PAMPHLET SERIES
NO. 6

PREVENTING MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

On 6 March 2006, the Prevention of Money Laundering Act, No. 5 of 2006 and the Financial Transaction Reporting Act, No. 6 of 2006 became law. Earlier, in August 2005 the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 was enacted. These three far reaching pieces of legislation form the legal framework for Prevention of Money Laundering and Combating the Financing of Terrorism in Sri Lanka. This pamphlet has been published by the Central Bank to increase public awareness on the offences of money laundering and terrorist financing, the methodologies adopted by money launderers, the negative consequences associated with money laundering and terrorist financing, the contents of the three new laws and the duties and responsibilities imposed on persons and entities in terms of these laws.

Central Bank of Sri Lanka
July 2006

Greed is the root cause for the majority of crimes committed today. Crimes such as drug trafficking, human trafficking, illegal arms trading, corruption, fraud, forgery, armed robbery, blackmail and smuggling are all commited for money. Criminals involved need to find a way to control such money without attracting attention to the underlying activity or people involved. This dictates the need for a process to disguise the criminal origin of such money. This process has come to be known as money laundering.

WHAT IS MONEY LAUNDERING?

The Financial Action Task Force on Money Laundering (FATF), defines the term "Money Laundering" briefly as "the processing of criminal proceeds to disguise their illegal origin in order to legitimize the ill-gotten gains of crime". Although there are many more comprehensive definitions of "Money Laundering" used by different countries, the FATF definition adequately captures the essence of the process.

Money launderers use a variety of persons and entities to accomplish their objective of disguising the criminal origin of their funds. These include not only financial institutions but also both formal and informal non financial institutions as well as individuals. Non-financial institutions used by money launderers are those which have a large cash turnover such as casinos and real estate agencies. Indeed there are some who claim that the term **laundering** came to be associated with this process because of the use of launderettes by criminals to launder the proceeds of crime in the 1920s. Money launderers also use individuals who deal with large sums of money such as dealers in precious stones and precious metals as well as professionals who facilitate transactions which involve large cash turnover such as lawyers and accountants, to accomplish their objective. Therefore, a comprehensive money laundering regime requires scrutiny of transactions undertaken by a wide array of persons and entities. In the final stage of the money laundering process however, the laundered funds usually re-enter the formal economy, with their criminal origin completely obliterated.

STAGES IN THE PROCESS OF MONEY LAUNDERING

The process of Money Laundering has been separated into three stages namely, **Placement, Layering** and **Integration** which are briefly described below:

Placement is the introduction of funds derived from crime into the financial system.

Layering is the process of effecting a large number of transactions with the funds to distance them from their criminal origin.

Integration is the stage at which the laundered proceeds re-enter the financial system with the appearance of having originated from normal business activities.

However, it would be misguided to visualize the Money Laundering process as a simple three stage process. Depending on the circumstances, these stages could occur simultaneously or even overlap.

MAGNITUDE OF THE PROBLEM

As secrecy and evasion are core characteristics of the Money Laundering process, it is difficult to estimate precisely the quantum of criminal proceeds laundered world wide. The International Monetary Fund (IMF) some years back estimated this figure to be in the range of 2-5 per cent of global Gross Domestic Product (GDP).

THE FIGHT AGAINST MONEY LAUNDERING

Although Money Laundering activities have a long history, international efforts to arrest Money Laundering commenced in earnest only since the late 1980s. Initially these efforts were focused mainly on the laundering of funds by drug traffickers. This was extended to cover other crimes when it became appar-

ent that anti-Money Laundering activities are a strong deterrent to crime. Separating a criminal from the proceeds of crime is likely to deter crime in two ways. Firstly, the criminal will not be able to benefit from the proceeds of his crime which would be a disincentive to commit further crime and secondly he would be unable to reinvest criminal proceeds in further criminal activity, and thereby perpetuate a vicious circle of crime.

