

## **PART III**



**PART III**  
**MAJOR ADMINISTRATIVE MEASURES ADOPTED BY**  
**THE MONETARY BOARD IN 2009**

**OPERATING INSTRUCTIONS, CIRCULARS, DIRECTIONS AND NOTICES**

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**Ref. No.: 02/17/800/008/001**Bank Supervision Department  
05 January 2009*To: Chief Executive Officers of all State Banks*

Dear Sir/Madam,

**ESTABLISHMENT OF A REVOLVING FUND TO GRANT LOANS TO ACQUIRE PROPERTY TO THE STATE SECTOR EMPLOYEES**

His Excellency the President, at the discussions held on 21 October 2008 with the state sector employees union, has directed the Central Bank to inform all state banks to establish a Revolving Fund for the purpose of granting loans to acquire property, to state sector employees. Accordingly, we request all state banks to accede to the above.

Yours faithfully,

B D W A Silva  
Director of Bank Supervision**Ref. No.: 02/17/600/0002/001**Bank Supervision Department  
30 January 2009*To: All Licensed Commercial Banks and Licensed Specialised Banks*

Dear Sir/Madam,

**CONCESSIONS GRANTED TO TOURISM INDUSTRY**

In view of the major setback in global economic activities and their impact on the tourism industry, the Monetary Board has requested all licensed commercial banks and licensed specialised banks to grant the following concessions to those institutions in the tourism industry, that wish to avail themselves of such concessions:

- (i) Grant a moratorium of 6 months from January 2009 to June 2009, in respect of outstanding credit facilities to tourist hotel companies and the holding companies of such hotel companies, provided that the hotel companies concerned retain their employees at levels prevailing as at December 2008.
- (ii) Recover the capital and interest falling due during the moratorium period, from January 2010 onwards in thirty-six equal installments and a concessionary rate of interest be charged for this facility.
- (iii) Waive the penal interest imposed on any defaulted credit facilities taken by the tourist hotel companies, and the holding companies of such hotel companies.
- (iv) Continue to maintain any non-performing loans in the same category for provisioning purposes, during the six month moratorium period.

Yours faithfully,

B D W A Silva  
Director of Bank Supervision

**Ref. No.: 02/17/600/0002/001**Bank Supervision Department  
02 March 2009*To: Chief Executive Officers of all Licensed Commercial Banks*

Dear Sir/Madam,

**RELIEF PACKAGE FOR THE TEA SECTOR**

The Ministry of Finance and Planning by its Circular Letter dated 12 January 2009 has informed licensed commercial banks (LCBs) of a relief package for the tea sector. In this regard, the Government will provide a 100 percent Treasury Guarantee, subject to conditions including that such loans are secured on existing mortgages or any other security available with the respective banks.

In the event an LCB grants accommodation to a director of the bank or a close relation of such director or any concern in which a director has a substantial interest, the Banking Act requires the LCB to obtain securities approved by the Monetary Board.

In view of the above, the Monetary Board approved of the following in relation to security to be obtained by an LCB in granting accommodation to a director of the bank or a close relation of such director or any concern in which a director has a substantial interest, under the relief package for the tea sector:

*The unexpired period of lease of immovable property held on leasehold basis referred to in paragraph 1(h)(ii) of the Determination dated 11 February 2005, issued in terms of Section 47(3), (4), (5) and (6) of the Banking Act be reduced to a period of at least 25 years for this purpose.*

Yours faithfully,

B D W A Silva  
Director of Bank Supervision**Ref. No.: 02/17/800/007/001**Bank Supervision Department  
03 March 2009*To: CEOs of Licensed Commercial Banks and Licensed Specialised Banks*

Dear Sir/Madam,

**GRANTING CREDIT FACILITIES TO PRIVATE SECTOR**

It has been brought to our notice that some banks have informed their customers that the Central Bank has required banks to curtail credit to their customers.

The recent trends show that growth in credit to the private sector has decelerated significantly. Inflation and inflation expectations are also moderating. In view of these developments and to mitigate the negative consequences of the global financial turmoil on the domestic economy, the Central Bank has also taken several measures to ease conditions in the domestic financial markets.

Accordingly, you may take appropriate measures to expand credit to the private sector, based on the evaluation of credit risk of the customers.

Yours faithfully,

B D W A Silva  
Director of Bank Supervision

**Ref. No. : 02/17/800/0006/01**Bank Supervision Department  
18 March 2009*To: Instructions to Licensed Commercial Banks Appointed as Authorised Dealers*

Dear Sir/Madam,

**IMPORTS ON DOCUMENTS AGAINST ACCEPTANCE TERMS (DA)**

Authorised Dealers are hereby informed that operating instructions issued under Ref. No. 02/17/800/0006/01 dated 05/12/2008, 04/11/2008 and 31/10/2008 on the above subject are withdrawn with effect from 18.03.2009.

Yours faithfully,

D Wasantha  
Controller of ExchangeB D W A Silva  
Director of Bank Supervision**Ref. No.: 02/17/800/0006/01**Bank Supervision Department  
18 March 2009*To: Instructions to Licensed Commercial Banks Appointed as Authorised Dealers*

Dear Sir/Madam,

**IMPORTS OF MOTOR VEHICLES ON DOCUMENTS AGAINST ACCEPTANCE TERMS (DA)**

This has reference to our operating instructions No. 02/17/800/0006/01 dated 07/11/2008 and 05/12/2008 on the above subject.

Authorized Dealers are hereby informed that margin deposit requirement on the invoiced value of imports given in Schedule A, titled Listed Items Requiring 200 per cent Margin Deposit Against Imports on DA Terms-05/12/2008, is reduced from 200 per cent to 100 per cent with effect from 18/03/2009.

Yours faithfully,

D Wasantha  
Controller of ExchangeB D W A Silva  
Director of Bank Supervision**Ref. No.: 02/17/800/0006/01**Bank Supervision Department  
19 March 2009*To: Instructions to Licensed Commercial Banks Appointed as Authorised Dealers*

Dear Sir/Madam,

**FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE**

Further to our circular 02/17/800/0006/01 dated October 31, 2008 on the above. In view of the representations made by the banks and exporters, it has been decided to grant permission for Authorised Dealers to extend/renew the period of forward contracts in foreign exchange purchases, which have been entered prior to October 31, 2008, with effect from 19/03/2009.

- (2) In this regard, banks may use their judgment and discretion to renew/extend a forward contract for the purchase of foreign exchange, which had been entered prior to October 31, 2008, subject to the following:
- (i) The maximum period of renewal/extension of a forward contract is limited to 90 days.
  - (ii) In aggregate, the period of the contract inclusive of the period that has already elapsed should be 360 days or less.
  - (iii) The renewal/extension of a single forward contract is limited to 2 times.
  - (iv) Any cancellation of a forward contract by the customer should be subject to a penalty, at least to fully compensate the loss arising there from to the bank.
  - (v) Information relating to renewal/extension of a forward contract on any day should be reported to the Director of Bank Supervision on a daily basis, in accordance with the reporting format given in the circular issued on 31.10.2008.

Yours faithfully,

D Wasantha  
Controller of Exchange

B D W A Silva  
Director of Bank supervision

**Ref. No.: 02/17/800/007/001**

Bank Supervision Department  
7 April 2009

*To: CEOs of Licensed Commercial Banks and Licensed Specialised Banks*

Dear Sir/Madam,

**STIMULUS PACKAGE APPROVED BY THE GOVERNMENT FOR THE FINANCE AND LEASING  
INDUSTRY**

The Cabinet of Ministers at its meeting held on 25.02.2009, having considered the present financial stress experienced by some registered finance companies (RFCs) and specialised leasing companies (SLCs), has approved of a Stimulus Package consisting of several measures to address the liquidity and funding constraints faced by RFCs and SLCs. This Stimulus Package is designed to restore public confidence in the finance and leasing companies and thereby to ensure the stability of the financial system.

The current liquidity problems encountered by the finance companies and leasing companies have been aggravated by the sudden withdrawal of credit lines by some banking institutions. As the stability of the financial system is of utmost importance, all licensed banks are requested to carry on their normal businesses with registered finance companies and specialised leasing companies.

Yours faithfully,

B D W A Silva  
Director of Bank Supervision

**Ref. No.: 02/17/800/0006/01**Bank Supervision Department  
16 April 2009*To: Instructions to Licensed Commercial Banks Appointed as Authorised Dealer*

Dear Sir/Madam,

**IMPORTS OF MOTOR VEHICLES ON DOCUMENTS AGAINST  
ACCEPTANCE TERM (DA)**

Authorised Dealers are hereby informed that the operating instructions issued under Ref: No. 02/17/800/0006/01 dated 07/11/2008, 05/12/2008 and 18/03/2009 on the above subject are withdrawn with effect from 16.04.2009.

Yours faithfully,

D Wasantha  
Controller of ExchangeB D W A Silva  
Director of Bank Supervision**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act No. 30 of 1988, as amended.****W A Wijewardena**  
Senior Deputy Governor  
Central Bank of Sri LankaColombo  
24 April, 2009**DIRECTIONS**  
**BANKING ACT DIRECTION NO.1 OF 2009**  
**AMENDMENT TO DIRECTIONS ON OWNERSHIP OF ISSUED CAPITAL CARRYING VOTING  
RIGHTS FOR LICENSED COMMERCIAL BANKS**

In the exercise of the powers conferred by Section 46(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No.1 of 2007 dated 19 January 2007, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No.1 of 2009.

The following new Direction shall replace Direction No. 5 of the Banking Act Direction No. 1 of 2007.

Exceptions 5      Nevertheless, in the case of a licensed commercial bank which requires restructuring to avoid inadequacy of capital, insolvency or potential failure, such upper limit as specified in Direction 4 above may not be imposed, and the Monetary Board may grant permission to any of the categories of shareholders specified in Sections 12(1C) and 46(1)(d) to acquire a material interest in excess of 15 per cent of the issued capital carrying voting rights in the licensed commercial bank, subject to the condition that the material interest so acquired shall be reduced to 15 per cent within a specified period as may be determined by the Monetary Board on a case-by-case basis.

**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act No. 30 of 1988, as amended.**

**W A Wijewardena**  
Senior Deputy Governor  
Central Bank of Sri Lanka

Colombo  
24 April, 2009

**DIRECTIONS**  
**BANKING ACT DIRECTION NO. 2 OF 2009**  
**AMENDMENT TO DIRECTIONS ON**  
**OWNERSHIP OF ISSUED CAPITAL CARRYING VOTING RIGHTS**  
**FOR LICENSED SPECIALISED BANKS**

In the exercise of the powers conferred by Section 76J(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No. 2 of 2007 dated 19 January 2007, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 2 of 2009.

The following new Direction shall replace Direction No. 4 of the Banking Act Direction No. 2 of 2007:

Exceptions 4      Nevertheless, in the case of a licensed specialised bank which requires restructuring to avoid inadequacy of capital, insolvency or potential failure, the Monetary Board may, subject to terms and conditions it may deem fit, grant permission to any of the categories of the shareholders specified in Section 76J(1)(q) to acquire or hold issued capital carrying voting rights in excess of 15 per cent in the licensed specialised bank, subject to the condition that the issued capital so acquired shall be reduced to 15 per cent within a specified period as may be determined by the Monetary Board, on a case-by-case basis.

**Ref. No.: 02/17/600/0002/001**

Bank Supervision Department  
05 May 2009

*To: CEOs of Licensed Commercial Banks and Licensed Specialised Banks*

Dear Sir/Madam,

**REDUCTION OF INTEREST RATES**

As you are aware, the Central Bank in the recent past has taken measures to ease the monetary policy stance by reducing the policy rates, the Statutory Reserve Requirement and the penal rate charged on reverse repurchase transactions, following: the significant contraction in private sector lending. The above measures have resulted in a reduction in the money market rates such as call money market rates and the yields of Treasury bills and Treasury bonds. However, we observe that only a marginal reduction has been made in the interest rates offered by banks on lending to their customers, and this too on a selective basis.

The easing of the monetary policy stance of the Central Bank was intended to facilitate a reduction in lending rates, thereby promoting private sector lending. It is important that banks provide necessary funding to their customers to facilitate economic activities and to enhance growth prospects in the economy.

We are of the view that the reduction in interest rates is still not adequately reflected in the interest rates charged by the banks from customers in general. Thus. We hope that the banks would take appropriate measures to reduce interest rates charged from their customers.

Yours faithfully,

B D W A Silva  
Director of Bank Supervision

**Ref. No.: 02/17/800/0006/01**

Bank Supervision Department  
25 May 2009

*To: Instructions to Licensed Commercial Banks Appointed as Authorised Dealers*

### **FORWARD SALES AND PURCHASE OF FOREIGN EXCHANGE**

Authorised Dealers are hereby informed that the operating instructions issued under Ref No. 02/17/800/0006/01 dated 31/10/2008 and 19/03/2009 on the above subject are withdrawn with effect from 25.05.2009.

Yours faithfully,

D Wasantha  
Controller of Exchange

B D W A Silva  
Director of Bank Supervision

**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46 (1) of the Banking Act No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
1 September, 2009

### **BANKING ACT DIRECTIONS NO. 3 OF 2009** **DIRECTIONS ON RISK MANAGEMENT RELATING TO FOREIGN EXCHANGE BUSINESS OF** **LICENSED COMMERCIAL BANKS**

In the exercise of the powers conferred by Section 46 of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006, the Monetary Board hereby issues these Directions under provisions of Section 46(1) of the Act in respect of risk management relating to foreign exchange business of licensed commercial banks.

#### **1. Introduction**

- 1.1 The purpose of these Directions is to standardise and strengthen foreign exchange risk management systems in Licensed Commercial Banks (LCBs) and increase their soundness, thereby strengthening financial system stability.
- 1.2 In the case of financial derivatives, detailed operational guidelines and effective foreign exchange risk management practices have been already set out in the "Directions on Financial Derivative Products" issued

by the Director International Operations and the Controller of Exchange, on 31 July 2009. These Directions shall therefore, be read in conjunction with the above mentioned Directions.

- 1.3 These Directions shall be effective from 1 September 2009.
- 1.4 All LCBs shall fully comply with the provisions as set out in this Directions No. 3, on or before 31 March 2010.

## **2. Foreign Exchange Risk Management Policy**

- 2.1 LCBs shall ensure that policies, procedures, controls and limits are established to identify, measure, monitor and control foreign exchange risks. These policies, procedures and controls in relation to foreign exchange risk management shall be:
  - (i) approved by the Board of Directors;
  - (ii) properly documented and drawn up after consideration of the foreign exchange risks associated with different types of products and processes;
  - (iii) circulated among staff of all relevant departments and units;
  - (iv) reviewed by the Board of Directors on a regular basis, at least annually, to ensure that such policies, procedures and controls remain relevant, appropriate and timely.
- 2.2 The design of foreign exchange risk management policies, procedures, controls and limits, shall at least cover:
  - (i) responsibilities of the Board, senior management and all other staff involved;
  - (ii) risk monitoring and control;
  - (iii) approved products;
  - (iv) internal and external limits, including system-wide and trading limits;
  - (v) risk measurement and reporting;
  - (vi) stress testing mechanisms;
  - (vii) valuation of foreign currency positions;
  - (viii) internal controls and audit;
  - (ix) fit and proper criteria for persons engaged in foreign exchange business;
  - (x) procedure for the introduction of new products, services and activities; and
  - (xi) contingency planning.
- 2.3 The foreign exchange risk management policies and procedures shall be supplemented with ethical rules and standards, such as a comprehensive Code of Conduct, for adherence by the employees engaged in foreign exchange activities.

## **3. Responsibilities of the Board and Senior Management and all other staff involved**

- 3.1 The Board/senior management shall, take measures to strengthen the foreign exchange risk management systems and their soundness through the following:

- (i) put in place Board approved prudent foreign exchange risk management policies and connected procedures and oversee the implementation of the same;
- (ii) duly document related internal control procedures in the form of procedure manuals;
- (iii) review the policies on a regular basis, at least annually, in an appropriate manner;
- (iv) establish an Asset and Liability Management Committee (ALCO) for, inter alia, the management of foreign currency denominated assets and liabilities within the risk parameters approved by the Board;
- (v) establish, inter alia, a mechanism such as a Middle office, to monitor the foreign exchange risk, on an on going basis, and report the same to the ALCO;
- (vi) ensure the establishment of appropriate risk parameters for the ALCO and/or senior management in the management of the foreign exchange risk;
- (vii) review the results of periodic stress tests to assess the potential impact of various shocks and evaluate the bank's capacity to withstand stressed situations in terms of profitability, liquidity and capital adequacy;
- (viii) formulate an efficient Management Information System for reporting foreign exchange related activities, with facilities to escalate all exceptional transactions to the Board or the senior management as the case may be;
- (ix) ensure that the Board and senior management fully understand the risks involved;
- (x) formulate procedures to seek and obtain separate independent professional advice where necessary, in order to assist the Board of Directors to discharge its duties in this regard;
- (xi) approve the introduction of all new products, services and activities.

3.2 LCBs shall adhere to the rules applicable to Integrated Risk Management Committees as per the rules set out in Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', since such rules have a general application with regard to the responsibilities of the Board and senior management.

#### **4. Risk Monitoring and Control**

4.1 LCBs shall:

- (i) document the procedures and internal controls to be performed by Front Office, Middle Office and Back Office;
- (ii) establish a system to monitor their foreign exchange risks on an ongoing basis;
- (iii) report such risks on an ongoing basis to the ALCO;
- (iv) ensure the effective segregation of duties and responsibilities on trading, risk management, measurement, monitoring, settlement, accounting, auditing and legal functions through:
  - (a) the physical and functional separation of the Front Office/Trading Room and the Middle/Back Office functions;
  - (b) the establishment of a clear understanding of responsibilities and reporting obligations to the operating staff;

- (c) the restriction of access to the trading room and each of the identified functional areas to authorised personnel only;
  - (d) the prevention of the application of undue influence by the Front Office on the Middle/Back Office operations;
- (v) approve a list of acceptable instruments, approved brokers, authorised counterparties and their limits. A proper system should be in place for the establishment of treasury dealing limits for counter parties and regular reviews of such limits;
  - (vi) establish a procedure for delegating authority to dealers;
  - (vii) ensure that the prior approval of the Board of Directors/senior management is obtained for transactions in excess of delegated limits;
  - (viii) ensure the maintenance of deal blotters and regular independent reconciliation of positions of Traders/Front Office with the General Ledger;
  - (ix) establish a mechanism to ensure raising of a deal ticket for each and every deal conversation, including cancelled deals, time stamp all deals, voice record, through a well functioning real time and secured voice recording system, all conversations at the dealing room;
  - (x) ensure that the Back Office confirms all dealing transactions prior to issuance of settlement instructions to the counterparties;
  - (xi) monitor, on a real time basis, the foreign exchange transactions and positions independent of dealing and trading negotiations and implement a mechanism for timely reporting of all exceptions, violation of limits to the Board/senior management;
  - (xii) ensure that all transactions are executed at current market rates and that off-market or historical rate rollover transactions are not permitted;
  - (xiii) ensure that any irregularities in transactions, such as a large number of offsetting transactions, long outstanding suspense balances, as identified by an independent risk monitoring division, are reported promptly to the Board/senior management;
  - (xiv) regularly marking-to-market of foreign exchange positions through a division independent of Front Office and also independently verify revaluation rates and yield curves;
  - (xv) ensure that compensation for traders is in line with the policy of the LCB and market rates, and that such compensation levels are designed so as to avoid providing incentives for excessive risk taking or recklessness;
  - (xvi) strictly enforce an uninterrupted leave policy and ensure that traders on leave are prohibited from engaging in any trading or having remote access during this period;
  - (xvii) establish a suitable succession plan;
  - (xviii) implement restrictive dealing after-hours or off-premises rules for designated dealers.

## 5. Framework of Limits

- 5.1 LCBs shall establish a comprehensive framework of fixing foreign exchange related limits, including institution, dealer and transactions level to effectively manage foreign exchange risk exposures, at different levels of seniority.

- 5.2 These limits shall be:
- (i) properly documented and approved by the Board of Directors;
  - (ii) reasonable, and based on need after considering the funding, scale of business, risk tolerance policy, the degree of market proficiency and the experience and position of the dealer;
  - (iii) reviewed at least annually or more frequently as appropriate, considering the overall risk tolerance levels, relative excess volatility in foreign currencies, counterparty risk rating or market conditions.
- 5.3 The respective limits structure recommended for foreign exchange operations shall include the following:
- (i) open position limits on the aggregate of all currencies, both intra-day and overnight;
  - (ii) open position limits for individual currencies to which banks have material exposures, both intra-day and overnight;
  - (iii) limits for personnel involved in foreign exchange dealings, based on their experience and expertise;
  - (iv) limits for all counterparties covering the settlement and credit risks;
  - (v) stop loss and/or management action trigger limits;
  - (vi) country limits;
  - (vii) forward foreign exchange mismatch limits;
  - (viii) separate limits for the operations of the domestic banking unit and the off-shore banking unit;
  - (ix) maturity mismatch gap limits, under different time buckets, against all major currencies.

## **6. Risk Measurement and Reporting**

- 6.1 LCBs shall ensure the following with respect to the measurement and reporting of foreign exchange risk.
- (i) Regular reporting to Board/senior management/group or parent companies, where necessary.
  - (ii) Ensuring senior management's active involvement and responsibility for foreign exchange risk reporting.
  - (iii) Linking the foreign exchange risk reporting system to the bank's core systems and ensuring the reconciliation thereafter with the core data.
  - (iv) Ensuring that reports are clear and unambiguous, highlight key information and in particular set out breaches or exceptions.
- 6.2 LCBs shall also ensure that the risk measurement and reporting systems have the ability to:
- (i) independently assess and evaluate all foreign exchange risk by maturity, on both gross and net basis, arising from all assets and liabilities and off-balance sheet positions, including foreign exchange options, preferably by the Middle Office;
  - (ii) apply generally accepted financial models or methods for measuring risks and the conduct of regular stress testing and scenario analysis;

- (iii) maintain accurate and timely data on current positions;
- (iv) monitor the foreign exchange counterparty credit risk and settlement risk on a real time basis to ensure that limits are not exceeded;
- (v) document the assumptions, parameters and limitations on which the measurement systems are based, with any material changes to the assumptions being documented, well supported and approved by Board/senior management;
- (vi) maintain an accurate, reliable, informative and timely Management Information System which includes indicators on market risk as well as operational risks arising from foreign exchange operations.

## **7. Stress Testing**

- 7.1 LCBs shall measure their vulnerability to losses arising from foreign exchange operations by conducting regular stress tests. Banks shall evaluate their capacity to withstand market or bank specific stressed situations in terms of profitability, liquidity and capital adequacy.
- 7.2 The stress tests shall cover the major currencies to which the bank is exposed to and take into account the effect of any possible large exchange rate or interest rate movements.
- 7.3 The stress tests shall be commensurate with the nature of the bank's portfolio and risks involved.

