

### PART III

## MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 2011

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Bank Supervision Department  
3 January 2011

**Ref: 02/17/550/002/002**

To: Chief Executive Officers of Branches of Foreign Banks

Dear Sir,

**DISCLOSURES IN TERMS OF THE BANKING ACT  
DIRECTION ON CORPORATE GOVERNANCE**

All branches of foreign banks are requested to adhere to the following with respect to Directions 3(8) and 3(9) of the Banking Act Direction No. 11 of 2007 on Corporate Governance:

- (i) Direction 3(8)(ii) – All disclosures except on Direction 3 (8)(ii)(d) are required to be submitted along with annual audited financial statements to the Director of Bank Supervision.
  - (a) Directions 3(8)(ii)b and h) – The required reports shall be prepared by the Board of Directors or the Head of the Office supervising Sri Lankan operations.
  - (b) Direction 3(8)(ii)g) – The bank shall submit a copy of the parent bank’s annual corporate governance report to the Director of Bank Supervision.
- (ii) Direction 3(9)(iii) – A summary of the parent bank’s annual corporate governance report shall be published in the press in Sinhala, Tamil and English along with the publication of annual audited financial statements.

We hereby withdraw the Circular dated 29 December 2010 issued on the above subject.

Yours faithfully,

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

Bank Supervision Department  
29 April 2011

**Ref.: 02/17/800/0014/01**

To: Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks

Dear Sir,

**GUIDELINES ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT**

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

Yours faithfully,

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

Encl.

**GUIDELINES TO LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS  
ON THE OPERATIONS OF THE  
INVESTMENT FUND ACCOUNT PROPOSED IN THE 2011 BUDGET**

**1. Establishment of an Investment Fund Account (IFA)**

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

**2. Initial Credits to IFA**

As and when taxes are paid after 1 January 2011, licensed banks shall transfer the following funds to the IFA and build a permanent fund in the bank:

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

### 3. Utilisation of Funds

- 3.1 Banks shall commence utilization of funds in the IFA in the following manner within three months from the date of transfer to the IFA:
- (i) Invest in long-term Government securities and/or bonds with maturities not less than seven years.
  - (ii) Lend on maturities not less than five years at interest rates not exceeding 5-year Treasury bond rates plus 2 per cent.
  - (iii) Lend only for the following purposes:
    - (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries
    - (b) Factory/mills modernization/establishment/expansion
    - (c) Small and medium enterprises:
      - a loans up to Rs. 30 mn or
      - b loans over Rs. 10 mn to enterprises with annual turnover less than Rs. 300 mn and employees less than 400
    - (d) Information Technology related activities and Business Process Outsourcing
    - (e) Infrastructure development
    - (f) Education - vocational training and tertiary education
    - (g) Restructuring of loans extended for the above purposes
- 3.2 Lending may be in Sri Lanka Rupees and/or foreign currency loans granted within the country.
- 3.3 Banks shall invest funds in short-term Government securities until the commencement of utilization of funds as stated in 3.1 above.

### 4. Conditions

#### 4.1 Applicability of Prudential Requirements

- (i) Subject to paragraph (ii) below, transactions of the IFA shall be subject to all Regulations, Directions, Determinations and Circulars issued by the Central Bank of Sri Lanka as applicable.
- (ii) Lending to the Agriculture sector in the case of licensed banks shall be in addition to the requirement on lending to agriculture by banks of 10 per cent of total loans and advances of the bank in terms of the budget proposal 2006.

#### 4.2 Accounting for Transactions

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

#### 4.3 Disclosures and Reporting to Central Bank of Sri Lanka

- (i) The following disclosures shall be made in the "Notes to the financial statements":
  - (a) Number of loans granted and total amount outstanding for each purpose stated in paragraph 3.1 (iii), interest rates and tenure of loans.
  - (b) Total investments in Government securities, interest rates and maturity.
- (ii) Information on the operations of the IFA shall be made available as and when required by the Central Bank of Sri Lanka and Ministry of Finance.