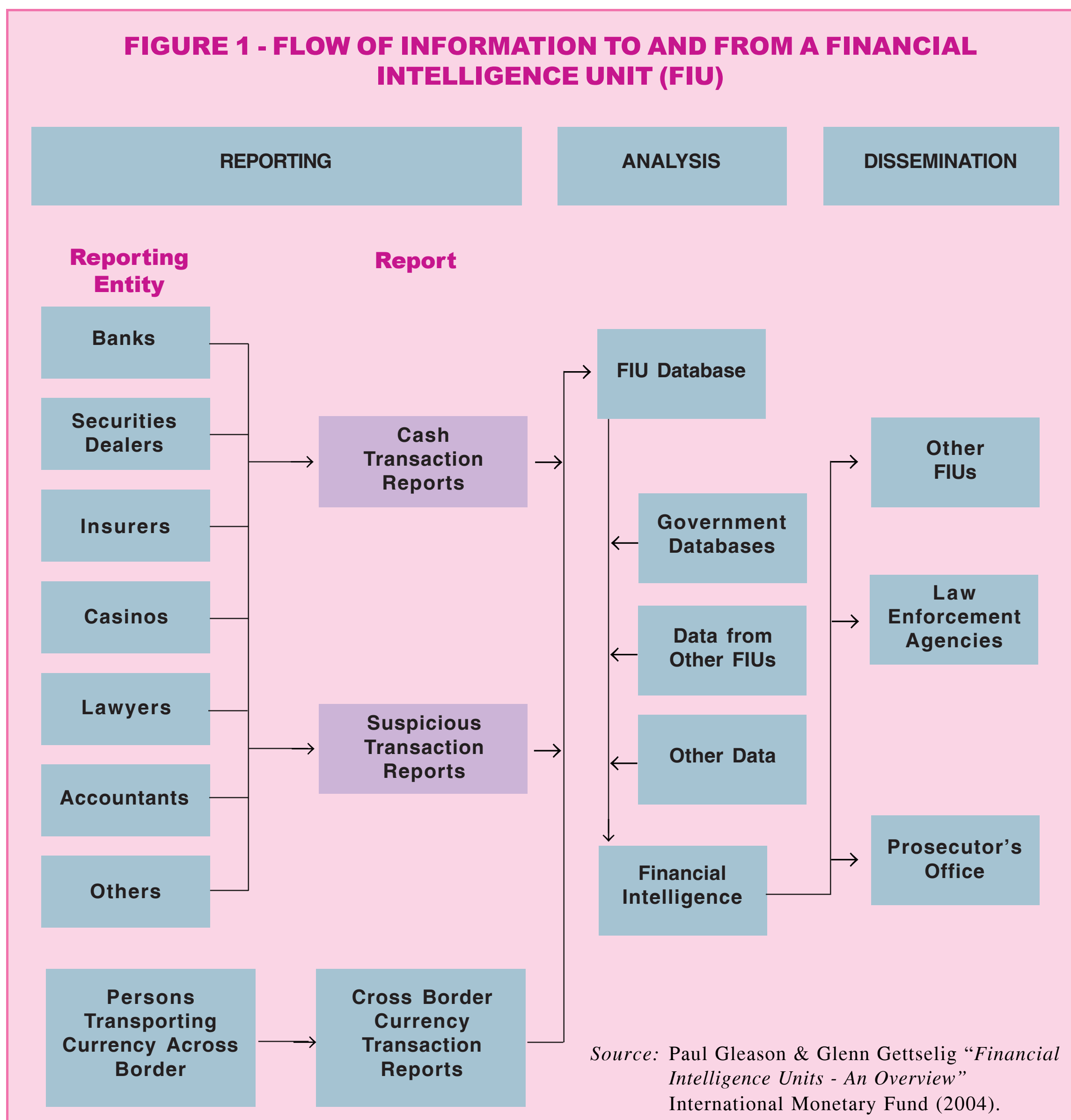
During the 1980s International Organisations such as the United Nations and the Bank for International Settlements took some initial steps to address the problem of Money Laundering. The establishment of the FATF in 1989 was a major landmark in the fight against Money Laundering. The FATF was initially established by the Group of 7 Finance Ministers under the auspices of the Organization of Economic Cooperation and Development with a brief **to encourage countries to make Money Laundering a criminal activity in it self, and also seek to strengthen international cooperation between criminal investigation agencies and the judiciaries in different countries.**

In the early 1990s, the FATF formulated 40 Recommendations aimed at governments and financial institutions. Under these recommendations, banks and other selected financial institutions were required to report suspicious transactions undertaken by their customers. Since 1996 these recommendations have become applicable to all serious crime(earlier the crime of drug trafficking was the main focus). These recommendations were updated in 2003 to keep them in line with evolving Money Laundering techniques. Under this revision, the coverage of entities required to report financial transactions was widened to include non-financial entities such as casinos as well as individuals in specific businesses and professions, as money launderers had begun to increasingly use such persons and entities to effect laundering activities. These 40 Recommendations have been accepted world wide as a comprehensive **Anti-Money Laundering** (AML) regime.