## **8. Valuation of Foreign Currency Positions**

- 8.1 LCBs shall have systems in place to independently value their foreign currency positions on a regular basis. In this regard, the following practices shall be adopted.
  - (i) Net Open Position arising from customer and other trading activities shall be calculated on an ongoing basis. In the calculation of Net Open Position the following should be noted.
    - All unsettled spot transactions should be included.
    - All outstanding forward transactions should also be included.
    - Net foreign exchange position in other foreign exchange contracts, such as currency options, futures etc. should also be included separately.
    - Exposure indicated against each currency should be considered ignoring signs to arrive at gross exposure.
    - The Net Open Positions of domestic banking unit and the off-shore banking unit should be calculated separately.
  - (ii) Account for revaluation profit and loss on their foreign exchange position on a regular basis or at least on a monthly basis.
  - (iii) Clearly document the policy on exchange rates for valuation. Preferably, day end closing mid market rates should be used. Ideally, these rates should be obtained, by staff other than authorised dealing personnel, or, as a minimum, independently verified.
  - (iv) Revalue forward transactions at the prevailing mid-market rate for the outstanding period to settlement.

- (v) Revalue other appropriate foreign exchange related contracts through the Middle Office/Back Office on a “mark to market” basis.
- (vi) Not depend upon valuations provided by their counterparties.

## 9. Internal Controls and Independent Audit

- 9.1 LCBs shall ensure that the Internal Audit Departments of LCBs conduct periodic reviews, at least annually, of internal controls and risk management processes on foreign exchange business to ensure their integrity, accuracy and reasonableness, as well as compliance with the prescribed processes. The reviews shall ensure effective control over foreign exchange positions, including the accuracy and completeness of recording transactions; effective segregation of duties; accurate reporting of excesses of limits and other exceptions; compensation; all relevant internal controls are in place; and all established procedures are adhered to.
- 9.2 The audit of the operations shall be carried out on a risk evaluation/assessment basis. All high risk areas shall be audited by the internal auditors on a regular basis. The audit shall ensure that the operating procedures are adequate to minimize settlement risk.
- 9.3 The audit shall ensure the adequacy and accuracy of management information reports regarding the foreign exchange risk management activities.
- 9.4 LCBs shall respond promptly to any findings relating to violations of established procedures and ensure that recommendations by the internal or external auditors are effectively implemented.
- 9.5 Internal audit and other risk control units shall be adequately staffed and possess sufficient expertise and authority for reviewing the foreign exchange trading business.

## 10. Criteria to Assess the Fitness and Propriety of Persons Engaged in Foreign Exchange Business

- 10.1 In order that a person qualifies to be considered fit and proper to be attached to a Front Office, Middle Office or Back Office of an LCB in relation to the foreign exchange business of LCBs, the following criteria must be fulfilled. For purposes of this Direction, such persons are described as “persons engaged in foreign exchange business”. Non-compliance with any one of the criteria as set out herein, shall disqualify a person from being appointed/assigned or continuing in foreign exchange business in any capacity.
- 10.2 The following criteria shall apply to determine the fitness and propriety.
  - (i) A person engaged in foreign exchange business shall possess the following professional qualification/s:
    - (A) *In the case of a Dealer;*
      - (a) The Dealing Certificate offered by the Financial Market Association (Association Cambiste Internationale - ACI), or
      - (b) A Certificate in respect of a foreign exchange dealing course conducted by the Center for Banking Studies of the Central Bank of Sri Lanka, or
      - (c) Any other professional qualification acquired or possessed in respect of foreign exchange dealing acceptable to the Monetary Board. The Monetary Board may grant such approval on a case-by-case basis.
    - (B) *In the case of others engaged in Middle/Back Office work;*
      - (a) The Operations Certificate offered by the Financial Market Association (Association Cambiste Internationale - ACI), or

- (b) A Certificate in respect of a foreign exchange dealing/operations course conducted by the Center for Banking Studies of the Central Bank of Sri Lanka, or
  - (c) Any other professional qualification acquired or possessed in respect of foreign exchange operations acceptable to the Monetary Board. The Monetary Board may grant such approval on a case-by-case basis.
- (ii) A person engaged in foreign exchange business as at 1 September 2009, (the day on which these Directions come into force) will be required to obtain the relevant qualifications as specified in 10 (2) (i) above, on or before 31 August 2012.
  - (iii) A person engaged in foreign exchange business, shall undergo continuous training through participation in training programmes that are appropriate and sufficient for the functions or activities they are involved in/are expected to be involved in, and conducted by appropriate professional, academic or educational institutions.
  - (iv) A person engaged in foreign exchange business shall not have been found guilty by any regulatory authority or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law in Sri Lanka or abroad, to the effect that such person has committed or been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.
  - (v) A person engaged in foreign exchange business shall not have been found guilty, after being subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty, any other similar criminal activity or improper conduct by any regulatory authority or supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad.
  - (vi) A person engaged in foreign exchange business shall not have been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
  - (vii) A person engaged in foreign exchange business shall not be an undercharged insolvent nor have been declared a bankrupt in Sri Lanka or abroad.
  - (viii) A person engaged in foreign exchange business shall not have failed to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt.
  - (ix) A person engaged in foreign exchange business shall not have been declared to be of unsound mind by a Court of competent jurisdiction in Sri Lanka or abroad.
  - (x) A person engaged in foreign exchange business shall not have been removed or suspended by an order of a regulatory or supervisory authority from serving in a licensed bank or any other financial institution in Sri Lanka or abroad.

10.3 All persons engaged in foreign exchange business shall submit a Declaration to the Director of Bank Supervision, through the Chief Executive Officers of the respective banks, certifying that all criteria set out in 10.2 above are complied with.

## **11. Introduction of New Products, Services and Activities**

11.1 LCBs shall ensure that a clear policy is in place in relation to the introduction of new foreign exchange products, services and activities.

- 11.2 The introduction of all new products/services/activities shall be recommended by the ALCO and approved by the Board.
- 11.3 The procedure in introducing new products and services shall be in writing and approved by the Board. The review notes to the Board seeking approval must be duly signed by relevant officials of Treasury, Front Office, Middle Office, Back Office, Legal and Accounts, which clearly specifies and identifies the trading process, evaluation of inherent risks and returns, valuation, legal implications, recording and reporting formats. Special attention must also be given to the compatibility of the new service/product with the bank's core activities, risk profile and expertise.

## 12. Contingency Planning

- 12.1 LCBs shall have a contingency plan in place to ensure continuity of the foreign exchange settlement operations, as part of the overall business continuity plan of the bank, in the event the main site becomes unusable.
- 12.2 Such contingency plan shall be:
- (i) in line with the BCP Guidelines No. 01 of 2006 issued by the Payments and Settlements Department of the Central Bank of Sri Lanka on 29 March 2006;
  - (ii) documented and approved by the Board;
  - (iii) tested and reviewed at least annually.
- 12.3 LCBs shall ensure that a system is in place to ensure timely access to key information on payments made, received or payments in process.

## 13. Other Requirements

- 13.1 LCBs shall ensure the availability of job descriptions duly signed and accepted by each dealer and his superior.
- 13.2 All foreign exchange dealers shall accept and be guided by the Model Code of the Association Cambiste Internationale (ACI Model Code). In the event of any ambiguity or conflict, the terms of these Directions shall prevail over the ACI Model Code.
- 13.3 LCBs shall submit to the Director of Bank Supervision, the particulars of persons engaged in foreign exchange business employed by such LCBs on 1 September 2009, being the date of these Directions, as per the attached format. Any changes in personnel or in the particulars provided shall be informed to the Director of Bank Supervision within a period not exceeding one week from such change.
- 13.4 LCBs are advised to evaluate their policies and risk management practices relating to foreign exchange operations in line with these Directions. Any gaps shall be addressed on a priority basis to ensure compliance with these Directions by 31 March 2010, except where extended compliance dates have been specifically provided for in this Direction.

### Persons engaged in foreign exchange business

Name	Date of Birth	Academic / Educational Qualifications	Professional Qualifications	Date of Joining the Bank	Experience in Foreign Exchange Business (dates and positions held)	Membership in Sri Lanka Forex Association

**Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Section 8 of the Banking Act, No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
2 September 2009

**BANKING ACT DETERMINATION NO. 1 OF**  
**2009 ANNUAL LICENCE FEE OF LICENSED COMMERCIAL**  
**BANKS**

Citation	1.	This Determination may be cited as the Banking Act Determination No. 1 of 2009. The Sections referred to in this Determination will be those of the Banking Act, No. 30 of 1988, as amended.
Empowerment under Section 8 of the Banking Act	2.	<p>(1) In terms of Section 8(1) of the Banking Act, every licensed commercial bank shall pay to the Central Bank an annual licence fee as may be determined by the Monetary Board, having regard to the different classes of banking business carried on by such bank.</p> <p>(2) In terms of Section 8(2) of the Banking Act, the Monetary Board shall inform each such licensed commercial bank the amount payable as licence fee, and the manner in which such fee shall be paid.</p> <p>(3) In terms of Section 8(3) of the Banking Act, where a licence fee is determined in respect of classes of banking business such fee shall apply to all banks carrying on such classes of business.</p>
Annual licence fee for 2010	3.	<p>In the exercise of powers conferred by Section 8 (1) of the Banking Act, the Monetary Board has determined that the licence fee that shall be paid for the year 2010 by a licensed commercial bank carrying on:</p> <p>(1) Domestic banking business including foreign exchange business and off-shore banking business be Rs. 1,000,000.00;</p> <p>(2) Off-shore banking business only be Rs. 600,000.00.</p>
Payment of licence fee	4.	<p>(1) Every licensed commercial bank shall pay the respective licence fee to the Central Bank of Sri Lanka by 31 January 2010.</p> <p>(2) Every licensed commercial bank licensed in 2010, shall pay the annual licence fee for 2010 before the issue of the licence.</p>
Annual licence fee for future calendar years	5.	The annual licence fee applicable for future calendar years will be notified to banks accordingly.

**Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Section 76D(6) of the Banking Act, No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
2 September 2009

**BANKING ACT DETERMINATION NO. 2 OF 2009**  
**ANNUAL LICENCE FEE OF LICENSED SPECIALISED BANKS**

Citation	1.	This Determination may be cited as the Banking Act Determination No. 2 of 2009. The Sections referred to in this Determination will be those of the Banking Act, No. 30 of 1988, as amended.
Empowerment under Section 76D(6) of the Banking Act	2.	In terms of Section 76D(6) of the Banking Act, every licensed specialised bank shall pay to the Central Bank an annual licence fee as may be determined by the Monetary Board and the Monetary Board may determine different licence fees for different categories of licensed specialised banks.
Annual licence fee for 2010	3.	In the exercise of powers conferred by Section 76D(6) of the Banking Act, the Monetary Board has determined that every licensed specialised bank shall pay to the Central Bank a licence fee of Rs. 300,000.00 for the year 2010.
Payment of licence fee	4.	(1) Every licensed specialised bank shall pay the respective licence fee to the Central Bank of Sri Lanka by 31 January 2010.  (2) Every licensed specialised bank licensed in 2010, shall pay the annual licence fee for 2010 before the issue of the licence.
Annual licence fee for future calendar years	5.	The annual licence fee applicable for future calendar years will be notified to banks accordingly.

**Determinations made by the Monetary Board of the Central Bank of Sri Lanka under Sections 47(3), (4), (5) and (6) of the Banking Act, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
2 September 2009

**BANKING ACT DETERMINATION NO. 3 OF 2009**  
**LEASE-BACKED TRUST CERTIFICATES/LEASE RECEIVABLES AS APPROVED SECURITY FOR**  
**ACCOMMODATION TO**  
**ANY DIRECTOR OR CLOSE RELATION OF A DIRECTOR OR TO ANY CONCERN IN WHICH THE**  
**DIRECTOR HAS SUBSTANTIAL INTEREST**

Citation	1.	This Determination may be cited as the Banking Act Determination No. 3 of 2009. The Sections referred to in this Determination will be those of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006.
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- Empowerment under Section 47(3), (4), (5) and (6) 2. In terms of Section 47(3), (4), (5) and (6) of the Banking Act the Monetary Board shall approve any security to be given by any director, or a close relation of a director or to any concern in which the director has substantial interest, in the grant of accommodation to such parties by a licensed commercial bank.
- Approved Security 3. The following new Determination will be inserted immediately after 1(l) of the Determination issued in terms of Section 47(3), (4), (5) and (6) dated 11 February 2005.
- 1(m) Lease-backed trust certificates/lease receivables provided that -
- (i) The total accommodation granted on the lease-backed trust certificates/lease receivables shall not exceed 50 per cent of the value of such lease backed trust certificates/lease receivables.
  - (ii) The total accommodation granted on the lease-backed trust certificates/lease receivables shall not exceed 50 per cent of the aggregate amount of the total outstanding accommodation granted to the individual company.
  - (iii) Lease-backed trust certificates/lease receivables shall be based on the un-encumbered (performing) lease portfolio.
  - (iv) Lease-backed trust certificates/lease receivables shall be mortgaged to the lending bank.
  - (v) The lending bank should be a registered establishment under the Finance Leasing Act No. 56 of 2000.

**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
2 September 2009

**BANKING ACT DIRECTIONS NO. 4 OF 2009**  
**LEASE-BACKED TRUST CERTIFICATES/LEASE RECEIVABLES AS APPROVED SECURITY FOR**  
**ACCOMMODATION TO**  
**ANY DIRECTOR OR CLOSE RELATION OF A DIRECTOR OR TO ANY CONCERN IN WHICH THE**  
**DIRECTOR HAS SUBSTANTIAL INTEREST**

In the exercise of the powers conferred by Section 76J(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues Directions to licensed specialised banks.

- Citation 1. These Directions may be cited as the Banking Act Direction No. 4 of 2009. The Sections referred to in this Direction will be those of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006.
- Empowerment under Sections 76J(1) 2. In the exercise of the powers conferred by Section 76J(1) of the Banking Act, the Monetary Board is empowered to issue Directions to licensed specialised banks regarding the manner in which any aspect of the business of such banks is to be conducted.

- Approved Security 3. The following new Direction shall be inserted immediately after Direction 7.12 of the Directions issued in terms of Section 76J(1) of the Banking Act on Accommodation to Directors and Related Companies issued dated 21 November 1997.
- 7.13 Lease-backed trust certificates/lease receivables provided that-
- 7.13.1 The total accommodation granted on the lease- backed trust certificates/lease receivables shall not exceed 50 per cent of the value of such lease backed trust certificates/ lease receivables.
- 7.13.2 The total accommodation granted on the lease backed trust certificates/lease receivables shall not exceed 50 per cent of the aggregate amount of the total outstanding accommodation granted to the individual company.
- 7.13.3 Lease-backed trust certificates/lease receivables shall be based on the un-encumbered (performing) lease portfolio.
- 7.13.4 Lease-backed trust certificates/lease receivables shall be mortgaged to the lending bank.
- 7.13.5 The lending bank should be a registered establishment under the Finance Leasing Act No. 56 of 2000.

**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
2 September 2009

**BANKING ACT DIRECTIONS NO. 5 OF 2009**  
**IDENTIFYING, REPORTING, TRANSFERRING AND MAINTAINING**  
**ABANDONED PROPERTY OF LICENSED COMMERCIAL BANKS**

In the exercise of the powers conferred by Sections 72 to 76 of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006, the Monetary Board hereby issues these Directions under provisions of Section 46(1) of the Act in respect of identifying, reporting, transferring and maintaining abandoned property of licensed commercial banks.

- Citation 1 These Directions may be cited as the Banking Act Directions No. 5 of 2009. The Sections referred to in these Directions are those of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006.
- Reporting of abandoned property to the Monetary Board 2(1) In terms of Section 73(1), all licensed commercial banks holding any articles defined as abandoned property in Section 72 of the Banking Act, shall submit a report to the Monetary Board on an annual basis, within six months from the end of each financial year. Licensed commercial banks shall report abandoned property in accordance with the format at Annex I.
- 2(2) If there is no abandoned property identified by a licensed commercial bank during a financial year, the respective licensed commercial bank shall formally communicate this fact to the Central Bank of Sri Lanka. Such communication will be considered as a 'Nil' report.

- 2(3) Pursuant to filing of the report on abandoned property, licensed commercial banks shall maintain documents necessary to substantiate the information submitted in the report for a period of at least ten years from the date of submission.
- Publication of the notice on abandoned property
- 3(1) In terms of Section 74 of the Banking Act, all licensed commercial banks shall, within 30 days of submitting the report required under Direction 2(1) above,
- (i) publish a notice in Sinhala, Tamil and English daily news papers stating the name of the owner and particulars concerning the property, and
- (ii) dispatch by registered post, a notice containing the particulars of such property to the owner's last known address.
- 3(2) All licensed commercial banks shall confirm in writing to the Central Bank of Sri Lanka of compliance with these requirements, within seven working days from the date of publishing and despatching such notices.
- Transfer of abandoned property to "control accounts"
- 4(1) All licensed commercial banks shall create "control accounts" for abandoned property, based on the currency, in the banks' books and shall transfer to control accounts all monies reported to the Monetary Board as abandoned property in accordance with Direction 2(1) above.
- 4(2) All licensed commercial banks shall transfer monies that have already been reported to the Monetary Board as abandoned property in accordance with the Circular dated 2 May 2006, to the "control accounts" referred to in Direction 4(1) above, within seven working days from the date of this Direction.
- Transfer of monies to a special account in the Central Bank
- 5(1) In terms of Section 73(2) of the Banking Act, the Monetary Board has determined that licensed commercial banks shall transfer ninety per cent of the monies reported as abandoned property, maintained in Sri Lanka Rupees (LKR) in a control account, to a special account in the Central Bank of Sri Lanka, within forty five calendar days from the date of reporting the abandoned property each year.
- 5(2) Licensed commercial banks shall transfer ninety per cent of monies that have already been reported as abandoned property in accordance with the Circular dated 2 May 2006, maintained in LKR, and the interest on such monies calculated up to the date of transfer, to a special account in the Central Bank of Sri Lanka, within thirty calendar days from the date of this Direction.
- 5(3) Licensed commercial banks shall transfer the monies reported as abandoned property referred to in Directions 5(1) and 5(2) above to the following account in the Central Bank of Sri Lanka, and notify it in writing to the Chief Accountant of the Central Bank with a copy to the Director of Bank Supervision.
- Name of account: Abandoned Property of Licensed Commercial Banks  
Account Number: 4679
- Repayment of claims
- 6(1) Ten per cent of the monies reported as abandoned property maintained in LKR, remaining after the transfer as specified under the Direction 5(1), and abandoned property maintained in foreign currency shall be retained in the "control accounts" of licensed commercial banks referred to in Direction 4(1) above. These monies shall be utilised to meet any claims on the abandoned properties, upon the licensed commercial banks satisfying themselves of the identity of the claimants.
- 6(2) Once a payment is made in terms of Direction 6(1) above, licensed commercial banks shall report it to the Central Bank of Sri Lanka within seven days from the date of such payment, along with relevant information, i.e., details of the owner, description of property, date of reporting of such abandoned property, amount of payment and date of payment. All licensed

commercial banks shall prepare a report of such repayments on an annual basis and submit the same within six months of the end of each financial year, in accordance with the reporting format at Annex II, along with the report referred to in Direction 2(1) above.

- 6(3) Any claims in LKR made in excess of ten per cent of the funds retained in the respective control account by the licensed commercial bank, will be repaid by the Central Bank of Sri Lanka in terms of the provisions of Section 75 of the Banking Act. When any such claim is made, licensed commercial banks shall forward the same to the Central Bank of Sri Lanka, along with a letter certifying the identity of the owner of such abandoned property.
- Opening of Safe Deposit Boxes 7(1) Licensed commercial banks shall prepare a Safe Deposit Inventory Sheet to record the details of safe deposit boxes opened. Opening of safe deposit boxes shall be carried out in the presence of two responsible officers who are, inter-alia, specifically assigned with such task and one of whom should be at least at Senior Executive level. All items contained in safe deposit boxes that are considered to be abandoned, shall be included in the Inventory Sheet without exceptions. All items contained in the safe deposit boxes shall be itemised and kept in safe custody after opening the safe deposit boxes. No item should be sold, destroyed or disposed of.
- 7(2) The Inventory Sheet shall be signed by the officers mentioned in Direction 7(1) above. The Safe Deposit Inventory Sheet shall be prepared in accordance with the instructions to these Directions and reporting format at Annex III and submitted to the Monetary Board within six months of the end of each financial year, along with the report on abandoned property referred to in Direction 2(1) above.
- Revocation 8 In view of the introduction of this Direction, Circular Letter No. 02/17/402/0079/001, dated 2 May 2006, titled 'Implementation of the provisions of Sections 72 to 76 of the Banking Act on Abandoned Property' is hereby revoked with respect to its applicability to licensed commercial banks and without prejudice to anything duly done under or in terms of such Circular Letter.





### Safe Deposit Box Inventory Sheet

Name of the Bank:

Position as at financial year end:

(18.1.0.0.0.0)	(18.21.0.0.0.0)	(18.22.0.0.0.0)	(18.23.0.0.0.0)	(18.24.0.0.0.0)	(18.25.0.0.0.0)	(18.26.0.0.0.0)	(18.27.0.0.0.0)
Name of Branch	Name of Box Owner	Box Number	Vault Location	Date Drilled	Quantity	Detailed Description of Contents	Any other relevant information

We certify that above information is true and that no items have been removed or destroyed.

Date of Inventory:

.....  
Signature of Bank Official.....  
Name of Official.....  
Designation.....  
Signature of Bank Official.....  
Name of Official.....  
Designation

### Instructions for completing the Annexures on Abandoned Property In terms of Section 73(1) of the Banking Act

Details of the property, as defined in terms of Section 72 of the Banking Act, should be recorded in alphabetical order of the owners' last name, to the extent possible, branch wise and currency wise.

**Name of Bank:** Enter the name of the reporting Licensed Commercial Bank.

**Reporting Date:** Enter the date as at when the reporting is done (last calendar day of the financial year).

<b>(18.1.0.0.0.0)</b>	Enter the name of the branch in which the customer account is held.
<b>(18.2.0.0.0.0)</b>	Enter the owner's last name followed by the first name and middle name/s in full. Enter information that would aid in identification such as Miss, Mr., Mrs., after the middle name. If a single item has two or more owners, the names of all such owners must be reported, with the relationship. If your records do not show the name of the owner of an item, enter the owner as "unknown".
<b>(18.3.0.0.0.0)</b>	Enter the complete address available in your records. If no address is available, indicate this fact. In the case of several owners, if the address is the same, the address may be entered once and indicated that it is the same for the others.
<b>(18.4.0.0.0.0)</b>	Enter the owner's National Identity Card No., Passport No., Date of Birth or any other information that will assist in identifying the owner. These will be essential at the time of paying claims and if known, must be included in the report.
<b>(18.5.0.0.0.0)</b>	Select the description of the item from the list or, if it is not available, enter the description with sufficient detail.
<b>(18.6.0.0.0.0)</b>	Enter your identification number for each item such as Account No., etc.