#### 4.4 Treatment of Taxation

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

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

Bank Supervision Department  
17 June 2011

**Ref: 02/05/006/0100/002**

To: CEOs of All Licensed Banks

Dear Sir/ Madam

**DISPLAY OF INTEREST RATES, EXCHANGE RATES, SERVICE CHARGES, FEES AND COMMISSIONS**

Reference Circular No. 02/05/006/0100/001 dated 28 October 2003 on display of interest rates and exchange rates.

To further improve the market efficiency by promoting healthy competition among banks, all licensed banks are required to expand the disclosures on interest rates of deposits and lending products, exchange rates and to display details of fees, commissions and other service charges in all branches and other banking outlets and publish them in banks' web sites, commencing from 1 August 2011.

Formats for display of above information are enclosed herewith. Banks may further expand the formats given to suit the products and services of each bank.

- Annex I - Format for display of interest rates
- Annex II - Format for display of foreign exchange rates
- Annex III - Format for display of service charges, fees and commissions

Yours faithfully,

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

**Annex I**

**SUGGESTED FORMAT FOR THE DISPLAY OF INTEREST RATES**

Description	Min. rate as at .....	Max. rate as at .....
<b>Interest Rates on Deposits</b>		
Savings Deposits		
Minor Savings Deposits		
Call Deposits		
Time Deposits - 1 Year		
* Interest Payable monthly		
* Interest Payable at maturity		
NRFC Savings Deposits		
* US Dollar		
* Sterling Pound		
* Euro		
* Any other currencies		
NRFC Fixed Deposits - 1 Year		
* US Dollar		
* Sterling Pound		
* Euro		
* Any other currencies		
<b>Interest Rates on Advances</b>		
Export Bill Finance - Rupee Facilities		
Import Bill Finance - Rupee Facilities		
Lease Finance		

Lending to Small & Medium Scale Industries (SMEs)		
Residential Housing		
Pawning		
US Dollar Loans to Exporters		
Overdrafts		
* Permanent		
* Temporary		
Personal Loans		
Vehicle Loans		
Credit Cards		
Agricultural Lending		
<b>Refinance Schemes</b>		
<b>i. Agriculture &amp; Animal Husbandry</b>		
* Tea Development Project (Revolving fund)- (TDPFR)		
* Agro – Livestock Development Project		
* Any other		
<b>ii. Small &amp; Medium Enterprises Sector</b>		
* Sushana Loan Scheme		
* Self-Employment initiative Loan Scheme		
* Any other		
<b>iii. Micro Finance Sector</b>		
* Poverty Alleviation Microfinance Project (Revolving Fund) PAMP Scheme		
* Small Farmers & Landless Credit Project Revolving Fund		
* Any other		

Annex II

## SUGGESTED FORMAT FOR THE DISPLAY OF FOREIGN EXCHANGE RATES

Exchange Rates	Rate: Rupees per unit of foreign currency as at .....						
	Currency		Travelers Cheques		Telegraphic Transfers		Import Bill Rates
	Buying Rate	Selling Rate	Buying Rate	Selling Rate	Buying Rate	Selling Rate	
Australian Dollar							
Canadian Dollar							
Danish Kroner							
Euro							
Hong Kong Dollar							
Japanese Yen							
New Zealand Dollar							
Norwegian Kroner							
Pound Sterling							
Singapore Dollar							
Swedish Kroner							
Swiss Franc							
United States Dollar							