Further it became apparent that there was a necessity to have a separate institution with the expertise to convert financial transactions reports received from reporting institutions into financial intelligence. As a result many jurisdictions began establishing such institutions which have come to be known as Financial Intelligence Units(FIUs). In its 2003 recommendations to prevent Money Laundering, the FATF recommended the establishment of FIUs as national centers for receiving, analysing and disseminating financial information. The flow of information to and from a typical FIU is given in Figure 1.

ECONOMIC IMPACT OF MONEY LAUNDERING

Money Laundering activities adversely affect the financial sector, the real sector as well as the external sector of an economy. Association with criminal elements involved in Money Laundering tends to expose employees of financial sector institutions to corruption which would inevitably undermine public confidence in these institutions.(There is even a possibility of such institutions being controlled by criminals). Lack of public confidence in such institutions would prevent their further development. Loss of confidence in a country's financial system would also deter Foreign Direct Investment (FDI) flows, as genuine investors would be reluctant to deal with financial institutions which are perceived to be corrupt. When using a country's territory for Money Laundering activities, particularly in the layering stage, money launderers tend to bring in large amounts of money into the country and then exit to another jurisdiction. This would result in the liability base of financial institutions becoming unstable and cause an upsurge of activity in the financial sector followed by a downturn which would in turn contribute



Source: Paul Gleason & Glenn Gettselig "*Financial Intelligence Units - An Overview*" International Monetary Fund (2004).

to financial sector instability. Further, overseas banks will also be reluctant to have correspondence relationships with banks which are tainted by Money Laundering allegations, adversely affecting banking activity in various spheres.

Money Laundering takes its toll on the real sector as well. The break-down in public confidence in financial institutions owing to Money Laundering activities and the consequent retardation of the development of these institutions would have negative implications on the real economy, given the important role played by financial institutions in the allocation of resources particularly in a developing country.

In fact, empirical studies have revealed that economic growth depends on sound domestic financial institutions. Further as discussed above, FDI flows could reduce, depriving the country of foreign capital for development. Money launderers, if they invest in a country, are also likely to choose sterile investments such as real estate and precious metals which do not contribute significantly to economic development. This would distort asset prices causing further problems to the economy. Inflation could also increase as a result of Money Laundering. Further, funds moving in and out of the country would make interest rates and exchange rates more volatile pos-

ing problems for macro economic management. As the money supply becomes difficult to track, monetary projections could also become unreliable. These factors would therefore increase the probability of making policy mistakes.

In the case of the external sector, as we observed earlier, FDI levels would drop if investors lose confidence in a country's financial sector due to it being tainted by Money Laundering. Further, lack of confidence in the domestic financial sector could induce capital flight as persons look for safer havens for their savings. Sometimes money launderers tend to use international trade to effect their laundering activities by the means of inaccurate pricing (misinvoicing) of imports and exports to hide the transfer of funds. For example over-invoicing of an import will permit the transfer of funds outside the country. These practices could also lead to price distortions.

TERRORISM

Terrorism is a label which came to be used to describe a special kind of conflict since the early 1970s. Such conflicts are often low intensity offensives which do not escalate into full scale wars and are usually undertaken to achieve a political objective. Sporadic attacks, hijacking, kidnapping and bombing etc. are associated with these conflicts. The development consequences of such conflicts tend to be catastrophic, as they disrupt normal life and economic activity and are usually sustained for a long period of time. Sri Lanka has experienced a bitter civil war for over 20 years involving one of the deadliest terrorist groups existing in the world and this has caused substantial disruption of social and economic activity.

As in the case of most other activities, terrorist activities cannot be sustained without finance. Funding for these types of activities are sometimes obtained through extortion, kidnapping for ransom and other crimes such as bank robbery. When a terrorist group gains control of certain regions, they also impose "taxes" and "fees" upon those at their mercy. By selling their case convincingly, terrorists are also able to secure funding from certain sections of the population such as the diaspora or displaced persons whom they claim to represent. Another mode by which they obtain funds is by way of donation to charitable institutions which are in reality fronts for terrorist organisations.