<b>(18.7.0.0.0.0)</b>	Select whether the item is interest bearing or not.
<b>(18.8.0.0.0.0)</b>	Indicate the date when the last deposit, withdrawal or contact was made by the owner. It could also be the date a dividend became payable, cheque or draft was issued, certificate was purchased etc.
<b>(18.9.0.0.0.0)</b>	Indicate the nature of the last activity. E.g. A withdrawal, a deposit to the account etc.
<b>(18.10.0.0.0.0)</b>	Select the currency in which the account is maintained from the list or, if it is not available, enter the relevant currency.
<b>(18.11.0.0.0.0)</b>	Indicate the total amount due to the owner, including all interest, dividends etc, earned up to the reporting date, without deducting any service charges. In the case of safe deposit boxes or other items held for safekeeping, identify the contents and include the description of any item that has a value. For all safe deposit boxes, include an inventory sheet as in Annex III.
<b>(18.12.0.0.0.0)</b>	Enter the amount of deductions made, which should include only any lawful charges.
<b>(18.13.0.0.0.0)</b>	Indicate the nature of any deduction made such as service charges, tax etc.
<b>(18.14.0.0.0.0)</b>	The net amount due after the deductions mentioned.
<b>(18.15.0.0.0.0)</b>	Indicate the exchange rate applicable in the case of any currency other than LKR, as at the end date of the reporting period.
<b>(18.16.0.0.0.0)</b>	The net amount due in LKR.
<b>(18.17.0.0.0.0)</b>	Indicate the terms agreed with the owner, such as interest rate, payment instructions etc. that will be essential in the case of any payment of claims. Also indicate any special considerations attached to such property and the date of maturity in the case of term deposits.
<b>(18.18.0.0.0.0)</b>	Total of the net amount due in LKR in (18.16.0.0.0.0)
<b>(18.19.0.0.0.0)</b>	Indicate the year of reporting/identifying the particular property as abandoned property in reporting to CBSL.
<b>(18.20.0.0.0.0)</b>	Indicate the date of settlement of the claim to the customer.
<b>(18.21.0.0.0.0)</b>	Indicate the full name(s) of the owner(s) including information useful for identifying the owner.
<b>(18.22.0.0.0.0)</b>	Indicate the safe deposit box number.
<b>(18.23.0.0.0.0)</b>	Indicate the place at which the vault containing the safe deposit is located.
<b>(18.24.0.0.0.0)</b>	Indicate the date the safe deposit was opened.
<b>(18.25.0.0.0.0)</b>	Indicate the quantity of items in the safe deposit box.
<b>(18.26.0.0.0.0)</b>	Indicate the nature of each item contained in the safe deposit box.
<b>(18.27.0.0.0.0)</b>	Indicate any other relevant information.

Ref. No.: 02/17/800/009/001

Bank Supervision Department  
October 23 2009

To: CEOs of All Licensed Commercial Banks

Dear Sir/Madam,

**PERMITTING TRANSFER OF FUNDS BETWEEN ACCOUNTS MAINTAINED AT THE DOMESTIC BANKING UNITS AND THE OFF -SHORE UNITS OF LICENSED COMMERCIAL BANKS**

With a view to further deepening and diversifying the government securities market, the Monetary Board has authorised the transfer of funds between Treasury Bill/Bond Investment External Rupee Accounts (TIERA), Share Investment External Rupee Accounts (SIERA) and Special Foreign Investment Deposit Accounts (SFIDA) maintained in the Domestic Banking Units and the accounts maintained in Off-Shore Units of licensed commercial banks.

Accordingly, the Banking (Off-Shore Banking Scheme) Order 2000 dated 7 April 2000, made under sections 23, 25 and 26 of the Banking Act No. 30 of 1988, is amended to facilitate such transfers between the said accounts maintained in the Domestic Banking Units and Off-Shore Units of licensed commercial banks.

The Banking Order, No. 1 of 2009 incorporating the above mentioned amendment, is attached.

Yours faithfully,

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

**Order made by the Monetary Board of the Central Bank of Sri Lanka with the approval of the Minister, under sections 23, 25 and 26 of the Banking Act No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor Central Bank of Sri Lanka

Colombo  
23 October 2009

**Banking Act Order No. 1 of 2009**  
**Banking (Off-Shore Banking Business Scheme) Order**

Citation	1	This Order may be cited as the Banking Act Order No. 1 of 2009. The Sections referred to in this Order will be those of the Banking Act No. 30 of 1988, as amended.	
Insertion of new Clause 5A in the Banking (Off-shore Banking Business) Order, 2000 issued on 7 April 2000	2	The following new clause is hereby inserted immediately after Clause 5 and shall have effect as Clause 5A of the Banking (Off-shore Banking Business Scheme) Order, 2000 dated on 7 April 2000: -	
	Permitted transactions with the Domestic Banking Unit	5A	Any transfer of funds between Treasury Bill/Bond Investment External Rupee Accounts, Share Investment External Rupee Accounts and Special Foreign Investment Deposit Accounts of a non-resident, and accounts maintained in Off-Shore Units in Sri Lanka by such non-resident shall be permitted.

**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46(1) of the Banking Act No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
30 December 2009

**BANKING ACT DIRECTION NO. 6 OF 2009**  
**AMENDMENTS TO DIRECTIONS ON CLASSIFICATION OF LOANS AND**  
**ADVANCES, INCOME RECOGNITION AND PROVISIONING**  
**FOR LICENSED COMMERCIAL BANKS IN SRI LANKA**

In the exercise of the powers conferred by Sections 46(1) and 46A of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No. 3 of 2008 dated 8 May 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 6 of 2009.

1. The following new Direction shall replace Direction No. 4(5)(i) of Banking Act Direction No. 3 of 2008.
  - (i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/have been classified as NPL in terms of Direction 3(5) and if the aggregate amount outstanding of such NPL exceeds 30 per cent of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing 1 January 2011.
2. The following new Direction shall replace Direction No. 4(7)(I) of Banking Act Direction No. 3 of 2008. This Direction will be effective till 31 December 2010.

4 (7) (I) Reclassification of NPL as PLA:

Banks shall reclassify NPL as PLA in the following manner:

Facility Type	Criteria to reclassify NPL as PLA
(i) Overdrafts in: Special mention category Sub-standard category Doubtful category Loss category	When 60% in excess of the sanctioned limit is paid by the borrower. When 70% in excess of the sanctioned limit is paid by the borrower. When 80% in excess of the sanctioned limit is paid by the borrower. When 90% in excess of the sanctioned limit is paid by the borrower.
(ii) Overdraft facilities where the sanctioned limit has expired or cancelled or no limit has been availed	Reclassification does not arise.
(iii) Credit facilities repayable in monthly installments	When the installments, principal and/or interest, unpaid are less than three.
(iv) All other credit facilities	If interest and principal in arrears are paid by the borrower.

**Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act No. 30 of 1988, as amended.**

**Nivard Ajith Leslie Cabraal**  
Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka

Colombo  
30 December 2009

**DIRECTIONS**  
**BANKING ACT DIRECTION NO. 7 OF 2009**  
**AMENDMENTS TO DIRECTIONS ON CLASSIFICATION OF LOANS AND ADVANCES, INCOME**  
**RECOGNITION AND PROVISIONING**  
**FOR LICENSED SPECIALISED BANKS IN SRI LANKA**

In the exercise of the powers conferred by Section 76J(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No. 4 of 2008 dated 8 May 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 7 of 2009.

1. The following new Direction shall replace Direction No. 4(5)(i) of Banking Act Direction No. 4 of 2008.
  - (i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/ have been classified as NPL in terms of Direction 3(5) and if the aggregate amount outstanding of such NPL exceeds 30 per cent of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing 1 January 2011.
2. The following new Direction shall replace Direction No. 4(7)(I) of Banking Act Direction No. 4 of 2008. This Direction will be effective till 31 December 2010.

4 (7) (I)      Reclassification of NPL as PLA:  
Banks shall reclassify NPL as PLA in the following manner:

Facility Type	Criteria to reclassify NPL as PLA
(i)      Credit facilities repayable in monthly installments	When the installments, principal and/or interest, unpaid are less than three.
(ii)     All other credit facilities	If interest and principal in arrears are paid by the borrower.

**Ref. No.: 12/02/004/0007/001**

Currency Department  
26 February 2009

*To: All Cash Managers of Commercial Banks,*

**A SERVICE CHARGE FOR PROCESSING SERVICEABLE CURRENCY NOTES**

As per a decision taken by the Monetary Board, the Currency Department (CRD) will be collecting a service charge from commercial banks for processing currency note bundles with effective from 2<sup>nd</sup> March, 2009. This service charge will be

applicable only for currency notes deposited as Serviceable Notes and notes deposited as Unserviceable Notes will be free of charge. Charges are as follows

1. Rs. 200/- for each bundle with denominations of Rs. 500 and above.
2. Rs. 100/- for each bundle with denominations below Rs. 500/-.

Commercial banks are required to follow the sorting standards of CRD when separating notes under the categories of serviceable notes, unserviceable notes, mutilated and damaged notes.

Yours faithfully,

Actg. Superintendent of Currency

**Circular No.: 35/01/005/0006/21**

Domestic Operations Department  
13 January 2009

*To: All Licensed Commercial Banks and Primary Dealers*

**REVERSE REPURCHASE FACILITY**

The Licensed Commercial Banks and Primary Dealers are hereby informed that with effect from 13 January 2009, the penal rate of interest on overnight Reverse Repurchase Transactions with the Central Bank will be seventeen (17) per cent per annum.

A Kamalasiri  
Director

Domestic Operations Department

**Circular No.: 35/01/005/0006/22**

Domestic Operations Department  
11 February 2009

*To: All Licensed Commercial Banks and Primary Dealers*

**REVERSE REPURCHASE FACILITY**

The Licensed Commercial Banks and Primary Dealers are hereby informed that with effect from 11 February 2009, the penal rate of interest on overnight Reverse Repurchase Transactions with the Central Bank will be sixteen point five per centum (16.5%) per annum.

A Kamalasiri  
Director

Domestic Operations Department

**Operating Instructions No.: 35/01/005/0007/04**

Domestic Operations Department  
26 February 2009

*To: All Licensed Commercial Banks*

**RESERVE REQUIREMENTS**

Your attention is invited to the Notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Monetary Law (Amendment) Act No: 32 of 2002 and published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No.1590/14 of 26 February, 2009, on the above subject.

2. The Licensed Commercial Banks are hereby informed that in accordance with the said notification, they should maintain reserves against deposit liabilities denominated in Sri Lanka Rupees at an amount equal to seven per centum (7.00%) of the total of such deposit liabilities.
3. The above amendment takes effect from 27 February, 2009. All other instructions contained in our Operating Instructions No.35/01/005/0007/01 of 20 March, 2003 will continue to apply.

A Kamalasinghe  
Director  
Domestic Operations Department

Domestic Operations Department  
04 March 2009.

*To: All Licensed Commercial Banks and Primary Dealers*

**USE OF REPURCHASE FACILITY WHEN THE BANKING SYSTEM IS  
SHORT IN LIQUIDITY**

All Licensed Commercial Banks and Primary Dealers are hereby informed that the Central Bank has decided to limit, with effect from 06 March, 2009 the Repurchase Facility (Repo) to Rs.100.0 mn. per Participating Institution per day on the days when the Central Bank offers Reverse Repurchase Facility at the reverse repurchase rate of the Central Bank.

A Kamalasinghe  
Director  
Domestic Operations Department

Domestic Operations Department  
04 March 2009

*To: All Licensed Commercial Banks and Primary Dealers*

**TERM REVERSE REPURCHASE FACILITY**

The Term Reverse Repurchase Facility up to one month maturity at comparable annualized compounded rate of interest on overnight Reverse Repurchase Penal Rate is available to all Participating Institutions under the Standing Facility.

For further details, you may contact Chief Dealer/Dealers of the Open Market Operations Front Office of the Domestic Operations Department.

A Kamalasinghe  
Director  
Domestic Operations Department

**Circular No.: 35/01/005/0006/23**Domestic Operations Department  
18 March 2009*To: All Licensed Commercial Banks and Primary Dealers***REVERSE REPURCHASE FACILITY**

Licensed Commercial Banks and Primary Dealers are hereby informed that with effect from today (18.03.2009), the penal rate of interest on overnight Reverse Repurchase Transactions with the Central Bank will be fourteen point seven five per centum (14.75%) per annum.

A Kamalasiri  
Director  
Domestic Operations Department**Circular No.: 35/01/005/0010/12**Domestic Operations Department  
18 March 2009*To: All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circulars No.35/01/005/0010/08 and 35/01/005/0010/11 dated 31.10.2008 and 05.12.2008 respectively, on the margin requirements against the Letters of Credit.

Licensed commercial banks are hereby informed that the margin deposit requirement of 100 per cent of the invoice value at the time of opening Letters of Credit for importation of the items specified in the Schedule A1 attached to our circular No 35/01/005/0010/11 dated 05.12.2008, is withdrawn with effect from today (18.03.2009).

A Kamalasiri  
Director  
Domestic Operations Department**Circular No.: 35/01/005/0010/13**Domestic Operations Department  
18 March 2009*To: All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circulars No. 35/01/005/0010/01, 35/01/005/0010/07 and 35/01/005/0010/11 dated 22.10.2004, 31.10.2008 and 05.12.2008 respectively, on the margin requirements against the Letters of Credit (LCs).

Licensed Commercial Banks are hereby informed that the margin deposit requirement against the LCs for importation of the items specified in Schedule A attached to our Circular No.35/01/005/0010/11 dated 05.12.2008, is reduced from 200 per cent to 100 per cent with effect from today (18.03.2009).

A Kamalasiri  
Director  
Domestic Operations Department

**Circular No.: 35/01/005/0006/24**

Domestic Operations Department  
19 March 2009

*To: All Licensed Commercial Banks and Primary Dealers*

**OPERATING INSTRUCTIONS ON TERM REVERSE REPURCHASE TRANSACTIONS UNDER THE AUCTION SYSTEM**

We refer to the Operating Instructions Circular No. 35/01/005/0006/04 on Open Market Operations of the Central Bank of Sri Lanka (CBSL) in Scripless Government Securities dated 27 January, 2004 and in particular to paragraph B (1) thereof. The CBSL has decided that, in addition to one day (overnight) reverse repurchase transactions, the Bank would also engage in Term Reverse Repurchase Transactions under the Auction System with the Participating Institutions (PIs).

All Term Reverse Repurchase Transactions carried out between a PI and CBSL, in terms of these Operating Instructions, are subject to the provisions of the Master Repurchase and Reverse Repurchase Agreement entered into between such PI and the Monetary Board of the Central Bank of Sri Lanka. The terms used in these Operating Instructions shall have the same meaning assigned to them in the Master Repurchase and Reverse Repurchase Agreement.

In the event of any inconsistency or conflict between these Operating Instructions and the Master Repurchase and Reverse Repurchase Agreement, these Operating Instructions shall prevail.

The terms and conditions and procedures applicable to Term Reverse Repurchase Transactions are given below-

1. The Market Operations Committee will announce, as and when necessary, auctions for Term Reverse Repurchase Transactions on the on-line electronic bidding system. The announcement will include the amount offered, maturity date (the tenure), auction date and the settlement date.
2. The auction announcement will be made on the auction date or one business day in advance to the auction date and PIs are invited to submit their bids, giving the amount and interest rate during 1300 hours and 1400 hours on the auction date. The settlement date will be the succeeding business day.
3. Bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone will be entertained only in the event of a failure of the on-line bidding system. Bids submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to the Domestic Operations Department before the close of business on the same day.
4. A PI can submit up to a maximum of six bids for each tender. The minimum amount of a bid shall be Rupees one million and bids should be in multiples of Rupees one million.
5. Results of the auction will be announced at 1430 hours on the auction date via the on-line electronic bidding system and/or any other means of communication giving the total amount accepted and the Weighted Average Reverse Repurchase Rate (WARRP).

6. Each successful PI will be informed of the acceptance of its bid/s and allotment through the electronic bidding system at 1430 hours. The allotment will be made at the rates quoted by the successful bidder.
7. A confirmation of the Term Reverse Repurchase Transaction to each successful PI will be issued electronically through the electronic bidding system within one hour after the release of results. The confirmation shall substantially be in the form at Annexure I. The PIs are advised to promptly view the confirmation and retain a hard copy of the confirmation for their records. In the event a PI is unable to view or print the confirmation due to a technical failure in accessing the electronic bidding system, the Payments and Settlement Department will fax a copy of such confirmation to the PI on request.
8. The settlement of the transactions will be through the Matched Trade Feed facility available in LankaSettle. A Matched Trade Feed file will be submitted to LankaSettle at or before 1145 hours, on the basis of which the system will settle the transaction by crediting the Settlement Account of the PI with the Purchase Price against the receipt of the Purchased Securities in the Domestic Operations Reverse Repurchase (DRP) Account of the CBSL in LankaSecure. The PI is not required to submit any settlement instructions in this regard to the system.
9. The Purchase Price of the Treasury bills/bonds accepted by CBSL will be calculated based on the Official Prices determined by CBSL for such purposes. The Official Prices of Treasury bills/bonds shall be determined on a daily basis based on the current market prices, taking into consideration the market developments. Such Official Prices are recorded in LankaSecure.
10. On the sell back date (Repurchase Date), a Matched Trade Feed file will be submitted to LankaSettle at 1100 hours, on the basis of which the system will transfer the Purchased Securities to the PIs Own Account in LankaSecure, against the receipt of payment to the Settlement Account of CBSL for the sell back value (Repurchase Price) of the Purchased Securities in the same manner as outlined at Clause 8 above.
11. The sell back value (Repurchase Price) will consist of the Purchase Price plus the interest component, which will be calculated at the rate quoted by the PI.
12. If a PI fails to honour a Term Reverse Repurchase Transaction after acceptance of its bid/s by CBSL, the PI shall be liable to pay CBSL as damages an amount equivalent to one day interest on the amount accepted calculated at the rate quoted by the PI.
13. In the event of a PI failing to maintain sufficient funds in its Settlement Account to pay the Repurchase Price in full on the Repurchase Date, the CBSL shall be entitled to treat the Term Reverse Repurchase Transaction as an outright purchase by CBSL and in addition, recover from the PI damages as set out in Clause 12 above.
14. The CBSL may suspend a PI from engaging in Term Reverse Repurchase Transaction in the event of the failure of such PI to honour a Term Reverse Repurchase transaction.
15. In the event of there being bids at the same rate in excess of the amount offered, the available quantum will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
16. If the Repurchase Date in respect of any Term Reverse Repurchase Transaction is a bank holiday, any obligation of a party of such Term Reverse Repurchase Agreement arising on such day, shall be carried out by such party on the immediately succeeding business day.
17. The CBSL reserves the right to accept or reject a bid of a PI.

The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of these Operating Instructions with prior notice to PIs.

A Kamalasiri  
Director  
Domestic Operations Department

## Annexure I

**CENTRAL BANK OF SRI LANKA – OPEN MARKET OPERATIONS**  
**STATUS OF OMO TRANSACTIONS**

PARTICIPATING INSTITUTION :  
 AUCTION DATE :  
 AUCTION NO :

PI	BID	ACT.TYPE	S.DATE/ REF	ISIN	ACPTD/ PURCH VAL.	YIELD	SEC.FACE VALUE	RE- PURCH VALUE	MAT DATE	STATUS

**Circular No.: 35/01/005/0010/14**

Domestic Operations Department  
08 April 2009

*To: All Licensed Commercial Banks*

**MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circulars No. 35/01/005/0010/01, 35/01/005/0010/11 and 35/01/005/0010/13 dated 22 October 2004, 05 December, 2008 and 18 March, 2009 respectively, on the margin requirements against the Letters of Credit (LCs).

All Licensed Commercial banks are hereby informed that the margin deposit requirement of 100 per cent of the invoice value at the time of opening LCs for importation of items specified in the Schedule A referred to in our Circular No.35/01/005/0010/13 dated 18 March 2009, is withdrawn with effect from today (08.04.2009).

A Kamalasiri  
Director  
Domestic Operations Department

**Circular No.: 35/01/005/0006/25**

Domestic Operations Department  
22 April 2009

*To: All Licensed Commercial Banks and Primary Dealers*

**REVERSE REPURCHASE FACILITY**

Licensed Commercial Banks and Primary Dealers are hereby informed that with effect from today (22 April, 2009), the penal rate of interest on overnight Reverse Repurchase Transactions with the Central Bank will be thirteen per centum (13.00%) per annum.

D A G K Wijetunga  
Actg. Director  
Domestic Operations Department

**Circular No.: 35/01/005/0006/26**Domestic Operations Department  
21 May 2009*To: All Licensed Commercial Banks and Primary Dealers***OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA**

Licensed Commercial Banks and Primary Dealers are hereby informed that the Reverse Repo facility at penal rate and the restrictions on Overnight Repo and Reverse Repo under Standing Facility will be removed, with immediate effect.

The Bank will continue the following transactions under its Open Market Operations (OMO) as per Circulars No.35/01/005/0006/04, 35/01/005/0006/18 and 35/01/005/0006/24 on Operating Instructions on OMO of the Central Bank of Sri Lanka in Scripless Government Securities, Term Repo transactions under Auction System and Term Reverse Repo transactions under Auction System, respectively:

- (i) Standing Facility at the Central Bank policy rates.
- (ii) Overnight Repo and Reverse Repo auctions.
- (iii) Term Repo and Term Reverse Repo under Auction System.

A Kamalasiri  
Director  
Domestic Operations Department**Circular No.: 35/01/005/0006/27**Domestic Operations Department  
30 October 2009*To: All Licensed Commercial Banks***OPERATING INSTRUCTIONS ON FX SWAP TRANSACTIONS  
UNDER THE AUCTION SYSTEM**

The Central Bank (CBSL) has decided to conduct FX swap (Foreign exchange swap) transaction that involves the purchase of one currency against another at an initial date and an agreement to reverse that transaction at a future date and at a specified rate as an instrument in monetary policy operations. Foreign exchange swaps are similar to repos, but with collateral being foreign currency in place of Government Securities.