## SUGGESTED FORMAT FOR THE DISPLAY OF SERVICE CHARGES, FEES &amp; COMMISSIONS

Description	Rs. as at .....
<b>Service Charges</b>	
<b>Savings Accounts</b>	
Charges for non-maintenance of account balance as stipulated minimum, etc...	
<b>Current Accounts</b>	
Current account monthly service charge	
Charges for account statement	
Cheque issuing cost	
Stop payment order	
Return cheques due to insufficient funds, etc...	
<b>Remittances</b>	
Inward credit to Sri Lanka rupee account	
Inward remittance to foreign currency account	
Issue of foreign currency demand draft, pay orders, etc...	
<b>Traveler's Cheques</b>	
Encashment of Traveler's Cheques	
Sale of Traveler's Cheques, etc...	
<b>ATMs</b>	
Issuing Fee	
ATM cash withdrawal - Own Bank	
ATM cash withdrawal - Other Bank, etc...	
<b>Credit Cards - Main Cardholder</b>	
Annual fee	
Late Payment charges	
Interest charges, etc...	
<b>Fees &amp; Commissions</b>	
SLIPS Payment Charges	
RTGS Payment Charges	
Facility Arrangement Fees - Overdrafts	
* Security Backed	
* Clean Basis	
Early Settlement Fees	
* Residential Housing	
* Vehicle Loans	
Cheque Purchase Commission	
LC Commission	
* LC Opening Fee & commission	
* LC Negotiation Charges, etc...	
Shipping Guarantees	
Bank Guarantees	
Acceptance	

Bank Supervision Department  
28 July 2011

**Ref. 02/17/600/0031/001**  
To: Chief Executive Officers of Licensed Commercial Banks  
and Licensed Specialised Banks

Dear Sir,

**REGISTRATION OF SECURED INTERESTS OVER MOVABLE PROPERTIES WITH THE  
SECURED TRANSACTIONS REGISTRY**

It is observed that the Secured Transactions Registry maintained by Credit Information Bureau (CRIB) of Sri Lanka under Section 23 of the Secured Transactions Act, No. 49 of 2009, will be beneficial to credit risk management of banks as it provides valuable information to assess the availability and quality of movable assets taken as securities for loans and other banking facilities.

Therefore, licensed banks are requested to register any pledge, mortgage or obligation on movable assets as collaterals for loans and other banking facilities, as provided for in sections 2 and 3 of the Secured Transactions Act, with the Secured Transactions Registry at the CRIB and utilize such information obtainable from the CRIB for credit risk management decisions.

Yours faithfully,

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

Bank Supervision Department  
8 August 2011

**Ref. : 02/17/600/0017/001**  
To : CEOs of Licensed Commercial Banks

Dear Sirs,

**ASSESSMENT OF FITNESS AND PROPRIETY OF CHIEF EXECUTIVE OFFICERS OF  
LICENSED COMMERCIAL BANKS**

In terms of Section 44A of the Banking Act, Chief Executive Officers (CEOs) of Licensed Commercial Banks (LCBs) are required to be fit and proper persons to perform executive functions in a LCB.

Accordingly, we enclose herewith formats for the affidavit and the declaration to be submitted by the CEOs of LCBs and a guidance note to duly complete such affidavits and the declarations.

Annex I : Affidavit to be submitted by CEOs of LCBs  
Annex II : Declaration to be submitted by CEOs of LCBs  
Annex III : Guidance Note

Yours faithfully,

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

**Name of Bank:**

**AFFIDAVIT TO BE SUBMITTED BY CHIEF EXECUTIVE OFFICERS OF LICENSED COMMERCIAL BANKS IN TERMS OF SECTION 44A OF THE BANKING ACT**

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

- (a) I am the [affirmant / deponent] above named and I am the [chief executive officer /proposed chief executive officer] of ..... (name of the bank) which is a commercial bank, licensed under the Banking Act, No. 30 of 1988.
- (b) I [affirm/state] that I possess the following academic and/or professional qualification/s:
- (c) I [affirm/state] that the effective experience that I possess in banking, finance, business or administration or of any other relevant discipline is as follows:
- (d) I [affirm/state] that there is no finding of any regulatory 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 I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.
- (e) I [affirm/state] that I am not subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity, by any regulatory authority, supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad;
- (f) I [affirm/state] that I have not 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;
- (g) I [affirm/state] that I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad;
- (h) I [affirm/state] that I have not failed, to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt;
- (i) I [affirm/state] that I have not been declared by a Court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;
- (j) I [affirm/state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, Chief Executive Officer or other officer in any licensed bank or financial institution or corporate body, in Sri Lanka or abroad;
- (k) I [affirm/state] that I have not been a director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
  - (i) whose licence has been suspended or cancelled ; or
  - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated;
 Whether in Sri Lanka or abroad.
- (l) I [affirm/state] that to the best of my knowledge I am a fit and proper person to [hold office as a chief executive officer / to be appointed as a chief executive officer] of a licensed commercial bank in terms of the provisions of Section 44A of the Banking Act.