The global attention became more sharply focused on terrorism and the need to arrest its funding after the terrorist attack on the World Trade Center of the United States on 11 September 2001, which is now commonly known as the 9/11 disaster. Since then, extensive action has been taken globally to freeze assets held by terrorist organisations and institute other measures required for combating the financing of terrorism.

The United Nations spearheaded the fight against the financing of terrorism in the wake of the 9/11 disaster with its Security Council passing resolutions requiring member countries to freeze assets of terrorists and thereby prevent terrorists accessing their funds. Such action was required to be taken in respect of entities and organisations designated as terrorist persons and organisations by the United Nations Counter Terrorism Committee.

The FATF also took steps to formulate Eight Special Recommendations on combating the financing of terrorism (CFT). Subsequently these eight recommendations were augmented to nine. The FATF did not specifically define the term financing of terrorism in these recommendations, but recommended that countries ratify and implement the 1999 United Nation International Convention for Suppression of the Terrorist Financing. Thus, the definition of financing of terrorism given in the above Convention is the one most countries including Sri Lanka have adopted for the purposes of defining terrorist financing (See Box 1).

BOX 1 - DEFINITION OF TERRORIST FINANCING

The United Nations International Convention for Suppression of Terrorist Financing defines Terrorist Financing in the under mentioned manner in its Article 2, and on the recommendation of the FATF, most countries including Sri Lanka use this definition

Article 2

1. Any person commits an offence within the meaning of the Convention if that person by any means, directly or indirectly, unlawfully and wilfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out:

   (a) An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the Annex; or

   (b) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a Government or an international organization to do or to abstain from doing any act.

ANNEX

1. Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague on 16 December 1970.
2. Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 23 September 1971.
3. Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, adopted by the General Assembly of the United Nations on 14 December 1973.
4. International Convention against the Taking of Hostages, adopted by the General Assembly of the United Nations on 17 December 1979.
5. Convention on the Physical Protection of Nuclear Material, adopted at Vienna on 3 March 1980.
6. Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 24 February 1988.
7. Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, done at Rome on 10 March 1988.
8. Protocol for the suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf, done at Rome on 10 March 1988.
9. International Convention for the Suppression of Terrorist Bombings, adopted by the General Assembly of the United Nations on 15 December 1997.

SRI LANKA'S POSITION PRIOR TO ENACTMENT OF AML/CFT LAWS

Even before the enactment of AML/CFT laws in Sri Lanka, there were certain measures in place which would have discouraged money launderers from using the country's financial institutions for laundering activities. These measures were put in place in terms of powers vested on authorities by the Exchange Control Act, the Customs Ordinance, the Banking Act and other laws. One such measure was the requirement for a declaration to be made by any person importing or exporting currency exceeding US$ 10,000 in value. This would have deterred large scale cross border flows of currency, a mechanism often used by money launderers in their operations. Further, although the current account in Sri Lanka was

fully liberalized since 1994, the capital account was only partially liberalized. Therefore it was necessary for persons undertaking transactions which involved the remittance of foreign currency out of the country to provide documentary evidence to confirm the bona-fides of the transaction. All instances of sales and purchases of foreign currency by commercial banks also have to be recorded in specific forms and submitted to the Central Bank. Here, the recorded information includes identification information on the seller/ purchaser. Further, the Department of Bank Supervision of the Central Bank had issued Know Your Customer (KYC) guidelines to all banks and urged such banks to follow these guidelines when engaging in banking business. Undoubtedly, these measures would have saved Sri Lanka from being identified by money launderers as a suitable location for their activities. Despite this situation however, there is no room for complacency, as with the enforcement of stringent Money Laundering measures in some countries, money launderers are moving into countries which do not have an effective AML/CFT regime. Therefore, in the absence of a comprehensive AML regime, Sri Lanka will not be immune from the threat of Money Laundering. Also, capital account restrictions are being gradually relaxed, and therefore, it is timely to institute a strong AML regime, to prevent money launderers taking advantage of these relaxations.