All FX swap transactions are carried out between Commercial Banks and the CBSL. The CBSL will engage in two types of FX swaps under the Open Market Operations (OMO):

- a) For absorbing excess market liquidity; sell-buy FX swaps
- b) To inject liquidity to the market; buy-sell FX swaps

The terms and conditions and procedures applicable to such transactions are given below:

1. The tenure of the sell-buy FX swaps/buy-sell FX swaps will be limited to a maximum of 365 days.

2. The Market Operations Committee (MOC), after assessing the daily liquidity position in the money market, will announce auctions for sell-buy FX swaps/buy-sell FX swaps transactions, as and when necessary on the on-line electronic bidding system. The announcement will include the amount offered, date of auction and settlement dates of first and second legs.
3. The auction announcement will be made on the day prior to the auction date and Commercial Banks are invited to submit their bids, giving the amount and swap points (variable rate tenders) during 1300 hours and 1400 hours on the same day.
4. Bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone will be entertained only in the event of a failure of the on-line bidding system. Bids submitted via telephone should be confirmed by a fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to the Domestic Operations Department (DOD) before the closure of business on the same day.
5. Bids are accepted in US dollars, until further notice.
6. A commercial bank can submit up to a maximum of six bids for each tender. The minimum amount of a bid should be US dollar 1,000,000. Any bid exceeding the minimum bid amount should be in multiples of 100,000 in US dollars.
7. Bids in swap points should be entered into the electronic bidding system in rupee terms with two decimal points. e.g. 0.20 = twenty cents.
8. In the event of there being bids at the same rate in excess of the amount offered, the available quantum of sell-buy FX swaps /buy-sell FX swaps will be allocated among such bidders on a 'pro rata' basis.
9. Results of the auction will be announced at 1430 hours on the auction date via the on-line electronic bidding system and/or any other means of communication giving the total amount accepted and the swap points.
10. Each successful bidder will be informed of the acceptance of its bid/s and allotment through the electronic bidding system at 1430 hours. The allotment will be made at the swap points quoted by the successful bidder.
11. A confirmation of sell-buy FX swaps /buy-sell FX swaps to each successful bidder will be issued electronically through the electronic bidding system within one hour after the release of results. The confirmation shall substantially be in the form at Annexure I. The banks are advised to promptly view the confirmation and retain a hard copy of the confirmation for their records. In the event of a bank is unable to view or print the confirmation due to a technical failure in accessing the electronic bidding system, DOD will fax a copy of such confirmation to the bank on request.
12. The International Operations Department (IOD) of the CBSL will be informed of successful bids, allotments and swap points by DOD to carry out sell-buy FX swaps /buy-sell FX swaps transactions in physical form and facilitate sending deal confirmation to each successful bidder.
13. Settlement procedure for sell-buy FX swaps/buy-sell FX swaps will be identical to the settlement of other similar foreign exchange transactions.
14. The CBSL reserves the right to accept or reject a bid of a bank.
15. The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of these Operating Instructions with prior notice to banks.

D A G K Wijetunga  
Addl. Director  
Domestic Operations Department

**Annexure I**

**Bank Name :** \_\_\_\_\_ **Date :** \_\_\_\_\_  
**Activity : SWAP SELL USD – BUY LKR** **Auction No :** \_\_\_\_\_

<b>Bid No.</b>	<b>Requested Amount</b>	<b>Accepted Amount</b>	<b>SWAP Points</b>

**Summary**

Number of Bids Accepted : \_\_\_\_\_  
 Total Value of Bids Accepted : \_\_\_\_\_  
 Number of Bids Submitted : \_\_\_\_\_  
 Total Value of Bids Submitted : \_\_\_\_\_

**Market Information**

Weighted Average : \_\_\_\_\_  
 Percentage Accepted : \_\_\_\_\_  
 Total Accepted : \_\_\_\_\_  
 Total Subscription : \_\_\_\_\_

**Circular No.: 35/01/005/0006/28**

Domestic Operations Department  
 06 November 2009

*To: All Licensed Commercial Banks and Primary Dealers*

**OPERATING INSTRUCTIONS ON ISSUING CENTRAL BANK SECURITIES IN SCRIPLESS FORM  
 UNDER OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA**

This has reference to our Circular No. 35/01/005/0006/17 dated 12 March 2008, on the above Operating Instructions.

The Central Bank of Sri Lanka (CBSL) has decided to provide a facility for the Participating Institutions (PIs) to sell-back their holdings of CBSL Securities to the CBSL, in case they are in need of liquidity.

The terms and conditions and procedures applicable to the sell-back of CBSL securities by PIs are given below:

1. PIs are permitted to sell-back their holdings of CBSL securities prior to the maturity dates to the CBSL at a discount at an interest rate comparable with the reverse repurchase rate of the CBSL for the remaining period of maturity.
2. Following procedure will be adopted in buying-back such securities by the CBSL prior to maturity date:
  - 2.1. The PIs who wish to sell-back the CBSL securities, are required to inform the Open Market Operations (OMO) Division of the Domestic Operations Department (DOD) by telephone/ fax message indicating the amount expected to sell-back not later than 1500 hours.

- 2.2 PIs are requested to submit the amount required to sell to the electronic bidding system (under standing facility outright purchase option) at or before 1500 hours of the same day.
- 2.3 The minimum amount of a transaction shall be Rupees one million and deals should be in multiples of Rupees one million.
3. The settlement date will also be on the deal date.
4. Confirmation of the sell-back transactions of CBSL securities will be issued to the PIs electronically through the electronic bidding system by 1615 hours on the same day. The confirmation shall substantially be in the form at Annexure I. The PIs are advised promptly to view such confirmation and retain a hard copy of the confirmation for its records. In the event, a PI is unable to view or print the confirmation due to a technical failure in accessing the bidding system, Payment and Settlements Department (PSD) will fax a copy of the confirmation to the PI on request.
5. The settlement of the transactions will be on a Delivery Versus Payment (DVP) basis through the Matched Trade Feed facility available in LankaSecure. The Matched Trade Feed file will be submitted to LankaSecure at or before 1615 hours on the settlement date on the basis of which, the system will settle the transaction by crediting the respective settlement accounts of the PIs, for the purchased value of CBSL securities against the receipt of the CBSL securities purchased into the own Account of the CBSL in LankaSecure. The PIs are not required to submit any settlement instructions in this regard to the system.
6. The purchase value (price) will be calculated by discounting the face value of CBSL securities at a value comparable with the reverse repurchase rate for the remaining period to maturity of the security.
7. The acceptance by the CBSL of an offer of a PI to sell CBSL securities at reverse repurchase rate is binding on the PI and the failure to honour the transaction (sell by PI) before the closure of business of LankaSecure on the settlement date, will render the PIs liable to pay damages to the CBSL, equivalent to the interest component on the sale value for the remaining period to maturity at the reverse repurchase rate. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.

R A A Jayalath  
Director  
Domestic Operations Department

**Annexure I**

**STATUS OF OMO TRANSACTIONS**

**PARTICIPATING INSTITUTION** :  
**AUCTION DATE** :  
**AUCTION NO.** :

BID ACT. TYPE	S.DATE/ REF.	ISIN	ACPT/PURC. VALUE	YIELD	SEC.FACE VALUE	RE-PUREC. VALUE	MAT DATE	TAX	STATUS

**Ref. No.: 06/04/01/2009**Department of Exchange Control  
January 07, 2009*Directions to Authorized Dealers*

Dear Sirs,

**INVESTMENT IN RUPEE DENOMINATED TREASURY BONDS AND TREASURY BILLS BY SRI LANKAN DIASPORA AND MIGRANT WORKFORCE**

Authorized Dealers are hereby informed that permission has been granted to Sri Lankans living abroad including migrant workers/businessmen; Sri Lankan professionals living in Sri Lanka and abroad who earn foreign exchange; Sri Lankan citizens with dual citizenship irrespective of their country of residence and banks acting in fiduciary capacity on behalf of the above categories, to purchase, hold and sell Rupee denominated Treasury bonds (T-bonds) and Treasury bills (T-bills) with any maturity period.

The total investment in T- bonds and T- bills should not exceed 10% of the total value of T- bonds/T- bills outstanding at any given point of time. The above categories of investors are also permitted to enter into Repo/Reverse Repo transactions using T-bonds/T-bills purchased under this scheme as collateral. However, they are not permitted to utilize funds available in NRFC or RFC accounts or any other foreign currency accounts in Sri Lanka to purchase T- bonds/T-bills under this scheme.

**1. Method of Payment**

The above categories of investors shall make payments for purchase of T- bonds/T- bills by inward remittances through banking system and channelled through a special rupee account named “**Treasury bonds/bills Investment External Rupee Account-Deshabhimani (TIERA– D)**” opened in the name of the investor. These accounts may be held by eligible individual investors or jointly by two or more eligible investors.

**2. Permitted Credits to TIERA-D**

- (a) Inward remittances received through banking system;
- (b) Sale proceeds realized out of sale or maturity proceeds of T-bonds/ T-bills and any income realized by way of capital gain thereof;
- (c) Interest received on T- bonds.

**3. Permitted Debits to TIERA-D**

- (a) Payments for investment in T- bonds/T-bills;
- (b) Payments for Lead Managers appointed by the Central Bank of Sri Lanka for this purpose and bank charges;
- (c) Transfers to any other account maintained in foreign currency or Sri Lankan rupees by the account holder;
- (d) Payments of local expenses of the account holder;
- (e) Outward remittances of sale proceeds, maturity proceeds and interest of T- bonds/T-bills or any income realized by way of capital gain thereof.

**4. Reporting Requirement**

Authorized Dealers are required to furnish the details of TIERA - D to this Department on daily basis via the existing on-line system under the code no. 3.

Yours faithfully,

E A Hettiarachchi  
Controller of Exchange

**Ref. No.: 06/04/02/2009**Department of Exchange Control  
January 27, 2009*Directions to Authorized Dealers*

Dear Sirs,

**PAYMENT OF A BONUS INTEREST IN RUPEES ON THE INTEREST ON RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS AND NON RESIDENT FOREIGN CURRENCY (NRFC) ACCOUNTS**

Authorized Dealers are hereby informed that in order to promote inward remittances, the Government of Sri Lanka will pay a bonus interest in Sri Lanka rupees on the interest paid by Authorized Dealers on RFC and NRFC accounts, with effect from February 01, 2009 subject to the following conditions:

1. The calculation of bonus interest shall be based on the foreign currency interest that accrues on deposits from 01/02/2009 onwards.
2. The bonus interest shall be equal to 20 per cent of the foreign currency interest that accrues after 01/02/2009 and paid by the Authorized Dealers to their customers in US Dollars or other designated foreign currencies on RFC and NRFC Accounts. Such bonus interest shall be paid in Sri Lanka rupees.
3. Authorized Dealers shall use the monthly average exchange rate of the previous month as made available on the Central Bank web site ([www.cbsl.gov.lk](http://www.cbsl.gov.lk)) for the calculation of bonus interest.
4. The bonus interest calculated as above, shall be payable to the customer on the same day on which the foreign currency interest is paid.
5. The bonus interest, calculated in Sri Lanka rupees, shall be credited to a rupee account opened in the name of the account holder or to any other account nominated by the account holder.
6. The Bonus interest paid in Sri Lanka rupees will be exempt from income tax.
7. Authorized Dealers shall not reduce the prevailing interest rate offered by them to RFC and NRFC account holders, as a consequence of implementing this scheme.
8. The bonus interest paid on RFC and NRFC accounts for each month shall be claimed by the Authorized Dealer by submitting details of the bonus interest as per the attached format. Authorized Dealers shall send such details as a consolidated statement of all branches to the Chief Accountant of the Central Bank of Sri Lanka (CBSL) with a copy to the Controller of Exchange on or before the 15<sup>th</sup> day of the following month. Authorized Dealers are also required to submit an account number to the Chief Accountant of CBSL, to which such reimbursement would be made in Sri Lanka rupees by the CBSL.
9. Authorized Dealers shall immediately inform all the RFC and NRFC account holders the operation of this scheme and obtain from them the particulars of the rupee accounts to which the bonus interest should be credited.
10. Details with regard to payment of bonus interest shall be made available for inspection by the CBSL, at any time.

Yours faithfully,

E A Hettiarachchi  
Controller of Exchange

To: Chief Accountant  
Finance Department  
Central Bank of Sri Lanka  
Colombo 1

**Consolidated statement of payment of bonus interest paid by Authorized Dealers on RFC and NRFC accounts**

Name of the Bank: .....

Reporting Month : .....

Type of foreign currency (FC)	Interest paid on NRFC accounts in FC (1)	Interest paid on RFC accounts in FC (2)	Total of (1) & (2) (3)	Monthly Average Exchange Rate of the previous month (4)	Bonus paid in rupees to customers (3) x (4) x 0.2

I have examined the relevant documents and confirm that the above-mentioned information is true and correct. I further confirm that the aforesaid bonus was paid to the customers.

Date :.....  
DD/MM/YY

.....  
Signature and Seal of the  
Authorized Dealer

cc: Controller of Exchange  
Exchange Control Department  
Central Bank of Sri Lanka

**GUIDELINES TO AUTHORIZED DEALERS ON DIRECTION NO. 06/04/02/2009 DATED 27/01/2009 IN RESPECT OF CALCULATION OF BONUS INTEREST**

**Example 1:**

Prevailing balance of a savings account as at 28/02/2009 : USD 1000  
Interest Rate : 5%  
Payment date : 15<sup>th</sup> of each and every month  
Monthly average exchange rate of the previous month : 112.50  
Percentage of rupee bonus : 20%

Calculation of bonus interest for February 2009 :  $1000 \times 112.50 \times \frac{15}{365} \times \frac{5}{100} \times \frac{20}{100}$   
= **Rs. 46.23**

**Example 2:**

Prevailing balance of a one year fixed deposit account maturing 15/03/2009 : USD 5000  
Interest Rate : 6%  
Payment date : 15/03/2009  
Monthly average exchange rate of the previous month : 112.50  
Percentage of rupee bonus : 20%

Calculation of bonus interest :  $5000 \times 112.50 \times \frac{43}{365} \times \frac{6}{100} \times \frac{20}{100}$   
= **Rs. 795.20**

**Ref. No.: 06/04/03/2009**Department of Exchange Control  
February 24, 2009*Directions to Authorized Dealers*

Dear Sirs,

**NON RESIDENT FOREIGN CURRENCY (NRFC) ACCOUNTS**

Further to my Operating Instructions bearing Ref. No. EC/03/98(D) dated 1998.11.12, Authorized Dealers are hereby informed that the New Zealand Dollar should be included to the list of Designated Foreign Currencies and the Deutsch Mark, the French Franc and the Netherlands Guilder should be removed from the list.

Yours faithfully,

E A Hettiarachchi  
Controller of Exchange**Ref. No.: 06/04/04/2009**Department of Exchange Control  
May 04, 2009*Directions to Authorized Dealers*

Dear Sirs,

**ACQUISITION OF DUAL CITIZENSHIP OF SRI LANKA**

It has been decided to extend the facility of dual citizenship status for ex-Sri Lankans holding foreign citizenship who have opened/are willing to open foreign currency accounts namely Non Resident Foreign Currency (NRFC) Accounts, Resident Foreign Currency (RFC) Accounts, Special Foreign Investment Deposit Accounts (SFIDA) and Foreign Currency Fixed Deposits Accounts for Dual Citizenship Applicants and who have invested/are willing to invest in Government Treasury bonds. In order to give effect to this decision, general permission is hereby granted in terms of the provisions of the Exchange Control Act, to avail such funds of NRFC, RFC, SFIDA and Dual Citizenship Accounts for the purpose of fulfilling the eligibility criteria for dual citizenship, subject to the following terms and conditions:

1. This facility will be granted against the funds of NRFC, RFC, SFIDA and Foreign Currency Fixed Deposits Accounts for Dual Citizenship Applicants. The minimum deposit requirement, retention period of the deposit and fees to be charged on granting dual citizenship are as follows:

<b>Minimum Deposit Requirement</b>	<b>Retention Period</b>	<b>Fees to be Charged</b>
USD 25,000 or equivalent in any other designated foreign currency	3 years	LKR 200,000
USD 25,000 or equivalent in any other designated foreign currency	5 years	Exempted
USD 50,000 or equivalent in any other designated foreign currency	3 years	Exempted

2. If the principal applicant has made the aforesaid deposit with an Authorized Dealer as per Item No.1, his family unit is also exempted from payment of any fee charged on granting dual citizenship.

3. The eligibility criteria of the dual citizenship could be fulfilled by amalgamating the funds of NRFC, RFC, SFIDA, Dual Citizenship Accounts and investments in Treasury bonds, provided that the total amount of deposits/investments and the minimum periods satisfy the eligibility criteria imposed by the Department of Immigration and Emigration
4. In the case of joint accounts, only one of the joint account holders would be entitled to use the account balance to fulfill the eligibility criteria. If other joint account holders wish to enjoy the same benefit, either the investment period or the amount invested has to be increased proportionately. This condition will not apply to family members who maintain accounts jointly.
5. Authorized Dealers shall block the relevant funds with effect from the date on which confirmation has been granted for dual citizenship by the Controller General of the Department of Immigration & Emigration.
6. Interest accrued on such blocked funds may be freely remittable or converted into Sri Lanka Rupees for the account holder's local expenses.
7. Withdrawal of the blocked funds or any part thereof should not be permitted before the maturity period of the deposits without obtaining the prior approval of the Controller of Exchange.
8. Authorized Dealers are required to furnish information in respect of each foreign currency account as per the attached format to the Controller of Exchange of the Central Bank of Sri Lanka with a copy to the Controller General of Immigration & Emigration, within one week from the date which funds have been blocked.

Yours faithfully,

E A Hettiarachchi  
Controller of Exchange

To: Controller of Exchange  
Exchange Control Department  
Central Bank of Sri Lanka  
No.30, Janadhipathi Mw  
Colombo 01.

**Consolidated Statement – Dual Citizenship of Sri Lanka for ex – Sri Lankans**

Name of the Bank : .....  
Bank Branch : .....

Required Details	To be filled by the Authorized Dealer
1. Type of foreign currency Account	
2. Account Number	
3. Name of the Account Holder	
4. Local Address of the Account Holder	
5. Foreign Address of the Account Holder	
6. Amount of funds blocked	
7. Retention Period	

I have examined the relevant documents and confirm that the above – mentioned information is true and correct.

Date: .....  
DD/MM/YY

.....  
Signature & Seal of the  
Authorized Dealer

cc: Controller General  
Department of Immigration & Emigration  
41, Ananda Rajakaruna Mw  
Colombo 10

**Ref. No.: 06/04/05/2009**Department of Exchange Control  
October 01, 2009*Directions to Authorized Dealers*

Dear Sirs,

**PAYMENT OF A BONUS INTEREST IN RUPEES ON THE INTEREST ON RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS AND NON-RESIDENT FOREIGN CURRENCY (NRFC) ACCOUNTS**

We draw your attention to our Directions bearing No.06/04/02/2009 dated 27/01/2009 on the above subject and inform you that the said Directions are hereby rescinded with effect from today, 01<sup>st</sup> October 2009. Further, the Authorized Dealers may continue to forward applications for reimbursement of bonus interest paid upto 30<sup>th</sup> September 2009 in terms of the procedure set out in the said Directions.

Yours faithfully,

P H O Chandrawansa  
Controller of Exchange**Ref. No.: 06/04/07/2009**Department of Exchange Control  
November 12, 2009*Directions to Authorized Dealers*

Dear Sirs,

**PAYMENT OF BONUS INTEREST IN RUPEES ON THE INTEREST ON NRFC/RFC ACCOUNTS**

Further to my Directions No.06/04/05/2009 dated 01.10.2009, Authorized Dealers are hereby informed that they may submit to this Department on or before 30<sup>th</sup> November 2009 their claims on bonus interest on NRFC and RFC deposits specified below.

- (i) Bonus interest entitled to fixed deposit accounts maintained at the time of commencement of the bonus interest scheme as from 1<sup>st</sup> February 2009 and matured after 30<sup>th</sup> September 2009.
- (ii) Bonus interest entitled to fixed deposit accounts opened during the period 1<sup>st</sup> February 2009 and 30<sup>th</sup> September 2009 and matured after 30<sup>th</sup> September 2009.
- (iii) Bonus interest entitled to savings accounts where interest is paid after 30<sup>th</sup> September 2009.

You are required to return to the Central Bank any over-payment of bonus interest due to premature withdrawals of NRFC/RFC fixed deposits.

Yours faithfully,

P H O Chandrawansa  
Controller of Exchange

**Ref.: 037/01/023/0001/009**Financial Intelligence Unit  
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

Cc : All Compliance Officers of Registered Finance Companies

**Ref.: 037/01/023/0001/009**Financial Intelligence Unit  
12 January 2009*To: CEOs of All Licensed Banks*

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 licensed banks 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

Cc : All Compliance Officers of Licensed Banks  
Mr. Upali de Silva, Secretary General, SLBA

**Ref.: 037/03/002/0018/009**

Financial Intelligence Unit  
12 February 2009

*To: Chief Executive Officers of All Licensed Banks*

Dear Sir/Madam,

**INCLUSION OF THE TAMIL FOUNDATION AMONG THE LIST  
OF TERRORIST ORGANIZATIONS IN US**

The U.S Department of the Treasury has designated the “ Tamil Foundation”, as a front organization of the Liberation Tigers of Tamil Eelam (LTTE) under Executive Order 13224. Accordingly, any assets of the Tamil Foundation are frozen under U.S. Jurisdiction and U.S. Persons are prohibited from engaging in any transactions with the Tamil Foundation.

A copy of the press release issued by the U.S Department of the Treasury is attached herewith.

You are hereby informed to monitor and report us details of remittances facilitated/ to be facilitated by Tamil Foundation through your bank immediately, including the dates, beneficiaries and the amount involved.

Yours faithfully,

Director  
Financial Intelligence Unit

Cc : All Compliance Officers of Licensed Banks

**Ref.: 037/03/004/0004/009**

Financial Intelligence Unit  
06 March 2009

Mrs. Lasinee Seresinghe  
Director General  
Insurance Board of Sri Lanka  
Level 11, East Tower World Trade Centre  
Colombo 01.

Dear Madam,

**AML/CFT COMPLIANCE FUNCTIONS OF THE INSURANCE INDUSTRY**

It is observed that the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) measures adopted by the insurance companies are not adequate to meet the statutory provisions of the Financial Transactions Reporting Act No. 6 of 2006 (FTRA). Appointment of AML Compliance officers, staff training and independent audit function are among the deficient areas identified.

Further, supervisory authority is required to ensure compliance by all institutions under its purview in terms of the FTRA. Section 23 of the FTRA provides “The relevant supervisory authority of an Institution shall -

- (a) Verify through regular examinations whether that an institution is complying with provisions of the Act and shall report any non-compliance to the Financial Intelligence Unit;
- (b) Co-operate with law enforcement agencies and the Financial Intelligence Unit in any investigation, prosecution or proceeding relating to any offence constituting an unlawful activity”

I shall be grateful if you could streamline the AML/CFT compliance of the insurance companies on an urgent basis.

Yours faithfully,

Director  
Financial Intelligence Unit

**Ref.: 037/04/002/0001/009**

Financial Intelligence Unit  
23 June 2009

*To: All Chief Executive Officers of Licensed Banks*

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 15<sup>th</sup> September 2006 and directive on 30<sup>th</sup> 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 25<sup>th</sup> June 2008.
2. Accordingly, all reporting institutions are required to report CTRs and EFTs exceeding Rs1,000,000 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 licensed banks are requested to submit CTRs, EFTs and STRs to the FIU using the internet based procedure, **with effect from 1<sup>st</sup> July 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 1<sup>st</sup> July, 2009.

Yours faithfully,

Director  
Financial Intelligence Unit

Cc: Compliance Officer

**Ref.: 037/04/002/0001/009**Financial Intelligence Unit  
17 December 2009*To: All Chief Executive Officers of Registered Finance Companies*

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 15<sup>th</sup> September 2006 and directive on 30<sup>th</sup> 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 25<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> December, 2009.