Affix  
stamps  
as  
applicable

Before me

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



JUSTICE OF THE PEACE/  
COMMISSIONER FOR OATHS

## Annex II

Name of Bank:

**DECLARATION TO BE SUBMITTED BY CHIEF EXECUTIVE OFFICERS OF LICENSED COMMERCIAL BANKS IN  
TERMS OF SECTION 44A OF THE BANKING ACT  
(WITH ENCLOSURES AS APPROPRIATE AS OF .....)**

**1. Personal Details**

- 1.1 Full name:  
1.2 NIC/ Passport number:  
1.3 Date of birth:  
1.4 Permanent address:  
1.5 Present address:

**2. Appointment to the Bank**

- 2.1 Date of appointment: (please attach a certified copy of the appointment letter)  
2.2 Designation:  
2.3 Local or expatriate:

**3. Background and Experience**

Name/s of licensed bank/s, their subsidiaries in terms of the Banking Act and associates if any, in which he/she is or has been employed as Chief Executive Officer, Director or an officer performing executive functions:

Name of the institution	Period of office	Designation

**4. Shareholdings in Banks and their Related Companies**

Share ownerships in any licensed banks, their subsidiaries and associates, if any, presently held:

Name of the institution	No. of shares	Percentage holding

**5. Business Transactions<sup>1</sup>**

Any business transactions the Chief Executive Officer/ proposed Chief Executive Officer presently has with the bank and its subsidiaries and associates, if any.

Name of the institution	Date of transaction	Amount as at ..... (Rs. mn)		Classification (performing/ non- performing)	Type and value of collateral (Rs. mn)	% of Bank's capital
		Limit	Out- standing			
Accommodations						
Investments						
Deposits						

**6. Personal Details of Close Relations in terms of section 86 of the Banking Act**

- 6.1 Full name of the spouse:  
6.2 NIC/ Passport number of the spouse:

1. "Business transaction" shall mean any accommodations, investments and deposits and in the case of foreign banks, only the business transactions with Sri Lankan operations.

## 6.3 Names of dependent children:

	Full name	NIC/ Passport number
6.3.1		
6.3.2		

## 7. Appointments, Shareholdings and Business Transactions of Close Relations

7.1 Any close relations presently employed as Chief Executive Officers, Directors or officers performing executive functions in any licensed bank, their subsidiaries and associates, if any.

Name of the bank	Full name of the close relation	Position held

7.2 Direct or indirect share ownership in the bank, its subsidiaries and associates, if any, presently held by any close relation.

Full name of the close relation	No. of Shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

7.3 Any business transaction, the close relation currently has with the bank, its subsidiaries and associates, if any.

Name of the institution	Date of transaction	Amount as at ..... (Rs. mn)		Classification (performing/ non-performing)	Type and value of collateral (Rs. mn)	% of Bank's regulatory capital
		Limit	Out-standing			
Accommodations						
Investments						
Deposits						

8. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Chief Executive Officer/proposed Chief Executive Officer of the bank.

**DECLARATION:**

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above.

I state that I am not prevented by any Statute from being appointed as the Chief Executive Officer of Licensed Commercial Bank.