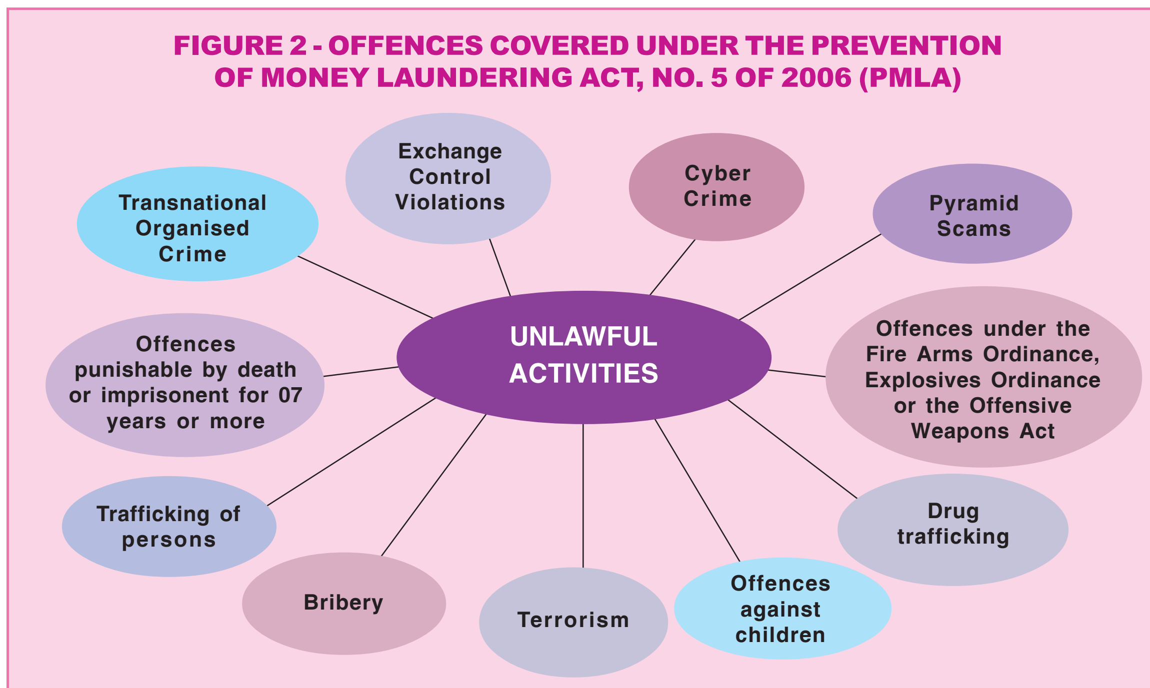
In the area of prevention of terrorist financing considerable advances had been made even before the Convention for the Suppression of the Terrorist Financing Act, No. 25 of 2005 became law. In October 2001, Sri Lanka took action to issue UN Regulation No. 1 of 2001 which created terrorist financing offences in response to UN Security Council Resolution 1373. With the issue of this regulation, the Central Bank issued instructions requiring banks not to undertake any transactions with persons and entities listed by the UN Security Council as terrorist persons and entities or with associates of such listed persons and entities and to freeze all accounts held by such persons and entities and their associates. Banks were also requested to report to the Controller of Exchange, all attempts made by the listed persons and entities or their associates to engage in transactions with them. Similar orders were issued to Finance Companies as well. Restricted foreign exchange dealers such as money changers, wire transfer agencies and travel agents authorised to issue travellers cheques were also directed to inform the Controller of Exchange of any attempts by the listed persons and entities and their associates to engage in transactions with them.

LEGAL FRAMEWORK FOR AML/CFT IN SRI LANKA

When AML measures were first under consideration there were those who advocated a policy of “inaction” in this regard. One of the arguments put forward was that crimes pertaining to Money Laundering occur in developed countries and therefore developing countries like Sri Lanka should not waste scarce resources to establish a strong AML regime. However, Sri Lanka as a responsible stakeholder of the global community has an obligation to take all action possible to curb transnational organised crime. A further consideration is that a lax money laundering regime could even attract criminals and crime into the country. Another argument put forward to support a policy of inaction was that money laundering represents a flow of capital from developed countries to developing countries and therefore developing countries should not deter this flow of capital which would contribute to the country’s development. This argument is of course refuted by empirical evidence as well as the negative economic impact of money laundering on FDI discussed above.