Yours faithfully,

Director  
Financial Intelligence Unit

Cc: Compliance Officer

Annexure I

**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 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 15<sup>th</sup> July, 2009. Therefore, all reporting institutions are required to equip with all necessary technical requirements and other administrative arrangements to meet the requirements.

**Ref.: 33/03/001/0029/002**International Operations Department  
31 July 2009*To: All Licensed Commercial Banks***DIRECTIONS ON FINANCIAL DERIVATIVE PRODUCTS**

The attached Directions on “Financial Derivative Products” approved by the Monetary Board of the Central Bank of Sri Lanka shall be effective from 01.08.2009 and shall be in force regarding all matters relating to the derivative transactions in foreign exchange that are permitted by CBSL for Licensed Commercial Banks appointed to act as Authorized Dealers.

The new Directions shall revise and supersede the circulars dated 21.12.2005 and 28.11.2006 on “Directions on Financial Derivative Products (Revised)” and “Directions to Commercial Banks on LKR based FX Options” respectively, issued by the Central Bank of Sri Lanka.

Controller of Exchange

Director/International Operations

**Ref.: 33/03/001/0029/002**International Operations Department  
01 August 2009*To All Licensed Commercial Banks Appointed as Authorized Dealers***DIRECTIONS ON FINANCIAL DERIVATIVE PRODUCTS****1. General**

- 1.1 These Directions shall be effective from 1<sup>st</sup> August 2009 and will cover foreign exchange involved derivative transactions by Licensed Commercial Banks (LCBs) acting as Authorized Dealers (ADs). For the purpose of these directions, the term “Authorized Dealers” will have the same meaning as defined in the Exchange Control Act (ECA).
- 1.2 These Directions shall revise and supersede the previous Directions on Financial Derivative Products (Revised) dated 21<sup>st</sup> December 2005 and Directions to LCBs on LKR based FX Options dated 28<sup>th</sup> November 2006.
- 1.3 The definition of a derivative is set out in Annex I.
- 1.4 These Directions shall be applicable to both Domestic Banking Units (DBUs) and Off-shore Banking Units of LCBs. All LCBs appointed as ADs shall be eligible to engage in or offer derivative contracts subject to the conditions specified in these Directions.
- 1.5 ADs shall comply with all relevant statutes, laws, rules & regulations, as well as foreign exchange regulations and other regulations issued from time to time by the Central Bank of Sri Lanka (CBSL) when conducting derivative transactions. The permitted products shall be used only in respect of current account transactions. However, in the case of capital account transactions, those permitted in terms of current exchange control regulations issued under the ECA, may be carried out. Product offerings combining one or more of the derivative products or a combination with other regular foreign currency banking products may be carried out, subject to the conditions of these Directions and conditions applicable to such other foreign currency banking products.
- 1.6 ADs who are qualified under 4.1 of these Directions and those who wish to engage in derivative transactions shall inform the International Operations Department with a copy to the Bank Supervision Department of the CBSL, before 31<sup>st</sup> August 2009, together with copies of policies and guidelines approved by the Board of Directors of the AD concerned relating to the area under consideration, indicating their interest to engage in derivative transactions. These transactions will be subject to the supervision and scrutiny of the CBSL.

- 1.7 ADs will be allowed to maintain open exposures, and such exposures shall be subject to the exposure position limits specified by the CBSL. ADs shall ensure that such open exposures are included in the Net Open Position report which shall be submitted to the CBSL on a daily basis.
- 1.8 Permitted derivative products shall only be used for:
- (a) the purpose of hedging the risks arising from an AD's own assets or liabilities; or
  - (b) altering its risk profile; or
  - (c) making the market for such instruments.

However, such products shall not be used:

- (a) for speculative purposes, other than to the extent permitted for Derivative Market Maker (DMM) deals in these Directions; or
  - (b) to hedge the risks arising from an AD's own assets and liabilities to the extent of its paid-up capital/assigned capital and retained profits.
- 1.9 In the case of customers of ADs, AD shall ensure the use of permitted derivative products only for the purpose of hedging the risk arising from such customer's own assets or liabilities or for altering the risk profile; but not for speculative purposes.

## 2. Permitted Products

- 2.1 Derivative products permitted under these Directions include the following: (see Annex II for definition of products)
- (a) Interest Rate Swaps
  - (b) Interest Rate Options
  - (c) Forward Rate Agreements
  - (d) Cross Currency Swaps
  - (e) Commodity Swaps
  - (f) Currency Options
  - (g) Commodity Options (Gold, Copper and Oil are identified as commodities for possible derivative transactions) or
  - (h) any combinations or derivatives of the above products subject to the provision of these Directions

## 3. Permitted Transaction Types

- 3.1 The types of permitted products stated above shall fall within the following three main forms:

(a) End User (EU) Deals

Transactions for the purpose of hedging the ADs own assets or liabilities (other than paid-up capital/assigned capital and retained profits) for altering its risk profile, but not for speculative purposes.

(b) Non Market Maker (NMM) Deals

Transactions executed by ADs with its customers with the intention of making a spread. In these transactions, the AD does not take any market risk into its own books and covers the transaction on the same day on a back-to-back basis.

(c) Derivative Market Maker (DMM) Deals

Transactions that involve the provision of derivative trading services to customers and require financial institutions, to quote prices to other customers/institutions, while taking the market risk onto the ADs own books.

**4. Eligibility and Permissible Activity**

- 4.1 LCB shall have a capital adequacy ratio of more than 11% in order to be entitled to engage in DMM derivative transactions. The Directions issued by the Director, Bank Supervision (DBS) on risk-weighted capital shall be followed in determining the Capital Adequacy Ratio.
- 4.2 All ADs will be eligible to engage in EU and NMM type of derivative transactions.
- 4.3 An AD shall not engage in facilitating derivative transactions on behalf of its overseas partners to domestic customers, without specific approval of the Controller of Exchange, unless such transactions are properly recognized in the books of the AD, as the AD's own transactions.
- 4.4 ADs will be entitled to offer, transact, or facilitate derivative contracts specified in section 2 above, only to (a) exporters and importers, (b) enterprises approved by the Board of Investment of Sri Lanka (BOI) or (c) any other party approved under the ECA by Controller of Exchange.
- 4.5 The notional principal amount and the maturity of a hedge shall not exceed the outstanding amount and/or unexpired maturity of the underlying transaction/ asset/liability or exposure.
- 4.6 A customer may enter into a derivative transaction with any DMM, irrespective of whether the exposure is booked in that DMM or not.
- 4.7 ADs will be eligible to hedge contingent or derived exposures only to the extent of those arising from submission of tender bids in foreign exchange or such risk arising from genuine balance sheet exposures.
- 4.8 ADs shall ensure that each derivative transaction is made only in respect of risk or exposures arising from permitted underlying transactions or exposures such as; (a) payment or receipt in foreign exchange in respect of goods and services on trade, (b) permitted capital transactions such as investments in foreign currency and Sri Lanka Rupee borrowings, (c) permitted foreign currency and Sri Lanka Rupee deposits, and (d) hedges against genuine balance sheet exposures.
- 4.9 Transactions in the products referred to in section 2 shall not be permitted in respect of any foreign currency exposures or risks arising from foreign currency deposits or retained earnings held abroad under any circumstances.
- 4.10 ADs shall offer derivative contracts only in respect of a transaction, which normally qualifies for a forward foreign exchange contract and to hedge such risks arising out of genuine balance sheet exposures and contingent exposures as permitted in other provisions of these Directions.
- 4.11 The derivative transactions shall be based on individual transactions and not on pooling of several into one contract.
- 4.12 ADs shall take steps to hedge their foreign exposure with their correspondent overseas banks or with any other AD, as appropriate.
- 4.13 All conditions applicable for rolling over, cancellation and rebooking of forward contracts shall be applicable to derivative contracts as well.
- 4.14 Swap transactions involving up-front payment of Sri Lanka Rupees or its equivalent in any form, and leverage swaps shall not be permitted.
- 4.15 ADs may allow importers and exporters to hedge their expenses (including that of the existing hedge) on the basis of a declaration of expenses based on import/export turnover, up to an average of previous three years or previous year (whichever is higher), subject to a written certification of same by a reputed firm of auditors acceptable to the CBSL.

- 4.16 The cost of a hedge in respect of non-residents shall be made out of repatriable funds and/or inward remittances through normal banking channels.
- 4.17 All foreign exchange derivative contracts of non-residents once cancelled, will not be eligible to be rebooked.
- 4.18 An outward remittance incidental to the hedge by non-residents shall be net of applicable taxes.

## 5. Eligible Foreign Currencies

Authorized dealers are free to select any of the currencies of their choice for derivative transactions as per the request of the customer and as per internal policies approved by the management of the bank.

## 6. Tenor

The maturity period of a derivative instrument shall not exceed ten (10) years or the remaining life of the underlying transaction(s), whichever is less.

## 7. Reference / Valuation Benchmark

The parties involved shall be free to use any benchmark on mutual agreement. However, the parties must endeavour to choose benchmarks with sufficient transparency at all instances.

## 8. Risk Management

- 8.1 As required by the Direction No. 11 of 2007 issued under the Banking Act on Corporate Governance, the Board of Directors of ADs shall formulate sound policies and maintenance of prudent risk management systems with regard to the derivative transactions. The AD shall also ensure that adequate measures are taken for the compliance with the provisions of the minimum capital adequacy requirements pertaining to derivative transactions. Appropriate policy limits approved by the AD's management shall also be in place.
- 8.2 All payments to be exchanged may be settled on a net basis, i.e., only the difference between the payable and receivable amount may be exchanged or physically settled, depending on the terms of the original agreement between the parties.
- 8.3 In case of insolvency, if the claim of the counterparty provides for the netting of the mutual transaction between the insolvent party and the creditor, the amount payable by one party could be set off against the amount payable by the other party, and only the net balance shall be paid or received.
- 8.4 ADs shall obtain an undertaking from customers that their total value of hedges do not exceed the exposure or the underlying transaction.
- 8.5 NMM and DMM transactions shall be covered on a back-to-back basis on the same day without allowing them to carry any open exposures beyond their permitted exposure limit. DMM may trade in plain Vanilla Foreign Currency Options in order to cover its foreign exchange exposure position resulting from derivative transactions. Positions covering back-to-back transactions may be undertaken with (a) a bank outside Sri Lanka, or (b) an internationally recognized option exchange, or (c) another DMM in Sri Lanka.
- 8.6 All exposures on options need to be included on a net delta weighted basis in the net foreign exchange exposure position reporting and shall be within such limits specified for the bank.
- 8.7 All ADs to which these Directions are applicable, shall put in place the necessary systems for "marking to market" the portfolio on a daily basis. Banks may agree upon a common industrial gathering such as Sri Lanka Forex Association (SLFA) to publish a daily matrix of polled implied volatility estimates, implied zero, forward and swap rates, which market participants can use for "marking to market" their portfolios.

- 8.8 All ADs to which these Directions are applicable, shall train their staff adequately and put in place necessary risk management, internal control and processing systems before undertaking any of these derivative transactions.
- 8.9 All ADs shall ensure that their customers clearly understand the risks of the instruments and that such customers have established sufficient measures to mitigate the possible risks arising from the prospective transactions that they are entering into. ADs shall also satisfy themselves on a professional analysis with the appropriateness and sufficiency of available risk management systems, including measurements, reviews and approval processes, financial strength, institutional capacity as well as the overall suitability of the customer to engage in the derivative products offered by the AD, prior to entering into such contracts.
- 8.10 ADs shall obtain an undertaking from the customer prior to entering into a derivative transaction, that the customer has clearly understood the nature of the products and their inherent risks.
- 8.11 ADs shall provide adequate information on the transaction, especially with regard to the conditions and clauses to be incorporated into the product, indicating:
- (a) determined benchmark
  - (b) interest rate
  - (c) strike price
  - (d) premia if any, and
  - (e) risks involved
- to their customers and thereby ensure the highest levels of transparency.
- 8.12 Option contracts offered or designed as cost effective risk reduction structures in which the premium is in-built into the cost or packaged contracts, shall not increase risk.
- 8.13 Parties may unwind or sell back a hedge, if they consider such hedge is no longer required.
- 8.14 ADs may use derivative contracts to hedge price risk in specified commodities and facilitate hedging such risks of customers in international contracts, exchanges, or markets.
- 8.15 ADs shall continuously monitor transactions in the accounts of non-resident banks to ensure that overseas banks do not take speculative views or positions on the Sri Lanka Rupee. An AD shall inform the Controller of Exchange immediately of any such instances.

## **9. Reporting**

- 9.1 The responsibility for (a) derivative transactions contracted, (b) their appropriateness for the identified customers and for the intended purposes, (c) the compliance to all relevant laws, rules and regulations, shall be borne by the AD. Reporting under these Directions shall not, in any way be construed or regarded as an acceptance by the CBSL of the accuracy and / or the suitability of the contracts entered into by ADs.
- 9.2 All ADs shall submit to the International Operations Department of the CBSL on a monthly basis, a statement of the transactions undertaken within the month indicating product type, amount, rate, maturity, currency, details of counterparty and details of underlying transactions/exposure, etc, as per formats given in Annex III or as otherwise required by the CBSL.
- 9.3 All ADs to which these Directions are applicable, shall make adequate disclosures in their Annual Audited Accounts with regard to the derivative transactions that they have undertaken during the financial year under review, at least to the extent required in the Sri Lanka Accounting Standards (SLAS) or International Financial Reporting Standards (IFRS).

## **10. Accounting Treatment and Valuation**

All ADs to which these Directions are applicable shall follow accepted accounting standards in accounting for the transactions under the same and “marked to market” valuations shall be done on a daily basis.

## 11. Documentation

All ADs to which these Directions are applicable, shall endeavour to follow the International Swap and Derivative Association (ISDA) agreement with the counterparty in the interest of both parties, in all possible instances. Transaction specific agreements and records shall also be maintained by the AD.

Mrs. P Liyanage  
Director International Operations

Mr. E A Hettiarachchi  
Controller of Exchange

### Annex I

#### Derivative

##### As defined in International Accounting Standard 39 (IAS 39):

A derivative is a financial instrument or other contract with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract (sometimes called the 'underlying');
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (c) it is settled at a future date.

##### As defined in International Swap and Derivative Association (ISDA):

A derivative is a risk transfer agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree.

### Annex II

#### Permitted Derivative Products

Derivative transactions permitted under these Directions include the following product or any combinations or derivative of it.

##### 1. Interest Rate Swaps (IRS)

An interest rate swap is an agreement between two parties to exchange a stream of interest payments on multiple occasions during a specified term based upon a specified notional principal amount. In an IRS, one party agrees to pay the other party fixed interest payments at designated dates for the life of the contract while the other party agrees to make interest payments that float with a reference rate. The notional principal amount is never exchanged.

##### 2. Interest Rate Options (IRO)

An interest rate option is an option where the underlying is not an asset but an interest rate. An IRO has an exercise rate, instead of an exercise price. At expiration, the option payoff is based on the difference between the underlying rate in the market and the exercise rate. There are interest rate calls and interest rate puts. An interest rate call option is an option that grants the holder the right to make a fixed or known interest payment and receive an unknown interest payment. An interest rate put option is an option that grants the holder the right to make a variable or unknown interest payment and receive a fixed or known interest payment. In an interest rate cap for example, the seller agrees to compensate the buyer for the amount by which an underlying short-term rate exceeds a specified

rate on a series of dates during the life of the contract. In an interest rate floor, the seller agrees to compensate the buyer for a rate falling below the specified rate during the contract period. An interest rate collar is a combination of a long cap and short floor or a short cap and a long floor.

### 3. Forward Rate Agreements (FRA)

A forward rate agreement is an interest rate contract between two parties that allows an entity to position itself in the interest rate market. A FRA is a contract that calls for one party to make a fixed interest payment and the other party to make an interest payment at a rate to be determined at the contract expiration based on a notional principal amount. On the settlement date, the transactions are net settled.

### 4. Cross Currency Swaps (CCS)

A cross currency swap is an agreement between two parties to exchange interest payments denominated in two different currencies for a specified term. The interest payments could be either fixed or floating interest rates. In CCSs the notional principal amount is usually exchanged at the beginning and at the end of the life of the swap although this is not mandatory. The principal amounts are based on spot exchange rates.

### 5. Commodity Swaps (COS)

In a commodity swap, a party makes fixed payments on regularly scheduled dates and receives payments determined by the price of an underlying commodity.

### 6. Currency Options (CUO)

A currency option is a contract that gives the buyer the right but not the obligation to exchange (buy/sell) an amount of currency for another at a specific price on or before a pre specified date. For this right, the buyer pays a premium. The right to buy is known as a call option while the right to sell is known as put option.

### 7. Commodity Options (CMO)

A commodity option is similar to a currency option. However, in this instance the underlying asset is a commodity or any combinations or derivatives of the products.

## Annex III

**Table 1: Monthly Derivative Product Transactions**  
**Product Type - SWAPS**

Month:

Deal Date	Product	Counterparty	Notional Principal		Maturity Date	Nature of underlying transaction	Details of back to back transaction	Uncovered Exposure	Reference Benchmark	Remarks
			Currency	Amount						

**Table 2: Monthly Derivative Product Transactions**  
**Transactions Cancelled and Wound up Prematured**

**Month:**

Deal Date	Product as reported CBSL	Customer/ Counterparty	Notional Principal	Reference to original transaction already reported to the CBSL	Original Date of Maturity	Date of cancellation or winding up	Details of back to back transaction	Reference/ Benchmark	Remarks/ Reasons for cancellation

**Table 3: Monthly Derivative Product Transactions**  
**Product Type - Currency Options**

**Month:**

Deal Date	Counterparty	Option Exercise Date	Bank Call		Bank put		Strike price	Back to back Deal (Y/N)	Back to back counterparty	Nature of underlying transaction	Remarks
			CCY	Amount	CCY	Amount					

**Table 4: Monthly Derivative Product Transactions**  
**Product Type - Options**

**Month:**

Deal Date	Counterparty/ Customer	Product	Maturity Date	CCY	Amount	Deal Rate	Back to back Deal (Y/N)	Back to back Counterparty	Underlying Transaction	Remarks

**Ref.: 34/07/029/0001/001**

07 January 2009

**Circular No.: LankaSettle 01/2009***To: All Participants of LankaSettle System***REVISION OF RTGS/SSSS FEES AND CHARGES IN LANKASETTLE SYSTEM**

All participants of the LankaSettle System are hereby informed that as per the Rule 8 in Volume 4 of the LankaSettle System Rules issued in August, 2003 (as amended) and the Section 4 of the Mandate Agreement, the fees and charges on RTGS/SSSS transactions will be revised with effect from 01.02.2009 as per the schedule in Annex I.

(Mrs) J P Mampitiya  
Director/Payments & Settlements

C J P Siriwardena  
Superintendent/Public Debt

**Annex I****SCHEDULE OF LANKASETTLE FEES AND CHARGES**

The Central Bank of Sri Lanka will charge all LankaSettle participants all inclusive per transaction fee of LKR 400/- with effect from 1<sup>st</sup> February, 2009.

For the purposes of fees and charges a “transaction” is defined as:

- (1) Any settled debits to their own accounts initiated by participants within LankaSettle through the use of the following messages:
  - a. MT 102 – Multiple Customer Credit Transfer
  - b. MT 103 – Single Customer Credit Transfer
  - c. MT 202 – General Financial Institution Transfer
  - d. MT 205 – Financial Institution Transfer Execution
  - e. MT 541 – Receive Against Payment
- (2) Any settled securities transactions initiated by participants within LankaSettle through the use of MT 540 – Receive Free message.

In addition to the transaction fees stated above, the participants will have to bear SWIFT messaging related charges. These will be independently billed by SWIFT and will have to be paid by the participants to SWIFT directly.

**Ref.: 34/07/029/0001/001**

27 March 2009

**Circular No.: RTGS/02/2009***To: All Participants of the LankaSettle System***LIVE OPERATIONS OF LANKASETTLE SYSTEM FROM ITS BACKUP SITE  
ON FRIDAY APRIL 03, 2009**

This is to inform you that the Central Bank of Sri Lanka will conduct operations of the LankaSettle (RTGS and LankaSecure System) and related Systems from its backup site on Friday April 03, 2009 for the purpose of testing the business continuity

arrangements. The required technical and contact details will be directly informed to each participant in due course by the Information Technology Department of the Central Bank.

C J P Siriwardena  
Superintendent of Public Debt.

J P Mampitiya  
Director/Payments and Settlements

**Ref.: 34/07/029/0001/001**

30 March 2009

**Circular No.: RTGS/03/2009**

*To: All Participants of LankaSettle System*

**CHANGE OF NAME OF CEYLINCO SHRIRAM SECURITIES LIMITED**

As Ceylinco Shriram Securities Limited has changed its name to Entrust Securities Limited, the static data of LankaSettle System will be changed as indicated below with effect from March 31, 2009.

- (i) Changing the participant organization name of Ceylinco Shriram Securities Limited to Entrust Securities Limited.
- (ii) Changing the account name of Ceylinco Shriram Securities Limited from Ceylinco Shriram Securities Limited Settlement Acct to Entrust Securities Limited Settlement Acct.

The SWIFT BIC of the Participant will remain unchanged.

C J P Siriwardena  
Superintendent of Public Dept

K B Disakaruna  
Addl. Director/Payments and Settlements

**Ref.: 34/07/029/0001/001**

May 11 2009

**Circular No.: RTGS/04/2009**

*To: All Participants of LankaSettle System*

**RESTRICTION OF BUSINESS HOURS OF LANKASETTLE SYSTEM**  
**ON MAY 15, 2009**

The Central Bank of Sri Lanka, having considered the restricted business hours of participating institutions of LankaSettle system on May 15, 2009, (a declared half-holiday in lieu of May 9, 2009 which is a statutory holiday falls on a Saturday), has decided to restrict business hours on May 15, 2009 from 8.00 a.m. to 3.00 p.m. Accordingly, the events after 1.00 p.m. of the Operating Schedule of LankaSettle System for May 15, 2009 will be revised as follows:

<b>Event</b>	<b>Revised time</b>
Multilateral Net Settlements of Rupee Draft Clearing, Adjustment Clearing and Settlement Clearing	2.00 p.m.
Cut-off time for third party transactions	2.15 p.m.
OMO-Repo (Standing Facility) settlement	2.30 p.m.
ILF Repayment and Reverse Repo (Standing Facility) settlement	2.45 p.m.
Close for business	3.00 p.m.
System shut down	3.30 p.m.

C J P Siriwardena  
Superintendent of Public Dept

J P Mampitiya  
Director/Payments and Settlements

**Ref.: 34/07/029/0001/001**

June 29 2009

**Circular No.: RTGS/05/2009**

*To: All Participants of LankaSettle System*

**CHANGE OF NAME OF HNB SECURITIES LIMITED**

As HNB Securities Limited has changed its name to Acuity Securities Limited ,the static data of LankaSettle System will be changed as indicated below with effect from July 01, 2009.

