Rs. 400 million (Rupees Four Hundred million) subject to the transitional provision at paragraph 2 herein. Minimum Core Capital
2. The effective date of this Direction for a registered finance company in operation as at the date of this Direction shall be as follows; Transitional Provision
 - (i) Every finance company should continue to maintain an unimpaired core capital at a level not less than Rs. 200 million (Rupees Two Hundred million) until end December 2012.
 - (ii) Thereafter, every finance company shall, at all times, maintain an unimpaired core capital at a level not less than Rs. 300 million (Rupees Three Hundred million) from 01.01.2013 and Rs. 400 million (Rupees Four Hundred million) from 01.01.2015.
3. Where a registered finance company has failed to comply with this Direction; Sanctions imposed in the case of non-compliance
 - (a) The total amount of deposit liabilities and debt shall be capped at the level as at the end of the month in which the non-compliance was confirmed, and
 - (b) The company shall not pay dividend, until the minimum capital requirement is complied with and is confirmed to the satisfaction of the Director.
4. In this Direction; Definition
 - (a) “*core capital*” shall have the same definition as contained in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
 - (b) “*Director*” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. Finance Companies (Minimum Core Capital) Direction No. 1 of 2006 is hereby revoked. Revocation of the Direction No. 1 of 2006

This Direction was made by the Monetary Board on 02 August 2011 under the Finance Companies Act, No.78 of 1988.

**FINANCE COMPANIES (PROVISION FOR BAD AND DOUBTFUL DEBTS)
DIRECTION NO. 3 OF 2006 ^{1/}**

1. This Direction may be cited as the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with effect from 01 April 2007.
2. Every finance company shall classify accommodations as 'non-performing', in the following circumstances :-
 - (i) where payment of principal and/or interest have been in arrears for a period of 6 months or more;
 - (ii) in the case of rescheduled accommodations, when, in aggregate, the period of time the payment of instalments have been in arrears before rescheduling (if any) and after rescheduling is 6 months or more; and/or
 - (iii) in the case of an accommodation, where the asset financed under a leasing/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance company and when there still exists a balance to be recovered.
3. (i) Every finance company shall make provision for accommodations classified as non-performing and the amount of such provision shall at least be the aggregate of :-
 - (a) 50 per cent of all accommodations in arrears for a period of 6 months or more but not exceeding 12 months;
 - (b) 100 per cent of all accommodations in arrears for a period over 12 months; and
 - (c) 100 per cent with regard to the portion of the unrecovered amount of an accommodation where the asset financed under a lease/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance company.
- (ii) A finance company may deduct the value of the following items held as collateral in respect of a particular accommodation in arriving at the amount of the provision required by subparagraphs (a) and (b) of paragraph 3(i) hereof :-
 - (a) Sri Lanka Government securities, free from any lien or charge;
 - (b) Central Bank of Sri Lanka securities, free from any lien or charge;
 - (c) Time deposits in a licensed commercial bank, licensed specialized bank or a registered finance company, free from any lien or charge;
 - (d) Time deposit or a balance in a savings account with the company taken as a collateral for the accommodation, for which a right of set-off is available;
 - (e) Bank guarantees;
 - (f) With regard to vehicles and machinery that have been repossessed by the finance company, 80 per cent of the valuation obtained during the preceding 6 months from a valuer approved by the Director; and
 - (g) With regard to land and buildings mortgaged and held as collateral for a particular accommodation, the value decided by a qualified professional valuer at the time of granting the accommodation, on the following basis :-
 - (aa) In the case of an accommodation in arrears for a period of 6 months or more but not exceeding 36 months, 100 per cent;

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 1 of 1991 made by the Monetary Board of the Central Bank of Sri Lanka on 16 September 1991 and published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991 and the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 2 of 1991 made by the Monetary Board of the Central Bank of Sri Lanka on 16 July 1991 and published in the *Government Gazette (Extraordinary)* No. 671/18 dated 18 July 1991.

- (bb) In the case of an accommodation in arrears for a period over 36 months but not exceeding 60 months, 80 per cent;
- (cc) In the case of an accommodation in arrears for a period over 60 months but not exceeding 120 months, 50 per cent;
- (dd) In the case of an accommodation in arrears over 120 months, no amount shall be deducted:

Provided that in the case of an occupied residential property taken as collateral without an agreement to hand over vacant possession in the event of sale for the recovery of dues, the value of such property shall not be deducted in arriving at the required provision.

4. The Monetary Board of the Central Bank of Sri Lanka may require any finance company to make further specific provision for non-performing accommodations in addition to the provision required in terms of paragraph 3(i) hereof.
5. (i) Every finance company shall submit to the Director within one month from the end of each quarter, on a format given by the Director, details as the Director may require, of the following categories of accommodations, of which, installments / rentals are in arrears for 3 months or more as at the end of the relevant quarter :-
 - (a) Accommodations where payments are made in fixed instalments/rentals;
 - (b) Accommodations where payments are not made in fixed instalments/rentals; and
 - (c) Operating leases.(ii) Every finance company shall submit to the Director on a format given by the Director, within one month from the end of each quarter the following :-
 - (a) A statement of repossessed asset items; and
 - (b) An age analysis of accommodations in arrears for 3 months or more.(iii) Every finance company shall submit to the Director within one month from the end of each quarter, details of action taken by the Board of Directors of the company for the recovery of each outstanding accommodation in arrears for 6 months or more and the progress made on recovery of such accommodations since the end of the previous quarter.
6. For the purpose of this Direction,
 - (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/ promissory notes; or such other financial facility as may be determined by the Director.
 - (ii) “qualified professional valuer” shall mean :-
 - (a) A chartered valuation surveyor ;
 - (b) A fellow of the Institute of Valuers (Sri Lanka) with a degree or diploma in Valuation and with work experience over 15 years ;
 - (c) A graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - (d) An associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - (e) A licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.
 - (iii) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
7. The Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 1 of 1991 and the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 2 of 1991 will cease to be operative with effect from 01 April 2007.

This Direction was made by the Monetary Board on 29 December 2006 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1478/6 dated 01 January 2007.

**FINANCE COMPANIES (SINGLE BORROWER LIMIT)
DIRECTION NO. 4 OF 2006 ^{1/}**

1. This Direction may be cited as the Finance Companies (Single Borrower Limit) Direction No. 4 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to the restrictions imposed under paragraph 2 of the Finance Companies (Lending) Direction No. 5 of 2006, the maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower, shall not exceed 15 per cent of the capital funds of such finance company as shown in the last audited balance sheet.
3. The maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from any group of borrowers or from subsidiary companies and/or associate companies of such finance company shall not exceed 20 per cent of the capital funds of such finance company as shown in the last audited balance sheet.
4. Single accommodations granted to and outstanding in respect of categories of borrowers referred to in paragraphs 2 and 3 hereof, each of which exceeds 10 per cent of capital funds of a finance company as shown in the last audited balance sheet shall not, when all such outstanding accommodations are aggregated, exceed 50 per cent of the total outstanding accommodations of such finance company as shown in the last audited balance sheet.
5. The maximum of a single unsecured accommodation or the aggregate of unsecured accommodations granted to by a finance company and outstanding at any point of time from a single borrower shall not exceed 1 per cent of the core capital of such finance company as shown in the last audited balance sheet. The aggregate of unsecured accommodations granted to and outstanding at any point of time from all borrowers shall not exceed 5 per cent of the capital funds of such finance company as shown in the last audited balance sheet.

For the purpose of this paragraph, “unsecured accommodation” means accommodation made without a security or any accommodation with security constituting of assets the market value of which is not adequate to cover at least 75 per cent of the accommodation.

Subject to the provisions of paragraph 2(v) of the Finance Companies (Lending) Direction No. 5 of 2006, for the purpose of this paragraph, “security” shall include guarantees given by third parties.

For the purpose of this paragraph, “market value” in respect of motor vehicles and machinery, shall mean, a valuation obtained during the preceding 6 months from a valuer approved by the Director and in respect of land and building, the value decided by a qualified professional valuer.

6. For the purpose of paragraphs 2, 3 and 4 of this Direction, if accommodations have been granted by a finance company against the security of the items indicated below, the value of such security may be deducted from the relevant accommodations :-
 - (i) Sri Lanka Government securities, free from any lien or charge;
 - (ii) Central Bank of Sri Lanka securities, free from any lien or charge;
 - (iii) Time deposits in a licensed commercial bank, licensed specialized bank or a registered finance company, free from any lien or charge;

^{1/} This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Single Borrower Limit) Direction No. 1 of 1992 which was made on 19 June 1992 and published in the *Government Gazette (Extraordinary)* No. 720/11 dated 24 June 1992.

- (iv) Time deposits or a balance in a savings account with such finance company taken as a collateral for the accommodation, for which a right of set-off is available; or
- (v) Bank guarantees.

7. For the purpose of this Direction,

- (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/ promissory notes; or such other financial facility as may be determined by the Director.
- (ii) “associate company” shall mean a company in which the finance company holds 20 per cent or more, but less than 50 per cent of the issued ordinary share capital of the investee company.
- (iii) “capital funds” shall have the same meaning as given in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.
- (iv) “core capital” shall have the same meaning as given in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
- (v) “group of borrowers” shall mean :—
 - (a) *i.* an individual and his relatives;
 - ii.* an individual and a company in which such individual holds shares exceeding 10 per cent of the issued ordinary share capital; or
 - iii.* an individual and a company in which his relatives hold shares exceeding 10 per cent of the issued ordinary share capital.
 - (b) a company and one or more of the following :—
 - i.* its subsidiary company;
 - ii.* its associate company;
 - iii.* its holding company; or
 - iv.* a subsidiary company or associate company of its holding company.
- (vi) “individual borrower” shall mean any single company, public corporation, firm, association of persons or an individual.
- (vii) “qualified professional valuer” shall mean :—
 - (a) A chartered valuation surveyor ;
 - (b) A fellow of the Institute of Valuers (Sri Lanka) with a degree or diploma in Valuation and with work experience over 15 years ;
 - (c) A graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
 - (d) An associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
 - (e) A licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years.
- (viii) “relative” shall mean the spouse and/or dependent child of an individual.
- (ix) “subsidiary company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
- (x) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

8. The Finance Companies (Single Borrower Limit) Direction No. 1 of 1992 is hereby revoked.

This Direction was made by the Monetary Board on 29 December 2006 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1478/6 dated 01 January 2007.

**FINANCE COMPANIES (LENDING)
DIRECTION NO. 1 OF 2007 ^{1/}**

1. This Direction may be cited as the Finance Companies (Lending) Direction No. 1 of 2007 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. No finance company shall grant any accommodation :—
 - (i) to a director and/or a relative of a director of the finance company;
 - (ii) to its holding company;
 - (iii) on the security of its own shares or on the security of the shares of any of its subsidiary companies;
 - (iv) to purchase its own shares; or
 - (v) on the guarantee or indemnity of a director of the finance company, a relative of a director of the finance company or any employee of the finance company.
3. Notwithstanding the provisions of paragraph 2 hereof, subject to the prior approval of the Director, a finance company may grant accommodation, in accordance with any scheme for the time being in force, for the purchase of or subscription for fully paid shares in the finance company being a purchase or subscription by Trustees of or for shares to be held by or for the benefit of, employees of the company:

Provided that the aggregate principal amount of such accommodation outstanding at any time, shall not exceed the equivalent of ten per centum of the total amount of the issued and paid up share capital of the finance company or ten per centum of the unimpaired adjusted capital funds of the finance company as per its last audited balance sheet, whichever is greater.

4. A finance company may grant accommodation to its subsidiary companies or associate companies subject to the limits specified in the Finance Companies (Single Borrower Limit) Direction No. 4 of 2006 and on such terms as may be applicable to similar facilities granted to other borrowers of the finance company, and the particulars of such accommodations including the name of the borrower company, the date of grant of such accommodation, amount granted, repayment programme, security and the rate of interest shall be reported to the Director within 14 days from the date of grant of such accommodation.
5. No finance company shall recover on any accommodation, charges of any description, other than interest, in excess of 5 per cent of the principal amount granted.
6. Every finance company shall submit to the Director within 3 months after the end of each financial year details of all accommodations outstanding as at the end of the financial year on a format given by the Director.
7. For the purpose of this Direction,
 - (i) “accommodation” shall mean loans; facilities under hire purchase or leasing agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes; or such other financial facility as may be determined by the Director.
 - (ii) “associate company” shall mean a company in which the finance company holds 20 per cent or more, but less than 50 per cent of the issued ordinary share capital of the investee company.

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Lending) Direction No. 5 of 2006 which was made on 29 December 2006 and published in the *Government Gazette (Extraordinary)* No. 1478/6 dated 01 January 2007 which was issued revoking Finance Companies (Lending) Direction No. 8 of 1991 which was made on 16 September 1991 and published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991 and the Finance Companies (Lending) (Amendment) Direction No. 2 of 2001 made on 07 March 2001 and published in the *Government Gazette (Extraordinary)* No. 1171/13 dated 07 March 2001.

- (iii) “adjusted capital funds” shall mean the aggregate of the paid up capital, the Reserve Fund as provided for in the Finance Companies (Capital Funds) Direction No. 1 of 2003 and permanent free reserves.
- (iv) “relative” shall mean the spouse and/or dependent child of an individual.
- (v) “subsidiary company” shall have the same meaning as contained in section 529 of the Companies Act, No. 7 of 2007.
- (vi) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- (vii) “Trustee” shall mean a person appointed under or named in a trust deed executed in respect of an employee share ownership plan of a finance company.

8. The Finance Companies (Lending) Direction No. 5 of 2006 is hereby revoked.

This Direction was made by the Monetary Board on 29 June 2007 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1503/24 dated 29 June 2007.

**FINANCE COMPANIES (INVESTMENTS)
DIRECTION NO. 7 OF 2006 ^{1/}**

1. This Direction may be cited as the Finance Companies (Investments) Direction No. 7 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to paragraphs 3 and 4 hereof, a finance company may invest in the ordinary shares of any company, provided that :—
 - (i) Investment in the issued ordinary share capital of a company shall not at any time exceed 5 per cent of the capital funds of the finance company as shown in its last audited balance sheet;
 - (ii) Such investment shall not at any time exceed 40 per cent of the issued ordinary share capital of such investee company; and
 - (iii) the aggregate amount so invested in the issued ordinary share capital of companies shall not at any time exceed 25 per cent of the capital funds of the finance company as shown in its last audited balance sheet.
3. Notwithstanding the provisions of paragraph 2 hereof, a finance company that has core capital over Rs.200 million as shown in its last audited balance sheet may, with the approval of the Monetary Board of the Central Bank of Sri Lanka, form a subsidiary company or acquire shares in a company exceeding 50 per cent of the issued ordinary share capital of such company.
4. The provisions of paragraph 2 hereof shall not apply to any shares which a finance company acquires in the course of the satisfaction of any debt due to such finance company or as a consequence of the underwriting of a share issue, provided that, where such acquisition of shares results in the finance company holding shares in excess of the percentage limits stipulated in paragraph 2 hereof, such finance company shall dispose such excess shares within 2 years from the date of acquisition or such longer period as may be determined by the Monetary Board of the Central Bank of Sri Lanka.
5. For the purpose of this Direction,
 - (i) “capital funds” shall have the same meaning as given in the definition in section 46 of the Finance Companies Act, No.78 of 1988.
 - (ii) “core capital” shall have the same meaning as given in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
 - (iii) “subsidiary company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
6. The Finance Companies (Investments) Direction No. 12 of 1991 and the Finance Companies (Investments) (Amendment) Direction No. 3 of 2001 are hereby revoked.

This Direction was made by the Monetary Board on 29 December 2006 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1478/6 dated 01 January 2007.

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Investments) Direction No. 12 of 1991 which was made on 16 September 1991 and published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991 and the Finance Companies (Investments) (Amendment) Direction No. 3 of 2001 published in the *Government Gazette (Extraordinary)* No. 1174/13 dated 07 March 2001.

**FINANCE COMPANIES (LIQUID ASSETS)
DIRECTION NO. 1 OF 2009^{1/}**

1. This Direction may be cited as the Finance Companies (Liquid Assets) Direction No. 1 of 2009 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 as come into operation with effect from 15 March, 2009.
2. Every finance company shall maintain a minimum holding of liquid assets as defined in Section 46 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991 which shall not, at the close of the business on any day, be less than the total of :
 - (i) Ten per cent of :-
 - (a) the outstanding value of the time deposits received by the finance company at the close of the business on such day; and
 - (b) the face value of certificates of deposit issued by the finance company; as appearing on the books of the finance company at the close of the business on such day; and
 - (ii) Fifteen per cent of the outstanding value of savings deposits accepted by such company, at the close of the business on such day.
3. Every finance company shall furnish monthly to the Director a statement certifying the total deposit liabilities and liquid assets as at the close of business on the last working day of each week of that month on a format prescribed by the Director. If the last working day of the month does not coincide with the last working day of the last week of such month, it should be made to the last working day of the month. Such statement shall be forwarded to the Director on or before the fifteenth day of the following month.
4. Every finance company shall at all times maintain assets in the form of Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and the Central Bank of Sri Lanka Securities equivalent to seven and a half (7.5) per cent of the average of its month end total deposit liabilities of the twelve months of the preceding financial year.
5. The Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and the Central Bank of Sri Lanka Securities referred to in paragraph 4 above will constitute a part of liquid assets referred to in paragraph 2 above.
6. Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and the Central Bank of Sri Lanka Securities held by a finance company in compliance with the provisions of paragraph 4 above shall be kept in the custody of one or more licensed commercial banks or one or more primary dealer companies. Every finance company shall submit to the Director a weekly statement obtained from such bank/banks or primary dealer company/companies giving particulars of such Bills/Securities in a format prescribed by the Director.
7. Every finance company shall furnish to the Director a statement showing its month end total deposit liabilities during the twelve months of the preceding financial year on or before the fifteenth (15) day of the month following the end of such financial year.

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking Finance Companies (Liquid Assets) Direction No.3 of 2005. The Finance Companies (Liquid Assets) Direction, No.3 of 2005 was issued by revoking the Finance Companies (Interest) Direction, No.7 of 1991 which was made on 16 September 1991 and published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991 and as amended by the Finance Companies (Liquid Assets) Direction, No.4 of 2001 and published in the *Government Gazette (Extraordinary)* No. 1174/13 dated 07 March 2001.

8. In this Direction :-

- (i) “time deposit” shall have the same meaning as in Finance Companies (Deposits) Direction No.1 of 2005;
- (ii) “Total deposit liabilities” consist of time deposits, certificates of deposits and savings deposits;
- (iii) “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka;
- (iv) “Licensed Commercial Bank” means a Licensed Commercial Bank within the meaning of Banking Act, No. 30 of 1988;
- (v) “Primary Dealer Company” means a Primary Dealer Company within the meaning of Local Treasury Bills Ordinance (Primary Dealers) Regulations No. 1 of 2002 made under section 16 of the Local Treasury Bills Ordinance (Chapter 420) as last amended by Act No. 31 of 1995 and Registered Stock and Securities Ordinance (Primary Dealers) Regulation No. 1 of 2002 made under section 55 of the Registered Stock and Securities Ordinance (Chapter 420) as last amended by Act No. 32 of 1995.

9. Finance Companies (Liquid Assets) Direction No. 3 of 2005 is hereby revoked.

This Direction was made by the Monetary Board on 31 March 2009 under the Finance Companies Act, No.78 of 1988.

**FINANCE COMPANIES (WRITING OFF OF LOANS AND ADVANCES)
DIRECTION NO. 3 OF 1991**

1. This Direction may be cited as the Finance Companies (Writing off of Loans and Advances) Direction No. 3 of 1991 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 and shall come into operation with immediate effect.
2. A finance company shall not write off any loan or advance granted by it to any of the under noted persons or institutions without the prior approval of the Monetary Board :—
 - (a) any of its directors or any relative of such director;
 - (b) any undertaking in which any of its directors has an interest as a director, partner, manager, agent, investor, guarantor or a shareholder;
 - (c) any of its subsidiary, associate or connected concerns or to companies corporate or unincorporate where the directors of a finance company hold directorships, shares or other investments;
 - (d) any person who is a manager, officer or an employee of a company registered under the Finance Companies Act, No. 78 of 1988.
3. For the purpose of paragraph 2 the word “relative” has the same meaning as given in section 46 of the Finance Companies Act, No.78 of 1988.