For several years government authorities, the Central Bank, financial sector authorities, le-

FIGURE 2 - OFFENCES COVERED UNDER THE PREVENTION OF MONEY LAUNDERING ACT, NO. 5 OF 2006 (PMLA)



gal and law enforcement authorities, have worked together with international experts to formulate the necessary AML/CFT legal framework for Sri Lanka. The Central Bank played a major role in these deliberations not only because it is the institution at the helm of the financial sector, but also because one of its core objectives is the preservation of financial system stability which could be threatened by Money Laundering activities. The first piece of legislation the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 became law on 8 August 2005. The other two laws, the Prevention of Money Laundering Act, No.5 of 2006 and the Financial Transactions Reporting Act, No. 6 of 2006 became law on 6 March 2006. All three Acts were prepared in line with the FATF's 40 Recommendations for Prevention of Money Laundering and its 9 Special Recommendations for combating the financing of terrorism, and therefore Sri Lanka is now compliant with the requirements of the FATF. Some of the main features of these three Acts are given below.

PREVENTION OF MONEY LAUNDERING ACT, NO. 5 OF 2006 (PMLA)

- The offence of Money Laundering is defined as receiving, possessing, concealing, investing, disposing or bringing into Sri Lanka, transferring out of Sri Lanka or engaging in any other manner in any transaction, in relation to any property derived or realized directly or indirectly from "unlawful activity" or proceeds of "unlawful activity".[1]
- Any movable or immovable property acquired by a person which cannot be part of the known income or receipts of a person or money/property to which his known income and receipts have been converted, is deemed to have been derived directly or indirectly from unlawful activity, in terms of the PMLA.
- PMLA has provisions for a police officer not below the rank of Superintendent of Police or in the absence of such an officer an Assistant Superintendent of Police to issue an

1/ "Unlawful activity" is defined as an act that constitutes an Offence under the Poison Opium and Dangerous Drug Ordinance, any Law relating to the Prevention and Suppression of Terrorism, the Bribery Act, the Fire Arms Ordinance, the Explosives Ordinance, the Offensive Weapons Act, the Exchange Control Act, Offences under Section 83c of the Banking Act No. 30 of 1988 (Relating to Pyramid Scams). Law relating to Transnational Organised Crime, Law relating to Cyber Crime, Law relating to Offences against Children, Law relating to Trafficking of Persons and any other offence punishable by death or imprisonment of 07 years or more.

order prohibiting any transaction in relation to any account, property or investment which may have been used or which may be used in connection with the offence of Money Laundering for a specific period which may be extended by the High Court, if necessary, in order to prevent further acts being committed in relation to the offence.

- In terms of the PMLA, a person convicted of the offence of Money Laundering is liable to a penalty of not less than the value of the property involved in the offence and not more than thrice this value, and a term of imprisonment of not less than 05 years and not more than 20 years.
- Property derived from an offence of Money Laundering is forfeited to the state free of encumbrances in terms of the PMLA.
- PMLA makes "tipping-off"(pre warning suspects of impending action against them) an offence.
- The extradition law applies to the offence of Money Laundering.

FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006 (FTRA)

- FTRA provides for the setting up of a FIU as a national central agency to receive analyse and disseminate information in relation to Money Laundering and the financing of terrorism (See Box 2).
- The FTRA obliges institutions, to report to the FIU cash transactions above a value prescribed by an Order published in the Gazette. The term "institutions" covers a wide array of persons and entities (See Box 3).
- His Excellency the President in his capacity as Minister of Finance has issued an Order published in the Gazette Extraordinary No. 1437/25 of 23/03/2006 prescribing that this value should be Rs. 500,000.
- The Act also obliges institutions to report to the FIU all electronic fund transfers above such sum as prescribed by regulations.
- His Excellency the President in his capacity as Minister of Finance has made regulations published in the Gazette Extraordinary No. 1437/25 of 23/03/2006 prescribing that this value should also be Rs. 500,000.
- All suspicious transactions have to be reported by institutions to the FIU irrespective of their magnitude.
- FTRA required an institution covered by the Act to appoint a compliance officer who would be responsible for the institution's compliance with the Act.
- The FTRA also requires Supervisory Authorities of Institutions and Auditors to make a suspicious transaction report if they have information which gives them reasonable grounds to suspect that a transaction is related to money laundering or financing of terrorism.
- Supervisory Authorities are required by the FTRA to examine whether institutions supervised by them comply with the provisions of the FTRA and to report instances of non compliance to the FIU. Further they are also required to co-operate with law enforcement agencies and the FIU in any investigation, prosecution or proceeding relating to any act constituting an unlawful activity.
- In terms of the FTRA, institutions are required to engage in Customer Due Diligence (verifying the true identity of customers) with whom they undertake transactions and on going Customer Due Diligence with customers with whom they have a business relationship.
- The opening and operating of accounts under a fictitious name is an offence under the FTRA.
- FTRA makes "tipping-off" an offence(e.g. pre warning a suspect of an impending investigation).
- In terms of the FTRA, persons making reports under the Act are protected from civil or criminal liability.