- (i) Changing the participant organization name of HNB Securities Limited to Acuity Securities Limited.
- (ii) Changing the account name of HNB Securities Limited from HNB Securities Limited Settlement Acct to Acuity Securities Limited Settlement Acct.

The SWIFT BIC of the Participant will remain unchanged.

C J P Siriwardena  
Superintendent of Public Dept

K B Disakaruna  
Addl.Director/Payments and Settlements

**The Gazette of the Democratic Socialist Republic of Sri Lanka  
EXTRAORDINARY  
No. 1612/32 - FRIDAY, JULY 31, 2009  
PART I : SECTION (I) — GENERAL  
Government Notifications**

**Payment and Settlement Systems Act, No. 28 of 2005**

REGULATIONS made by the President under section 43 of the Payment and Settlement Systems Act, No. 28 of 2005, read with sections 11, 17 and 20 (2) of the aforesaid Act and paragraph (2) of Article 44 of the Constitution.

The President

Colombo  
30 July, 2009

**Regulations**

1. These regulations may be cited as the Service Providers of Payment Cards Regulations, No. 1 of 2009

2. (a) The Central Bank of Sri Lanka shall function as the Supervisory Authority (hereinafter referred to as the “Authority”) and shall be responsible for regulating and monitoring of service providers of payment cards.  
(b) No persons shall engage in or function or cause another person to be engaged in or function as a service provider of payment cards except under the authority and in accordance with the terms and conditions of a licence issued by the Authority.
3. Every application for a licence shall be made in the form set out in the First Schedule to these regulations.
4. The Director, Payments and Settlements Department of the Central Bank of Sri Lanka (hereinafter referred to as “the Director”) shall be authorized in writing by the Authority to carry out the functions of the Authority in accordance with the provisions of these regulations.
5. (a) The following persons shall be eligible to apply for a licence to be engaged in or function as a service provider of payment cards:-
  - (i) any licensed commercial bank;
  - (ii) any licensed specialized bank;
  - (iii) any registered finance company;
  - (iv) any public company having an unimpaired capital of at least rupees seventy five (75) million.  
(b) Any eligible person who functions or engages in providing a service as a service provider of payment cards or any eligible person who intends to carry on any business in the capacity of a service provider of payment cards on or after the date of coming into operation of these regulations, shall make an application for a licence to the Director, within a period of six (06) months from the date of coming into operation of these regulations or within sixty days before commencing its operation as the case may be, in the form specified in the First Schedule hereto and such application shall be accompanied with documents, information or other particulars as required by the Director.  
(c) Every application for a licence shall be accompanied with the annual licence fee specified in the Second Schedule hereto, such documents as shall be required to be annexed to such application and any other information which the Director may require.
6. The Director may issue a licence in the form specified in the Third Schedule hereto on being satisfied of the following:-
  - (a) the payment of the annual licence fee specified in the Second Schedule hereto;
  - (b) such documents as may be required by the Director on a case by case basis;
  - (c) any further information required by the Director.
7. (a) The Director may either issue a licence or refuse to issue a licence for reasons to be recorded by him.  
(b) Licence issued under paragraph (a) of the regulation shall be-
  - (i) valid for a period of one year from the date of issue of such licence;
  - (ii) in the form specified in the Third Schedule hereto;
  - (iii) subject to such conditions as may be specified on the reverse of the licence.
8. Every service provider of payment cards shall pay to the Authority an annual licence fee calculated in the manner set out in the Second Schedule to these regulations, from time to time, having regard to the different types of business conducted by such service provider.

9. Every licence issued under paragraph (a) of regulation 7 shall be valid for a period of one year from the date of issuance of such licence and two months prior to the expiration of the validity of such licence, service provider of payment cards may apply for renewal in the form set out in the Fourth Schedule hereto, to the Director subject to the conditions set out on the reverse of the licence.
10. The Director may:-
- (a) refuse to issue licence to any person; or
  - (b) cancel and revoke the licence already issued to a service provider of payment cards; or
  - (c) levy a non-compliance charge as specified under regulation 26,
- if it is proved to the satisfaction of the Director that such service provider;
- (i) has furnished false or incorrect information or omitted any material information; or
  - (ii) is experiencing instability in his financial commitments which may hinder the business; or
  - (iii) is subject to weak risk management, which in the opinion of the Director and has the potential to be detrimental to the cardholders, merchants or to the payment card industry in Sri Lanka; or
  - (iv) has failed to take corrective measures as required by the Director within the period specified by the Director; or
  - (v) has failed to commence its business relating to payment cards within six months from the date of issuance of licence; or
  - (vi) has failed to comply with any provision of the Act, any regulation, direction, directive, rule, condition, circular and guideline issued under the Act; or
  - (vii) has been convicted of any offence by a court of law.
11. The Director shall communicate his decision made under regulation 10 in writing to the service provider of payment cards giving reasons for such decision.
12. (a) Any person or service provider of payment cards aggrieved by the decision of the Director under Regulation 10, may, before the expiry of thirty days from the date of receipt of such communication made under regulation 11, make an appeal to the Authority or any person authorized in writing by the Authority for that purpose, giving reasons why such decision of the Director should be varied, altered or amended by him.
- (b) The Authority or such person authorized in writing, shall take into consideration the provisions of the Act or any regulation, direction, directive, guideline, rule, condition and circular issued under the Act when making the decision and shall communicate the decision to the Director within sixty days from the date of receipt of the appeal.
- (c) The Director shall comply with the decision given by the Authority or such person authorized in writing, in accordance with the provisions of the Act or any regulation, directive, guideline, rule, condition and circular issued under the Act and shall communicate the decision within fourteen days from the date of receipt of such decision made under paragraph (b), to such person or service provider.
13. Where a licence has been revoked or cancelled, the Director shall direct such service provider to forthwith cease and refrain from conducting business. The Director shall take any action necessary to carry out such decision of the Authority or any person authorized in writing by the Authority, in accordance with the provisions of the Act or these regulations.

14. The Director may carry out on-site and off-site inspection, and supervision of any service provider of payment cards. The Director may, issue from time to time, directions, directives, guidelines, rules, conditions, instructions and circulars in relation to the procedure and the manner of carrying out such inspection, frequency of supervision, information that may be required from the service provider of payment cards during such supervision of any relevant criteria.
15. If it is revealed during supervision or subsequent to an inspection conducted on any information received, that,
- (a) any service provider of payment cards is insolvent or likely to be insolvent; or
  - (b) any service provider of payment cards is unable to carry out business relating to payment cards; or
  - (c) the continuance in business of a service provider of payment cards is likely to affect the financial system stability; or
  - (d) continuance of the business of a service provider of payment cards in such manner may be detrimental to the protection of customers and to the integrity and development of payment systems in Sri Lanka;

the Director shall direct such service provider of payment cards to forthwith suspend its business relating to payment cards and take corrective measures in such manner and subject to conditions as may be determined by the Authority.

#### **Voluntary Termination of Business**

16. Where the Board of Directors of any service provider of payment cards resolves to terminate the business of such service provider of payment cards during the pendency of the licence issued under paragraph of regulation 7, such service provider of payment cards shall within seven days from the date of such resolution notify the Director of:-
- (a) the reasons for termination of business or inability to continue the payment card business; and
  - (b) a detailed proposal of the manner of handling of existing customers' rights and obligations and alternative method for providing the agreed services.
17. The voluntary termination shall be conducted by a service provider of payment cards only upon the approval of the Authority and in conformity with any directions issued or conditions set out by the Director.
18. Upon intimation of the decision to terminate the services of a service provider of payment cards, the Director, shall issue directions as to the manner of termination and conditions subject to which such termination shall take place.
19. Any person who at the time of coming into operation of these regulations is engaged in any business relating to payment cards and continues to carry on such business without obtaining a licence according to these regulations, such person shall cease to carry out such business and shall proceed to voluntarily terminate such business within such time period and in such manner and subject to conditions as may be determined by the Director.
20. Upon receipt of any information regarding a business of a service provider of payment cards, being carried out by such person contrary to provisions of regulation 19, the Director shall conduct an inquiry giving an opportunity to be heard, to any person engaged in or functions as a service provider of payment cards and shall take necessary steps as provided by these regulations or by the Act.

### General Provisions

21. The Authority may issue from time to time, directions, directives, guidelines, conditions, circulars, rules and instructions through the Director, in relation to the following:
  - (a) the administration of any payment card and credit limits, and services that may be provided by the service provider of payment cards;
  - (b) the business operations relating to credit card or charge card;
  - (c) the business operations relating to debit card or stored-value card;
  - (d) the business operations relating to any payment card other than the payment cards specified in paragraphs (b) and (c);
  - (e) the enhancement of security features or technology relating to payment cards;
  - (f) provision of education and information to the card holders, merchants and to the general public regarding payment cards;
  - (g) prudential requirements relating to service providers of payment cards;
  - (h) agents, subsidiaries, and any outsourcing arrangements in respect of business of payment cards;
  - (i) requirements, standards and guidelines on corporate matters, governance, risk management and control, capital adequacy and other capital requirements, business and investment powers regarding service providers of payment cards; and
  - (j) measures necessary for protection of customers and service providers of payment cards.
22. Any service provider of payment cards that intends to carry out any business relating to payment cards other than the type of business specified in the application for a licence, shall obtain prior approval of the Authority. Such service provider shall apply for prior approval in the form set out in the Fifth Schedule hereto and such service provider may be subject to an additional licence fee or an increase of licence fee and any condition as may be determined by the Authority depending on the service to be provided.
23. Where a service provider of payment cards desires to establish a branch office, such service provider shall obtain prior written approval of the Authority.
24. An application to obtain a licence or for the renewal of a licence or any request for prior approval as specified herein shall be submitted to the Director, in the form specified in the First, Fourth and Fifth Schedules respectively, to these regulations for such purpose.
25. Any service provider of payment cards shall, at all times, comply with these regulations and directions, directives, guidelines, rules, instructions, conditions and circulars issued under the Act.
26. (a) Where any person fails to comply with these regulations or any directions, directives, guidelines, rules, instructions, conditions and circulars issued under the Act, such service provider of payment cards shall be subject to a non-compliance charge levied by the Authority, subject to the provisions of regulation 29. The following steps shall be taken in this regard:
  - (i) for the 1st instance of non-compliance - letter of reprimand
  - (ii) for the 2nd instance of non-compliance - a non-compliance charge of Rs. 50,000/=
  - (iii) for the 3rd instance of non-compliance - a non-compliance charge of Rs. 100,000/=
  - (iv) in the event of continued non-compliance or further non-compliance after the 3rd instance, the

Authority may charge a continuing non-compliance charge as may be determined by the Authority not exceeding Rs. 500,000/=;

or

the authority may suspend forthwith the licence issued to the service provider of payment cards for a period of time determined by the Authority and such suspension shall be notified by the Director to the general public by publication of a notice at least in one Sinhala and Tamil newspaper.

- (b) The amounts charged under paragraph (a) of this regulation shall be credited to the Fund of the Central Bank.
27. No advertisement shall be published, transmitted, broadcast or displayed by any service provider of payment cards in contravention of the provisions of the Act or any regulation made there under or directions, directives, guidelines, rules, instructions, conditions or circulars issued under the Act.
28. Where the Director is of the opinion that any advertisement published, transmitted, broadcast or displayed is in contravention of the provisions of regulation 27 or is likely to mislead the public, the Director, shall require the service provider of payment cards to remove such advertisement from the publication, transmission, broadcast or display or to amend such advertisement within a reasonable period of time.
29. Any service provider of payment cards that fails to comply with the provisions of regulation 27 or 28 shall be liable to a charge of non-compliance in accordance with the provisions of regulation 26 and the Director may publish notification regarding such non-compliance at least in one Sinhala and Tamil newspaper.
30. In this regulation unless the context otherwise require:

“Act” means the Payment and Settlement Systems Act, No. 28 of 2005;

“Cardholder” means any person authorized to use a payment card issued by an Issuer;

“Central Bank of Sri Lanka” means the Central Bank of Sri Lanka established under the Monetary Law Act, No. 58 of 1949 (Chapter 422);

“Charge Card” means a payment card which involves a line of credit granted by the issuer to the cardholder where the credit utilized by the cardholder must be settled fully on or before a date specified by the issuer, without any extended credit;

“Credit Card” means a payment card which indicates a line of credit granted by the issuer to the cardholder and where the card holder may settle the credit utilized in full or in part, before a specified date. Any amount of the credit utilized by the card holder and not settled in full on or before a specified date, may be subject to interest, profit or other charges;

“Day” means a calendar day;

“Debit Card” means a payment card that may be used to execute payment of an obligation incurred with an arranged third party, including purchase of goods and service and/or cash withdrawal, in which the obligation of the cardholder is directly debited from the credit balance of the cardholder’s account maintained with such issuer;

“Financial Acquirer” shall mean any person that makes arrangements with merchants to accept payment cards of cardholders as a means of payment and reimburses the merchants for the value of the goods or services purchased by the cardholder, or that advances payments for cash withdrawals by the cardholders;

“Issuer” means an institution which issues a payment card and thereby enters into a contractual relationship with the card holder;

“Licensed Commercial Bank” means a company or a body corporate licensed under Part I of the Banking Act, No. 30 of 1988 to carry on banking business in Sri Lanka;

“Licensed Specialized Bank” means any company or a body corporate which has been issued with licence under Part IXA of the Banking Act, No. 30 of 1988 to carry on the business of accepting deposit money and investing and lending such money;

“Merchant” means a person who has entered into an agreement with a financial acquirer to sell goods and services or disburse cash on the acceptance of a payment card or sell or redeem stored value;

“Monetary Value” has the same meaning as in Section 18 of Payment and Settlement Systems Act, No. 28 of 2005;

“Operator” means a person, who operates any system relating to or arising out of payment cards;

“Payment Card” means any card, plate, coupon book or other device, including a code or any other means of access to an account, stored value or credit that may be used from time to time to obtain money or to make payment and includes a debit, charge, credit and stored value card;

“Prepaid Card” means a payment card that is acquired by the cardholder by paying a certain amount of funds in advance to the issuer, whether directly or through agents of issuer, and the value of the funds is installed in the payment card as the stored value, that is used to deduct from the value of the funds in the payment card, and to execute payment obligations incurred in a single type of transactions or various types of transactions;

“Public Company” means any company incorporated under the Companies Act, No. 17 of 1982 or Companies Act, No. 07 of 2007.

“Registered Finance Company” shall mean a company registered under the Finance Companies Act, No. 78 of 1988 as a Finance Company;

“Service Provider of Payment Cards” means any person who operates as an issuer of a payment card or as a financial acquirer of a payment card or acts as an operator of a payment system, clearing system or a settlement system in relation to a payment card or operates in any combination of such services;

“Stored-Value Card” shall mean:

- (i) a single-purpose prepaid card, whose issuer is a merchant and that may be used at more than one merchant for specific goods and/or services (single-purpose multi-merchant);
- (ii) a multi-purpose prepaid card, whose issuer is a merchant and that may be used to make payments at more than one merchant for various types of goods and/or services (multi purpose multi merchants);  
or
- (iii) single purpose or multi-purpose prepaid card whose issuer is not a merchant of goods and/or services (non merchant)

“Stored Value” has the same meaning as in Section 18 of the Payment and Settlement System Act, No. 28 of 2005;

“Unimpaired Capital” shall mean capital on which there is no lien or other charges.

(Please note : The Schedules of the Regulations (I to VI) are available at the Extraordinary Gazette Notification (Pages 8A to 52A) of the Democratic Socialist Republic of Sri Lanka - No. 1612/32 dated 31.07.2009./- website [www.cbsl.gov.lk](http://www.cbsl.gov.lk))

06 January 2009

**Circular No.: SSSS/01/2009***To: All Participants of the LankaSettle System***AMENDMENT TO LANKASETTLE SYSTEM RULES ISSUED IN AUGUST 2003**

You are hereby informed that the Section 4.2 in the Volume 3 of LankaSettle System Rules issued in August 2003 is amended with effect from 06 January 2009 by inserting the “EPF” and “CFD” accounts as follows,

**“EPF Account:** Holds securities owned by retired members of Employees’ Provident Fund issued under the special scheme for the issuance of Government Securities for the members of Employees’ Provident Fund at the retirement

**CFD Account:** Holds securities issued under the special scheme for Sri Lankan Diaspora and Migrant Workforce”

C J P Siriwardena  
Superintendent of Public Debt

Public Debt Department  
January 06, 2009

**GUIDELINES/PROCEDURES TO SRI LANKAN DIASPORA AND MIGRANT WORKFORCE****Treasury bills/Treasury bonds issued by the Government of Sri Lanka to Sri Lankan Diaspora and Migrant Workforce**

**These Guidelines/Procedures shall be effective from January 06, 2009**

**1. Eligible Investors**

The following categories of persons are eligible to invest in Treasury bills/Treasury bonds issued by the Government of Sri Lanka.

- (a) Sri Lankans who have made their permanent residence overseas (Non-residents);
- (b) Citizens of Sri Lanka who have taken up overseas employment / set up business in abroad;
- (c) Citizens of Sri Lanka with dual citizenship in Sri Lanka and in another country;
- (d) Sri Lankan professionals living in Sri Lanka or abroad who earn income in foreign currency;
- (e) Banks acting in fiduciary capacity on behalf of the above categories.

Eligible investors under Clause 1 above are permitted to purchase Treasury bills/Treasury bonds issued by the Government of Sri Lanka only from primary auctions / direct placements through Lead Managers (LMs) (The list of such institutions is given at the end of this circular).

**It is the responsibility of the investor to be mindful of the laws and regulations in the countries where they reside and the issuer is not liable for any act or omission made by the investor on that behalf.**

**2. Registration**

LMs appointed by Central Bank of Sri Lanka (CBSL), i.e. selected Licensed Commercial Banks (LCBs) selected Licensed Specialised Banks (LSBs) and Primary Dealers (PDs) shall be responsible for registering details of their eligible investors at the Central Depository System (CDS) of LankaSecure maintained by the Public Debt Department (PDD) of the CBSL.

CDS will issue statements containing the following to the investors.

- a) A monthly statement confirming the transactions that have taken place during the month.
- b) A statement confirming the outstanding balance held by each investor semi annually.
- c) A statement indicating the maturity proceeds and/or interest payment whenever such payments fall due.

These statements will be issued directly to the name and address of the investor, as registered in the CDS.

**3. Status**

The maturity proceeds of Treasury bills/Treasury bonds due thereon are direct, unconditional, general, unsecured obligations of the Government of Sri Lanka and rank and shall rank pari passu without any preference among themselves with all other outstanding unsecured and un-subordinated obligations of the Government of Sri Lanka present and future.

**4. Tenure**

Eligible investors are permitted to purchase, sell or transfer Treasury bills/Treasury bonds with any maturity period.

**5. Payments for Treasury bills/Treasury bonds**

Eligible investors under Clause 1 above shall open a special rupee account named “**Treasury bill/bond Investment External Rupee Account – Deshabhimani (TIERA-D)**” in a LCB or National Savings Bank (NSB) (hereinafter called as ‘custodian bank’ for functions relating to transfer of funds/money) and make payment for purchase of Treasury bills/Treasury bonds in rupees by crediting to that account. The custodian bank has to make necessary arrangements to transfer respective rupee amounts to the relevant account at the Central Bank through Real Time Gross Settlement System (RTGS). However, funds available at NRFC accounts in Sri Lanka are not permitted to transfer to TIERA-D account.

**6. Issue and Delivery of Treasury bills/Treasury bonds**

The Treasury bill /Treasury bond shall be issued in scripless form to the investors who have duly made payments as specified in Clause 5 and by registering in the CDS as specified in Clause 2 above.

**7. Repo Market Transactions**

Eligible investors are permitted to enter into Repo/Reverse Repo transactions using Treasury bills/Treasury bonds purchased under this scheme as collateral.

**8. Payment of Interest/Maturity Proceeds**

Maturity proceeds/Interest income payable on Treasury bills/Treasury bonds shall be payable in rupees by the PDD of the CBSL on behalf of the Government of Sri Lanka through RTGS to respective LMs on respective maturity dates. Such LMs are responsible to transfer the respective payments to the TIERA-D account or any other account specified by eligible investors with proceeds value on the same day.

**9. Repatriation**

All proceeds received by sale or maturing of Treasury bills/Treasury bonds and interest income of Treasury bonds shall be fully repatriable. However, such repatriation should be routed through the custodian bank who maintains the TIERA-D account.

**10. Joint Holdings**

Treasury bills/Treasury bonds may be held jointly within the facilities available (at present up to three with the CDS). Payment of maturity proceeds and interest payments shall be based on the agreement between LM and joint holders.

**11. Tax Treatment**

Eligible investors who invest in Treasury bill /Treasury bond market pay no further tax on earnings on such bills/ bonds apart from the 10% withholding tax imposed at the primary issue of such Treasury bills/Treasury bonds.

**12. Stamp Duty**

All documents used on the issue or redemption of Treasury bills/Treasury bonds are free from stamp duty in Sri Lanka.

**13. On-line Viewing Facility of Investment Status**

The investment status could be viewed through Internet via LankaSecure net (<https://www.cbsl.lk/lankasec/>). The application to obtain a password protected viewing could be submitted to the LM.

**14. Jurisdiction**

The courts in Sri Lanka shall have exclusive jurisdiction in respect of all matters relating to Treasury bills/Treasury bonds issued by the Government of Sri Lanka.

**15. Governing Law**

The terms and conditions of Treasury bills/Treasury bonds shall be governed by and construed in accordance with the laws of Sri Lanka.

Further operating instructions in this regard will be issued by the Controller of Exchange or the Superintendent of Public Debt as the case may be.

Any clarifications on these guidelines can be obtained from the following.