This Direction was made by the Monetary Board on 16 July 1991 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.671/18 dated 18 July 1991.

**FINANCE COMPANIES (REGISTER OF WRITTEN OFF LOANS)
DIRECTION NO. 10 OF 1991**

1. This Direction may be cited as Finance Companies (Register of Written off Loans) Direction No.10 of 1991 and shall come into operation with immediate effect and shall apply to every finance company registered under the Finance Companies Act, No.78 of 1988.
2. (i) Every finance company shall maintain a register showing details of written off loans or advances from the books of the company giving the following particulars :-
 - (a) full name and address and national identity card number of the borrower and his/her relationship to the directors, if any;
 - (b) original amount granted;
 - (c) rate of interest;
 - (d) last date of repayment;
 - (e) total amount recovered;
 - (f) amount written off;
 - (g) date of writing off from the books of the Company;
 - (h) reasons in brief for writing off.
- (ii) The above particulars should be sent along with the annual audited balance sheet to the Director in respect of the written off advances during the financial year.
3. In this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

This Direction was made by the Monetary Board on 16 September 1991 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.680/11 dated 18 September 1991.

**FINANCE COMPANIES (DEPOSITS)
DIRECTION NO. 1 OF 2005^{1/}**

1. This Direction may be cited as the Finance Companies (Deposits) Direction No.1 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991 and shall come into operation with immediate effect.
2. A finance company shall not accept any deposit repayable on demand or any time deposit repayable after a period of less than one month from the date of receipt of such deposit or more than sixty months from the date of receipt of such deposit, and shall not renew any time deposit received by it, unless such deposit so renewed is repayable not earlier than one month and not later than sixty months from the date of such renewal. However, a finance company may accept savings deposits subject to the provisions of this Direction, Finance Companies (Deposits – Incentive Schemes) Direction No.5 of 2001, Finance Companies (Capital Funds) Direction No.1 of 2003, Finance Companies (Interest) Direction No.2 of 2005, Finance Companies (Liquid Assets) Direction No.3 of 2005 and Finance Companies (Advertising) Rule No.1 of 2001.
3.
 - (i) Every finance company shall furnish to every depositor a certificate in respect of each and every time deposit received which for all purposes shall be deemed to be an acknowledgement of acceptance of a certain sum of money by the finance company. In the case of renewal of a time deposit, a renewal notice shall be issued to the depositor concerned.
 - (ii) Every such certificate or renewal notice shall be signed by two officers who are authorised by the Board of Directors of the finance company for the purpose of accepting/renewing deposits and issuing of such acknowledgement/renewal notice indicating clearly the following information :-
 - (a) registered name and address of the finance company;
 - (b) date of deposit/renewal of deposit;
 - (c) name of depositor, national identity card number or passport number and the address of the depositor;
 - (d) amount of money received by the finance company by way of deposit or renewal of deposit in words and figures;
 - (e) the annual rate of interest payable and the basis of payment (monthly or at maturity);
 - (f) date on which the deposit is repayable;
 - (g) names of officers who sign the acknowledgement/renewal notice;
 - (h) serial number of the certificate;
 - (i) account number of the deposit.
4. Every finance company shall maintain a record of the following particulars in respect of each time deposit :-
 - (a) Account number;
 - (b) Name, address and national identity card number or passport number of each depositor;
 - (c) Principal amount of such deposit;

^{1/} This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Deposits) Direction No.1 of 2002 which was made on 13 September 2002 and published in the *Government Gazette (Extraordinary)* No. 1253/2A dated 13 September 2002, revoking the Finance Companies (Deposits) Direction No.6 of 1991 published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991 and as amended by the Notice published in the *Government Gazette (Extra ordinary)* No. 893/8 dated 18 October 1999 and the Finance Companies (Deposits) (Amendment) Direction No.1 of 2001 published in the *Government Gazette (Extraordinary)* No. 1174/13 dated 07 March 2001.

- (d) Date of deposit/date of renewal;
 - (e) Duration and the maturity date of each deposit;
 - (f) Rate of interest and the basis of payment of interest (monthly or at maturity);
 - (g) The amount of accrued interest (if any);
 - (h) Date and amount of each payment (principal and/or interest);
 - (i) Serial number of the certificate.
5. Every finance company upon acceptance of savings deposits shall issue to a depositor, a document containing the terms governing the operations of savings accounts in all three languages and a pass book or such other document acceptable to the Director for recording the operations of the account including the following particulars :-
- (a) Registered name and address of the finance company;
 - (b) Name of the branch;
 - (c) Name, date of birth, national identity card number and the address of the account holder; and
 - (d) Account number.
6. Every finance company shall maintain a record of the following particulars in respect of each savings account :-
- (a) Name, date of birth, national identity card number and the address of the account holder;
 - (b) Account number;
 - (c) Date, amount and description of every credit or debit made to the savings account; and
 - (d) Outstanding balance at any particular time.
7. Every finance company shall submit to the Director a statement, within three months after the end of every financial year, giving the following particulars, as at the end of such financial year, in respect of every time deposit which has not been repaid/renewed by the finance company after the date on which the deposit became due for repayment or renewal as the case may be :-
- (a) Name and address of the depositor;
 - (b) Amount of the deposit;
 - (c) Amount of the accrued interest;
 - (d) Last date on which any written correspondence was received by the company from the depositor or his/her lawful representative; and
 - (e) Action taken or proposed to be taken by the finance company for the repayment of the amount of the deposit and its accrued interest.
8. Every finance company shall submit to the Director a statement, within three months after the end of every financial year, giving the following particulars, as at the end of such financial year, on every savings account in respect of which there has been no deposit or withdrawal for 5 years or more :-
- (a) Name and address of the account holder;
 - (b) Amount outstanding including accumulated interest as at the end of the immediately preceding financial year;

- (c) Last date on which any written communication was received from the depositor or his/her lawful representative; and
 - (d) Action taken or proposed to be taken by the finance company to repay the amount outstanding on the account.
9. A finance company shall not accept any funds to the credit of a savings account unless it is in the form of cash or any acceptable money transfer document such as a cheque issued in favour of the account holder.
10. In this Direction :-
- (i) “time deposit” means any deposit accepted by a finance company with an agreement to repay after a specified period of time;
 - (ii) “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka;
 - (iii) “Board of Directors” means the Board of Directors of the Company, other than any director appointed by the Monetary Board of the Central Bank of Sri Lanka.
11. The Finance Companies (Deposits) Direction No.1 of 2002 is hereby revoked.

This Direction was made by the Monetary Board on 31 January 2005 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1378/12 dated 01 February 2005.

**FINANCE COMPANIES (BUSINESS TRANSACTIONS WITH DIRECTORS
AND THEIR RELATIVES) DIRECTION NO. 2 OF 2007^{1/}**

1. This Direction may be cited as the Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 2 of 2007 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988, and shall come into operation with immediate effect.
2. A finance company shall not, without the approval of the Director, conduct any business transaction with a director of the company or a relative of a director of the company where the total value of transaction/s exceeds Rs.50,000 per month or Rs.500,000 for a financial year. Conducting of any business transaction by a finance company with a director of the company or a relative of a director of the company shall be subject to the Finance Companies (Lending) Direction, No. 01 of 2007.
3. The provisions of paragraph 2 hereof, shall not apply to accepting of time and savings deposits from a director of the finance company or a relative/s of a director of the finance company in conformity with the Finance Companies (Deposits) Direction, No. 01 of 2005 and the Finance Companies (Interest) Direction, No. 02 of 2005 and on terms and conditions that are, for the time being, applicable to the other depositors of the finance company, and to payment of interest on similar deposits.
4. For the purpose of this Direction,
 - (a) “relative” shall mean the spouse and/or dependent child of an individual.
 - (b) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. The Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 6 of 2006 is hereby revoked.

This Direction was made by the Monetary Board on 29 June 2007 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1503/24 dated 29 June 2007.

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 6 of 2006 which was made on 29 December 2006 and published in the *Government Gazette (Extraordinary)* No. 1478/6 dated 01 January 2007 which was issued revoking the Finance Companies (Business Transactions with Relatives) Direction No. 5 of 1991 which was made on 16 July 1991 and published in the *Government Gazette (Extraordinary)* No. 671/18 dated 18 July 1991.

**FINANCE COMPANIES (INSURANCE OF DEPOSIT LIABILITIES)
DIRECTION NO. 2 OF 2010**

In the exercise of the powers conferred by Section 27 of the Finance Companies Act, No. 78 of 1988, as amended, the Monetary Board hereby issues these Directions to Registered Finance Companies to be effective from 01 October, 2010.

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| 1.1 | These Directions shall be cited as the Finance Companies (Insurance of Deposit Liabilities) Direction No. 2 of 2010. | Citation. |
| 2.1 | Under Section 27 of the Finance Companies Act, the Central Bank of Sri Lanka may establish, maintain, manage and control a scheme for the insurance of deposits held by finance companies registered under the Act or require such companies to insure such deposits under any scheme established by any institution as is specified by the Monetary Board. | Enabling Statutory Provisions. |
| 3.1 | In terms of statutory provisions and best practices in finance business, accepting deposits is a core business that requires effective risk management measures as it critically depends on the public confidence in Registered Finance Companies. As such, insurance of deposits is a well-accepted safety net measure that will protect and promote the public confidence and stability of Registered Finance Companies. | The Objective of Directions. |
| 4.1 | As such, all Registered Finance Companies shall insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 01 October, 2010. | Insurance of Deposits |
| 4.2 | All Registered Finance Companies shall also disclose to the public, in their advertisements soliciting deposits, the fact that eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance Scheme implemented by the Monetary Board on payment of the applicable premium for compensation up to a maximum of Rs. 200,000 per depositor. | |

This Direction was made by the Monetary Board on 27 September 2010 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.1677/33 dated 29 October 2010.

**FINANCE COMPANIES (INFORMATION SYSTEMS SECURITY POLICY)
DIRECTION NO. 4 OF 2012**

In terms of Section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board is empowered to issue directions to licensed finance companies regarding the manner in which any aspect of the business of such companies are to be conducted.

Information systems have become significantly important for the strategic operations and risk management of licensed finance companies. Therefore, in the exercise of the powers conferred by Section 12 of the Finance Business Act, the Monetary Board hereby issues Finance Companies (Information Systems Security Policy) Direction No.4 of 2012 for licensed finance companies to be effective nine months from the date of this direction.

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| Information Systems Security Policy. | 1. Every finance company shall maintain an Information Systems Security Policy (ISSP) in line with at least the minimum requirements stipulated in this direction. |
| Information Systems Security Policy Requirements. | 2. Every finance company shall compile and maintain a periodically reviewed, well documented ISSP, which shall be:

(a) Approved by the Board of Directors and communicated to all relevant users in the company within nine months from the date of this direction.

(b) Actively supported by the Management to ensure that information security is ensured within the organization through clear direction, commitment, explicit job assignment and effective monitoring. |
| Information Security. | 3. Every finance company shall classify all information and data within the finance company to reflect its level of confidentiality or importance to the organization and implement security measures according to the level of confidentiality needed. |
| Information Systems Security Awareness, Training and Education. | 4. Every finance company shall create awareness among the staff with adequate training and awareness programmes on aspects such as information systems security, access controls, procurement and maintenance procedures, network management, business continuity plan, information system audits and software licensing. |
| Access Controls. | 5. Every finance company shall clearly identify and list the assets associated with processing and communication of information (<i>i.e.</i> , hardware, software and communication equipment), and assign the responsibility of securing all information system assets to an individual who has been authorized by the management as follows:

(a) Implement different levels of access controls, based on authority levels to ensure confidentiality of information and security of systems on which information is stored or filed with such controls covering areas such as managing user access, securing unattended workstations, managing passwords and procedures to be implemented when authorized personnel leave the company.

(b) Protect all important servers and power and telecommunication cables carrying data from power failures.

(c) Ensure that all sensitive data and/or licensed software have been removed from all items of equipment prior to disposal.

(d) Secure the premises where IT systems / data centers are located by limiting physical access to authorized personnel and maintain a record of entry and exit for data centers, with proper identification established and recorded prior to any entry to the data center. |

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| <p>6. Every finance company shall have procedures for purchasing and maintaining commercial software. These procedures shall include the following:</p> <p>(a) Purchasing and installing software, software maintenance and upgrading of software.</p> <p>(b) Securing hardware, peripherals and other equipment.</p> <p>(c) Developing, testing and maintenance of in-house developed software.</p> | <p>Procurement and Maintenance.</p> |
| <p>7. Every finance company shall have a security policy for network management. This security policy shall include procedures on:</p> <p>(a) Combating cybercrime.</p> <p>(b) E-commerce and intranet information security.</p> <p>(c) Security of any other networks within the organization such as Automated Teller Machines.</p> | <p>Network Management</p> |
| <p>8. Every finance company shall have a Business Continuity Plan (BCP) covering disaster management and risk analysis, which shall be implemented after testing and acceptance, including the following:</p> <p>(a) Assign the maintenance of the BCP to an authorized officer(s).</p> <p>(b) Prepare a backup policy based on the importance of the relevant system, with the necessary backups being tested periodically.</p> <p>(c) Implement procedures to detect and respond to information security incidents, which shall include procedures for reporting of information security incidents, investigating of such incidents and taking of corrective measures.</p> | <p>Business Continuity Plan.</p> |
| <p>9. Every finance company shall conduct periodic information system audits, where the responsibilities of the audits are assigned to a separate unit or external personnel, independent of the IT department.</p> | <p>Information System Audits.</p> |
| <p>10. Every finance company shall comply with legal and policy requirements relating to software licensing, which shall include complying with copyright and software licensing legislation.</p> | <p>Software Licensing.</p> |

This Direction was made by the Monetary Board on 06 September 2012 under section 12 of the Finance Business Act, No.42 of 2011.

**FINANCE COMPANIES (INTEREST RATES)
DIRECTION NO. 5 OF 2012**

- Citation. 1. This direction may be cited as the Finance Companies (Interest Rates) Direction, No. 5 of 2012 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011.
- Maximum interest rate. 2. The maximum annual rate of interest which may be paid by a finance company on a time deposit accepted or renewed after 1st October 2012, shall not exceed:–
- 2.1 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 2.00 percentage points, if such deposit carries a maturity period of 12 months or less;
- 2.2 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 3.00 percentage points, if such deposit carries a maturity period of more than 12 months.
- 2.3 In the case where a time deposit is accepted from or renewed by a person who is over fifty five (55) years of age at the time of making such deposit or renewal of such deposit (hereinafter referred to as a “Senior Citizen”), a finance company may pay an additional interest not exceeding one percentage point above the rates of interest as per paragraph (2.1) or (2.2).
3. The maximum rate of discount which may be allowed by a finance company on the issue of a non-transferable certificate of deposit after 1st October 2012, of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed :–
- 3.1 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 2.00 percentage points if such non-transferable certificate of deposit carries a period of maturity of 12 months or less;
- 3.2 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 3.00 percentage points if such non-transferable certificate of deposit carries a maturity period of more than 12 months.
4. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit, shall not exceed the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director).
5. Provided however, that in the case where a savings deposit is maintained by a Senior Citizen, a finance company may pay an additional interest not exceeding one percentage point above the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director).
- Reporting. 6. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid and discounts applied for non-transferable certificates of deposit by such finance company in each month, on or before the 7th day of the following month.

7. In this Direction, Definition.
- 7.1 “Time deposit” means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and
- 7.2 “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- 7.3 Quarterly weighted average yield rates of 91-day and 364-day Treasury Bills will be issued by the Director for each quarter ending 31st March, 30th June, 30th September and 31st December.
8. The Finance Companies (Interest Rates) Direction, No.3 of 2012 dated 29.06.2012 is Revocation.
hereby revoked.

This Direction was made by the Monetary Board on 28 September 2012 under section 12 of the Finance Business Act, No.42 of 2011.

**FINANCE COMPANIES (CORPORATE GOVERNANCE)
DIRECTION NO. 3 OF 2008**

1. This Direction may be cited as the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 (hereinafter referred to as a 'finance company') and shall come into operation with effect from 1 January, 2009.

2. The Responsibilities of the Board of Directors

(1) The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by–

- a) approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;
- b) approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;
- c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;
- d) approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;
- e) reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;
- f) identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;
- g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;
- h) ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;
- i) periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;
- j) ensuring that the finance company has an appropriate succession plan for key management personnel;
- k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;
- l) understanding the regulatory environment;
- m) exercising due diligence in the hiring and oversight of external auditors.

(2) The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with paragraph 7 of this Direction.

(3) There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense.

The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.

- (4) A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives 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 at the Board meeting.
- (5) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.
- (6) The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.
- (7) The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.
- (8) The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.

3. Meetings of the Board

- (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 written or electronic resolutions/papers shall be avoided as far as possible.
- (2) The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.
- (3) A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.
- (4) A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.
- (5) The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.
- (6) If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.
- (7) All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
- (8) The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.
- (9) Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to 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 which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of

relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.

4. Composition of the Board

- (1) Subject to the transitional provisions contained herein, the number of directors on the Board shall not be less than 5 and not more than 13.
- (2) Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.
- (3) Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.
- (4) With effect from three years from the date of this Direction, the number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors.

A non-executive director shall not be considered independent if such director:

- a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;
- b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;
- c) has been employed by the finance company during the two year period immediately preceding the appointment as director;
- d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.
- e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;
- f) is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization:
 - i. which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or
 - ii. in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or
 - iii. in which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.

- (5) In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.
- (6) Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.
- (7) With effect from three years from the date of this Direction, 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 half of the number of directors that constitute the quorum at such meeting are non-executive directors.
- (8) The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.
- (9) There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.
- (10) All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.
- (11) If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.

5. Criteria to assess the fitness and propriety of directors

- (1) Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a director of a finance company.
- (2) A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.

6. Delegation of Functions

- (1) The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
- (2) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.

7. The Chairman and the Chief Executive Officer

- (1) The roles of chairman and chief executive officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009.
- (2) The chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior

Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.

- (3) The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.
- (4) The chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.
- (5) The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.
- (6) The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.
- (7) The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.
- (8) The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.
- (9) Subject to the transitional provisions contained herein, the chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.
- (10) The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.
- (11) The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.

8. Board appointed Committees

- (1) Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.

(2) Audit Committee

The following shall apply in relation to the Audit Committee:

- a) The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.
- b) The Board members appointed to the committee shall be non-executive directors.
- c) The committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the 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.
- d) 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.

- e) The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:
- (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;
 - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and
 - (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.
- f) The committee 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 finance company'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.
- g) The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company'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.
- h) The committee 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 key management personnel, if necessary.
- i) The committee shall review the external auditor's management letter and the management's response thereto.
- j) The committee shall take the following steps with regard to the internal audit function of the finance company:
- (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;
 - (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;
 - (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;
 - (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;
 - (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;

- (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;
- k) The committee shall consider the major findings of internal investigations and management's responses thereto;
- l) The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the external auditors without the executive directors being present.
- m) The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
- n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
- o) The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.
- p) The secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.
- q) The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.

(3) **Integrated Risk Management Committee**

The following shall apply in relation to the Integrated Risk Management Committee:

- a) The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, *i.e.*, credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.
- b) The committee shall assess all risks, *i.e.*, credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.
- c) The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.
- e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
- f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as

directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- h) The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

9. Related party transactions

- (1) The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.
- (2) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:
 - a) A subsidiary of the finance company;
 - b) Any associate company of the finance company;
 - c) A director of the finance company;
 - d) A key management personnel of the finance company;
 - e) A relative of a director or a key management personnel of the finance company ;
 - f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;
 - g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.
- (3) The transactions with a related party that are covered in this Direction shall be the following:
 - a) Granting accommodation,
 - b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,
 - c) providing financial or non-financial services to the finance company or obtaining those services from the finance company,
 - d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.
- (4) The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean:
 - a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board.

The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.

- b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty;
- c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, 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;
- e) Maintaining reporting lines and information flows between the finance company 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.

10. Disclosures

- (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 an abridged form, in Sinhala, Tamil and English.
- (2) The Board shall ensure that at least the following disclosures are made in the Annual Report:
 - a) 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.
 - b) A report by the Board on the finance company'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 has been done in accordance with relevant accounting principles and regulatory requirements.
 - c) The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.
 - d) Details of directors, including names, transactions with the finance company.
 - e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.
 - f) Total net accommodation as defined in paragraph 9(4) outstanding 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 finance company's capital funds.
 - g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.
 - h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.
 - i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.
 - j) The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.