Date:

Signature of  
Chief Executive Officer/ Proposed Chief Executive officer

**TO BE FILLED BY THE CHAIRMAN/ REGIONAL HEAD (in the case of foreign banks)**

1. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Chief Executive Officer/proposed Chief Executive Officer of the bank.
2. I confirm that, in terms of Section 44A of the Banking Act, No. 30 of 1988, the officer referred to above is fit and proper to carry out functions of the Chief Executive Officer of .....

Date:

**Signature of  
the Chairman/ Regional Head and the official stamp**

Annex III

**GUIDANCE TO DULY COMPLETE THE AFFIDAVITS AND DECLARATIONS TO BE SUBMITTED  
BY CHIEF EXECUTIVE OFFICERS OF LICENSED COMMERCIAL BANKS**

**A. PURPOSE OF OBTAINING AFFIDAVITS AND DECLARATIONS**

- The purpose of obtaining affidavits and declarations of Chief Executive Officers (CEOs) of Licensed Commercial Banks (LCBs) is to enable the Bank Supervision Department to assess the fitness and propriety of such officers in terms of the provisions of the Banking Act. Accordingly, the Bank Supervision Department requires comprehensive information to evaluate the experience, qualifications, integrity and compliance with other requirements specified in the Banking Act, to assess the suitability of the CEOs of the LCBs.
- Further, these should be legally binding documents in the event of any dispute.
- This guidance is issued to ensure that sufficient information is provided by banks for assessing the fitness and propriety of the CEOs.

**B. AFFIDAVITS**

1. It is preferable that the affidavit is prepared as a fresh document, based on the format provided by the Bank Supervision Department, so as to avoid inclusion of unnecessary words. However, if the given format is filled, all alterations, erasures and interlineations should be initialed by the Commissioner for Oaths.
2. Academic/professional qualifications
  - Relevant qualification should be mentioned clearly with:
    - Qualification obtained
    - Name of the Institution/University
    - Year of obtaining the qualification
    - Name of the Professional body where he/she is a member
3. Effective experience should include:
  - Institution
  - Designation
  - Period
4. Complete all blank spaces and clauses appropriately. (E.g. Name in full, NIC No/Passport No., Address, Chief executive officer/proposed chief executive officer, Name of the Bank, etc.)
5. Appropriate words should be used based on the religion of the person
- 5.1 Delete/strike out inappropriate words
 

Eg.

  - Buddhist/Hindu: affirm/affirmant/solemnly, sincerely and truly declare and affirm.
  - Christian/Catholic/Muslim: deponent/state/make oath and state/ swear.
  - If a person refrains/objects to disclose his/her religion: affirm/affirmant/solemnly, sincerely and truly declare and affirm. In this event, a confirmation should be submitted by the officer stating that:
    - he/she is an atheist or belongs to a religion not mentioned in this affidavit; or
    - he/she objects to disclosing his/her religion.
- 5.2 If the inappropriate words are stricken out, the Commissioner for Oaths/Justice of the Peace should place his initials immediately after all such amendments.
6. If the person is a foreigner and signs the affidavit while overseas:
  - signature of the person should be attested by a Commissioner for Oaths or an equivalent in the country in which he places his signature.
  - attestation should be made in front of the Sri Lankan High Commissioner in the respective country.

7. Affix a stamp for a sum of Rs.25/- and the signature of the person. In the case of future affidavits, the denomination of the stamp should be changed according to the value applicable as at the date of signing the affidavit.
8. Attest by a Commissioner for Oaths/Justice of the Peace immediately after the signature of the person at 'Before me'.

#### C. DECLARATIONS

1. Declarations:
  - should be duly completed: All the sections (1-8) should be completed (full name, date etc.) and irrelevant sections stated as Not applicable/nil/none or cancelled out.
  - should be signed and dated.
2. The last section should be completed, dated and signed with official stamp/seal by the Chairman/ Regional Head (in the case of foreign banks). If there is no comment it should be stated as Not applicable/nil/none.
3. Terms of appointment (including designation, date of appointment, duties, responsibilities and remuneration package) should be attached.