Telephone : + 94 11 2477316 / 076 / 291

Hot Line : + 94 11 2477777

Fax : + 94 11 2477718/719/759

E-mail : siriwardena@cbsl.lk , chandra@cbsl.lk

C J P Siriwardena  
Superintendent of Public Debt

**List of Participating Agents****Contact Details of Lead Mangers**

Lead Mangers	Contact Details
Bank of Ceylon	<p>Name : Mr. S M S C Jayasuriya            Designation : Chief Manager - Treasury            Address : Bank of Ceylon, Treasury Division, 7th Floor, Head Office, Colombo 01, Sri Lanka            Tel No : +94 11 2471605/ +94 11 2395804            Fax No : +94 11 2445788            E-mail : cmt@boc.lk / alm@boc.lk            Website : www.boc.lk</p>
Commercial Bank of Ceylon PLC	<p>Name : Mr. Dula Weerathunga            Designation : Head of Global Treasury            Address : Commercial Bank of Ceylon PLC, 21, Bristol Street, Colombo 01, Sri Lanka</p>

	<p>Tel No : +94 11 2432116  Fax No : +94 11 2384650  Email : Dula.Weerathunga@combank.net  Website : www.combank.net</p>
National Savings Bank	<p>Name : Mr. N K Dahanayake  Designation : Assistant General Manager  Address : National Savings Bank, NSB Head Office, #255,  Galle Road, Colombo 03, Sri Lanka  Tel No : +94 11 2467431/ +94 11 2467731  Fax No : +94 11 2564706  Email : ceo.nsbfmc@nsb.lk  Website : www.nsb.lk</p>
NatWealth Securities Ltd	<p>Name : Mr. Chandra J Dias  Designation : Chief Executive Officer  Address : NatWealth Securities Limited, 17A, Barnes Place,  Colombo 07, Sri Lanka  Tel No : +94 11 4716274 / +94 712779867  Fax No : +94 11 4716275  Email : chandrad@natwealth.com  Website : www.natwealth.com</p>
People's Bank	<p>Name : Mr. N Vasantha Kumar  Designation : Senior Deputy General Manager - Treasury and  Investment Banking  Address : People's Bank, No. 34, Sir Mohamed Macan Markar  Mawatha, Colombo 03, Sri Lanka  Tel No : +94 11 2308782  Fax No : +94 11 2304491  Email : kumarnv@peoplesbank.lk  Website : www.peoplesbank.lk</p>
Sampath Bank PLC	<p>Name : Mr. Wije Dambawinne  Designation : Assistant General Manger - Treasury  Address : Sampath Bank PLC, 110 Sir James Peiris Mawatha  Colombo 02, Sri Lanka  Tel No : +94 11 2300145 / +94 11 4730347  Fax No : +94 11 2300144  Email : dambawinne@sampath.lk  Website : www.sampath.lk</p>
The Hongkong and Shanghai Banking Corporation Limited	<p>Name : Ms. Ayanthi Samarasinghe  Designation : Manager, Wealth Management  Address : HSBC Premier, 31 Sir Ernest De Silva Mawatha,  Colombo 7, Sri Lanka  Tel Number : +94 11 4472272 / +94 11 4739496  Fax Number : +94 11 2690177  Email : wealthmanagementdeskc bh@hsbc.com.lk /  ayanthisamarasinghe@hsbc.com.lk  Website : www.hsbc.lk</p>

Public Debt Department  
January 06, 2009

*To : All CEOs of Lead Managers*

**Treasury bills/Treasury bonds issued by the Government of Sri Lanka to Sri Lankan Diaspora and Migrant Workforce**

**These Guidelines/Procedures shall be effective from January 06, 2009**

**GUIDELINES/PROCEDURES TO LEAD MANAGERS**

The guidelines and procedures applicable for the sale and purchase of Treasury bills/Treasury bonds issued by the Government of Sri Lanka to Sri Lankan diaspora and migrant workforce are indicated below. In the absence of any specific guideline for any aspect of its operation, Lead Managers (LMs) appointed by Central Bank of Sri Lanka (CBSL) i.e. selected Licensed Commercial Banks (LCBs), selected Licensed Specialized Bank (LSBs) and selected Primary Dealers (PDs) shall comply with the currently applicable operating guidelines, procedures, system rules, regulatory provisions and directions issued by the Public Debt Department (PDD) of the CBSL in the conduct of transactions in Treasury bills/Treasury bonds issues to local investors. If there are no such applicable rules etc., LMs are requested to seek clarification regarding the same from the undersigned. These Guidelines/Procedures shall be effective from January 06, 2009.

**1. General**

**1.1 Eligible Investors**

The following categories of persons are eligible to invest in Treasury bills/Treasury bonds issued by the Government of Sri Lanka:

- (a) Sri Lankans who have made their permanent residence overseas (Non-residents);
- (b) Citizens of Sri Lanka who have taken up overseas employment / set up business in abroad;
- (c) Citizens of Sri Lanka with dual citizenship in Sri Lanka and in another country;
- (d) Sri Lankan professionals living in Sri Lanka or abroad who earn income in foreign currency;
- (e) Banks acting in fiduciary capacity on behalf of the above categories.

All LMs are advised to adhere to the standard “Know Your Customer” (KYC) verification practices, when entertaining requests for investments.

**1.2 Tenure of Treasury bills/Treasury bonds**

Eligible investors are permitted to purchase or sell Treasury bills/Treasury bonds with any maturity period.

**1.3 Limit on Treasury bill/Treasury bond Investment**

The total investment permitted to eligible investors including all other foreign investors in Treasury bills/Treasury bonds should not exceed 10% of the total outstanding value of Treasury bills/Treasury bonds at any given point of time (Subject to the Clause 2.3 below).

**1.4 Registration**

LMs shall be responsible for registering details of their eligible investors at the Central Depository System (CDS) of LankaSecure maintained by the PDD of the CBSL. All Treasury bill /Treasury bond transactions with eligible investors shall be recorded under the CFD account type of the CDS.

CDS will issue statements containing the following to the investors.

- a) A monthly statement confirming the transactions that have taken place during the month.
- b) A statement confirming the outstanding balance held by each investor semi annually.
- c) A statement indicating the maturity proceeds and/or interest payment whenever such payments fall due.

These statements will be issued directly to the name and address of the investor, as registered in the CDS.

## 2. Investment Procedure

- 2.1 Eligible investors under Clause 1.1 above are permitted to purchase Treasury bills/Treasury bonds issued by the Government of Sri Lanka only from primary auctions / direct placements through LMs.

In order to effect the transactions in accordance with instructions received from customers, LMs shall ensure that such transactions are within the legal requirements and do not breach the system rules applicable to LankaSettle and any other guidelines issued by PDD and the Exchange Control Department of the CBSL.

- 2.2 Foreign exchange brought into the country for the purchase of Treasury bills/Treasury bonds and proceeds realized on a sale /maturity of Treasury bills/Treasury bonds or any income realized by way of capital gain or any interest income shall be routed through a special rupee account named “**Treasury bill/ bond Investment External Rupee Account–Deshabhimani (TIERA-D)**” opened in the name of the eligible investor by LMs in a LCB or National Savings Bank (NSB). Thus it is the duty of the LMs to open a special account on customer’s behalf solely for these specified transactions. The operational instructions issued on 06/01/2009 by the Controller of Exchange will be applicable in this respect.
- 2.3 Before confirmation of the sale, LMs shall be responsible to inquire from the PDD of the CBSL the leeway available in the Treasury bill /Treasury bond limit (10% of the total value of Treasury bill /Treasury bond outstanding) permitted for eligible investors to invest in Treasury bills/Treasury bonds. The PDD shall be informed by fax/ e-mail once the deal is confirmed.
- 2.4 LMs shall be responsible for creating customer owned investor accounts promptly for their eligible investors at the CDS and the transactions should be recorded under the “CFD” account type.
- 2.5 Eligible investors are permitted to enter into Repo/Reverse Repo transactions using Treasury bills/Treasury bonds purchased under this scheme as collateral.

## 3. Fund Transfers

- 3.1 When an eligible investor buys Treasury bills/Treasury bonds from the primary market, the relevant LM should remit the proceeds of the bills/bonds to the relevant account at the CBSL through Real Time Gross Settlement System (RTGS). When an eligible investor sells Treasury bills/Treasury bonds in the secondary market, the LCB or NSB (custodian bank) who maintains the TIERA-D account shall transfer respective rupee amounts to TIERA-D account of the investor. However, eligible investors are not permitted to utilize funds available at NRFC accounts in Sri Lanka to purchase Treasury bills/Treasury bonds under this scheme.
- 3.2 The CBSL may purchase dollar funds from the market at market price at the time of transaction up to 50% of the total amount received through investments in Treasury bills/Treasury bonds by eligible investors.

## 4. Payment of Interest and Maturity Proceeds at Maturity

Interest and maturity proceeds payable on Treasury bills/Treasury bonds (face value) shall be payable in rupees by the PDD of the CBSL on behalf of the Government of Sri Lanka through RTGS to respective LMs on respective maturity dates. Such LMs are responsible to transfer the respective payments to the account or any other account specified by eligible investors with value of proceeds on the same day.

## 5. Joint Holdings

Treasury bills/Treasury bonds may be held jointly within the facilities available (at present, up to three) with the CDS. Payment of maturity proceeds shall be based on the agreement between LM and joint holders.

## 6. Tax Treatment

Eligible investors who invest in Treasury bill /Treasury bond market pay no further tax on the earnings on such Treasury bills/Treasury bonds apart from the 10% withholding tax imposed at the primary issue of such Treasury bills/Treasury bonds.

**7. Stamp Duty**

All documents used on the issue or redemption of Treasury bills/Treasury bonds are free from stamp duty in Sri Lanka.

**8. On-line Viewing Facility of Investment Status**

The investment status could be viewed through internet via LankaSecure net (<https://www.cbsl.lk/lankasec/>). The application to obtain a password protected viewing facility could be submitted to the LM.

**9. Jurisdiction**

The courts in Sri Lanka shall have exclusive jurisdiction in respect of all matters relating to Treasury bills/Treasury bonds issued by the Government of Sri Lanka.

**10. Other**

Eligible investors are permitted to transfer funds from the TIERA-D account to any other account maintained in Sri Lankan rupees or foreign currency.

Further operating instructions in this regard will be issued by the Controller of Exchange or the Superintendent of Public Debt as the case may be from time to time.

Any clarifications on these guidelines can be obtained from the following.

Telephone : + 94 11 2477316 / 076 / 291

Hot Line : + 94 11 2477777

Fax : + 94 11 2477718/719/759

E-mail : siriwardena@cbsl.lk , chandra@cbsl.lk

C J P Siriwardena  
Superintendent of Public Debt

**Circular No.: SSSS/02/2009**

15 June 2009

*To: All Participants of the LankaSettle System*

**RE: AMENDMENT TO THE LANKASETTLE SYSTEM RULES ISSUED IN AUGUST 2003**

You are hereby informed that the Rule 4.2 in Volume 3 of LankaSettle System Rules is amended with effect from 11 June 2009 by inserting the “CDA” account as follows,

“**CDA Account:** Hold securities owned by Dual Citizenship applicants under TIERA and TIERA – D schemes”.

The credits to “CDA Account” are allowed by all the LankaSettle Participants, however the debits will not be permitted, unless otherwise, the permission of the Superintendent of Public Debt is granted for the particular investor.

C J P Siriwardena  
Superintendent of Public Debt

Public Debt Department  
June 15, 2009

To: All CEOs of Licensed Commercial Banks, Primary Dealers and Joint Lead Managers Appointed under the TIERA – D Scheme.

### **DUAL CITIZENSHIP FOR INVESTORS IN GOVERNMENT TREASURY BONDS**

**It has been decided to extend the facility of Dual Citizenship status for ex- Sri Lankans holding foreign citizenship who have invested / are willing to invest in Government Treasury bonds subject to the following terms and conditions.** In addition ex-Sri Lankans who have opened/ are willing to open foreign currency accounts namely Non Resident Foreign Currency (NRFC) Accounts, Resident Foreign Currency (RFC) Accounts, Special Foreign Investment Deposit Accounts (SFIDA) and Foreign Currency Fixed Deposits Accounts are also eligible for Dual Citizenship.

In order to give effect to this decision investors may utilize their investments in Treasury bonds under TIERA and TIERA – D schemes for the purpose of fulfilling the eligibility criteria for Dual Citizenship.

#### **Terms and Conditions**

1. The minimum investment amount of the Treasury bond, maturity period and fees to be charged on granting Dual Citizenship are as follows:

<b>Minimum Treasury Bond Investment Requirement</b>	<b>Maturity Period</b>	<b>Fees to be charged</b>
USD 25,000 or equivalent in any other designated foreign currency	3 years	LKR 200,000
USD 25,000 or equivalent in any other designated foreign currency	5 years	Exempted
USD 50,000 or equivalent in any other designated foreign currency	3 years	Exempted

2. If the principle applicant has made the aforesaid investment with a Primary Dealer or Licensed Commercial Bank as per Item No.1, his family unit is also exempted from payment of any charged on granting Dual Citizenship.
3. The eligibility criteria of the Dual Citizenship could be fulfilled by amalgamating the funds of NRFC, RFC, SFIDA, Dual Citizenship Accounts and investments in Treasury bonds, provided that the total amount of deposits / investments and the minimum periods satisfy the eligibility criteria imposed by the Department of Immigration and Emigration.
4. In the case of joint holders of Treasury Bonds, only one of the joint holders would be entitled to use the investment in Treasury Bonds to fulfill the eligibility criteria. If the other joint holders wish to enjoy the same benefit, either the investment period or the amount invested has to be increased proportionately. This condition will not apply to family members who are joint holders.
5. If the Dual Citizenship application is relating to the investments made in Treasury bonds, such investments shall be blocked by the Superintendent of Public Debt, on request of the Controller General of Immigration and Emigration with the written consent of the applicant.
6. Interest accrued on such Treasury Bond investments may be freely remittable under TIERA and TIERA-D schemes.
7. Withdrawal of the blocked investment or any part thereof should not be permitted before the maturity period of the investment without obtaining the prior approval of the Superintendent of Public Debt. Instructions in this regard were given to all the participants of LankaSettle by Circular bearing reference No.SSSS/02/2009 issued on 15 th June, 2009.

8. Information and guidelines of this facility is available on the website of the Department of Immigration and Emigration, [www.immigration.gov.lk](http://www.immigration.gov.lk).

Yours faithfully,

C J P Siriwardena  
Superintendent of Public Debt

**Ref.: 08/24/001/0001/009**

Public Debt Department  
June 22, 2009

*To: Chief Executive Officers of Primary Dealers*

**DIRECTION ON RESTRICTION ON DIVIDEND DECLARATION**

With a view to promote safety, soundness and stability of the Primary Dealer (PD) System and to build up the PD capital base, the PDs are hereby required to restrict dividends declaration to a maximum of 50 per cent of the realised profits earned between 01.01.2009 to 31.12.2009.

Realised profits are arrived after deducting the revaluation gains.

The direction issued on April 18, 2005 which includes the requirement to transfer 25 percent of annual profits to a Special Risk Reserve, prevails.

This Direction is issued in terms of Section 12 of the Regulations dated February 01, 2002 issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance.

This direction would apply with immediate effect.

Please acknowledge receipt.

Superintendent of Public Debt

Public Debt Department  
August 4, 2009

**Ref.: 08/25/001/0062/001**

*To: All Participants of the LankaSettle System*

**RE : OPERATING INSTRUCTIONS – CENTRAL BANK OF SRI LANKA WIDE AREA NETWORK  
(CBSLNET) BASED APPLICATION TO RECORD CUSTOMER REPOSITIONING TRANSACTIONS  
INVOLVING GOVERNMENT SECURITIES**

Reference our circular No.SSSS/05/2007 dated 28<sup>th</sup> September, 2007 and letter No.08/25/001/0062/001 dated 23<sup>rd</sup> July, 2008 on the above.

An additional Security transfer batch to LankaSecure will be uploaded at 2.00 p.m. and current batch uploaded to LankaSecure at 12.30 p.m. will be advanced to 12.00 noon on each business day with effect from 10<sup>th</sup> August, 2009. With that, security transfer batches to LankaSecure will be uploaded at 9.00 a.m. 12.00 noon, 2.00 p.m., 3.00 p.m. and 4.00 p.m. on each business day.

Please do not hesitate to contact any of the following officers, if you need further clarification regarding the usage of the system.

Mr. S P Weerasinghe	2477276	<a href="mailto:pddspw@cbsl.lk">pddspw@cbsl.lk</a>
Mr. Lasitha Pathberiya	2477271	<a href="mailto:lasitha@cbsl.lk">lasitha@cbsl.lk</a>
Mr. D A M A L B Deegala	2477489	<a href="mailto:arunadeegala@cbsl.lk">arunadeegala@cbsl.lk</a>

C J P Siriwardena  
Superintendent of Public Debt

Public Debt Department  
November 20, 2009

**Ref.: 08/24/001/0001/009**

*To: Chief Executive Officers of Primary Dealers*

#### **DIRECTION ON DIVERSIFICATION OF PRIMARY DEALER ACTIVITIES**

This direction is issued under Section 11 of the regulations dated June 24, 2009, issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance and will be effective from December 02, 2009.

1. Primary Dealers are permitted to engage in following activities;
  - (a) Bidding at primary auctions conducted by the Central Bank of Sri Lanka for Treasury bills, Treasury bonds and instruments issued by the Government and the Central Bank and purchasing such securities in such primary market;
  - (b) Engaging in the secondary market in Treasury bills, Treasury bonds, and other Government and Central Bank Securities with the Central Bank and others;
  - (c) Promoting and developing a secondary market in Treasury bills, Treasury bonds and other Government and Central Bank Securities;
  - (d) Engaging in fee based activities to earn an income, which have no adverse impact on capital, such as portfolio management services, project appraisal services, loan syndication services, merger and acquisition advisory services and consultancy services;
  - (e) Investing in ordinary shares or debentures of its own group companies of banking and finance in nature which are regulated by a regulatory authority in Sri Lanka subject to the conditions in sections 2. and 3. below; and,
  - (f) Any activity connected with or incidental to the activities set out in paragraph (a) to (c) above;
2. Primary Dealers will be permitted to engage in activity, 1.(e), only after obtaining approval from the Public Debt Department (PDD). PDD upon receipt of a written request by the Primary Dealer, may grant permission on a case by case basis for the diversification activity by evaluating the said request.
3. Primary Dealers shall engage in diversified activities only with capital over and above the minimum required capital under the existing directions and the said capital which is utilized for the said diversified activities should

be limited to 25 per cent of the total capital of the Primary Dealer. Total capital should be the capital stated in the latest audited financial statements.

4. The investments in shares of an own group company shall be deducted from available capital when calculating the capital adequacy ratio (CAR), in order to prevent use of same amount of capital funds for capital adequacy purposes by both institutions.
5. Primary Dealers are not permitted to set up subsidiaries by investing in a major share holding of its own group companies.
6. The share investments should be marked to market on a monthly basis and the gain/loss should be taken in to the profit and loss account.
7. Specific approvals of other regulators, if needed should be obtained in respect of the activities detailed under 1.(d) and 1.(e) above
8. Primary Dealers should restrict their activities to those which are detailed under 1.(a) to 1.(f). Primary Dealers should divest/cease to engage in any other investment /activity carried out by them, if any, within a period of six months from the date of this direction.
9. Primary Dealer Units of Licensed Commercial Banks are required to maintain separate set of accounts on transactions relating to Government securities of primary and secondary market. In addition, Primary Dealer Units are required to provide any information, which PDD may request from time to time.
10. In case of Primary Dealer Units of Licensed Commercial Banks, any inconsistencies in this direction with the provisions of the Banking Act No 30 of 1988, as amended, and any Directions, Determinations, Orders and Circulars issued thereunder, and any other applicable laws, the provisions of such Acts and the Directions, Determinations, Orders and Circulars shall prevail.
11. All Primary Dealers are required to maintain separate records on diversified activities and report to the PDD along with monthly financial statements. The report should contain information as given in Annex I.
12. The Primary Dealers shall maintain the following ratios in the event they have been given permission by the PDD as given in 2. above.
  - i. Risk Weighted Capital Adequacy Ratio (RWCAR) of 10%.
  - ii. Minimum annual turnover ratio of 10 times for Treasury bonds and 20 times for Treasury bills. Annual turnover ratio is computed as a ratio of total volume of outright transactions in the secondary market during the last 12 months to average stock of the trading portfolio of that period.
  - iii. minimum average effective participation ratio of 5% separately for Treasury bond and Treasury bill auctions, as monitored on a half yearly basis for the periods, January - June and July - December.

Please acknowledge receipt.

C J P Siriwardene  
Superintendent of Public Debt

## Annex I

**Report on diversified activities which do not utilize capital**

1. Type of activity :
2. Total income earned from each activity :

**(The income earned from these activities should be shown separately as 'fee income' in the P& L)**

**Report on diversified activities which utilize capital**

1. Name of Invested company :
2. Investment value :
3. Number of shares :
4. % share of total capital of the invested company :
5. Mark to market valuation :
6. Basis of obtaining the market value :
7. Details of Transfers/sale of shares during the reporting period :
8. Details of Investment in Debentures :

Public Debt Department  
November 24, 2009

*To : All Participants of LankaSettle System*

**AMENDMENT TO LANKASETTLE SYSTEM RULES, MAY 2009**

You are hereby informed that the first paragraph of Clause 5.8 of Volume 3 of Version 2.0 of LankaSettle System Rules issued in May, 2009 is amended to read as follows with effect from November 25, 2009.

**“LankaSecure will accept Securities Instructions for settlement on future Value Dates and will store such instructions until such Value Date. The System will accept Securities Instructions for up to 364 calendar days in advance of current date and Securities Instructions with future Value Dates greater than 364 calendar days in advance will be rejected.”**

Accordingly, clause 5.8 of Volume 3 of the LankaSettle System Rules will read as follows with effect from November 25, 2009.

**“5.8 Forward Dated Transactions”**

LankaSecure will accept Securities Instructions for settlement on future Value Dates and will store such instructions until such Value Date. The System will accept Securities Instructions for up to 364 calendar days in advance of current date and Securities Instructions with future Value Dates greater than 364 calendar days in advance will be rejected.

If a Securities Instruction is received by LankaSecure that has a Value Date that has already passed it will be rejected.

At the start of each Business Day LankaSecure checks that each stored Securities Instruction has a valid Value Date. If a stored Securities Instruction has a value date that has already passed it will be rejected.

In the event that a Business Day is “cancelled”, eg. A day on which due to extraordinary circumstances the Central Bank is not open for business, it is the responsibility of the Participant to cancel stored Securities Instructions for that Value Date or re-send them following rejection with a new Value Date.

C.J.P. Siriwardena  
Superintendent of Public Debt

K.B. Dissakaruna  
Director/ Payments and Settlements

Public Debt Department  
December 17, 2009

**Circular No.: SSSS/04/2009**

*To: All Participants of the LankaSettle System*

**AMENDMENTS TO LANKASETTLE SYSTEM RULES ISSUED IN MAY 2009**

You are hereby informed that the Section 4.2 in the Volume 3 of LankaSettle System Rules issued in May 2009 is amended with effect from 17 December 2009 by inserting the “DOB” account as follows,

**“DOB (Domestic Operations Security Borrowing) Account:** Holds securities borrowed by the Central Bank under the government securities borrowing programme to be used in the Central Bank repurchase transactions and that are to be returned to the lender at a future date”

C J P Siriwardena  
Superintendent of Public Debt

**FINANCE COMPANIES ACT, NO. 78 OF 1988**  
**AS AMENDED BY ACT, NO. 23 OF 1991**

**The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988.**

**Nivard Ajith Leslie Cabraal**  
Chairman  
Monetary Board of the Central Bank of Sri Lanka

Colombo  
31 March, 2009

**FINANCE COMPANIES (LIQUID ASSETS) DIRECTION, NO. 1 OF 2009**

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, and 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 percent 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 percent 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 Central Bank of Sri Lanka Securities equivalent to seven and a half (7.5) percent 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 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 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.
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.