11. Transitional provisions

- (1) On the date of this Direction, if the number of directors on the Board of a finance company is either less than 5 or exceed 13, such finance company shall comply with paragraph 4(1) hereof, within three years from the date of this Direction.
- (2) On the date of this Direction, if the number of executive directors in a finance company is more than one half of the number of directors of the Board, the Board shall expressly identify the excess executive directors and inform the names of such excess executive directors to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka within three months from the date of this Direction. Thereafter, such excess executive directors shall not be considered as members of the Board.
- (3) The following transitional provision shall apply to the 9-year retirement requirement imposed under paragraph 4(2) of this Direction:

A director who has completed nine years as at January 1, 2009 or who completes such term at any time prior to December 31, 2009, may continue for a further maximum period of 3 years commencing January 1, 2009.
- (4) The following transitional provision shall apply to the maximum age limit imposed under paragraph 5(1) of this Direction:

A director who has reached the age of 70 years as at January 1, 2009 or who would reach the age of 70 years prior to December 31, 2009, may continue in office for a further maximum period of three years commencing January 1, 2009.
- (5) The following transitional provision shall apply to the maximum 20 company directorship limitation imposed under paragraph 5(2) of this Direction:

If any person holds posts of director in excess of the limitation given in paragraph 5(2), such person shall within a maximum period of three years from January 1, 2009, comply with the limitation and notify the Monetary Board accordingly.
- (6) If for any reason such as ill health or any disqualification specified in the Act, the Monetary Board considers that exemptions referred to in sub-paragraphs 11(3), 11(4) and 11(5) should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

12. Definitions

- (1) "Act" shall mean the Finance Companies Act, No.78 of 1988.
- (2) "accommodation" shall have the same meaning as contained in the Finance Companies (Lending) Direction, No.1 of 2007.
- (3) "relative" shall have the same meaning as contained in section 46 of the Finance Companies Act, No. 78 of 1988.
- (4) "key management personnel" are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.
- (5) "substantial interest" shall have the same meaning as contained in section 46 of the Finance Companies Act, No.78 of 1988.

This Direction was made by the Monetary Board on 17 October 2008 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.1577/8 dated 26 November 2008.

**FINANCE COMPANIES (CORPORATE GOVERNANCE – AMENDMENT)
DIRECTION, NO. 4 OF 2008**

1. This Direction may be cited as the Finance Companies (Corporate Governance – Amendment) Direction, No. 4 of 2008 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 (hereinafter referred to as a ‘finance company’) and shall come into operation with effect from 1 January, 2009.
2. Paragraph 4 of the *Finance Companies (Corporate Governance) Direction, No. 3 of 2008* is amended hereby as follows:
 - (1) By repeal of words ‘With effect from three years from the date of this Direction’ from sub-paragraph (4) thereof and the substitution therefor, of the following:

“With effect from three years commencing 01.01.2009”
 - (2) By repeal of words ‘With effect from three years from the date of this Direction’ from sub-paragraph (7) thereof and the substitution therefor, of the following:

“With effect from three years commencing 01.01.2009”
3. Paragraph 11 of the *Finance Companies (Corporate Governance) Direction, No. 3 of 2008* is amended hereby as follows:
 - (1) By repeal of words ‘within three years from the date of this Direction’ from sub-paragraph (1) thereof and the substitution therefor, of the following:

“within three years commencing 01.01.2009.”
 - (2) (a) By repeal of words ‘within three months from the date of this Direction’ from sub-paragraph (2) thereof and the substitution therefor, of the following:

“within three years commencing 01.01.2009”.
 - (b) By the repeal of the word ‘Thereafter’ from sub-paragraph (2) thereof and the substitution therefor, of the following:

“On the expiry of three years commencing 01.01.2009”

This Direction was made by the Monetary Board on 30 December 2008 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.1586/3 dated 26 January 2009.

**FINANCE COMPANIES (ASSESSMENT OF FITNESS AND PROPRIETY OF
DIRECTORS AND OFFICERS PERFORMING EXECUTIVE FUNCTIONS)
DIRECTION NO. 3 OF 2011**

In terms of Section 9 of the Finance Companies Act, No. 78 of 1988, as amended by Act, No. 23 of 1991, the Monetary Board is empowered to issue Directions to registered finance companies regarding the manner in which any aspect of the business of such companies is to be conducted. Fitness and Propriety of directors and officers performing executive functions is a key requirement to ensure good governance and risk management on the conduct of business of registered finance companies which promotes the stability of such companies. Therefore, in the exercise of the powers conferred by Section 9 of the Finance Companies Act, the Monetary Board hereby issues Directions, No. 3 of 2011 on fitness and propriety of directors and officers performing executive functions to be effective from the date of these Directions.

- | | |
|--|--|
| 1. No person shall be appointed as a director of a finance company or an officer performing executive functions (hereinafter referred as “officer”) in such company unless that person is a fit and proper person to hold office as a director or an officer in terms of the provisions of these Directions. | Disqualification for being appointed as a director or an officer performing executive functions. |
| 2.1 In assessing the fitness and propriety of a person for the purpose of Direction 1 above, the following matters shall be considered by the Director :-

(a) that such person possesses academic or professional qualifications or effective experience in banking, finance, business or administration or of any other relevant discipline;

(b) that such person is not being subjected to an investigation or inquiry involving fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad;

(c) that such person is not found by any court of law, regulatory or supervisory authority, professional association, Commission of Inquiry, tribunal or any other body established by law in Sri Lanka or abroad, to the effect that such person has committed or has been connected with the commission of, any act which involves fraud, deceit, dishonesty, improper conduct or non-compliances with provisions of any Statute or rules, regulations, directions or determinations issued thereunder;

(d) that such person has not been convicted by any Court in Sri Lanka or abroad in respect of an offence involving fraud, deceit, dishonesty or similar criminal activity;

(e) that such person has not been declared insolvent or declared bankrupt in Sri Lanka or abroad;

(f) that such person has not failed to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt;

(g) that such person has not been declared by a Court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;

(h) that such person has not been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive officer or other officer or an employee in any bank, finance company or a corporate body in Sri Lanka or abroad;

(i) that such person has not been a director, chief executive officer or held any other position of authority in any bank, finance company or financial institution:

(i) whose license or business has been cancelled or suspended on grounds of regulatory concerns; or | Criteria for assessment of fitness and propriety. |

(ii) which has been wound up or is being wound up, or which is being compulsorily liquidated; whether in Sri Lanka or abroad.

2.2 In addition, criteria set out in Section 5 of the Directions, No. 3 of 2008 on Corporate Governance for Finance Companies shall also be applicable.

Procedure to be followed in assessing the fitness and propriety.

3.1 Each finance company shall obtain from respective directors or officers selected for appointment an affidavit and declaration as in Annex I and II, respectively, and submit to the Director.

3.2 In addition to 3.1, a letter from the institution/company in which such director or officer held office immediately preceding the appointment regarding the level of performance of duties assigned to him/her in the particular institution shall be submitted to the Director.

3.3 With respect to existing directors and officers, finance companies shall obtain and submit affidavits and declarations to the Director within thirty days of this Direction.

3.4 In respect of every continuing director, a finance company shall obtain and submit affidavits and declarations to the Director annually before the Annual General Meeting of the respective finance company if such directors are nominated for re-appointment.

Approval of the Director.

4.1 The Director may, having regard to the matters specified in Direction 2 above, approve or refuse to approve the appointment or continuation as the case may be as a director or an officer of a finance company.

4.2 The Director shall notify the finance company of such approval or refusal giving reasons therefor and it shall be the duty of the finance company to communicate such notification to the director or the officer concerned and implement same.

Determination by the Director at any time.

5. Where the Director, having regard to the matters specified in Direction 2 above, is satisfied at any time that a person appointed or continued is not fit and proper as a director or an officer for continuation, may determine that the person is not fit and proper to be a director or an officer of a finance company and the Direction 4.2 above shall be applicable thereafter.

Subsequent ineligibility to be notified.

6.1 Every finance company shall notify the Director of any reasonable suspicions or findings to the effect that any director or an officer is not a fit and proper person to hold office in the respective finance company within fourteen days of it being aware of such suspicion or findings.

6.2 If circumstances vary, change, render invalid, make inapplicable or falsify the information contained in an affidavit or declaration submitted by a director or an officer, such person shall, within fourteen days, notify the Director.

Appeal to the Monetary Board.

7.1 A person aggrieved by the refusal or determination of the Director under Direction 4.1 or 5 above may within fourteen days of receipt of the communication sent by the finance company make an appeal giving reasons in writing in justifiable manner to the Monetary Board.

7.2 The Monetary Board may, after considering reasons given by the Director and the objections of the aggrieved party, decide either to confirm or over-rule the refusal made by the Director.

8. In this Direction, unless the context otherwise requires :-

Interpretation.

- (a) “Act” shall mean the Finance Companies Act, No. 78 of 1988.
- (b) “Director” shall have the same meaning as contained in section 46 of the Finance Companies Act, No. 78 of 1988.
- (c) “Date of receipt” of any document under this Direction shall be, if sent *via* facsimile, electronic mail or hand delivery: on the same day of dispatch; if sent *via* registered post: on the expiry of 3 working days from the date of dispatch. For purposes of clarity, if a document has been dispatched on more than one delivery method, the time of delivery of the most expeditious method shall be considered.
- (d) Officers performing executive functions in a finance company are as follows:
 - i. Chief Executive Officer/General Manager
 - ii. Additional General Manager
 - iii. Senior Deputy General Manager
 - iv. Deputy General Manager
 - v. Assistant General Manager
 - vi. Chief Operating Officer
 - vii. Chief Risk Officer
 - viii. Chief Accountant
 - ix. Chief Financial Officer
 - x. Chief Internal Auditor
 - xi. Compliance Officer
 - xii. Head of Treasury
 - xiii. Head of Legal
 - xiv. Head of Information Technology
 - xv. Company Secretary
 - xvi. Officers serving as consultants or advisors to the board of directors of the finance company
 - xvii. Officers involving in decisions on credit, assets and marketing of products of the respective finance company
 - xviii. Any other officer within the meaning of “key management personnel” as stated in the Finance Companies (Corporate Governance) Direction, No. 3 of 2008

This Direction was made by the Monetary Board on 05 September 2011 under the Finance Companies Act, No.78 of 1988.

Name of Registered Finance Company :

Affidavit to be submitted by Directors and Officers performing Executive functions in Registered Finance Companies

I, (*full name*)
holder of National Identity Card No. / Passport No. of
..... (*address*)
being a [Buddhist / Hindu do hereby solemnly, sincerely and truly declare and affirm / Christian / Catholic / Muslim make oath and state] as follows :

1. I am the [affirmant / deponent] above named and I am (*designation*)
of (*name of the registered finance company*).
2. I [affirm / state] that I possess the following academic and / or professional qualification/s:
.....
3. I [affirm / state] that the effective experience that I possess in banking, finance, business or administration
or of any other relevant discipline is as follows:
.....
4. I [affirm / state] that I am not subjected to any disqualifications given under Paragraph 2.1 of the Finance
Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions)
Directions, No. 3 of 2011.

The averments contained herein were read over to the [affirmant / deponent] who having understood the contents hereof and having accepted same as true, affirmed / swore to and placed his / her signature at on this day of

Affix Stamps as applicable

Before me

JUSTICE OF THE PEACE /
COMMISSIONER FOR OATHS

Name of Registered Finance Company :

**Declaration to be submitted by Directors and Officers performing Executive functions
(with enclosures as appropriate as of)**

1. Personal Details

- 1.1 Full name:
- 1.2 National Identity Card Number:
- 1.3 Passport Number:
- 1.4 Date of birth :
- 1.5 Permanent address :
- 1.6 Present address :

2. Appointment to the Finance Company

- 2.1 Date of appointment to the board / present position:
(please attach a certified copy of the appointment letter in the case of an officer performing executive functions) :
- 2.2 Designation :
- 2.3 Local or expatriate :
- 2.4 Annual remuneration (with details):
- 2.5 Annual value of benefits derived by director or officer performing executive functions and/or his/her family from company assets.
(Example by use of company land, building, vehicles, etc).
- 2.5.1 Expenses borne by the company on account of the maintenance of assets referred to in 2.5 or for reimbursement of any expenses (credit card bills, utility bills etc.)
- 2.6 Purchased value and book value of such assets and the location of immovable assets.

3. Personal Details of Relatives

- 3.1 Full name of spouse :
- 3.2 National Identity Card Number :
- 3.3 Passport Number:
- 3.4 Details of dependant children :

	<i>Full name</i>	<i>NIC No.</i>	<i>Passport No.</i>
3.4.1			
3.4.2			
3.4.3			

4. Background and Experience

Name/s of registered finance company/ies or licensed bank/s, if any, in which he/she is or has been a director or has been employed as an officer performing executive functions:

<i>Name of the institution</i>	<i>Period of office</i>	<i>Designation</i>

5. Shareholdings in Finance Companies and their Related Companies

Share ownerships in registered finance companies, their subsidiaries and associates, if any, presently held:

<i>Name of the institution</i>	<i>No. of shares</i>	<i>Percentage holding</i>

6. Business Transactions^{1/}

Any business transaction the director or officer performing executive functions presently has with the registered finance company, its subsidiaries or associates if any.

<i>Name of the institution</i>	<i>Date of transaction</i>	<i>Amount as at</i> <i>(Rs. mn)</i>		<i>Classification</i> <i>(performing/ non-performing)</i>	<i>Type and value of collateral</i> <i>(Rs. mn)</i>	<i>% of the finance company's Capital Funds</i>
		<i>Limit</i>	<i>Out-standing</i>			
Loans and such other accommodation obtained from the finance company						
Investments (Promissory Notes / Commercial Paper etc.) made with the finance company						
Deposits						

1/ "Business transaction" shall mean any accommodations, investments and deposits.

7. Appointments, Shareholdings and Business Transactions of Relatives

7.1 Any relative presently employed as a directors or an officers performing executive functions in any finance company.

<i>Name of the finance company</i>	<i>Full name of the relative</i>	<i>Position held</i>

7.2 Direct or indirect share ownership in the finance company, if any, presently held by any relative.

<i>Full name of the relative</i>	<i>No. of Shares</i>		<i>Percentage holding</i>	
	<i>Direct</i>	<i>Indirect</i>	<i>Direct</i>	<i>Indirect</i>

7.3 Any business transaction, a relative currently has with the finance company, if any.

<i>Full Name of the relative</i>	<i>Nature of business transaction</i>	<i>Date of transaction</i>	<i>Limit as at (Rs.mn)</i>	<i>Outstanding as at (Rs.mn)</i>	<i>Type and value of collateral (Rs. mn)</i>	<i>% of finance company's paid-up capital</i>

8. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the director or officer performing executive functions in the registered finance company.

DECLARATION:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the registered finance company and the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka duly informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above.

I state that I am not prevented by any Statute from being appointed to the above post.

Date :

*Signature of Director or
Officer Performing Executive Functions in the Finance Company*

TO BE COMPLETED BY THE CHIEF EXECUTIVE OFFICER WITH REFERENCE TO OFFICERS PERFORMING EXECUTIVE FUNCTIONS

Additional explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the person performing executive functions in the finance company.

Date :

*Signature of the Chief Executive Officer
and the official stamp*

TO BE COMPLETED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS WITH REFERENCE TO THE CHIEF EXECUTIVE OFFICER

Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the person performing the function of the chief executive officer.

Date :

Signature of the Chairman of the Board of Directors

This Direction was made by the Monetary Board on 05 September 2011 under the Finance Companies Act, No.78 of 1988.

**FINANCE COMPANIES (AUDITED ACCOUNTS)
DIRECTION NO. 16 OF 1991**

1. This Direction may be cited as Finance Companies (Audited Accounts) Direction No.16 of 1991 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 and shall come into operation with immediate effect.
2. Every finance company shall appoint an Auditor to audit the following financial statements prepared by the company in compliance with section 13 of the Finance Companies Act, No. 78 of 1988 :-
 - (a) balance sheet as at the last working day of each financial year;
 - (b) profit and loss account in respect of such year.
3. Every such Auditor appointed to a finance company shall report on the affairs of the company in conformity with the provisions of section 17 of the Finance Companies Act, No. 78 of 1988.

This Direction was made by the Monetary Board on 23 October 1991 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.685/20 dated 25 October 1991.

**FINANCE COMPANIES (REPORTING REQUIREMENTS)
DIRECTION NO. 2 OF 2011**

In terms of Section 9 of the Finance Companies Act, No. 78 of 1988, as amended by Act, No. 23 of 1991, the Monetary Board is empowered to issue Directions to Registered Finance Companies (RFCs) regarding the manner in which any aspect of the business of such companies is to be considered.

Reporting of information on the financial performance of RFCs to the Department of Supervision of Non-Bank Financial Institutions is beneficial for the RFCs to conduct their business with the supervisory oversight. Therefore, in the exercise of the powers conferred by Section 9 of the Finance Companies Act, the Monetary Board hereby issues finance companies (Reporting Requirements) Direction No.2 of 2011 for RFCs to be effective from the date of these directions.

Requirement to submit information 1. Every finance company shall submit information to the Director according to the formats provided under the *Central Bank Financial Information System* by the due dates as specified in Schedule I.

Amendments to existing Directions 2. Paragraphs 3 and 7 of the Finance Companies (Liquid Assets) Direction No.1 of 2009, paragraphs 4(i) and 4(ii) of the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2006, paragraphs 5(i), 5(ii) and 5(iii) of the Finance Companies (Provision for Bad and Doubtful Debts) Direction No.3 of 2006, and paragraph 4 of the Finance Companies (Interest) Direction No. 1 of 2010 are hereby repealed. Other reporting requirements imposed under the Act and Directions issued thereunder shall remain unchanged.

Sanctions imposed in the case of non-compliance 3. In the event of non-submission of any periodical report by the due date;
(a) The Director shall impose a penalty with effect from 01.01.2012, after considering any reasonable reasons for non-compliance if so submitted by the company prior to the due date of the report, as follows;

Type of report	Penalty
Any Weekly report that should be submitted on the first Working Day of the following week.	A penalty of Rupees one hundred thousand (Rs. 100,000.00) per violation.
Any Monthly report that should be submitted by the 7th or 15th of the following month.	A penalty of Rupees two hundred thousand (Rs. 200,000.00) per violation.
Annual financial statements (audited) that should be submitted within six months from the end of each financial year.	A penalty of Rupees five hundred thousand (Rs. 500,000.00) per violation.

(b) The respective RFC shall forward a cheque drawn in favour of “Chief Accountant, Central Bank of Sri Lanka” within 7 working days after being informed of the penalty by the Director.

(c) In an event of continued non-compliance where penalties have arisen in three consecutive reporting periods, the CEO will be deemed not fit and proper to hold the office.

(d) In an event of non-compliance where a penalty has been imposed, the respective RFC shall disclose it in the audited annual financial statement under a separate note titled “**Penalties imposed by the Central Bank**”.

4. (a) “Act” means the Finance Companies Act, No.78 of 1988.

Definitions

(b) “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

(c) “Central Bank Financial Information System” means the web-based data transmission system provided by the Central Bank to RFCs supervised by it for the purpose of submitting financial information.

(d) “Week” means a week beginning Monday.