BOX 2 - ESTABLISHMENT OF A FINANCIAL INTELLIGENCE UNIT (FIU) IN SRI LANKA

Recommendation 26 of the FATF's 40 Recommendations for the prevention of Money Laundering states that :

Countries should establish a Financial Intelligence Unit (FIU) that serves as a national center for the receiving (and, as permitted, requesting), analysis and dissemination of Suspicious Transaction Reports (STR) and other information regarding potential Money Laundering or terrorist financing. The FIU should have access, directly or indirectly, on a timely basis to the financial, administrative and law enforcement information that it requires to properly undertake its functions, including the analysis of Suspicious Transaction Reports (STR).

In conformity with the above recommendation the FTRA provides for the setting up of a FIU which would be the entity charged with administration of the provisions of the Act. Accordingly, His Excellency the President in his capacity as the Minister of Finance has in an Order published in Gazette Extraordinary No. 1437/24 of 23/03/2006 designated the FIU of the Central Bank to be the FIU for the purpose of this Act. The FIU will be an independent unit within the Central Bank and its CEO will report directly to the Monetary Board through the Governor of the Central Bank. The powers and functions entrusted to the FIU by the FTRA are in line with the FATF recommendations and the requirements needed to meet other international conventions and resolutions on countering Money Laundering and terrorist financing.

The core functions the FIU undertakes in common with all FIUs are the **collection, analysis and dissemination** of information, and the FTRA grants the FIU wide powers in this regard. For the purpose of collection of data, the FTRA obliges selected institutions to report cash transactions and electronic fund transfers over a threshold value (presently set at Rs. 500,000 by an Order issued under the FTRA) and any suspicious transactions irrespective of value to the FIU. **The coverage of institutions required to report to the FIU in terms of the FTRA is very wide in line with FATF recommendations, and includes entities and persons in the finance business as well as entities and persons in designated non-finance business (See Box 3).** The FIU is also empowered to collect any other supporting information from reporting entities or even from foreign FIUs. In the second stage, the FIU has to undertake the intensive analysis of financial transaction information so collected and convert such information into financial intelligence. At the third stage, the FIU should disseminate such information as necessary. If after its analysis of a transaction report, the FIU is satisfied that the transaction involved is a money laundering transaction or a transaction related to financing of terrorism, the FIU refers the case to law enforcement authorities for prosecution. Further, the FIU is also in a position to disseminate information to foreign FIUs, particularly if the information is relevant to the prosecution of Money Laundering offences in other jurisdictions or if the information reveals new trends in Money Laundering activities. In terms of the FTRA, the FIU may also disseminate information to reporting entities and their regulators. The information flow to and from the FIU is depicted in Figure 1.

The FTRA empowers Sri Lanka's FIU to also undertake several non core activities including the following:

- Compiling of statistics and records.
- Conducting training programs for reporting institutions in relation to customer identification, record keeping and reporting obligations.
- Conducting research into the trends and developments in the area of Money Laundering and financing of terrorism.
- Educating the public and creating awareness on matters relating to Money Laundering and the financing of terrorism.
- Entering into any agreement or arrangement with any domestic government institution or agency with regard to the exchange of information.