**FINANCE COMPANIES ACT, NO. 78 OF 1988**  
**AS AMENDED BY ACT NO. 23 OF 1991**

**The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.**

**Nivard Ajith Leslie Cabraal**  
Chairman  
Monetary Board of the Central Bank of Sri Lanka

Colombo  
31 March, 2009

**FINANCE COMPANIES (INTEREST) DIRECTION, NO. 2 OF 2009**

1. This Direction may be cited as the Finance Companies (Interest) Direction No. 2 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 effect from 01 April 2009.
2. (a) The maximum annual rate of interest which may be paid by any finance company on a time deposit accepted or renewed during any quarter shall not exceed :-
  - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 4 percentage points if such deposit carries a maturity period of 12 months or less;

- (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 6 percentage points if such deposit carries a maturity period of more than 12 months.
- (b) The maximum rate of discount which may be allowed by a finance company on the sale, during any quarter, of a bond or other instrument 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:–
  - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 4 percentage points if such bond or instrument carries a period of maturity of 12 months or less;
  - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 6 percentage points if such bond or instrument carries a maturity period of more than 12 months.
- 3. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit during any quarter, shall not exceed the weighted average yield applicable on 91-day Treasury Bills issued during the immediately preceding quarter.
- 4. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid by such finance company in each month, in a format given by the Director, on or before the 15<sup>th</sup> day of the following month.
- 5. In this Direction,
  - (i) “Time Deposit” shall have the same meaning as in the Finance Companies (Deposits) Direction No.1 of 2005; and
  - (ii) “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 (Interest) Direction No.2 of 2008 is hereby revoked.

**FINANCE COMPANIES ACT NO.78 OF 1988**  
**AS AMENDED BY ACT NO.23 OF 1991**

**The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No.78 of 1988 as amended by Act No.23 of 1991.**

**Nivard Ajith Leslie Cabraal**  
 Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo  
 22 April, 2009

**THE 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 percent (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 percent (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 percent (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 percent 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.
- f. “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.

**FINANCE COMPANIES ACT, NO. 78 OF 1988**  
**AS AMENDED BY ACT NO. 23 OF 1991**

**The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act No. 23 of 1991.**

**Nivard Ajith Leslie Cabraal**  
Chairman  
Monetary Board of the Central Bank of Sri Lanka

Colombo  
30 September, 2009

**FINANCE COMPANIES (INTEREST) DIRECTION, NO. 4 OF 2009**

1. This Direction may be cited as the Finance Companies (Interest) Direction No. 4 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 effect from 01 October 2009.
2. (a) The maximum annual rate of interest which may be paid by any finance company on a time deposit accepted or renewed during any quarter shall not exceed :-
  - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 3.5 percentage points if such deposit carries a maturity period of 12 months or less;
  - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 5.5 percentage points if such deposit carries a maturity period of more than 12 months.
- (b) The maximum rate of discount which may be allowed by a finance company on the sale, during any quarter, of a bond or other instrument 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:-
  - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 3.5 percentage points if such bond or instrument carries a period of maturity of 12 months or less;
  - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 5.5 percentage points if such bond or instrument carries a maturity period of more than 12 months.
3. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit during any quarter, shall not exceed the weighted average yield applicable on 91-day Treasury Bills issued during the immediately preceding quarter.
4. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid by such finance company in each month, in a format given by the Director, before the 15<sup>th</sup> day of the following month.
5. In this Direction,
  - i) "Time Deposit" shall have the same meaning as in the Finance Companies (Deposits) Direction No.1 of 2005; and

- ii) “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 (Interest) Direction No.2 of 2009 is hereby revoked.

**FINANCE COMPANIES ACT, NO.78 OF 1988**  
**AS AMENDED BY ACT, NO.23 OF 1991**

**The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No.78 of 1988.**

**Nivard Ajith Leslie Cabraal**

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo

30 December, 2009

**FINANCE COMPANIES (REPORTING REQUIREMENTS)**  
**DIRECTION, NO. 5 OF 2009**

1. This Direction may be cited as the Finance Companies (Reporting Requirements) Direction No.5 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. 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 specified hereunder, in respect of each periodic return.

<b>Return</b>	<b>Periodicity</b>	<b>Due Date</b>
NBD-WF-15-LA (Liquid Assets)	Weekly	First Working Day following the end of the respective week (Monday to Friday)
NBD-WF-16-DL (Deposit Liability)	Weekly	First Working Day following the end of the respective week (Monday to Friday)
NBD-WF-17-AD (Advances)	Weekly	First Working Day following the end of the respective week (Monday to Friday)
NBD-MF-01-BS (Balance Sheet)	Monthly	By the 7 <sup>th</sup> of the following month
NBD-MF-02-PL (Profit & Loss)	Monthly	By the 7 <sup>th</sup> of the following month
NBD-MF-04-LA (Liquid Assets)	Monthly	By the 7 <sup>th</sup> of the following month
Rate of Interest	Monthly	By the 7 <sup>th</sup> of the following month
NBD-MF-03-CA (Classification of Advances)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-07-SL (Secured Large Exposure)	Monthly	By the 15 <sup>th</sup> of the following month

NBD-MF-07-UL (Unsecured Large Exposure)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-08-AR (Advances to Related Parties)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-09-IE (Investments in Equity)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-10-GA (Maturity Gap Analysis)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-11-IS (Interest Rate Sensitivity)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-12-C1(C1) (Capital Adequacy Ratio)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-12-C2(C2) (Capital Adequacy Ratio)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-12-C3(C3) (Capital Adequacy Ratio)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-12-C4(C4) (Capital Adequacy Ratio)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-13-SC (Sector wise Credit Exposure)	Monthly	By the 15 <sup>th</sup> of the following month
NBD-MF-14-IS (Interest Spread)	Monthly	By the 15 <sup>th</sup> of the following month
Balance Sheet - Audited	Annually	As required by the Act (Currently, within six months from the end of each financial year)
Profit & Loss Account - Audited	Annually	As required by the Act (Currently, within six months from the end of each financial year)
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)

3. 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. 4 of 2009 are hereby repealed. Other reporting requirements imposed under the Act and Directions issued thereunder shall remain unchanged.
4. In the event of non-submission of any periodic return by the due date, the Chief Executive Officer of the respective finance company shall give an explanation to the Director, within 7 days from the due date.
5. In the event of non-submission of two or more returns relating to a reporting period or any return for two consecutive periods by due dates, the Board of Directors of such finance company shall give an explanation to the Director to be reported to the Monetary Board.
6. In publishing the list of finance companies in the mass media by the Central Bank of Sri Lanka, finance companies shall be classified according to their status of compliance with the Directions issued and Rules made under the Finance Companies Act, No.78 of 1988.
7. The approval for opening of new branches/offices and for new business products/services shall not be granted for a finance company which is non-compliant with the Directions and/or Rules made under the Act.

8. For the purpose of this Direction:
- (a) "Act" means the Finance Companies Act, No.78 of 1988.
  - (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-base data transmission system provided by the Central Bank for financial institutions supervised by it for the purpose of submitting financial information.
  - (d) "Week" means a week beginning Monday.

**FINANCE LEASING ACT, NO. 56 OF 2000**

**Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.**

S. S. Ratnayake  
Director

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

On this 22 day of April, 2009

**FINANCE LEASING (STIMULUS PACKAGE CONDITIONS)  
DIRECTION, NO. 1 OF 2009**

1. This Direction may be cited as the Finance Leasing (Stimulus Package Conditions) Direction, No. 1 of 2009 and shall apply to every registered finance leasing establishment, which is a public company referred to in paragraph (c) of section 3 of the Act (hereinafter referred to as a 'relevant establishment') and shall come into operation with immediate effect.
2. Notwithstanding the provisions of any other directions issued by the Director under the Act, a beneficiary relevant establishment 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 relevant establishment;
  - (v) pay dividends on shares, whether by cash or otherwise, to any shareholder in the beneficiary relevant establishment.
3. A beneficiary relevant establishment shall recover at least fifty percent (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 percent (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 beneficiary relevant establishment.

4. A beneficiary relevant establishment shall reduce its operational and administrative cost as at the date of this direction, by at least twenty percent (20%) within one month from the date of this Direction and continue the cost reduction during the restructuring period.
5. A beneficiary relevant establishment, 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 for Finance and Leasing Industry-2009.
6. A beneficiary relevant establishment 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 Director.
7. A beneficiary relevant establishment shall reduce salaries/remunerations/ emoluments of the members of the Board of Directors and Key Management Personnel by at least 25 percent 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 relevant establishment 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 promissory notes of the beneficiary relevant establishment which shall not be settled prematurely.
9. The Board of Directors and the Chief Executive Officer of a beneficiary relevant establishment shall assess the situation of the company continuously and submit reports as required by the Director covering key areas, including the following:
  - (i) Inflow of funds in the form of investments in any debt instruments issued by the beneficiary relevant establishment, redemption of debt instruments, and renewals of matured debt instruments.
  - (ii) Disposal of assets.
  - (iii) Recovery of accommodations.
  - (iv) Position of liquid assets.
  - (v) 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-
  - (i) "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.
  - (ii) "Act" shall mean the Finance Leasing Act, No. 56 of 2000.
  - (iii) "Beneficiary Relevant Establishment" shall mean a registered finance leasing establishment which is a public company referred to in paragraph (c) of section 3 of the Act which enjoys any facility under the Stimulus Package for Finance and Leasing Industry-2009.
  - (iv) "Director" shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
  - (v) "Debt Instrument" means, a debenture, bond, promissory note or any other debt instrument as may be determined by the Director.

- (vi) “Key Management Personnel” shall mean those persons having authority and responsibility for planning, directing and/or controlling the activities of the beneficiary relevant establishment, directly or indirectly, including any director (whether executive or otherwise) of the beneficiary relevant establishment.
- (vii) “Liquid Assets” means;
- a) Cash in hand;
  - b) Balances in a current or deposit account in a commercial bank, free from any bankers lien or charge;
  - c) Sri Lanka Government Treasury Bills free from any charges or lien;
  - d) Sri Lanka Government Securities maturing within one year and free from any charges or lien;
  - e) Central Bank of Sri Lanka Securities maturing within one year and free from any charge or lien;
- (viii) “Restructuring Period” shall mean the time period between the date of application by a beneficiary relevant establishment 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.
- (ix) “Related Company” in relation to a beneficiary relevant establishment shall mean any of the following:
- a) its subsidiary company;
  - b) its associate company;
  - c) its holding company;
  - d) a subsidiary company or associate company of its holding company;
  - e) any company in the same group of companies to which the beneficiary relevant establishment belong.
- (x) “Related Party” shall mean any of the following:
- a) A Related Company as defined in item (ix) hereinabove;
  - b) A past or present Director of the beneficiary relevant establishment;
  - c) A past or present Key Management Personnel of the beneficiary relevant establishment;
  - d) A relative of a past or present Director or a past or present Key Management Personnel of the beneficiary relevant establishment;
  - e) A shareholder who owns shares exceeding 10% of the paid up capital of the beneficiary relevant establishment;
  - f) A concern in which a past or present director or past or present Key Management Personnel of the beneficiary relevant establishment 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 relevant establishment, has substantial interest.

**FINANCE LEASING ACT, NO. 56 OF 2000**

**Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.**

S. S. Ratnayake  
Director

Department of Supervision of Non-Bank Financial Institutions  
Central Bank of Sri Lanka  
On this 15 day of October, 2009

**FINANCE LEASING (LENDING) DIRECTION, NO. 2 OF 2009**

1. This Direction may be cited as the Finance Leasing (Lending) Direction, No. 2 of 2009 and shall apply to every registered finance leasing establishment, which is a public company referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as a 'relevant establishment') and shall come into operation with immediate effect.
2. No relevant establishment shall without the prior written consent of the Director, grant any accommodation:
  - (i) to a director and /or a relative of a director of the relevant establishment;
  - (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 relevant establishment, a relative of a director of the relevant establishment or any employee of the relevant establishment.
3. Subject to the provisions of paragraph 2 hereof, a relevant establishment 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 relevant establishment 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 relevant establishment or ten per centum of the unimpaired adjusted capital funds of the relevant establishment as per its last audited balance sheet, whichever is greater.

4. A relevant establishment may grant accommodation to its subsidiary companies or associate companies subject to the limits specified in the Finance Leasing (Single Borrower Limit) Direction No. 3 of 2006 and on such terms as may be applicable to similar facilities granted to other borrowers of the relevant establishment, 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 relevant establishment shall recover on any accommodation, charges of any description, other than interest, in excess of 5 percent of the principal amount granted.
6. Every relevant establishment 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 the format annexed.
7. Where in a relevant establishment, the aggregate principal amount of such accommodation outstanding exceeds as at the commencement of this Direction the respective limits specified in paragraphs 2 and 3 above the Director may give such relevant establishment a period of one year from the commencement of this Direction to comply with the requirements under this Direction.
8. 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 notices; or such other financial facility as may be determined by the Director.
  - (ii) "Associate Company" when used in relation to a relevant establishment shall mean a company in which the relevant establishment holds not less than 20 per centum and not more than 50 per centum of the paid up ordinary share capital of the investee company.
  - (iii) "Adjusted Capital Funds" shall mean the aggregate of the paid up capital, the Reserve Fund as provided for in the Finance Leasing (Reserve Fund) Direction No.5 of 2006 and permanent free reserves.

- (iv) "Relative" shall mean the spouse and 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) "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 relevant establishment.

Format No.  
SNBFI/FL/02/01/2009

**FINANCE LEASING ACT, NO. 56 OF 2000**  
**FINANCE LEASING (LENDING) DIRECTION NO. 2 OF 2009**

**TOTAL ACCOMMODATIONS**

Name of RFLE : .....

Type of accommodation : .....

As at year ended : .....

Amount in Rs. '000

Contact No.	Name of the borrower	Amount granted	Date granted & date of settlement	Terms of repayment	Rentals in arrears		Other charges	Stock outstanding	Interest in suspense	VAT in suspense	Pre paid rentals	Net exposure (13=7+8+9-10-11-12)	Amount & date of last payment	Type & value of security	Age	Remarks
					No. of months	Amount										
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Total																

Date :

.....  
Signature of the CEO/MD  
Name :  
Designation :

**FINANCE LEASING ACT, NO. 56 OF 2000**

**Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.**

S. S. Ratnayake  
Director

Department of Supervision of Non-Bank Financial Institutions  
Central Bank of Sri Lanka  
On this 15 day of October, 2009

**FINANCE LEASING (BUSINESS TRANSACTIONS**  
**WITH DIRECTORS AND THEIR RELATIVES) DIRECTION, NO.3 OF 2009**

1. This Direction may be cited as the Finance Leasing (Business Transactions With Directors and their Relatives) Direction, No. 3 of 2009 and shall apply to every registered finance leasing establishment, which is a public

company referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as a 'relevant establishment') and shall come into operation with immediate effect.

2. Subject to the provisions of paragraph 2 of the Finance Leasing (Lending) Direction, No.02 of 2009 a relevant establishment shall not, without the approval of the Director, conduct any business transaction with a director of the relevant establishment or with a relative of a director of the relevant establishment where the total value of transaction/s exceeds Rs.75,000 per month or Rs.750,000 for a financial year.
3. The provisions of paragraph 2 hereof shall not apply when creating liabilities to the relevant establishment in the form of borrowings and investments from a director of the relevant establishment or a relative/s of a director of the relevant establishment in conformity with the Finance Leasing (Debt Instrument) Direction No.01 of 2007 if such transaction is carried out in a manner that shall not grant such director or relative of a director "more favourable treatment" than that is accorded to an unrelated comparable counterparty of the relevant establishment.
4. For the purpose of this Direction,
  - (a) "Relative" shall mean the spouse or a dependent child of an individual.
  - (b) "Director" shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

#### **FINANCE LEASING ACT, NO. 56 OF 2000**

**The Direction given by the Director of the Department of Supervision of Non-Bank Financial Institutions, under section 34 of the Finance Leasing Act, No. 56 of 2000.**

S. S. Ratnayake  
Director

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

On this 30 day of December, 2009

#### **FINANCE LEASING (CORPORATE GOVERNANCE) DIRECTION, NO. 4 OF 2009**

1. This Direction may be cited as the Finance Leasing (Corporate Governance) Direction, No. 4 of 2009 and shall apply to every registered finance leasing establishment, which is a public company referred to in paragraph (c) of section 3 of the Finance Leasing Act (hereinafter referred to as a 'relevant establishment') and shall come into operation with effect from 1 January, 2010.
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 relevant establishment by-
    - a) approving and overseeing the relevant establishment's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the relevant establishment;
    - b) approving the overall business strategy of the relevant establishment, 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 lenders, creditors, share-holders and borrowers;
    - e) reviewing the adequacy and the integrity of the relevant establishment'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 relevant establishment by key management personnel, that is consistent with the relevant establishment'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 identification of weaknesses and implementation of changes where necessary;
  - j) ensuring that the relevant establishment 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 relevant establishment'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 relevant establishment.
  - (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 relevant establishment is firmly under its authority.
  - (6) The Board shall, if it considers that the relevant establishment 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 lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the relevant establishment prior to taking any decision or action.
  - (7) The Board shall include in the relevant establishment'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 relevant establishment.

- (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 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 relevant establishment 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 9.
- (2) Subject to paragraph 5(1) and the transitional provisions contained herein, 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 relevant establishment may be appointed, elected or nominated as a director of the relevant establishment (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) Commencing 01.01.2013, 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 relevant establishment or 10% of the paid up capital of another relevant establishment;

- b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the relevant establishment as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the relevant establishment as shown in its last audited balance sheet;
  - c) has been employed by the relevant establishment 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 relevant establishment or exceeding 12.5% of the paid up capital of another relevant establishment;
  - e) represents a shareholder, debtor, or such other similar stakeholder of the relevant establishment;
  - 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 relevant establishment 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 relevant establishment; or
    - ii. in which any of the other directors of the relevant establishment 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 relevant establishment; or
    - iii. in which any of the other directors of the relevant establishment 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 relevant establishment.
- (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) Commencing 01.01.2013, 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 third 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 relevant establishment. The relevant establishment 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 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 relevant establishment.

- (2) A director of a relevant establishment 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 relevant establishment. 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. Management functions delegated by the Board**

- (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 relevant establishment.

## **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 three years commencing from January 1, 2010.
- (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 relevant establishment'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 relevant establishment.
- (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 relevant establishment's operations and business.

## 8. Board appointed Committees

- (1) Every relevant establishment shall have at least 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 relevant establishment.

- (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 majority of 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 external 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 external 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 relevant establishment'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 relevant establishment, in order to monitor the integrity of the financial statements of the relevant establishment, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the relevant establishment'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 relevant establishment:
  - (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 relevant establishment 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 relevant establishment'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, chief executive officer 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 relevant establishment 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 relevant establishment 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 relevant establishment's policies and regulatory and supervisory requirements.
- e) The committee shall, at least quarterly, 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 relevant establishment'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 Leasing (Lending ) Direction, No. 2 of 2009 and the Finance Leasing (Business Transactions with Directors and their Relatives) Direction, No.3 of 2009 or such other directions that shall repeal and replace the said directions from time to time.
- (2) The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment 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 relevant establishment;
  - b) Any associate company of the relevant establishment;
  - c) A director of the relevant establishment;
  - d) A key management personnel of the relevant establishment;
  - e) A relative of a director or a key management personnel of the relevant establishment;
  - f) A shareholder who owns shares exceeding 10% of the paid up capital of the relevant establishment;
  - g) A concern in which a director of the relevant establishment or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the relevant establishment , 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 relevant establishment in the form of borrowings and investments,
  - c) Providing financial or non-financial services to the relevant establishment or obtaining those services from the relevant establishment ,
  - d) Creating or maintaining reporting lines and information flows between the relevant establishment 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 relevant establishment 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 an unrelated

comparable counterparty of the relevant establishment. 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 relevant establishment’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 relevant establishment’s share capital and debt instruments with a remaining maturity of 5 years.
- b) Charging a rate of interest lower than the relevant establishment’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 relevant establishment 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 annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.
- (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 relevant establishment’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 1 January 2011.
  - d) Details of directors, including names, transactions with the relevant establishment.
  - e) Fees/remuneration paid by the relevant establishment to the directors in aggregate, in the Annual Reports published after January 1, 2011.
  - f) Total net accommodation as defined in paragraph 9(7) 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 capital fund of the relevant establishment.
  - g) The aggregate values of remuneration paid by the relevant establishment to its key management personnel and the aggregate values of the transactions of the relevant establishment with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and borrowing through debt instruments or investments made in the relevant establishment .
  - h) A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.
  - i) The external auditor’s certification of the compliance with the Act and directions issued by the Director of the Department of Supervision of Non-Bank Financial Institutions in the annual corporate governance reports published after January 1, 2012.

## 11. Transitional provisions

- (1) If the number of directors on the Board of a relevant establishment is either less than 5 or exceed 9, such relevant establishment shall comply with paragraph 4(1) hereof, within three years from 01.01.2010.
- (2) If the number of executive directors in a relevant establishment 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 within three months from 01.01.2010. On the expiry of three years commencing 01.01.2010, 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, 2010 or who completes such term at any time prior to December 31, 2010, may continue for a further maximum period of 3 years commencing January 1, 2010.
- (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, 2010 or who would reach the age of 70 years prior to December 31, 2010, may continue in office for a further maximum period of three years commencing January 1, 2010.
- (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 period of three years from January 1, 2010, comply with the limitation and notify the Director of the Department of Supervision of Non-Bank Financial Institutions accordingly.
- (6) If the Director of the Department of Supervision of Non-Bank Financial Institutions considers that exemptions referred to in sub-paragraphs 11(3), 11(4) and 11(5) should not be availed of for a person for any reason such as ill health or legal or personal incapacity of such person, such reason may be notified to such person by the Director of the Department of Supervision of Non-Bank Financial Institutions, and after a hearing, the Director of the Department of Supervision of Non-Bank Financial Institutions may limit the period of exemption.

## 12. Definitions

- (1) "Act" shall mean the Finance Leasing Act, No. 56 of 2000.
- (2) "Accommodation" shall have the same meaning as contained in the Finance Leasing (Provision for Bad and Doubtful Accommodations) Direction No.2 of 2006.
- (3) "Relative" shall mean the spouse and dependent child of an individual.
- (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"
  - (i) in relation to a company means the holding of a beneficial interest by another company or an individual or his relative whether singly or taken together, in the shares thereof the paid up value of which exceeds one million rupees or ten per centum of the paid up capital of the company, whichever is less or the existence of guarantee or indemnity given by an individual or his relative or by another company on behalf of such company;

- (ii) in relation to a firm means the holding of a beneficial interest in the capital thereof by an individual or his relative which singly or taken together represents more than ten per centum of the total capital subscribed by all partners of that firm or the existence of a guarantee or indemnity given by an individual or his or her spouse or parent or child on behalf of such firm.
- (6) “Associate Company” when used in relation to a relevant establishment shall mean a company in which the relevant establishment holds not less than 20 per centum and not more than 50 per centum of the paid up ordinary share capital of the investee company.
- (7) “Body Corporate” means a person incorporated under the laws of Sri Lanka or any other foreign country.
- (8) “Society” shall have the meaning assigned to it in the Societies Ordinance, No. 16 of 1891.