5. The Finance Companies (Reporting Requirements) Direction No. 5 of 2009 is hereby revoked.

Revocation of
the Direction
No. 5 of 2009

Schedule I: Time schedule for Reporting Requirements

Report		Periodicity	Due Date
i	NBD-WF-15-LA (Liquid Assets)	Weekly	First Working Day following the end of the respective week.
ii	NBD-WF-16-DL (Deposit Liability)	Weekly	First Working Day following the end of the respective week.
iii	NBD-MF-17-AD (Advances)	Monthly	By the 7 th of the following month
iv	NBD-MF-04-LA (Liquid Assets)	Monthly	By the 7 th of the following month
v	Rate of Interest	Monthly	By the 7 th of the following month
vi	NBD-MF-01-BS (Balance Sheet)	Monthly	By the 15 th of the following month
vii	NBD-MF-02-PL (Profit & Loss)	Monthly	By the 15 th of the following month
viii	NBD-MF-03-CA (Classification of Adv.)	Monthly	By the 15 th of the following month
ix	NBD-MF-07-SL (Secured Large Exposure ^(a))	Monthly	By the 15 th of the following month
x	NBD-MF-07-UL (Unsecured Large Exposure ^(b))	Monthly	By the 15 th of the following month
xi	NBD-MF-08-AR (Advances to Related Parties)	Monthly	By the 15 th of the following month
xii	NBD-MF-09-IE (Investments in Equity)	Monthly	By the 15 th of the following month
xiii	NBD-MF-10-GA (Maturity Gap Analysis)	Monthly	By the 15 th of the following month
xiv	NBD-MF-11-IS (Interest Rate Sensitivity)	Monthly	By the 15 th of the following month

xv	NBD-MF-12-C1(C1) (Capital Adequacy Ratio)	Monthly	By the 15 th of the following month
xvi	NBD-MF-12-C2(C2) (Capital Adequacy Ratio)	Monthly	By the 15 th of the following month
xvii	NBD-MF-12-C3(C3) (Capital Adequacy Ratio)	Monthly	By the 15 th of the following month
xviii	NBD-MF-12-C4(C4) (Capital Adequacy Ratio)	Monthly	By the 15 th of the following month
xix	NBD-MF-13-SC (Sector wise Credit Exposure)	Monthly	By the 15 th of the following month
xx	NBD-MF-14-IS (Interest Spread)	Monthly	By the 15 th of the following month
xxi	Balance Sheet - Audited	Annually	As required by the Act. (Currently, within six months from the end of each financial year).
xxii	Profit & Loss Account - Audited	Annually	As required by the Act. (Currently, within six months from the end of each financial year).
xxiii	Capital Adequacy Ratio - Audited	Annually	By the deadline specified by the Act to submit audited balance sheet. (Currently within six months from the end of each financial year).

Note:-

- (a) *“Secured Large Exposure” means the accommodation granted above the value of 5 (Five) per cent of the core capital.*
- (b) *“Unsecured Large Exposure” means the accommodation granted above the value of 1 (One) per cent of the core capital.*

This Direction was made by the Monetary Board on 05 September 2011 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1636/16 dated 15 January 2010.

**FINANCE COMPANIES (TRANSFER OF ASSETS)
DIRECTION NO. 4 OF 1991**

1. This Direction may be cited as the Finance Companies (Transfer of Assets) Direction No. 4 of 1991 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 and shall come into operation with immediate effect.
2. No finance company shall transfer or alienate any of its assets for any consideration other than for a monetary consideration which should pass in favour of the transferor.
3. No finance company shall transfer any of its assets of a value of more than Rupees Fifty Thousand (Rs.50,000/-) at a price less than the prevailing market value without the prior permission of the Central Bank of Sri Lanka to any person or body of persons, corporate or unincorporate.
4. For the purpose of paragraph 3 the word “prevailing market value” should be as determined by a licensed valuer.

This Direction was made by the Monetary Board on 16 July 1991 under the Finance Companies Act, No. 78 of 1988 and published in the Government Gazette (Extraordinary) No.671/18 dated 18 July 1991.

**FINANCE COMPANIES (FIXED ASSETS)
DIRECTION NO. 11 OF 1991**

1. This Direction may be cited as Finance Companies (Fixed Assets) Direction No.11 of 1991 and shall come into operation with immediate effect and shall apply to every finance company registered under the Finance Companies Act, No. 78 of 1988.
2. No finance company shall purchase or acquire any immovable property or any right title or interest therein exceeding :-
 - (i) in the aggregate at any time the amount outstanding on the loans obtained for the specific purpose of purchasing ; or
 - (ii) fifty (50) per cent of the capital funds of the finance company without the prior approval of the Director. This shall not prevent an institution :-
 - (a) from holding immovable property purchased by the company for re-sale as part of its trade or business;
 - (b) from securing a debt on any immovable property and in the event of default in payment of such debt, from holding that immovable property for realisation by sale or auction at the earliest.
3. In this Direction, “Capital Funds” shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No.78 of 1988.

This Direction was made by the Monetary Board on 16 September 1991 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.680/11 dated 18 September 1991.

**FINANCE COMPANIES (ACCRUED INTEREST)
DIRECTION NO. 15 OF 1991**

1. This Direction may be cited as Finance Companies (Accrued Interest) Direction No. 15 of 1991 and shall come into operation with immediate effect and shall apply to every finance company registered under the Finance Companies Act, No.78 of 1988.
2. No finance company shall take into account as income, any accrued interest on a loan, credit facility or any type of financial accommodation on which interest and or capital repayments are in arrears for six months or more.
3. Every finance company shall (in the maintenance of the books of accounts) segregate a loan, credit facility or any type of financial accommodation to which paragraph 2 is applicable from other loans, credit facility and any type of financial accommodation under separate control accounts in the general ledger.
4. The expression “interest” referred to in paragraph 2 shall include any income receivable on loans, credit facilities and other types of financial accommodation.

N.B. : Re-issue of the Direction issued on 04 July 1989.

This Direction was made by the Monetary Board on 16 September 1991 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.680/11 dated 18 September 1991.

**FINANCE COMPANIES (DEPOSITS-INCENTIVE SCHEMES)
DIRECTION NO. 5 OF 2001**

1. This Direction may be cited as the Finance Companies (Deposits-Incentive Schemes) Direction No. 5 of 2001 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation on the date of its publication in the *Gazette*.
2. A finance company shall not introduce any incentive schemes for soliciting deposits without obtaining the prior approval of the Director in writing.
3. Any incentive scheme for soliciting deposits from the public shall :—
 - (i) be within the accepted practices of financial institutions;
 - (ii) bestow on the depositors a real benefit and not something illusory;
 - (iii) not lead to unfair and unethical competition among other financial institutions;
 - (iv) not weaken prudential requirements;
 - (v) be operated directly by the company or where it is undertaken in association with another company, the company providing the benefits shall not be an affiliate or subsidiary company of the finance company concerned or a party of a group to which the finance company belongs; and
 - (vi) not have an adverse impact on the profitability of the company through excessive increase in costs of mobilising deposits.

4. In this Direction :-

- (a) "Incentive Scheme" means an arrangement to confer a monetary or material benefit on the depositors other than by way of interest;
- (b) "Director" shall have the same meaning as in section 46 of the Finance Companies Act, No. 78 of 1988 as amended.

This Direction was made by the Monetary Board on 25 May 2001 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1185/30 dated 25 May 2001.

**FINANCE COMPANIES (CLOSURE OF OFFICE/S FOR BUSINESS)
DIRECTION NO. 4 OF 2005^{1/}**

1. This Direction may be cited as Finance Companies (Closure of office/s for business) Direction No.4 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991 and shall come into operation with immediate effect.
2. No finance company shall close its office/s for business on any day of the week from Monday to Friday, which is not a holiday declared by the Ceylon Chamber of Commerce, without the prior approval in writing of the Director.
3. In granting approval required under paragraph 2 above, the Director may impose conditions as he/she may deem necessary.
4. In this Direction, "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. The Finance Companies (Closure of Business) Direction No.14 of 1991 is hereby revoked.

This Direction was made by the Monetary Board on 31 January 2005 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.1378/12 dated 01 February 2005.

1/ This Direction was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Closure of Business) Direction No. 14 of 1991 made on 16 September 1991 under the Finance Companies Act, No. 78 of 1988 and published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991.

**FINANCE COMPANIES (STRUCTURAL CHANGES)
DIRECTION NO. 5 OF 2005**

1. This Direction may be cited as the Finance Companies (Structural Changes) Direction No.5 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act No. 23 of 1991 and shall come into operation with effect from 02 January 2006.
2. No finance company to which a licence has been issued shall, without the prior approval in writing of the Monetary Board of the Central Bank of Sri Lanka :—
 - (a) establish any subsidiary or associate company;
 - (b) commence a new business activity which is not directly related to finance business, hire purchase or pawning;
 - (c) enhance or reduce its issued capital;
 - (d) sell its business;
 - (e) acquire whether whole or in part of the business of any other finance company;
 - (f) change its Memorandum of Association or Articles of Association;
 - (g) amalgamate, consolidate or merge the company with any other finance company;
 - (h) restructure the management of the company.
3. In this Direction, “finance business” shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No.78 of 1988.

This Direction was made by the Monetary Board on 29 December 2005 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No.1425/16 dated 29 December 2005.

**FINANCE COMPANIES (OPENING/SHIFTING/CLOSURE OF BRANCHES/OFFICES)
DIRECTION NO. 6 OF 2005**

1. This Direction may be cited as the Finance Companies (Opening/Shifting/Closure of Branches/Offices) Direction No.6 of 2005 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991 and shall come into operation with effect from 02 January 2006.
2. No finance company to which a licence has been issued shall, without the prior approval in writing of the Director :—
 - (a) open a new place of business;
 - (b) change the location of any of its business places; or
 - (c) close any of its business places.
3. In this Direction, “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

This Direction was made by the Monetary Board on 29 December 2005 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) 1425/16 dated 29 December 2005.

**FINANCE COMPANIES (STIMULUS PACKAGE CONDITIONS)
DIRECTION NO. 3 OF 2009**

1. This Direction may be cited as the Finance Companies (Stimulus Package Conditions) Direction No. 3 of 2009 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991 and shall come into operation with immediate effect.
2. Notwithstanding the provisions of any other direction issued by the Monetary Board under the *Act*, a beneficiary finance company shall not do any of the following during the *Restructuring Period*:
 - (i) grant loans, credit facilities or any type of financial accommodation, including grants, donations and transfers, either directly or indirectly, to a Related Party;
 - (ii) invest, either directly or indirectly, in shares or otherwise, in any *Related Company*;
 - (iii) guarantee, pledge, underwrite or make similar undertaking, either directly or indirectly, with respect to any liability of a *Related Party*;
 - (iv) make any bonus payments, whether in cash or otherwise, to any member of staff or any director of the beneficiary finance company;
 - (v) pay dividends on shares, whether by cash or otherwise, to any shareholder in the beneficiary finance company.
3. A beneficiary finance company shall recover at least fifty per cent (50%) of dues, owed as at the date of this Direction, from related companies, except those that are registered finance companies or registered finance leasing establishments, within one month and at least seventy five per cent (75%) of such dues within two months from the date of this Direction.

Provided however, that the Director may determine the quantum of recoveries of such dues and the period of time, having considered representations that would be made by a related company in respect of repayment of dues owed to the respective finance company.
4. A beneficiary finance company shall reduce its operational and administrative cost as at the date of this direction, by at least twenty per cent (20%) within one month from the date of this Direction and continue the cost reduction during the restructuring period
5. A beneficiary finance company, in which the positions of the Chairman of the Board of Directors and the Chief Executive Officer are held by one and the same person, shall appoint an independent Chief Executive Officer within one month from the date of applying for a facility under the Stimulus package.
6. A beneficiary finance company shall not remove any member of the Board of Directors or key management personnel or allow any member of the Board of Directors or key management personnel to resign from or vacate the current position during the restructuring period without approval of the Monetary Board.
7. A beneficiary finance company shall reduce salaries/remunerations/emoluments of the members of the Board of Directors and key management personnel by at least 25 per cent (25%) from the amount applicable on the date of the Direction and shall maintain this reduction during the restructuring period.
8. In paying of gratuity and other retirement benefits in the event of a retirement of a member of the Board of Directors who is an employee of a beneficiary finance company or its Key Management Personnel, the company shall—
 - (i) calculate the gratuity payment on the amount eligible as salary on the date of retirement;
 - (ii) limit cash payment to a maximum of Rs.500,000/- ; and
 - (iii) pay the balance of the gratuity or retirement benefit in the form of a three year term deposit in the finance company which cannot be withdrawn prematurely.
9. The Board of Directors and the Chief Executive Officer of a beneficiary finance company shall assess the situation of the company continuously and submit reports as required by the Director covering key areas, including the following:

- (a) Inflow of new deposits, withdrawals of deposits, renewals of matured deposits.
- (b) Disposal of assets.
- (c) Recovery of accommodations.
- (d) Position of liquid assets.
- (e) Mismatch of assets and liabilities for the next 7 days, 14 days, 21 days and 30 days, and action plan to meet negative gaps.

10. For the purposes of this Direction –

- (a) *Accommodation* shall mean loans, facilities under hire purchase or lease agreement, provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper, promissory note or such other financial facility as may be determined by the Director.
- (b) *Act* shall mean the Finance Companies Act, No. 78 of 1988.
- (c) *Board* shall mean the Monetary Board of the Central Bank of Sri Lanka established under the Monetary Law Act, No. 58 of 1949.
- (d) *Director* shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- (e) *Key Management Personnel* shall mean those persons having authority and responsibility for planning, directing and/or controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.
- (d) *Restructuring Period* shall mean the time period between the date of application by a beneficiary finance company for any facility or concession under the ‘Stimulus Package for Finance and Leasing Industry – 2009 and the date of repayment and settlement in full of all facilities obtained thereunder.
- (g) *Related Company* shall mean any of the following :
 - (i) its subsidiary company ;
 - (ii) its associate company ;
 - (iii) its holding company ;
 - (iv) a subsidiary company or associate company of its holding company.
 - (v) any company in the same group of companies to which the beneficiary finance company belong.
- (h) *Related Party* shall mean any of the following:
 - (i) A Related Company as defined in item (g) hereinabove;
 - (ii) A past or present director of the beneficiary finance company;
 - (iii) A past or present key management personnel of the beneficiary finance company;
 - (iv) A relative of a past or present director or a past or present key management personnel of the beneficiary finance company;
 - (v) A shareholder who owns shares exceeding 10% of the paid up capital of the beneficiary finance company;
 - (vi) A concern in which a past or present director or past or present key management personnel of the beneficiary finance company or a relative of a past or present director or past or present key management personnel or a shareholder who owns shares exceeding 10% of the paid up capital of the beneficiary finance company, has substantial interest.
- (i) *Finance Company* shall mean a company registered in terms of the Finance Companies Act, No. 78 of 1988.
- (j) *Beneficiary Finance Company* shall mean a finance company which enjoys any facility under the stimulus package for finance and leasing industry – 2009.

This Direction was made by the Monetary Board on 22 April 2009 under the Finance Companies Act, No.78 of 1988.

FINANCE COMPANIES (ADVERTISEMENTS)
RULE NO. 1 OF 2006 ^{1/}

1. This Rule may be cited as the Finance Companies (Advertisements) Rule No. 1 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. (i) Every advertisement published in print media (excluding hoardings, bill boards and banners) directly or indirectly soliciting deposits from the public by a finance company (except those companies that have not been in operation long enough to obtain a credit rating for the entity) shall contain :—
 - (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
 - (b) the date of incorporation of the company;
 - (c) credit rating for the entity assigned to the company by a credit rating agency acceptable to the Central Bank of Sri Lanka;
 - (d) periodicity of payment of interest and the annual effective rate of interest in respect of all maturities; and
 - (e) terms and conditions subject to which deposits are accepted by such finance company.(ii) Every finance company shall forward to the Director a copy of any advertisement to be published under paragraph 2(i) hereof, at least 2 working days prior to the publication of such advertisement.
3. (i) Every advertisement published in print media (excluding hoardings, bill boards and banners) directly or indirectly soliciting deposits from the public by a finance company which has not been in operation long enough to obtain a credit rating for the entity shall contain :—
 - (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
 - (b) the date of incorporation of the company;
 - (c) the names of its Directors;
 - (d) shareholders' funds, deposit liabilities, borrowings and profit/(loss) as appearing in its financial statements which are certified by its external auditor;
 - (e) periodicity of payment of interest and the annual effective rate of interest in respect of all maturities; and
 - (f) terms and conditions subject to which deposits are accepted by such finance company.(ii) Every finance company shall forward to the Director for approval a copy of any advertisement to be published under paragraph 3(i) hereof, at least, 3 working days prior to the publication of an advertisement.
4. (i) Every advertisement transmitted or broadcast through audio or audio-visual media (including websites posted on the internet) directly or indirectly soliciting deposits from the public shall contain :—
 - (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;

1/ This Rule was issued by the Monetary Board of the Central Bank of Sri Lanka by revoking the Finance Companies (Advertising) Rule No. 1 of 1991 which was published in the *Government Gazette (Extraordinary)* No. 680/11 dated 18 September 1991 and the Finance Companies (Advertising) Rule No. 1 of 2001 which was published in the *Government Gazette (Extraordinary)* No. 1185/30 dated 25 May 2003.

- (b) credit rating for the entity assigned to the company by a credit rating agency acceptable to the Central Bank of Sri Lanka; and
 - (c) if interest rates are indicated, the annual effective rates of interest.
 - (ii) Every finance company shall forward to the Director through electronic means a copy of any advertisement to be transmitted under paragraph 4(i) hereof, at least, 3 working days prior to the first transmission or broadcast of such advertisement.
5. (i) Every advertisement displayed by a finance company through hoardings, bill boards and banners soliciting deposits directly or indirectly from the public shall state the fact that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988.
- (ii) Every finance company shall prior to the display of an advertisement on a hoarding, billboard or banner under paragraph 5(i) hereof, inform the Director the contents of such advertisement and the locations of such hoardings or billboards.
6. Where the Director is of the opinion that any advertisement published/transmitted/broadcast/displayed under paragraphs 2, 4 or 5 hereof, does not comply with the provisions of those paragraphs or contain information which is likely to mislead the public, the Director may direct the finance company to publish/transmit/broadcast/display a revised version of such advertisement in the manner specified by the Director within a reasonable period of time.
7. In this Rule,
- (i) “Annual effective rate” shall mean the amount of interest expressed as a percentage, a deposit account would earn in a year at a stated interest rate after taking into account the effects of compounding of interest.
 - (ii) “the Director” shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
8. The Finance Companies (Advertising) Rule No. 1 of 2001 is hereby revoked.

This Rule was made by the Monetary Board on 29 December 2006 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No. 1478/6 dated 01 January 2007.

23rd October 2012

To: Chairman
All Licensed Finance Companies

Dear Sir/Madam,

Panel of External Auditors for Licensed Finance Companies

A panel of external auditors to audit the accounts of Licensed Finance Companies has been appointed in terms of the guidelines issued by the Monetary Board of the Central Bank of Sri Lanka under section 30(2) of the Finance Business Act, No.42 of 2011 (FBA).

Your attention is drawn to section 30(4) of the FBA which requires that the appointment of an external auditor to audit the accounts of your company from the list transmitted to you under section 30(2) of the FBA by the Director of Department of Supervision of Non-Bank Financial Institutions.

Therefore, you are hereby required to appoint an external auditor from the panel of external auditors listed below to audit the financial statements commencing next financial year.

<i>Panel of external auditors</i>	<i>Head office address</i>
BDO Partners	'Charter House', 65/2, Sir Chittampalam A Gardiner Mawatha, Colombo 02
B.R.De Silva & Company	22/4, Vijaya Kumaratunga Mawatha, Colombo 05
B. V. Fernando & Company	70/B/8/SP, Old Y.M.B.A. Building, Colombo 08
Ernst & Young	201, De Saram Place, Colombo 10
HLB Edirisinghe & Company	45, Braybrooke Street, Colombo 02
KPMG Ford Rhodes Thornton & Company	32/A, Sir Mohamed Macan Markar Mawatha, Colombo 03
Kreston MNS & Company	50/2, Sir James Peiris Mawatha, Colombo 02
SJMS Associates	2, Castle Lane, Colombo 04
PricewaterhouseCoopers	100, Braybrooke Place, Colombo 02

Yours faithfully

Director

CC: CEOs
Company Secretaries

**DETERMINATION ON INCLUSION OF UNSECURED DEBENTURES
IN CAPITAL FUNDS OF FINANCE COMPANIES**

The Monetary Board of the Central Bank of Sri Lanka (the Monetary Board), in terms of the provisions of section 46 of the Finance Companies Act, No. 78 of 1988, has determined to include the face value of unsecured debentures in the capital funds of a finance company subject to the following conditions :-

- (a) The debentures shall be fully paid and subordinated to the interests of depositors and other creditors of the finance company ;
- (b) The minimum original maturity of debentures shall be 5 years ;
- (c) Any finance company that intends to include unsecured debentures that satisfy the conditions at (a) and (b) above in its capital funds, shall obtain prior approval, in writing, of the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka (the Director);
- (d) Early repayment/redemption of the debentures that have been included in capital funds of a finance company shall not be made without the prior consent of the Director ;
- (e) The value of the debentures to be included in capital funds shall not exceed the value that is qualified to be included in Tier 2 Capital (Supplementary Capital) under the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2006 issued by the Monetary Board or any other direction that would be issued by the Monetary Board in place of the said Direction ;
- (f) The amount of the debentures included in the capital funds shall be discounted by 1/5th each year during the four years preceding the maturity ; and
- (g) Any amount contributed to a debenture issue of a finance company by another company in the group of companies to which the finance company belongs shall not be included in capital funds of that finance company.