BOX 3 - STRUCTURE OF THE FINANCIAL INTELLIGENCE UNIT (FIU) UNDER THE PROVISIONS OF FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006 (FTRA)

"Finance business" includes

- banking;
- finance business;
- lending, including consumer credit, mortgage credit, factoring (with or without recourse) and financing of commercial transactions;
- financial leasing;
- the transfer of money or value;
- money and currency changing services;
- issuing and managing means of payment (i.e. credit cards, travellers' cheques, money orders and bankers' drafts and electronic money);
- issuing financial guarantees and commitments,
- trading for its own account or for the account of customers in money market instruments (i.e. cheques, bills, certificates of deposit and derivatives), foreign exchange, exchange, interest rate and index instruments, commodity futures trading and transferable securities;
- participating in securities issues and the provision of financial services related to such issues; and
- such other business as may be prescribed from time to time by the Minister taking into consideration the interests of the national economy.

Reporting Institutions (Financial & Designated Non-Financial Institutions)

↓ Suspicious Transaction Reports related to Unlawful Activities* and Cash Transactions and Electronic Fund Transfers over the value of Rs. 500,000

FIU established under the FTRA

↓ **Law Enforcement Authorities**

↕ **Foreign FIUs for Mutual Assistance**

- Police Department
- Criminal Investigation Department
- Attorney General
- Police and Narcotics Bureau
- National Dangerous Drug Board
- Commission to Investigate Allegations of Bribery or Corruption
- Central Bank of Sri Lanka
- Exchange Control Department
- National Child Protection Authority
- Customs Department

"Designated non-finance business" includes

- individual and collective portfolio management;
- investing, administering or managing funds or money on behalf of other persons;
- safekeeping and administration of cash or liquid securities on behalf of other persons;
- safe custody services;
- underwriting and placement of insurance, insurance intermediation by agents and brokers;
- trustee administration or investment management;
- casinos, gambling houses or conducting of a lottery;
- real estate agents;
- dealers in precious metals and semi-precious stones;
- lawyers, notaries, other independent legal professionals and accountants;
- trust or company service provider;
- offshore units in accordance with the definitions provided for the same in other written laws; and
- such other business as may be prescribed from time to time by the Minister taking into consideration the interests of the national economy.

* Please see footnote on page 8

- The FIU with Ministerial approval, may exchange information with other FIUs or Supervisory Authorities of a foreign state.
- Contravention of the provisions of the FTRA is punishable by fines not exceeding Rs.1.0 million.

CONVENTION ON THE SUPPRESSION OF TERRORIST FINANCING ACT, NO. 25 OF 2005

- On 10 January 2000, Sri Lanka became a signatory to the International Convention for the Suppression of Terrorist Financing adopted by the United Nations General Assembly on 10/01/2000 and ratified the same on 8/9/2000. The Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 was enacted to give effect to Sri Lanka's obligations under this Convention.
- Under the Act, the provision or collection of funds for use in terrorist activity with the knowledge or belief that such funds could be used for financing a terrorist activity is an offence (The definition of terrorist financing adopted is the definition contained in the UN International Convention for Suppression of the Terrorist Financing given in Box 1).
- The penalty for an offence under the Act is a term of imprisonment between 15-20 years and/or a fine.
- On indictment of a person for an offence under the Act, all funds collected in contravention of the Act will be frozen (if lying in a bank account) or seized (if held in the control of any person or institution other than a bank).
- On the conviction of a person for an offence under the Act, all funds collected in contravention of the Act are forfeited to the State.
- The extradition law applies to the offence of financing of terrorism.

EFFECTIVENESS OF THE AML/CFT REGIME

Of course the mere enactment of the relevant laws and creation of the required institutions to implement an AML/CFT regime alone are not sufficient. It is vitally necessary for the laws in this regard to be strictly enforced. Sri Lanka for the first time was subjected to a Mutual Evaluation Exercise of its AML/CFT regime conducted by the Asia Pacific Group on Money Laundering (APG). The Evaluation involved a comprehensive review of the institutional arrangements, legal framework and law enforcement mechanisms in relation to the present AML/CFT regime. On the basis of this evaluation, the APG will provide advice and technical assistance to strengthen the AML/CFT regime in Sri Lanka. Of course for the AML/CFT regime to be effective, it is also necessary for it to have the support of the general public of the country. There have been several public discussions on this subject, while the media has played a role in increasing public awareness on the AML/CFT regime. This pamphlet has also been prepared to enhance general awareness on the subject. It is hoped that a greater awareness of the danger Money Laundering and Terrorist Financing poses to the country would induce the public to extend their fullest cooperation to the authorities to arrest such crimes.

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