This determination was made by the Monetary Board on 28 February 2007 under the Finance Companies Act, No.78 of 1988 and published in the Government Gazette (Extraordinary) No 1488/23 dated 15 March 2007.

**FINANCE COMPANIES (OPENING OF BRANCHES/OFFICES)
GUIDELINES NO. 1 OF 2006**

1. These guidelines may be cited as the Finance Companies (Opening of Branches/Offices) Guidelines No. 1 of 2006.
2. The maximum number of branches a finance company may open is linked to its capital strength (core capital) as follows :-

Core Capital (Rs. million)	Maximum Number of Branches
Upto 100	2 branches
100 – 150	5 branches
150 – 200	10 branches
200 – 500	15 branches
500 – 1,000	30 branches
Over 1,000	1 branch for each additional Rs 50 million of core capital

3. A finance company that satisfies the core capital requirement at paragraph 2 hereof, and has complied with the Directions issued by the Monetary Board of the Central Bank of Sri Lanka (Monetary Board) may seek approval in terms of the Finance Companies (Opening/ Shifting/ Closure of Branches/ Offices) Direction No. 6 of 2005, for opening of branches/offices taking into account the following :-
 - (a) the operations of the proposed branch/office shall not affect the company's ability to comply with any of the Directions issued by the Monetary Board ;
 - (b) the availability of qualified and experienced staff at all levels ;
 - (c) the availability of security in the proposed location and the convenience of the proposed location to the customers ; and
 - (d) the availability of a satisfactory means of communication for the flow of information between the Head Office and the proposed branch/office.
4. Every application seeking approval for an opening of a new branch/office in terms of the Finance Companies (Opening / shifting/ closure of branches/ offices) Direction No. 6 of 2005 shall be made in 'Form A' annexed hereto.
5. Where the opening of a branch/office is approved and business has not commenced within one year from the date of approval, such approval is deemed to have lapsed and the relevant finance company shall reapply for approval if it intends to open the proposed branch/office.
6. The core capital requirement is linked to the opening of fully fledged branches whereas a finance company need not fulfill this capital requirement for the opening of service centres/collection centers/other outlets which do not mobilize deposits.
7. Finance companies are encouraged to open a branch outside the Western Province for every branch opened in the Western Province.

**QUESTIONNAIRE TO BE COMPLETED BY A FINANCE COMPANY
SEEKING APPROVAL FOR OPENING OF A BRANCH/OFFICE**

1. Name of the finance company :
2. Core Capital [total of items (a) to (g) as shown in the last audited balance sheet] :
 - (a) Issued and paid-up ordinary share capital/common stock
 - (b) Non-cumulative non-redeemable preference shares
 - (c) Share premium
 - (d) Statutory reserve fund
 - (e) General and other free reserves
 - (f) Published retained profits / (accumulated losses)
 - (g) Surplus/ (loss) after tax arising from the sale of fixed & long term investments
 - (h) Unpublished current year's profits/(losses) certified by the external auditor of the company.
3. Address of the proposed location :
4. Details of the existing places of business belonging to the company or its related companies in the administrative district where the branch/office is proposed to be established as per A and B below.

A. Applicant company :

Rs. '000

Location of the place of business	Date of establishment	Type of business	As per last audited financial statements			
			Deposit liabilities	Accommodation	Total assets	Profit / (loss) for the financial year

B. Other entities belonging to the same group of companies operating in the administrative district where the branch/ office is proposed to be located :

Name of the Entity	Address of the place of business	Type of Business	Relationship to the Company

5. Names of other finance companies in the town/village where the proposed branch/office is to be located :
6. Names of commercial banks in the town/village where the proposed branch/office is to be located :
7. The main types of business of the proposed branch/office :
8. Estimated capital expenditure in respect of opening of a new branch/office :
 - (a) Land & building/rent paid in advance
 - (b) Furniture, fittings and fixtures
 - (c) Office equipment
 - (d) Other fixed assets
 - (e) Other
9. The impact of the costs associated with the opening of a branch/office on the compliance with the liquid assets requirement of the finance company :

10. The impact of opening a branch/office on the compliance with the capital adequacy requirement of the finance company :
11. Means of communication/flow of information (*i.e.*, messenger/courier/facsimile/on-line systems) and the frequency of flow of information (*i.e.*, daily/weekly/monthly) between the proposed branch/office and the head office :
12. Projections for the first three years of operations of the proposed branch/office:

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>
(a) Deposit liabilities :
(b) Accommodation :
Leasing
Loans
Hire purchase
Real estate
Other
(c) Income :
Interest income from :
Leasing
Loans
Hire purchase
Real estate
Other
Non-interest income :
(d) Expenses :
Interest on deposits
Salaries & wages
Rent
Depreciation
Other expenses
(e) Profit/(Loss) :

13. Names, qualifications and experience of the officers who will be posted as manager (officer in charge) and second officer to the proposed branch/office and details of support staff :
14. A report from the Police Station in the area confirming that it is safe to establish a branch/office in the proposed location :
15. Details of the security arrangements at the proposed branch/office:
16. Whether necessary approval has been obtained from the relevant local authority to establish a branch/office in the proposed location :

I certify that the above information is true and correct.

Name of the officer :

Designation :

Signature :

Date :

**FINANCE COMPANIES (PUBLICATION OF HALF YEARLY FINANCIAL STATEMENTS)
GUIDELINES NO. 2 OF 2006**

1. These guidelines may be cited as the Finance Companies (Publication of Half Yearly Financial Statements) Guidelines No. 2 of 2006.
2. Finance Companies are requested to publish their key financial data and key performance indicators for 12 month period ended 31 March and 6 months period ended 30 September, every year, commencing end March 2007, in accordance with a format given by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
3. Such key financial data and key performance indicators are required to be published in at least one each of Sinhala, Tamil and English national newspapers within 3 months after the relevant dates which are specified in paragraph 2 hereof.

Name of the Company
Income Statement

Rs '000

	Period *	Period **
Interest income	xx	xx
Interest expenses	xx	xx
Net interest income	xx	xx
Other operating income	xx	xx
Total income	xx	xx
Operating expenses	xx	xx
Personnel cost	xx	xx
Depreciation	xx	xx
Directors' emolumnets	xx	xx
Establishment expenses	xx	xx
Other expenses	xx	xx
Profit from operations before provision for taxation & possible losses	xx	xx
Provision for bad and doubtful debts and fall in value of investments	xx	xx
Operating profit after provision for possible losses	xx	xx
Net extra ordinary gain/(loss)	xx	xx
Profit before taxation	xx	xx
Profit after taxation	xx	xx

Selected Performance Indicators

Indicator	Current period as at DD/MM/YY	As at DD/MM/YY (audited)
Asset Quality (Rs.'000)		
Total accommodations (Net of interest in suspense)	xx	xx
Net total accommodations (Net of provision for bad and doubtful debts & interest in suspense)	xx	xx
Non-performing accommodations (Net of Interest in suspense)	xx	xx
Liquidity (Rs.'000)		
Required minimum amount of liquid assets	xx	xx
Available amount of liquid assets	xx	xx
Required minimum amount of Government securities	xx	xx
Available amount of Government securities	xx	xx
Capital Adequacy		
Core capital to risk weighted assets ratio (Minimum 5%)	%	%
Total capital to risk weighted assets ratio (Minimum 10%)	%	%
Capital funds to total deposit liabilities ratio (Minimum 10%)	%	%
Profitability		
Return on average assets (%)	%	%
Return on average equity (%)	%	%

* Period for which the accounts are presented (i.e., 6 months ended 30 September or financial year ended 31 March)

** Corresponding period of the previous financial year.

N.B. : Financial statements should be published half yearly. When financial statements are published for the financial year ended 31 March it should reflect the total income for the whole year.

Name of the Company
Summarised Balance Sheet

Rs. '000

	As at *** (Unaudited)	As at **** (Audited)
Liabilities		
Total deposits	xx	xx
Bank Borrowings	xx	xx
Other borrowings	xx	xx
Total interest payable	xx	xx
Taxation	xx	xx
Dividend payable	xx	xx
Other liabilities	xx	xx
Debentures and hybrid capital instruments	xx	xx
Shareholders funds		
Issued and paid-up capital	xx	xx
Reserve fund	xx	xx
Revaluation reserve	xx	xx
Other reserves	xx	xx
Deferred expenditure	(x)	(x)
Total Liabilities	xx	xx
Assets		
Cash and bank balances	xx	xx
Deposits with banks & other financial institutions	xx	xx
Government securities	xx	xx
Shares in other companies (Investments)	xx	xx
Shares in other companies (Dealing)	xx	xx
Debt securities and hybrid capital instruments	xx	xx
Trading stock of Real Estates	xx	xx
Hire purchase	xx	xx
Finance leases	xx	xx
Loans	xx	xx
Other accommodations	xx	xx
Other receivables	xx	xx
Other assets	xx	xx
Property plant and equipments	xx	xx
Total assets	xx	xx

*** Date as at which the balance sheet is represented
(i.e., 30 September or 31 March in any given year.)

**** Date as at which last audited accounts are available (i.e., 31 March)



ශ්‍රී ලංකා මහ බැංකුව

இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

ජනාධිපති මාවත,
තැපැල් පෙට්ටිය 590,
කොළඹ 1, ශ්‍රී ලංකාව
විදුලි පුවරු: 'මහබැංකුව'

ஜனாதிபதி மாவத்தை,
த. பெ. இல. 590,
கொழும்பு - 1, ஸ்ரீ லங்கா
கந்தி : 'மத்தியவங்கி'

Janadhipathi Mawatha,
P.O. Box 590,
Colombo 1, Sri Lanka.
Telegrams: 'CENTRABANK'

FINANCE COMPANIES (MAINTENANCE OF SAVINGS ACCOUNTS FOR MINORS) GUIDELINES NO. 1 OF 2007

1. These Guidelines may be cited as the Finance Companies (Maintenance of Savings Accounts for Minors) Guidelines No. 1 of 2007.

2. Every registered finance company (RFC) that maintains savings accounts for minors is required to include the following clauses in the terms / conditions pertaining to opening, operating and maintaining of savings accounts for minors :-

“(a) The balance lying to the credit of an account of a minor may be transferred upon instructions of a parent or a legal guardian of the minor, to an account maintained in the name of the minor in an authorized deposit taking institution, upon completion of sixty months from the date of the first deposit or at any time thereafter.

(b) The balance lying to the credit of an account of a minor may be withdrawn by a parent or a legal guardian of the minor, for a justifiable reason such as meeting the cost of medical treatment or education of the minor or for any other reason acceptable to the RFC.”

Such RFC is also required to adequately explain the contents of the above two clauses to the parent or legal guardian of the minor at the time of opening the savings account. If the account is opened by a person other than a parent or legal guardian, the parent or the legal guardian should be informed by the RFC, of the contents of the above two clauses, within one month from the opening of the account.

3. In these Guidelines :-

(a) “a minor” means a person who has not attained the legal age of majority within the meaning of the Age of Majority Ordinance (Chapter 66) and any amendments thereto.

(b) “an authorized deposit taking institution” means a finance company, within the meaning of the Finance Companies Act, No. 78 of 1988, a licensed commercial bank or licensed specialized bank within the meaning of the Banking Act, No. 30 of 1988 or any other entity authorized under any law for the time being in force to accept deposits of money and lend and/or invest money so received.

Sgd./**(Mrs.) L K Gunatilake**

Director

Department of Supervision of
Non-Bank Financial Institutions

26.04.2007

To: All RFCs

Dear Sir / Madam,

COLLECTION OF INFORMATION FOR THE FACTS BOOK AS AT

Further to our letter dated 03.07.2007 on the above subject.

We shall be thankful if you will furnish us any changes of the contents of the Facts Book Sheet with the latest available information and return it by as per the attached format.

You are kindly requested to communicate to us any changes in respect of name of the company, company registration no, composition of Board of Directors, Chief Executive Officer, Chairman, address of branches and address of business place within seven days from the date of such change.

Yours faithfully,

Director

Collection of Information for the Facts Book

Fact Sheet Revision as at

1.	Name of Company						
2.	(a) Date of Incorporation		(b) Registration Number		(c) Number allocated under the new Companies Act		
3.	Date of Commencement of Business						
4.	Registered Address						
5.	Head Office Address		Telephone				
			Fax :				
			E- Mail				
			Web Site				
6.	Secretary of Company						
7.	Location of Branches						
8.	Name of (If any)				% Shares Holding		
	Parent Co.						
	Subsidiary Co(s).						
	Associate Co(s).						
9.	Financial Year ends on						
10.	Name of Auditor						
	Address						
	Telephone & Fax						
11.	Name (s) of Banker (s)						
12.	Date of Listing on CSE (if Listed)						
13.	Credit Rating (if Rated)						
14.	Date of Registration under	(a) Control of Finance Companies Act					
		(b) Finance Companies Act					
		(c) Finance Leasing Act					
15.	Stated Capital as at						
16.	Issued Capital as at						
17.	Paid up Capital as at	Class of Shares			Number of Shareholders		
		Ordinary – Voting Non-Voting Preference					
18.	Reserve Funds as at						
19.	Retained Profits as at						
20.	Ten Largest Shareholders (Voting Shares)	Name			No of Shares	% of Issued Capital	
		1.					
		2.					
		3.					
		4.					
		5.					
		6.					
		7.					
		8.					
		9.					
		10.					
Total of the Ten Largest Shareholders				-	0.00%		
21.	Board of Directors (Full Name)						
22.	Audit Committee - Names of members						
23.	Loan / Credit Committee - Names						
24.	No of Staff as at						
	Financial data (Rs. '000) as at	Latest quarters					
25.	Total Assets						
26.	Loans/Advances						
27.	Investments in Shares						
28.	Deposit Liabilities						
29.	Borrowings						
30.	Core Capital						
31.	Shareholders Funds						
32.	Key Ratios as at	(a) Core Capital Ratio		(d) Liquid Assets to Deposits			
		(b) Total Capital Ratio		Amount (Rs.Mn)			
		(c) Capital Funds to Deposit Liabilities		Required Available			
				(e) Return on Equity Ratio			
				(f) Return on Assets Ratio			
Key persons		Contact Details of key Persons					
		Name	Telephone		Fax	E-mail	
			Direct	General			
1.	Chairman						
2.	Deputy Chairman						
3.	Managing Director						
4.	Chief Executive Officer						
5.	Compliance Officer						

12 May, 2011

To: All Chief Executive Officers of Registered Finance Companies
and Specialised Leasing Companies

Dear Sir/Madam,

Guidelines on the Operations of the Investment Fund Account

We enclose the Guidelines on the establishment and operations of the Investment Fund Account proposed in the Budget 2011, for compliance.

Yours faithfully,

Director

Encl;

Guidelines to Registered Finance Companies and Specialised Leasing Companies on the Operations of the Investment Fund Account proposed in the 2011 Budget

1. Establishment of an Investment Fund Account (IFA)

As proposed in Budget 2011, every person or partnership who is in the business of banking or financial services, is required to establish and operate an IFA.

2. Initial Credits to IFA

As and when taxes are paid after 1 January 2011, Registered Finance Companies (RFCs) and Specialised Leasing Companies (SLCs) shall transfer the following funds to the IFA and build a permanent fund in the RFC/SLC;

- (i) 8 per cent of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT.
- (ii) 5 per cent of the profits before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self assessment payments of tax.

3. Utilization of Funds

3.1 RFCs & SLCs shall commence utilization of funds in the IFA in the following manner within three months from the date of transfer to the IFA;

- (i) Invest in long-term Government securities and/or bonds with maturities not less than seven years.
- (ii) Lend on maturities not less than five years at interest rates not exceeding 5-year Treasury bond rates plus 2 per cent.
- (iii) Facilities granted only for the following purposes:

- (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries.
- (b) Factory/mills modernization/establishment/expansion
- (c) Small and medium enterprises:
 - a. loans up to Rs. 30 mn or
 - b. loans over Rs. 10 mn to enterprises with annual turnover less than Rs. 300 mn and employees less than 400.
- (d) Information Technology related activities and Business Process Outsourcing
- (e) Infrastructure development
- (f) Education - vocational training and tertiary education
- (g) Restructuring of loans extended for the above purposes.

3.2 Facilities should be only in Sri Lanka Rupees.

3.3 RFCs & SLCs shall invest funds in short-term Government securities until the commencement of utilization of funds as stated in 3.1 above.

3.4 Facilities should not be granted for subsidiary companies, associate companies, holding company or any director or any other related party of such RFCs and SLCs.

3.5 RFCs & SLCs shall invest funds in short-term Government securities until the commencement of utilization of funds as stated in 3.1 above.

4. Conditions

4.1 Applicability of Prudential Requirements

- (i) Transactions of the IFA shall be subject to all Regulations, Directions, Determinations and Circulars issued by the Central Bank of Sri Lanka as applicable.

4.2 Accounting for Transactions

- (i) Transfers to the IFA shall be treated as appropriations of profit after tax.
- (ii) The IFA shall be maintained as a separate item under general and other reserves and constitutes a part of shareholder funds.
- (iii) Cost of operations of IFA and income from investments and lending operations shall be accounted for in the financial statements of the RFC/SLC.
- (iv) RFCs & SLCs shall maintain separate accounts with necessary details on all operations of the IFA.
- (v) IFA shall not be impaired or reduced without the approval of the Central Bank of Sri Lanka.

4.3 Disclosures and Reporting to Central Bank of Sri Lanka

- (i) The following disclosures shall be made in the “Notes to the financial statements”:

 - (a) Number of loans granted and total amount outstanding for each purpose stated in paragraph 3.1(iii), interest rates and tenure of loans.
 - (b) Total investments in Government securities, interest rates and maturity.

- (ii) Information on the operations of the IFA shall be made available as and when required by the Central Bank of Sri Lanka and Ministry of Finance.

4.4 Treatment of Taxation

The tax liability in relation to the operations of IFA shall be computed in accordance with applicable tax laws. However, the following shall be noted:

- (i) Interest income on investments, stated in paragraphs 3.1(i) and 3.3 is liable to income tax.
- (ii) Interest income on loans granted utilizing the IFA will be exempt from income tax.
- (iii) Specific provisions on loan losses will be subject to normal adjustments applicable to bad debts.
- (iv) Any over-funding or under-funding shall be in accordance with the relevant tax laws/regulations/guidelines.

12 August, 2011

To: All Chief Executive Officers of Registered Finance Companies
and Specialised Leasing Companies

Dear Sir/Madam,

**Guidelines to Registered Finance Companies (RFCs) and Specialized Leasing Companies (SLCs) on the
Operations of the Investment Fund Account proposed in the 2011 Budget**

The following clarifications are issued with respect to the above guideline issued on 11/05/2011.

Section	Concern
3.1(ii), (iii)	3.1 (ii) and 3.1(iii) should be considered together and not in isolation.
3.1.(iii) c	Loans up to Rs. 30 million should be considered per facility.

Yours faithfully,

Director

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

No. 1673/11 - Date : 28.09.2010

**PART I : SECTION (I) – GENERAL
Central Bank of Sri Lanka Notices**

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under section 32E of the Monetary Law Act, (Chapter 422).

Nivard Ajith Leslie Cabraal,
Chairman,
Monetary Board.

Central Bank of Sri Lanka,
Colombo,
27th September 2010.

SRI LANKA DEPOSIT INSURANCE SCHEME REGULATIONS

- | | |
|--|--|
| Citation. | 1.1 These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010.” |
| Objective of the Scheme & Enabling Provisions. | 2.1 In terms of the Section 5 of the Monetary Law Act, the Central Bank of Sri Lanka is charged with the duty of securing, as far as possible by action authorized by such Act, the two objectives, namely, (a) economic and price stability and (b) financial system stability.
2.2 In terms of the Sections 32A to 32E of the Monetary Law Act, the Central Bank may establish, maintain, manage and control, as determined by the Monetary Board from time to time, a scheme for insurance of deposits held by banking institutions.
2.3 In terms of the Sections 46(1) and 76(J) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to licensed commercial banks and licensed specialized banks, regarding the manner in which any aspect of the business of such bank is to be conducted.
2.4 In terms of the Sections 27 to 29 of the Finance Companies Act, the Central Bank may operate a scheme for insurance of deposits held by registered finance companies and require such finance companies to insure their deposit liabilities under the scheme or under any other scheme as is specified by the Monetary Board.
2.5 Accordingly, this Deposit Insurance Scheme will be implemented in the interest of the overall financial system stability of the country, and it will initially outline a mechanism to protect small depositors from failure of financial institutions, thereby promoting the stability of financial institutions by maintaining small-depositor-confidence. |
| Title of the Scheme and Effective Date. | 3.1 This Scheme shall be titled Sri Lanka Deposit Insurance Scheme.
3.2 The Scheme shall come into effect from 01st October, 2010. |

- 4.1** All Licensed Commercial Banks, Licensed Specialised Banks and Registered Finance Companies shall be the members of the Scheme. Member Institutions to be governed by the Scheme.
- 5.1** Deposits to be insured shall include demand, time and savings deposit liabilities of member institutions and exclude all borrowing instruments. Eligible Deposits to be insured.
- 5.2** The following deposit liabilities shall be excluded from the Scheme:
- (i) Deposit liabilities to member institutions.
 - (ii) Deposit liabilities to the Government of Sri Lanka inclusive of Ministries, Departments and Local Governments.
 - (iii) Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Banking Act, Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act, Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Registered Finance Companies.
 - (iv) Deposit liabilities held as collateral against any accommodation granted.
 - (v) Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.
- 5.3** All eligible deposits shall be insured by member institutions.
- 6.1** Member institutions shall pay a premium calculated on the total amount of deposits, excluding the deposit liabilities stated in 5.2 above, as at end of the quarter/month as may be determined by the Monetary Board from time to time, to the Deposit Insurance Fund stated in Regulation 7. Premium to be levied on insured deposits.
- 6.2** The calculation of premia effective until further notice shall be as follows:
- (i) Licensed banks which maintained a capital adequacy ratio of 14 *per centum* or above at the end of the immediately preceding financial year as per its audited accounts as accepted by the Director of Bank Supervision – a premium of 0.10 *per centum* per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
 - (ii) All other licensed banks – a premium of 0.125 *per centum* per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
 - (iii) Registered Finance Companies – a premium of 0.15 *per centum* per annum payable monthly calculated on total amount of all eligible deposits as at end of the month.
- 6.3** Member institutions shall remit the applicable amount of the premium to the account of the Deposit Insurance Fund within a period of 15 days from the end of the respective quarter/month and submit the details of deposits and calculation of premium in a format specified by the Director of Bank Supervision.
- 6.4** In the event of a delay in the payment of the premium inclusive of instances of under-payment, a penalty will be levied at the prevailing weighted average 91 days primary Treasury bill yield rate plus 200 basis points.

- Deposit Insurance Fund.
- 7.1** The Scheme shall have a fund titled “Deposit Insurance Fund” (hereafter referred to as “the Fund”), and it shall be operated and managed by the Monetary Board, which responsibility it may delegate to an officer or a Department of the Central Bank of Sri Lanka of its choice.
- 7.2** Credits to the Fund shall include premia and penalties paid by member-institutions, all proceeds of profits, income and gains arising out of the investments of the moneys in the Fund, recovery of deposits paid as compensation, such sums as may be appropriated out of the abandoned property in the case of licensed banks and dormant deposits in the case of registered finance companies transferred to the Central Bank of Sri Lanka in terms of Directions issued by the Monetary Board under Part IX – Sections 72 and 76 of the Banking Act and Sections 31(1) to 31(3) of the Finance Companies Act as applicable, borrowings and contributions from the Government and/or any other sources as may be approved by the Monetary Board.
- 7.3** Debits to the Fund shall be for: Compensation payments to depositors, investments, repayment of abandoned property or dormant deposits, as the case may be, in the event of such property/dormant deposits lying in the fund and operating expenses of the Scheme as may be determined by the Monetary Board.
- Investments of moneys in the Funds.
- 8.1** The moneys in the fund shall be invested as hereinafter provided:
- (i) *Government Securities* – Government securities will include Treasury bills, Treasury bonds and other marketable securities issued by the Government of Sri Lanka.
- (ii) Secured advances or loans to any member institution in the instance of a severe liquidity crisis in such member institution, if, in the opinion of the Monetary Board (after considering an assessment report on the liquidity position submitted by the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a registered finance company), such an advance/loan will help avoid an imminent financial panic in the particular institution or in the financial system as a whole.
- 8.2** Such advances or loans to member institutions shall be provided on the security of re-saleable collaterals and/or Government/Central Bank of Sri Lanka Guarantees and at rates of interest as may be determined by the Monetary Board.
- 8.3** The repayment period of such loans or advances shall be as determined by the Monetary Board.
- Compensation on Insured Deposits.
- 9.1** Compensation to depositors on insured deposits will be paid as per regulations issued by the Monetary Board from time to time, or as hereinafter provided.
- 9.2** Compensation on insured deposit liabilities of a member institution will be paid only when the licence/registration of the member institution is suspended/cancelled by the Monetary Board in terms of the relevant statutory provisions.
- 9.3** Within a week from the announcement of the Monetary Board decision to suspend/cancel the licence/registration of the member institution, the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a registered finance company, shall prepare a list of depositors with the details of deposit accounts setting out the amounts due from the institution to such depositors as at the date of the Monetary Board Order of suspension/cancellation.
- 9.4** The compensation within the limits as specified will be paid within six months from the date of the suspension/cancellation. No interest will be paid in the ensuing period.

- 9.5** The compensation payable in respect of insured deposits of a member institution will be computed on a “per-depositor” basis, consolidating all insured deposits liabilities to each depositor inclusive of any interest accrued and net of any dues from the depositor to the member institution as at the date of the suspension/cancellation of licence/registration.
- 9.6** The amount of compensation payable to a depositor shall be limited to the total insured deposits computed as above, subject to a maximum of Rs. 200,000 or its equivalent in the case of foreign currency deposits, if such amount exceeds Rs. 200,000.
- 9.7** Any compensation paid to depositors of a member institution by the Deposit Insurance Fund shall be accounted in the books of the member institution as its deposit liability to the Deposit Insurance Scheme, while redeeming the deposit liabilities due to the respective depositors by an equivalent amount.
- 9.8** In the event that any depositor is unable to receive the entitled compensation at the time of payment of compensation, the legal beneficiaries of the depositor shall be paid the compensation in terms of the applicable legal provisions and procedures.
- 9.9** The payment of compensation shall not be a liability of the Monetary Board or the Central Bank of Sri Lanka, and shall be limited to funds available or raised in the deposit insurance fund including any borrowings permitted and contributions received. The Monetary Board and the Central Bank of Sri Lanka shall not be responsible for any liability that exceeds the total amount lying to the credit of the Fund.
- 9.10** The payment of compensation shall come into effect in the case of a suspension/cancellation as ordered by the Monetary Board on or after 01st January, 2012.
- 10.1** There shall be an established Deposit Insurance Unit in the Bank Supervision Department (The Unit) which shall be responsible for the operational and management arrangements, under the instructions and supervision of the Director of Bank Supervision in terms of Directions/Regulations and policies as approved by the Monetary Board from time to time.
- 10.2** The Unit shall maintain books, accounts and statements relating to financial transactions of the Scheme in terms of the applicable Sri Lanka Accounting Standards.
- 10.3** The financial year of the Scheme shall be the calendar year and the Auditor General shall be the Auditor.
- 10.4** The Unit shall prepare financial statements on income and expenses, assets and liabilities, cash flows and investments for each financial year and submit the audited financial statements to the Monetary Board on or before 31st March of the following year and disclose such statements for the information of the member institutions and the public.
- 10.5** The financial statements of the Sri Lanka Deposit Insurance Scheme shall be distinctly separate from the financial statements of the Central Bank of Sri Lanka and accordingly, no consolidation of the Unit’s financial statements shall be made with that of the Central Bank of Sri Lanka.
- 11.1** Deposit Insurance Scheme Regulations, No. 1 of 1987 dated 27th February, 1987 and *Gazette*, No. 443/17 dated 6th March, 1987 issued under Section 32E of the Monetary Law Act, (Chapter 422) and subsequent amendments shall be repealed and cease to operate with effect from 01st October, 2010 and the Deposit Insurance Fund operated under these Regulations as at 30th September, 2010 shall be vested with the Sri Lanka Deposit Insurance Scheme with effect from 01st October, 2010.
- 11.2** As such, all commitments or contingencies arising from the Scheme operated under Deposit Insurance Scheme, Regulations No.1 of 1987 as at 30th September, 2010 shall extinguish as on 01st October, 2010.

Books and
Accounts of the
Scheme.

Repeal of
Regulations dated
27 February 1987
and *Gazette*
No. 443/17 dated
6 March 1987.

Bank Supervision Department

15 October 2010

To : *CEOs of all Member Institutions of
Sri Lanka Deposit Insurance Scheme*

Dear Sir/Madam,

**SRI LANKA DEPOSIT INSURANCE SCHEME – PREMIUM TO BE LEVIED ON INSURED
DEPOSIT**

In terms of Regulation 10.1 of the Sri Lanka Deposit Insurance Scheme Regulations No. 01 of 2010 dated 27 September, we write to inform you of the following.

1. The premium on deposits in terms of Regulation No. 6 of the Regulations should be paid to “Sri Lanka Deposit Insurance Fund” through RTGS, specially mentioning the account name as “Sri Lanka Deposit Insurance Fund – Account Number 4681” or drawing a cheque in favor the said account.
2. In terms of Regulation No. 6.3 of the Regulations, all members of the scheme are required to e-mail the details of the ‘calculation of premium’ as per Annex I to the Director of Bank Supervision (e-mail addresses: dbsd@cbsl.lk, anuradha@cbsl.lk and sumithi@cbsl.lk) along with the payment of premia.
3. All Member Institutions should maintain a proper system of information to support the accuracy of calculation of premium.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Encl.

Sri Lanka Deposit Insurance Scheme
Payment of Premium

1. **Name of the Member Institution :**
2. **Capital Adequacy Ratio**
(At the end of the immediately preceding financial year as per its audited accounts) :
3. **Quarter / Month :**
4. **Premium to be Paid** **(Rs. '000)**

Total deposit liability as per the general ledger (a)	XXX
<i>Less:</i> Total excluded deposits	(XX)
Total eligible deposits	XXX
Applicable annual insurance premium rate (%) (b)	XX
Total insurance premium to be paid for the quarter/month (c)	XXX

- (a) Deposit liability as at end of the quarter in the case of licensed banks and as at end of the month in the case of registered finance companies.
- (b) Rate of Premium
- (i) Licensed banks which maintained a capital adequacy ratio of 14% or above at the end of the immediately previous financial year as per its audited accounts as accepted by the Director of Bank Supervision – a premium of 0.10 per cent per annum, payable quarterly.
- (ii) All other licensed banks – a premium of 0.125 per cent per annum, payable quarterly.
- (iii) Registered Finance Companies – a premium of 0.15 per cent per annum, payable monthly calculated on total amount of all eligible deposits as at end of the month.
- (c) Premium should be paid within 15 days from the end of the quarter / month.

	Prepared by	Checked by	Authorised by
Name of the officer :
Designation of the officer :	Head of Finance	Chief Executive Officer
Date :

This return should be sent to the Director of Bank Supervision.
Telephone: 01124772100, 0112398602 and 0112477169. Fax: 0112477711.
E-mail: dbds@cbsl.lk, anuradha@cbsl.lk and sumithi@cbsl.lk

09 December 2010

To : *CEOs of all Member Institutions of
Sri Lanka Deposit Insurance Schemes*

Dear Sir/Madam,

SRI LANKA DEPOSIT INSURANCE SCHEME – OPERATING INSTRUCTIONS

All member institutions are requested to adhere to the following instructions.

1. **Conversion rates for foreign currency deposit liabilities:** The daily indicative exchange rates issued by International Operations Department of the Central Bank in the Central Bank web site (<http://www.cbsl.gov.lk>) should be used to convert the foreign currency liabilities in the local accounting requirements.
2. **Deposits held as collaterals against any accommodation granted:** The deposits held as collateral to the extent of actual usage of the credit facilities as of the reporting date should be excluded for calculation of insurance premium. In the case of a deposit taken as an additional collateral, the deposit balance or the outstanding balance of the accommodation, which ever is lower, should be excluded.
3. **Deposit liability calculation:** The outstanding balance of depositors' accounts eligible for insurance as at the end of each month/quarter should be treated as the deposit liability.
4. **Eligibility of deposits:**
 - (a) Certificates of deposits shall be considered as eligible deposits.
 - (b) Vostro accounts of entities in the member institution's group entity shall not be considered as eligible deposits.
 - (c) Deposits at Off-shore Banking Unit and overseas branches shall not be considered as eligible deposits.
5. **Reporting on depositor wise details:** Member institutions shall submit depositor wise details of eligible deposits to the Deposit Insurance Unit of the Central Bank of Sri Lanka in the annexed format in an electronic form, along with a covering letter duly signed by the Chief Executive Officer and the Chief Financial Officer, commencing from 31 December 2011.

Yours faithfully,

Acting Director of Bank Supervision

Copy: Director of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka

CONFIDENTIAL

.....
 (Name of the Member Institution)

Return on Depositor wise details of eligible deposits
As at (dd/mm/yyyy)

Account No.	Name of Depositor/(s)	NIC No. or any other Identity No.	Eligible Deposit Balance

Note: In case of joint accounts, Names and NIC numbers of joint account holders and the total deposit balances shall be reported.

.....
 CFO / Chief Financial Officer

.....
 CEO / Chief Executive Officer

.....
 Name

.....
 Name

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under section 32E of the Monetary Law Act, (Chapter 422).

Nivard Ajith Leslie Cabraal,

Chairman,

Monetary Board.

Central Bank of Sri Lanka,
Colombo,
26th January 2011.

Sri Lanka Deposit Insurance Scheme Regulations Amendment to the Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010

- | | | |
|---|-----|---|
| Citation. | 1.1 | These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2011.” |
| Amendments to the principal regulation. | 2.1 | Sri Lanka Deposit Insurance Regulations, No. 1 of 2010 published in <i>Gazette Extraordinary</i> No. 1673/11 of 28th September, 2010 is hereby amended as follows. |
| Substitution for the word “regulation”. | 2.2 | By the substitution for word “regulation” of the word “regulation” wherever it is applicable. |
| Substitution for regulation 5.2(iii). | 2.3 | In regulation 5 thereof by the repeal of paragraph 5.2 (iii) of that regulation and the substitution therefor of the following paragraph:

“ 5.2 (iii) Deposit liabilities to directors, key management personnel and other related parties excluding shareholders as defined in Banking Act Direction, No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act Direction, No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Registered Finance Companies.” |

Circular No. : 01/2011

Bank Supervision Department

20th April 2011

To : *CEOs of all Member Institutions of
Sri Lanka Deposit Insurance Scheme*

Dear Sir/Madam,

SRI LANKA DEPOSIT INSURANCE SCHEME – OPERATING INSTRUCTIONS

All member institutions are informed that Paragraph 4(c) of Circular No.02/2010 on the above subject dated 09 December 2010 is hereby amended as follows:

“Deposits at overseas branches shall not be considered as eligible deposits”.

Accordingly, deposits at Off-shore Banking Unit shall be considered as eligible deposits from next premium date.

Yours faithfully,

(Mrs.) T M J Y P Fernando
Director of Bank Supervision

Copy : Director of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under section 32E of the Monetary Law Act, (Chapter 422).

Nivard Ajith Leslie Cabraal,

Chairman,

Monetary Board.

Central Bank of Sri Lanka,
Colombo,
20th June 2011.

Sri Lanka Deposit Insurance Scheme Regulations Amendment to the Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010

- | | | |
|---|-----|--|
| Citation. | 1.1 | These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 2 of 2011.” |
| Amendments to the principal regulation. | 2.1 | Sri Lanka Deposit Insurance Regulations, No. 1 of 2010 published in <i>Gazette Extraordinary</i> No. 1673/11 of 28th September, 2010 is hereby amended as follows:– |
| Substitution for regulation 7.3. | 2.2 | In regulation 7 thereof by the repeal of paragraph 7.3 of that regulation and the substitution therefore of the following paragraph:

“ 7.3 Debits to the Fund shall be for compensation payments to depositors, investments and operating expenses of the Scheme as may be determined by the Monetary Board.” |

To : All Licensed Banks
All Licensed Specialized Banks
All Registered Finance Companies

**COMPLIANCE WITH THE REPORTING REQUIREMENTS UNDER
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

Your attention is drawn to the provision of the Financial Transactions Reporting Act, No.6 of 2006 (FTRA) which imposed duties on every "Institution" as defined in Section 33 of the FTRA to report to the Finance Intelligence Unit of the Central Bank established by Order made by His Excellency the President under the provisions of the FTRA.

- (a) Under Section 6(a) of the FTRA, cash transactions of amounts exceeding Rs.500,000/- or its equivalent in foreign currency.
- (b) Under Section 6(b) of the FTRA, electronic funds transfers done at the instance of a customer of Rs.500,000/- or its equivalent in foreign currency.
- (c) Under Section 7 of the FTRA:–
 - (i) any suspected transaction or attempted transaction may be related to the commission of any unlawful activity or any other criminal offence; or
 - (ii) information that it suspects may be relevant to an act preparatory to an offence under the provisions of the Convention on the Suppression of Financing of Terrorism Act, No.25 of 2005; to an investigation or prosecution of a person or persons for an act constituting an unlawful activity, or may otherwise be of assistance in the enforcement of the Money Laundering Act, No.5 of 2006 and the Convention on the Suppression of Terrorist Financing Act, No.25 of 2005.

You are hereby informed to ensure compliance with the above statutory provisions. The reporting formats in respect of (a), (b) and (c) are attached for those banks that have not yet received this.

Actg. CEO (FIU)

Copies to : Governor, CBSL
DG (J), DG (W)
Director, Bank Supervision
Director, Supervision of Non-Bank Financial Institutions
External Auditors of licensed banks
Secretary / SLBA
Compliance Officers of licensed banks

Our Ref. : 37/04/001/0001/007

Financial Intelligence Unit

23 May 2007

To : All Licensed Banks
All Registered Finance Companies

Dear Sirs,

**COMPLIANCE WITH THE REPORTING REQUIREMENTS UNDER
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

Further to our Circular No. 4 dated 15th September 2006 on the above subject, I wish to draw your attention to the following;

As per clause (a) and (b) of the said circular please ensure that your reports are forwarded to the FIU on a fortnightly basis, in the specimen formats given to you.

E.g. : Reports for the period 1st to 15th of each month should be forwarded to the FIU on or before the 30th of the month.

Reports for the period 16th to 31st of each month should be forwarded to the FIU on or before 15th of the subsequent month.

You are hereby requested to ensure compliance with the above.

Yours faithfully,

Actg. Additional Director (FIU)

Our Ref. : 037/01/023/0001/008

Financial Intelligence Unit

30 June 2008

To : Chief Executive Officers of
All Licensed Banks and Registered Finance Companies

Dear Sir/Madam,

**COMPLIANCE WITH THE REPORTING REQUIREMENTS UNDER
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

Further to our Circular No. 4 of 15th September 2006 on the above subject.

In terms of the Order and Regulations published in *Gazette Extraordinary* No.1555/9 dated 25th June 2008 by His Excellency the President under the Provisions of the Section 6 of the Financial Transactions Reporting Act, No.6 of 2006, the reporting threshold for cash and electronic fund transfers has been revised to Rs.1,000,000/- or its equivalent in foreign currency with effect from 01st June 2008.

You are hereby informed to ensure compliance with the above regulatory provisions embodied in the *Gazette* aforementioned.

Please acknowledge the receipt.

Yours faithfully,

Director

Financial Intelligence Unit

Copies to : All Compliance Officers of Licensed Banks and Registered Finance Companies
Director, Bank Supervision Department
Director, Department of Supervision of Non-Bank Financial Institutions

12 January 2009

To : CEOs of All Registered Finance Companies

Dear Sir/Madam,

**COMPLIANCE WITH THE SECTION 2 OF
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

In terms of the provisions of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), the immediate attention of all registered finance companies is drawn to the legal requirement on duties of institutions – identification essential to conduct of business of institutions. Section 2(1) of the FTRA which states as follows:

“No institution shall open, operate or maintain an account, where the holder of such accounts cannot be identified, including any anonymous accounts or any account identified by number only, or any account which to the knowledge of the Institution is being operated in a fictitious or false name.”

You are hereby reminded to ensure compliance with the above statutory provisions.

Failure to conform to the above requirement is a punishable offence as prescribed in the relevant provisions of the FTRA.

Please acknowledge the receipt.

Yours faithfully,

Director
Financial Intelligence Unit

Copies to : All Compliance Officers of Registered Finance Companies

17th December 2009

To : All Chief Executive Officers of RFCs

Dear Sir/Madam,

**WEB BASED INFORMATION REPORTING SYSTEM
IN SUBMITTING REGULAR REPORTS TO
THE FINANCIAL INTELLIGENCE UNIT**

1. We wish to draw your attention to our circular No. 4, dated 15th September 2006 and directive on 30th June 2008 on reporting Cash Transactions Reports (CTRs), Electronic Fund Transfer Reports (EFTs) and submission of Suspicious Transactions Reports (STRs) in terms of the provisions of the Section 6 and 7 of the Financial Transactions Reporting Act, No 6 of 2006 (FTRA) and Financial Transaction Regulation No. 1 of 2008 along with the order issued on 25th June 2008.
2. Accordingly, all reporting institutions are required to report CTRs and EFTs exceeding Rs 1,000,000/- or its equivalent in any foreign currency to the Financial Intelligence Unit (FIU).
3. The FIU has now developed a new Information Technology tool, **LankaFIN**, to be used in submitting reports electronically by Reporting Institutions to the FIU using a web based interface instead of the existing process of submitting reports with soft copies. Therefore, all Registered Finance Companies are requested to submit CTRs, EFTs and STRs to the FIU using the internet based procedure, **with effect from 1st December 2009** as per the instructions given at annex I.
4. In order to comply with the legal requirements of the FTRA, reporting institutions are also required to submit certified copies of STRs to the FIU.
5. To enable access to the LankaFIN System, all anticipating users are required to obtain the required username and password from the FIU. Password requisition form is available in the LankaFIN website (<https://lankafin.cbsl.lk>).
6. Information reporting system through internet to the FIU will be effective from 1st December, 2009.

Yours faithfully,

Director
Financial Intelligence Unit

c.c. : Compliance Officers

TERMS AND CONDITIONS FOR THE LankaFIN USERS

The website of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka (hereinafter called “LankaFIN”) provides Information about FIU, FIU related news, circulars and directives issued by the FIU and data reporting formats. Data reporting formats consist of Suspicious Transaction Reports (STRs), electronic files of Cash Transaction Reports (CTRs) and Electronic Funds Transfers (EFTs). The home page of the LankaFIN can be accessed with the following web address, <https://lankafin.cbsl.lk>. Reporting officers should login to the respective links and require to forward the reports as indicated in the user manual which is available online on the web-site. This specific information technology tool consists of number of data security features and other encryptions. Users are subject to the LankaFIN terms and conditions as amended from time to time and regulations made under relevant legislations.

User’s Responsibilities

1. User is required to make a formal application which is available on the LankaFIN login page to obtain a Username. This needs to be submitted to the FIU with the required authorisation.
2. User undertakes not to access LankaFIN using defective or insecure software/equipment or in any manner which might adversely affect LankaFIN.
3. User must change the password assigned to him/her immediately after accessing LankaFIN for the first time and at regular intervals thereafter.
4. User shall inform LankaFIN immediately if he/she becomes aware of any unauthorised access or use of the “Username” and “Passwords” by unauthorised person. User needs to acknowledge that the Financial Intelligence Unit shall not be liable for any loss or damage that he/she may suffer due to unauthorised use of his/her Username and Password.
5. User shall keep his/her Username and Password strictly confidential and undertake not to reveal them to any person at anytime or under any circumstances.
6. If the Compliance Officer who is appointed as per the Section 14 of the Financial Transactions Reporting Act (FTRA) is unable to hold his office temporarily, it is required to obtain a new Username for the acting Compliance Officer from the FIU.
7. User shall keep all information, techniques, data and designs relating to LankaFIN completely confidential. User shall not disclose any of them to any other party.
8. User obligations relating to confidentiality will continue indefinitely and will not end with the expiry or termination of LankaFIN user facilities.

Data Submission

An IT tool has designed and linked up for required testing before Submission of data to the FIU. In case the tests are failed, the reports will not reach the FIU. Therefore users are advised to prepare the formats as specified in the LankaFIN manual and submit them accordingly. If the data formats are not prepared in line with required standards and /or if any mandatory fields are missing, reports may bounce back to the users resulting non submission of reports. Non-submission of reports would treat as non-compliance with the statutory provisions.

All reporting institutions are also required to submit certified copies of STRs immediately after submission of STRs through LankaFIN, as the submission of written STRs is a legal requirement in terms of the provisions of the FTRA.

The FIU wish to receive reports/submissions under the previous system in parallel to the new system until 15th July, 2009. Therefore, all reporting institutions are required to equip with all necessary technical requirements and other administrative arrangements to meet the requirements.

FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006

RULES made by the Financial Intelligence Unit under subsection (3) of section 2 of the Financial Transactions Reporting Act, No. 6 of 2006.

Financial Intelligence Unit

28th March 2011,
Colombo.

Rules

1. These Rules may be cited as the Licensed Banks and Registered Finance Companies [Know Your Customer (KYC) and Customer Due Diligence (CDD)] Rules, No.1 of 2011.
2. These Rules shall apply to every Licensed Bank and Registered Finance Company (hereinafter referred to as the “Financial Institution”).
3. Every Financial Institution shall take such measures as may be specified in these Rules for the purpose of obtaining the customer identification data or information relating to its customers who may be natural or legal persons.

PART I

GENERAL

A. Natural Persons

4. Every Financial Institution shall, obtain from natural persons, the following information :—
 - (a) full name and any other names used (such as maiden name) ;
 - (b) male/female ;
 - (c) permanent address (the full address should be obtained; a post office box number is not sufficient) ;
 - (d) telephone number, fax number, and e-mail address ;
 - (e) date of birth ;
 - (f) place of birth ;
 - (g) nationality or citizenship(s) ; current / previous (add period) ;
 - (h) an official personal identification number or any other identification (*e.g.*, passport, national identity card, driving licence) that bears a photograph of the customer ;
 - (i) occupation, public position held and/or name of employer ;
 - (j) type of account.
5. Every Financial Institution shall verify the above information submitted to it, in any one of the following ways—
 - (a) confirming the date of birth from an official document (*e.g.*, birth certificate, passport, national identity card);

- (b) confirming the permanent address (*e.g.*, utility bills, tax assessment, bank statement, a letter from a public authority, Certificate of a Grama Niladhari or electoral register) ;
- (c) contacting the customer by telephone, by letter or by e-mail to confirm the information supplied after an account has been opened or conduct a field visit to verify the information given. If the confirmation of information reveals a disconnected phone, returned mail, or incorrect e-mail address, then the Financial Institution shall carry out further investigation ;
- (d) confirming the validity of the official documentation provided through certification by an authorized person.

Note : The instances mentioned above are some of the available methods to verify the information, but there may be other documents or information of an equivalent nature which may be produced as satisfactory evidence of customer's identity.

- 6. Every Financial Institution shall apply effective customer identification procedures in the case of both customers who are available for interview as well as to those customers who are not so available.
- 7. Every Financial Institution shall make an initial assessment of a customer's risk profile. Particular attention needs to be focused on the customers identified as having a higher risk profile. In such cases additional inquiries shall be made or information shall be obtained, in respect of such customers, including the following:-
 - (a) evidence of the customer's permanent address sought through independent verification by field visits ;
 - (b) personal reference (*i.e.*, by an existing customer of the same institution) ;
 - (c) prior bank reference regarding the customer and the customer contact with the Financial Institution;
 - (d) the customer's source of wealth ;
 - (e) verification of details relating to employment, public position previous/present, if any (where appropriate), supplied by the customer.
- 8. Every Financial Institution shall with regard to one-off or occasional transactions where the amount of the transaction or series of linked transactions does not exceed the amount prescribed under paragraph (a) of section 6 of the Act, obtain the minimum information specified in rule 4 of these rules.

B. Partnerships

- 9. In the case of a partnership, every Financial Institution shall verify the identity of each partner of such partnership and also verify the details of immediate family members who have ownership or control thereof.
- 10. The provisions contained in Rule 4 to Rule 8 shall *mutatis mutandis* be followed in respect of partnerships.

C. Institutions

- 11. The customer identification rules shall in relation to the different types of institutions, be applied with particular attention being given to the different levels of risk involved.
- 12. The provisions contained in Rule 4 to Rule 8 shall *mutatis mutandis*, be followed in respect of Institutions.

C1. Corporate Entities

13. For corporate entities, the principal guideline is to inquire about the background of the entity to identify those who have control over the business and the entity's assets, including those with whom the control and management finally rests. Particular attention shall be paid to shareholders, signatories, or others who invest a significant proportion of the capital or financial support or otherwise exercise control. Where the owner is another corporate entity or trust, the objective is to undertake reasonable measures to inquire about the background of the company or entity and to verify the identity of its principals.

For the purpose of this Rule "control" means the nature of a corporate entity, and those who are mandated to manage funds, accounts or investments without requiring further authorisation, and who would be in a position to override internal procedures and control mechanisms. Where a corporate entity is listed on the stock exchange, or is a subsidiary of such a company, then the company itself may be considered to be the principal to be identified. However, consideration shall be given to whether there is effective control of a listed company by an individual, small group of individuals or another corporate entity or trust. Under these circumstances those controllers shall also be considered to be principals and identified accordingly.

14. Every Financial Institution shall, obtain the following information from corporate entities :—

- (a) name of corporate entity ;
- (b) the certified copy of the Certificate of Incorporation ;
- (c) the certified copy of Articles of Association ;
- (d) the resolution of the Board of Directors to open an account and identification of those who have authority to operate the account;
- (e) nature and the purpose of the business of such corporate entity and its legitimacy;
- (f) principal place of business operation/activity of the corporate entity ;
- (g) details of previous areas or locations where the corporate entity carried out its business operation activities, with duration ;
- (h) the mailing address of the corporate entity ;
- (i) the contact telephone and Facsimile numbers ;
- (j) any official identification number, if available (*e.g.*, company registration number, tax identification number).

15. Every Financial Institution shall verify the above information in any one of the following ways :—

- (a) carrying out a review of the latest financial statements (audited, if available) of the corporate entity ;
- (b) conducting an enquiry through a business information service, or an undertaking from a reputable firm of lawyers or accountants confirming the documents submitted ;
- (c) undertaking a company search or other conducting enquiries as to the financial stability of the corporate entity, to verify to that the corporate entity has not been, or is not in the process of being, dissolved, struck off, wound up or terminated ;
- (d) utilizing an independent information verification process, such as by accessing public and private databases ;
- (e) obtaining prior bank references ;
- (f) visiting the corporate entity, where practical ;
- (g) contacting the corporate entity by telephone, mail or e-mail.

16. Every Financial Institution shall also take reasonable steps to verify the identity and reputation of any agent that opens an account on behalf of a corporate customer, if that agent is not an officer of the corporate customer.

C2. Pension Programmes or Retirement Benefit Programmes

17. In the case of pension programmes or retirement benefit programmes trustee and any other person who has control over the relationship (*e.g.*, administrator, programme manager, and account signatories) shall be considered as the principal and the Financial Institution shall take steps to verify their identities.

The provision contained in Rule 4 to Rule 8, shall *mutatis mutandis*, be followed in respect of such programme.

C3. Societies and Co-operatives

18. In the case of societies and co-operatives the principal shall be those exercising control or significant influence over the organisation's assets. This will often include board members and executives and account signatories.

C4. Charities, Clubs and Associations

19. In the case of charities, clubs, and associations, every Financial Institution shall take reasonable steps to identify and verify at least two signatories along with the institution itself. The principal shall be those exercising control or significant influence over the organisation's assets. This will often include members of a governing body or committee, the President/Chairman, the members of the Board of Directors, or managing body, the treasurer, and all signatories.

20. In all cases independent verification shall be obtained that the persons involved are true representatives of the institution. Independent confirmation shall also be obtained of the objective of the institution.

D. Trusts, Nominee and Fiduciary Accounts

21. Every Financial Institution shall establish whether the customer is taking the name of another customer, acting as a "front" or acting on behalf of another person as trustee, nominee or other intermediary. If so, the receipt of satisfactory evidence of the identity of any intermediaries and of the persons upon whose behalf they are acting, as well as details of the nature of the trust or other arrangements in place specifically, the identification of a trust shall include the trustees, settlers, grantors and beneficiaries, shall be an initial requirement.

22. Every Financial Institution shall take reasonable steps to verify the trustee, the settler of the trust (including any persons settling assets into the trust) any protector, beneficiary, and signatory. Beneficiaries shall be identified where they are defined.

23. In the case of a foundation, every Financial Institution shall verify the founder, the managers, directors and the beneficiaries.

E. Beneficial Owners

24. Every Financial Institution shall be able to justify the reasonableness of the measures taken to identify the beneficial owners, having regard to the circumstances of each case. Every Financial Institution may

also consider obtaining an undertaking or declaration from the customer, on the identity of, and the information relating to, the beneficial owner.

F. Professional Intermediaries

- 25.** Every Financial Institution shall identify every single client on behalf of whom a professional intermediary such as a lawyer, notary, other independent legal professional or accountant, opens a client account. Where funds held by the intermediary are not co-mingled but where there are “sub-accounts” which can be attributable to each beneficial owner, all beneficial owners of the account held by the intermediary shall be identified. Where the funds are co-mingled, the Financial Institution shall look through to the beneficial owners; however, there may be circumstances which should be set out in supervisory guidance where the Financial Institution may not need to look beyond the intermediary (*e.g.*, When the intermediary is subject to the same due diligence standards in respect of its client base as the Financial Institution).
- 26.** In the above circumstances where an account is opened for an investment company, unit trust or limited partnership and the same due diligence requirements are applicable to Financial Institution are applicable in respect of its client base, the following shall be considered as principals, and the Financial Institution shall take steps to identify:
- (a) the fund itself ;
 - (b) its directors or any controlling board where it is a company ;
 - (c) its trustee where it is a unit trust ;
 - (d) its managing (general) partner ;
 - (e) account signatories ;
 - (f) any other person who has control over the relationship (*e.g.*, fund administrator or manager).
- 27.** Where other investment methods are involved, the same steps shall be taken as in Rule 25 where it is appropriate to do so. In addition all reasonable steps shall be taken to verify the identity of the beneficial owners of the funds and the identity of those who have control of the funds.
- 28.** Every Financial Institution shall treat intermediaries as individual customers of such Institution and shall verify separately the standing of the intermediary. The provision of Rule 10 and Rule 11 shall *mutatis mutandis* apply in this instance.

G. Other Types of Institutions

- 29.** For the categories of accounts referred to in the headings under B, C1 – C4, D, E and F of these Rules, the following information shall be obtained in addition to the requirements needed to verify the identity of the principal :–
- (a) name of account ;
 - (b) mailing address ;
 - (c) contact telephone and fax numbers ;
 - (d) any official identification number, if available (*e.g.*, company registration number, tax identification number) ;
 - (e) description of the purpose/activities of the account holder (*e.g.*, in a formal constitution) ;
 - (f) copy of documentation confirming the legal existence of the account holder (*e.g.*, registration document of charity).

30. Every Financial Institution shall verify this information in any one of the following ways :-
- (a) obtaining an independent undertaking from a reputable firm of lawyers or accountants confirming the documents submitted ;
 - (b) obtaining prior bank references ;
 - (c) accessing public and private databases or official sources.

H. Introduced Business

31. No Financial Institutions shall rely on introducers who are subject to weaker standards than those governing the Financial Institutions' own KYC procedures or those who are unwilling to furnish copies of their own due diligence documentation.
32. Every Financial Institution that relies on an introducer shall always carefully assess whether the introducer is a fit and proper person who exercises the necessary due diligence in accordance with the standards set out in these Rules.
33. Every Financial Institution shall use the following criteria to determine whether an introducer can be relied upon:
- (a) complying with the minimum customer due diligence practices set out in these Rules ;
 - (b) adapting the same customer due diligence procedures which a Financial Institution shall observe with respect to customer identification ;
 - (c) satisfying itself as to the reliability of the system put in place by the introducer to verify the identity of the customer ;
 - (d) reaching agreement with the introducer that it will be permitted to verify the due diligence undertaken by the introducer at any stage ;
 - (e) all relevant identification data and other documentation pertaining to the customer's identity shall be immediately submitted by the introducer to a Financial Institution who shall carefully review the documentation provided. Such information shall be available for review by the supervisory authority and the Financial Intelligence Unit ; and
 - (f) conducting periodic reviews to ensure that an introducer whom/which it relies on, continues to conform to the criteria set out above.

PART II REQUIREMENTS

34. Every Financial Institution shall comply with such requirements as specified below:-

Opening of Accounts

(1) Individual Accounts :

- (a) The following information shall be obtained :-
 - (i) Full name as appearing in the identification document ;
 - (ii) Identification document to be specified as, national identity card, valid passport or valid driving licence;
 - (iii) Permanent address as appearing on the identification document. Any other address to be

accepted should be supported by a utility bill not over three months old. Utility bills are to be specified as electricity bill, water bill and telecom or any fixed line operator's bill. No post-box number should be accepted. In the case of 'C/o', property owner's consent and other relevant address verification documents are required to be obtained;

- (iv) Telephone number, facsimile number, and e-mail address ;
- (v) Nationality ;
- (vi) Occupation, business, public position held and the name of the employer ;
- (vii) Purpose for which the account is opened ;
- (viii) Expected turnover/volume of business ;
- (ix) The reason for choosing to open the account in a foreign jurisdiction in case of NRFC/NRRAs ;
- (x) Satisfactory reference ;
- (xi) Verification of Signature.

(b) The following documents shall be obtained (each copy should be verified against the original)

- (i) Mandate/Account Opening form.
- (ii) Copy of identification document.
- (iii) Copy of address verification documents.
- (iv) Copy of the valid visa/permit in the case of RNNFC/NRRA/RGFC accounts for non-nationals.
- (v) Copy of the business registration if the account is opened for such purpose.

(2) Proprietorship/Partnership Accounts :

(a) The following information shall be obtained :-

- (i) Full name as appearing in the registration document.
- (ii) Personal details of the proprietor/partners as in the case of individual accounts.
- (iii) Registered address or the principle place of business and the permanent address of the proprietor/partners.
- (iv) Contact telephone, fax numbers.
- (v) Tax file number.
- (vi) Satisfactory reference.
- (vii) Signature.
- (viii) The extent of the ownership controls.
- (ix) Other connected business interests.

(b) The following documents shall be obtained (each copy should be verified against the original)

- (i) Mandate/Account opening form.
- (ii) Copy of the business registration document.
- (iii) Proprietors'/partners' information document.
- (iv) Copy of identification and address verification documents.

(3) Corporations/Limited Liability Company :

(a) The information shall be obtained :-

- (i) Registered name of the institution.
- (ii) Principal place of institution's business operations.
- (iii) Mailing address, if any.
- (iv) Nature and purpose of business.
- (v) Telephone/Fax/E-mail.
- (vi) Income Tax file number.
- (vii) Bank references.
- (viii) Personal details of all Directors as in the case of individual customers.
- (ix) Major share holders and their financial interests and control.
- (x) List of subsidiaries/associates and other business connections.
- (xi) Signatures.

(b) The following documents shall be obtained (each copy should be verified against the original)

- (i) Mandate/Account Opening form.
- (ii) Copy of the Certificate of Incorporation, Copy of the Form 40 or Form 1 and Articles of Association.
- (iii) Board Resolution authorizing the opening of the account.
- (iv) Copy of Form 18.
- (v) Copy of Form 20.
- (vi) Copy of Form 44 (applicable for offshore companies).
- (vii) Copy of Form 45 (applicable for offshore companies).
- (viii) Copy of the Board of Investment Agreement if a BOI approved company.
- (ix) Copy of the Export Development Board (EDB) approved letter if EDB approved company.
- (x) Copy of the certificate to commence business if a public quoted company.
- (xi) Latest audited accounts if available.

Note : The above documents should apply to a company registered abroad as well. The non-documentary methods in the absence of the above documents would entail a search at the Credit Information Bureau (CRIB), bank references, site visits and visiting the business website of the customer.

(4) Clubs, Societies, Charities, Associations and NGO :

(a) The following information shall be obtained : -

- (i) Name and address as appearing in Charter, Constitution etc.
- (ii) Detailed information of at least two office bearers, signatories, administrators, members of the governing body or committee or any other person who has control and influence over the operations of the entity as in the case of individual accounts.
- (iii) The purpose for which the account is opened, the objectives and the areas of activities.
- (iv) The source and level of income/funding.

- (v) Other connected institutions/associates/organizations.
 - (vi) Telephone/Facsimile numbers/e-mail address.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Copy of the registration document/constitution, charter etc.
 - (ii) Customer information form as in the case of individual accounts.
 - (iii) Mandate/Account Opening Form.
- (5) Trust, Nominees and Fiduciary Accounts :
- (a) The following information shall be obtained : -
- (i) Identification of all trustees, settlers/grantors and beneficiaries in case of trustees;
 - (ii) Whether the customer is acting as a 'front' or acting as a trustee, nominee, or other intermediary.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Mandate/Account Opening Form.
 - (ii) Copy of the Trust Deed.
 - (iii) Particulars of all individuals.
- (6) Sole Proprietorship :
- A copy of the business registration licence/permit (should be verified against the original).

Maintenance of Accounts

1. No Financial Institution shall open an account unless and until adequate identity of the prospective customer is obtained. If there appears to be any discrepancy in the information furnished at a subsequent date the account shall be suspended until the veracity of such information is confirmed.
2. The general customer information to be recorded at the outset shall include details of the customer's business, profession, level of income, economic profile, business associates and other connections, source of funds, and the purpose for which the account is opened.
3. Every Financial Institution shall retain copies of all identification and address verification documents.
4. Where the permanent address given in the application is at a location far away from that of the branch which receives the account opening request, the request shall be discouraged or turned down and the prospective customer shall be requested to open the account at the closest branch to his residence or his business, unless an acceptable and a valid reason is given. Such exceptions shall be recorded in file. If a change of address is made after the opening of the account, the account shall be transferred to the nearest branch of that bank.
5. Where two or more accounts are opened in the same bank by a customer the Financial Institution shall record the specific purpose for which such accounts are opened, in order to enable continued due diligence of all accounts.

6. Every Financial Institution shall verify whether any prospective customer appears on any list of any known suspected terrorist list or alert, list issued by the relevant government authorities, such as the Controller of Immigration, Director General of Customs, the Governor of the Central Bank, Ministry of Foreign Affairs.
7. When instructions are received from customer to transfer funds from one account to another account numbers should be recorded internally to aid future reference.
8. When foreign currency accounts and temporary rupee accounts are opened for non-nationals/foreign passport holders who are resident in Sri Lanka, a local address shall be obtained as their permanent address during their stay in the Island. A copy of the passport, visa with validity period, foreign address and the purpose for which the account is opened shall be made available in the file. On the expiry of the visa, the account shall cease to operate unless and otherwise appropriate instructions are received. On leaving the Island the account shall either be closed or be converted into a non-resident account. Financial Institutions must ensure that a valid visa is held at all times by the clients during the continuation of the account with them.
9. Every Financial Institution shall, when rupee accounts are opened and maintained for non-residents (foreign passport holders), use a foreign address as a permanent address and for all correspondence. The reason for choosing to open the account in a foreign jurisdiction should be recorded.
10. All rupee accounts for resident non-nationals shall carry a Sri Lankan address. A foreign address shall be used temporarily until the account holder is resident abroad. Every Financial Institution shall update the address on the client's return, under the ongoing due diligence standards. In the case of joint accounts a foreign address may be used only when all parties are domiciled abroad. If any one party remains in the Island, the local address needs to be maintained.
11. Accounts for charitable and aid organizations, non-governmental organisations and non-profit organisations shall be opened only with the registration of the regulatory authority empowered to regulate charitable and aid organizations, non governmental organisations and non-profit organisations for the time being and with other appropriate credentials. Due regard shall be paid to specific directions governing their operations *i.e.*, issued by the Department of Bank Supervision and Department of Supervision of Non-Bank Financial Institutions of the Central Bank and the Controller of Exchange.
12. Opening of accounts for 'politically exposed persons' (PEPs) shall be required to obtain the authorization of senior management.

For the purpose of this paragraph politically exposed persons means "individuals in Sri Lanka or abroad who are, or have been, entrusted with prominent public functions" *e.g.*, Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of State owned corporations, important political party officials. Business relationships with family members or close associates of such person involve reputational risks similar to those of such persons themselves. This is not intended to cover middle ranking or more junior officials in the forgoing categories.

13. All cash deposits made into savings and/or current accounts by third parties shall have on record, the identity of the depositor. The required details are, the name, address, identification number of a valid identification document, purpose and the signature. However, clerks, accountants and employees of business houses who are authorized to deal with the accounts do not come within the definition of 'third parties'.

14. When outward remittances/wire transfers are made out of Foreign Currency accounts, it shall be mandatory that a complete application be forwarded to the Financial Institution incorporating important and meaningful originator information such as name, address, account number, identification number together with a brief account of the purpose for such transfers. This is applicable to domestic wire transfers as well.
15. In the event foreign currency brought into the country is accepted to the credit of any foreign currency account the Financial Institution shall be satisfied of the source of funds.
16. A proper customer identification or relationship shall be established when import documents on collection basis are released to non customers of Financial Institutions. Identification shall include the correct address of the person or the business.
17. Every Financial Institution to whom these rules apply shall be required to complete the updating of all accounts with all relevant information by June 30, 2011.
18. Accounts which record frequent transactions below the threshold limit as prescribed by Order published in the *Gazette* in terms of the section 6(a) of the Act, in such a manner which shows that the customer client is attempting to circumvent the mandatory reporting requirement, shall be reported to the Financial Institution's Compliance Officer for appropriate action.
19. Every Financial Institution shall ensure that account transactions are consistent with the customer profile on record. Any inconsistency should be inquired into and the correct position recorded. Inconsistent transactions should be reported to the Financial Institution's compliance officer for appropriate action.

Introduction of New Technologies

1. Every Financial Institution shall pay special attention to any money laundering threats that may arise from new or developing technologies, including internet banking, that might favour anonymity and where so required take measures, to prevent their use in money laundering schemes. Financial Institutions should be mindful of a variety of Electronic Cards that are used by customers for buying goods and services, drawing cash from ATMs and for the electronic transfer of funds. Pre-loading of credit cards in particular can be resorted to, *inter-alia*, for money laundering and terrorist financing purposes and should not be permitted, as to do so would tantamount to the abuse of credit cards.
2. Additional KYC and CDD on existing and new credit card merchant bases with a special focus on the nature of business of credit card merchants, shall be undertaken and appropriate measures taken in terms of the provisions of the FTRA against any customer, transaction or merchant involved in any unlawful activity. Payments made through the internet by credit card customers in particular warrant very close attention to ensure that payments are not made for unlawful activities.
3. Every Financial Institution shall ensure that appropriate KYC procedures are duly applied to the customers as well as to the agents where marketing of credit cards is done through agents.
4. When applications for opening of accounts are received by mail or e-mail due care shall be exercised to record the true identity of the client prior to opening the accounts or activating them. In any event Financial Institutions shall not deviate from the required identity procedures just because the prospective client is unable to present himself in person.

5. Every Financial Institution shall preserve Society for Worldwide Inter bank Financial Telecommunication (SWIFT) messages that accompany inward remittances for a period of six years.
6. Every Financial Institution shall when Financial Institution maintain accounts for money changers/ money remitters they need to be aware that such clients are engaged exclusively in the money changing/money remitting business in compliance with the terms and conditions of the permit issued to them. Since money changers are covered by the provisions of the Act and the Prevention of Money Laundering Act, No.5 of 2005, it is the duty of the Financial Institutions to ensure that they fully comply with the requirements of law. Any unauthorized engagement in financial transactions should be brought to the notice of the Financial Institution's Compliance Officer, for appropriate action.

Alternative Remittance Systems (Hundi, Hawala etc.)

Every Financial Institution shall exercise extra vigilance to distinguish between formal money transmission services and other money or value transfer systems through which funds or value are moved from one geographic location to another through informal and unsupervised networks or mechanisms. To ascertain the sources of funds thus becomes an imperative.

Correspondent Banks and Shell Banks

Prior to commencing banking relationships with 'correspondent Banks/ financial institutions', the Financial Institutions should gather sufficient information with regard to their management, major business activities, and their money laundering prevention and detection efforts. It is also the duty of the Financial Institutions to ensure that the purpose of the account is exclusively for correspondent banking activities and that the bank is effectively supervised by the relevant authorities for their due diligence and anti money laundering standards in that country. The Financial Institutions should refuse to enter into, or conduct business and provide services to, financial institutions that are located in jurisdictions that have poor KYC standards or have been identified as being 'non-co-operative' in the fight against money laundering and terrorist financing. It is also imperative that the Financial Institutions ensure that their correspondent financial institutions do not undertake business with shell financial institutions. No accounts for 'shell' financial institutions should be opened without the prior approval of the Controller of Exchange, being obtained.

Treasury Dealings

With regard to dealings in Forex, money market, bonds, securities, precious metals etc. confirmations shall be obtained from the counter-parties on their adherence to Anti Money Laundering/Counter Financing of Terrorism rules to prevent transactions with non-compliant countries/entities.

Trade Finance/Letters of Credit and other contingencies

Trade-based money laundering and terrorist financing usually involves invoice manipulation and uses trade finance routes and commodities to avoid financial transparency, laws and regulations. The use of these facilities needs to be reviewed from time to time. Facilities requested by customers who have borrowing facilities or large deposits with other institutions shall be brought under close scrutiny. Other examples are the assignment of proceeds to an apparently unconnected third party, the use of *pro forma* invoices without a description of the goods and a reticence to provide a description of goods and other appropriate supporting documentation.

PART III
MISCELLANEOUS

- 35.** Every Financial Institution is required to appoint a compliance officer in terms of section 14 of the Act, who shall be responsible for ensuring the institution's compliance with the requirements of the Act. These officers must be at the senior management level.
- 36.** Every Financial Institution shall establish an audit function to test its procedures and systems for compliance, in terms of subsection (1)(c) of section 14 of the Act.
- 37.** Every Financial Institution is required to make its officers and employees aware of the laws relating to money laundering and financing of terrorism and to train its officers, employees and agents to recognize suspicious transactions. Financial Institutions are also required to screen all persons before hiring them as employees.
- 38.** Every Financial Institution shall ensure that its domestic and foreign branches, and subsidiaries adopt and observe measures to the extent that local laws and regulations are applicable and where the foreign branches/subsidiaries are unable to adopt and observe such measures in jurisdictions which do not comply with or insufficiently comply with the recommendations of the Financial Action Task Force, such matter shall be reported to the Financial Institution's Compliance Officer for appropriate action.
- 39.** Every Financial Institution shall scrutinize and examine the background of all their relatively large transactions that are complex, unusual or have no apparent economic and lawful purpose and retain a written record of such examination.
- 40.** The provisions contained in Rule 14 to Rule 15 shall, *mutatis mutandis*, be followed in respect of such persons specified in items C3, C4, D and E of Part 1 of these Rules.
- 41.** In these Rules –
- “Act” means the Financial Transactions Reporting Act, No.6 of 2006 ;
- “Licensed bank” means any commercial bank and specialized bank, licensed under the Banking Act, No. 30 of 1988 ;
- “Registered Finance Companies” means finance companies registered in terms of the Finance Companies Act, No. 78 of 1988 ; and
- “stock exchange” means the stock exchange licensed under the Securities and Exchange Commissions Act, No.36 of 1987.

Our Ref. : 37/04/001/0004/011

Circular No. : 01/11

Financial Intelligence Unit

06 May 2011

To : CEOs of Licensed Banks, Registered Finance Companies,
Insurance Companies and Stock Brokers

Dear Sir/Madam,

**AUDITOR'S DECLARATION ON
ESTABLISHMENT OF AN AUDIT FUNCTIONS TO ENSURE COMPLIANCE UNDER
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

We would like to draw your attention to the Section 14(1)(c) of Financial Transactions Reporting Act (FTRA), No. 6 of 2006 which read as, "Every institution shall be required to establish an audit function to test its procedures and systems for the compliance with the provisions of this Act."

Accordingly, the Compliance Officer appointed in terms of Section 14(1)(a) of FTRA is required to establish and maintain procedures and systems ensuring the Institution's compliance with the requirements of the Act.

Appreciate if you could therefore; communicate with us the mechanism in place to ensure your institution's compliance with the above requirements of the FTRA No. 6 of 2006.

Your cooperation in this regard is highly appreciated.

Yours faithfully,

Director
Financial Intelligence Unit

c.c. : Compliance Officers

Our Ref. : 37/05/005/0015/011

Circular No. : 02/11

Financial Intelligence Unit

20 May 2011

To : CEOs of Registered Finance Companies,

Dear Sir/Madam,

**COMPLIANCE WITH THE REPORTING REQUIREMENTS UNDER THE SECTION 7 OF
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

Reference to Circular No. 4 of 2006, on 15th September 2006 on the above.

As per the Section 7 of the Financial Transactions Reporting Act (FTRA), No. 6 of 2006, when an Institution, has reasonable grounds to suspect that any transaction or attempted transaction may be related to commission of any unlawful activity or any other criminal offence under the FTRA No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 or Prevention of Money Laundering Act, No. 5 of 2006; the said institution shall, as soon as practicable, after forming that suspicion or receiving the information, report the transaction or attempted transaction or the information to the Financial Intelligence Unit (Reporting of Suspicious Transactions – STRs).

Further, as per the Section 14(b)(iv) of the FTRA, Compliance Officer of every institution shall establish and maintain procedures and systems to implement the reporting requirements under the Section 7 of the FTRA.

However, the FIU has observed that no such reports have been received from your institution. Therefore, you are kindly requested to inform us the mechanism in place to ensure compliance of your institution with Section 7 of the FTRA.

You are also requested to forward us the program in place (circulars issued, *etc.*) to identify the Suspicious Transactions at branch level, details on awareness programs conducted for the officers of your institution on identification of STRs, Number of STRs identified and reported to the compliance officer.

Yours faithfully,

Director
Financial Intelligence Unit

c.c. : Compliance Officers

Circular No. : 01/12

Our Ref. : 37/04/001/0004/012

Financial Intelligence Unit

28 February 2012

To : CEOs of Licensed Banks, Licensed Finance Companies,
Insurance Companies and Stock Brokers

Dear Sir/Madam,

**REVISIONS TO 40+9 RECOMMENDATIONS OF
THE FINANCIAL ACTION TASK FORCE**

As you may aware, the Financial Action Task Force (FATF), the global policy setter on money laundering and terrorist financing has revised the existing 40+9 Recommendations at its Plenary held on 16th February 2012.

The revised FATF Recommendations have integrated counter-terrorist financing measures with anti-money laundering controls while introducing new measures to counter the financing of the proliferation of weapons of mass destruction. It has also addressed the laundering of the proceeds of corruption and tax crimes. Risk-based approach was further strengthened enabling countries and financial intermediaries to target their resources more effectively.

Sri Lanka as a founder member of Asia Pacific Group on Money Laundering (APG) (Regional Monitoring Body) is required to incorporate the revisions to FATF Recommendations into domestic legal system to ensure country's compliance with the international standard.

Accordingly, the FIU will initiate the process of amending the existing rules incorporating revisions introduced in due course. You are therefore, kindly requested to be familiarized with the revisions of FATF Recommendations to ensure effective implementation in future. New International Recommendations/ Standard on Combating Money Laundering and the Financing of Terrorism and Proliferation can be down loaded by using the FATF web link <http://www.fatfgafi.org/dataoecd/49/29/49684543.pdf>.

Yours faithfully,

Director

Financial Intelligence Unit

c.c. : Compliance Officers

Circular No. : 03/12

Our Ref. : 37/04/001/0004/012

Financial Intelligence Unit

22 March 2012

To : CEOs of Licensed Finance Companies,

Dear Sir/Madam,

**COMPLIANCE WITH THE REPORTING REQUIREMENTS UNDER
THE FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

Further, to Circular No. 4 of 2006 dated 15th September 2006, we wish to draw your attention to Sections 7, 12(1) and 14(1) of the Financial Transactions Reporting Act (FTRA), No. 6 of 2006 on Suspicious Transactions Reports (STRs).

STR Reporting Obligation;

Under the Section 7 (1) of the FTRA, Where an Institution :-

- (a) has reasonable grounds to suspect that any transaction or attempted transaction may be related to the commission of any unlawful activity or any other criminal offence; or
- (b) has information that it suspects may be relevant—
 - (i) to an act preparatory to an offence under the provision of the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005.
 - (ii) to an investigation or prosecution of a person or persons for an act constituting an unlawful activity, or may otherwise be of assistance in the enforcement of the Prevention of Money Laundering Act, No. 5 of 2006 and Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005.

The Institution shall, as soon as practicable, after forming that suspicion or receiving the information, but no later than two working days there from, report the transaction or attempted transaction or the information to the Financial Intelligence Unit.

Internal procedure on Identification and Reporting of STRs;

As per the Section 14(1) of the FTRA, Compliance Officer of every Institution should establish and maintain procedures and systems to implement the reporting requirements under the Section 7 of the FTRA and train its officers, employees and agent to recognize suspicious transactions.

Protection of Persons Reporting STRs;

As per Section 12(1) of the FTRA, no civil, criminal or disciplinary proceedings shall be brought against a person who makes the report in good faith or in compliance with regulations made under the Act or rule or directions given by the FIU in terms of the Act.

Submission of STRs;

Every Institution must submit the report on suspicious transaction to the **Director, Financial Intelligence Unit through the Compliance Officer** of the reporting Institution designated under the FTRA. As instructed

in the Circular dated 17th December 2009 on “Web based information reporting system in submitting regular reports to the Financial Intelligence Unit” all STRs have to be submitted electronically using the web based interface (<https://lankafin.cbsl.lk>) and certified copies of the reports should be submitted subsequently. Any contravention or non-compliance on the above will be liable to penalties under the FTRA.

Yours faithfully,

Director
Financial Intelligence Unit

c.c. : Compliance Officers
Director, Department of Supervision of Non-Bank Financial Institutions

FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006

RULES made by the Financial Intelligence Unit under Subsection (3) of Section 2 of the Financial Transactions Reporting Act, No. 6 of 2006.

Financial Intelligence Unit

(Signed for and on behalf of the
Financial Intelligence Unit)

4th May 2012,
Colombo.

Rules

The Licensed Banks and Registered Finance Companies [Know Your Customer (KYC) and Customer Due Diligence (CDD)] Rules, No. 1 of 2011 published in *Gazette Extraordinary* No. 1699/10 of March 28, 2011 are hereby amended as follows :-

(1) by the repeal of Rule 8 of Part I thereof and the substitution therefor of the following :-

“ 8. Every Financial Institution shall with regard to one-off or occasional transactions where the amount of the transaction or series of linked transactions exceed rupees two hundred thousand, obtain the minimum information specified in Rule 4 of these rules :

Provided however that if the Financial Institution has reasonable grounds to suspect that the transaction or series of linked transactions are suspicious or unusual, the Financial Institution shall, disregarding the amount so specified above, obtain such minimum information” ; and

(2) in Rule 34 of Part II thereof under the heading “Maintenance of Accounts” :-

(a) by the repeal of paragraph 6 thereof and the substitution therefor of the following :-

“ 6. Every Financial Institution shall verify whether the name of any prospective customer appears on any known or suspected terrorist list or alert list, issued from time to time by the relevant authorities” ; and

(b) in paragraph 13 thereof by the substitution for the words and figures “13. All cash deposits made into savings and/or current accounts by third parties” of the words and figures “13. All cash deposits exceeding rupees two hundred thousand made into savings or current accounts by third parties”.