#### D. INTERPRETATION

1. "Close relation" means spouse or dependent child.
2. "Business Transaction" means any accommodations, investment and deposits and in the case of foreign banks, only the business transactions with Sri Lankan operations.
3. "Accommodation" means any loan, overdraft or advance or such other facility as may be determined by the Monetary Board or any commitment to grant any loan, overdraft or advance or such other facility as may be determined by the Monetary Board, including a commitment to accept a contingent liability.

Bank Supervision Department  
8 August 2011

Ref. : 02/17/600/0017/001  
To : CEOs of Licensed Specialised Banks

Dear Sirs,

#### ASSESSMENT OF FITNESS AND PROPRIETY OF CHIEF EXECUTIVE OFFICERS OF LICENSED SPECIALISED BANKS

In terms of Section 76H read with Section 44A of the Banking Act, Chief Executive Officers (CEOs) of Licensed Specialised Banks (LSBs) are required to be fit and proper persons to perform executive functions in a LSB.

Accordingly, we enclose herewith formats for the affidavit and the declaration to be submitted by the CEOs of LSBs and a guidance note to duly complete such affidavits and the declarations.

- Annex I : Affidavit to be submitted by CEOs of LSBs
- Annex II : Declaration to be submitted by CEOs of LSBs
- Annex III : Guidance Note

Yours faithfully,

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

**Annex I**

**Name of Bank:**

**Affidavit to be submitted by Chief Executive Officers of Licensed Specialised Banks in terms of Section 76H  
read with Section 44A of the Banking Act**

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

- (a) I am the [affirmant / deponent] above named and I am the [chief executive officer /proposed chief executive officer] of ..... (name of the bank) which is a specialized bank, licensed under the Banking Act, No. 30 of 1988.
- (b) I [affirm/state] that I possess the following academic and/or professional qualification/s:
- (c) I [affirm/state] that the effective experience that I possess in banking, finance, business or administration or of any other relevant discipline is as follows:
- (d) I [affirm/state] that there is no finding of any regulatory 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 I have committed or have been connected with the commission of, any act which involves fraud, deceit, dishonesty or any other improper conduct.
- (e) I [affirm/state] that I am not subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity, by any regulatory authority, supervisory authority, professional association, any Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad;
- (f) I [affirm/state] that I have not 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;
- (g) I [affirm/state] that I am not an undischarged insolvent nor have I been declared a bankrupt in Sri Lanka or abroad;
- (h) I [affirm/state] that I have not failed, to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt;
- (i) I [affirm/state] that I have not been declared by a Court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;
- (j) I [affirm/state] that I have not been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, Chief Executive Officer or other officer in any licensed bank or financial institution or corporate body, in Sri Lanka or abroad;
- (k) I [affirm/state] that I have not been a director, Chief Executive Officer or held any other position of authority in any bank or financial institution –
  - (i) whose licence has been suspended or cancelled ; or
  - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated;
 Whether in Sri Lanka or abroad.
- (l) I [affirm/state] that to the best of my knowledge I am a fit and proper person [to hold office as a chief executive officer / to be appointed as a chief executive officer] of a licensed specialised bank in terms of the provisions of Section 76H read with Section 44A of the Banking Act.

Affix  
stamps  
as  
applicable

Before me

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



JUSTICE OF THE PEACE/  
COMMISSIONER FOR OATHS

**Annex II**

**Name of Bank:**

**Declaration to be submitted by Chief Executive Officers of Licensed Specialised Banks in terms of Section 76H read with Section 44A of the Banking Act (with enclosures as appropriate as of .....**

- 1. Personal Details**
  - 1.1 Full name:
  - 1.2 NIC/ Passport number:
  - 1.3 Date of birth:
  - 1.4 Permanent address:
  - 1.5 Present address:

**2. Appointment to the Bank**

- 2.1 Date of appointment: (please attach a certified copy of the appointment letter)  
 2.2 Designation:  
 2.3 Local or expatriate:

**3. Background and Experience**

Name/s of licensed bank/s, their subsidiaries in terms of the Banking Act and associates if any, in which he/she is or has been employed as Chief Executive Officer, Director or an officer performing executive functions:

Name of the institution	Period of office	Designation

**4. Shareholdings in Banks and their Related Companies**

Share ownerships in any licensed banks, their subsidiaries and associates, if any, presently held:

Name of the institution	No. of shares	Percentage holding

**5. Business Transactions<sup>1</sup>**

Any business transactions the Chief Executive Officer/ proposed Chief Executive Officer presently has with the bank and its subsidiaries and associates, if any.

Name of the institution	Date of transaction	Amount as at ..... (Rs. mn)		Classification (performing/ non- performing)	Type and value of collateral (Rs. mn)	% of Bank's capital
		Limit	Out- standing			
Accommodations						
Investments						
Deposits						

**6. Personal Details of Close Relations in terms of section 86 of the Banking Act**

- 6.1 Full name of the spouse:  
 6.2 NIC/ Passport number of the spouse:  
 6.3 Names of dependent children:

	Full name	NIC/ Passport number
6.3.1		
6.3.2		

**7. Appointments, Shareholdings and Business Transactions of Close Relations**

7.1 Any close relations presently employed as Chief Executive Officers, Directors or officers performing executive functions in any licensed bank, their subsidiaries and associates, if any.

Name of the bank	Full name of the close relation	Position held

1. "Business transaction" Shall mean any accommodations, investments and deposits and in the case of foreign banks, only the business transactions with Sri Lankan operations.

- 7.2 Direct or indirect share ownership in the bank, its subsidiaries and associates, if any, presently held by any close relation.

Full name of the close relation	No. of Shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

- 7.3 Any business transaction, the close relation currently has with the bank, its subsidiaries and associates, if any.

Name of the institution	Date of transaction	Amount as at ..... (Rs. mn)		Classification (performing/ non- performing)	Type and value of collateral (Rs. mn)	% of Bank's regulatory capital
		Limit	Out- standing			
Accommodations						
Investments						
Deposits						

8. Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Chief Executive Officer/proposed Chief Executive Officer of the bank.

#### DECLARATION:

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the bank fully informed, as soon as possible, of all events, which take place subsequently, which is relevant to the information provided above.

I state that I am not prevented by any Statute from being appointed as the Chief Executive Officer of Licensed Specialised Bank.

Date:

Signature of  
Chief Executive Officer/Proposed Chief Executive officer

#### TO BE FILLED BY THE CHAIRMAN/ REGIONAL HEAD (in the case of foreign banks)

- Any other explanation/information in regard to the information furnished above and other information considered relevant for assessing the suitability of the Chief Executive Officer/proposed Chief Executive Officer of the bank.
- I confirm that, in terms of Section 76H read with Section 44A of the Banking Act, No. 30 of 1988, the officer referred to above is fit and proper to carry out functions of the Chief Executive Officer of .....

Date:

Signature of  
the Chairman/ Regional Head and  
the official stamp

Annex III

#### GUIDANCE TO DULY COMPLETE THE AFFIDAVITS AND DECLARATIONS TO BE SUBMITTED BY CHIEF EXECUTIVE OFFICERS OF LICENSED SPECIALISED BANKS

##### A. PURPOSE OF OBTAINING AFFIDAVITS AND DECLARATIONS

- The purpose of obtaining affidavits and declarations of Chief Executive Officers (CEOs) of Licensed Specialised

Banks (LSBs) is to enable the Bank Supervision Department to assess the fitness and propriety of such officers in terms of the provisions of the Banking Act. Accordingly, the Bank Supervision Department requires comprehensive information to evaluate the experience, qualifications, integrity and compliance with other requirements specified in the Banking Act, to assess the suitability of the CEOs of the LSBs.

- Further, these should be legally binding documents in the event of any dispute.
- This guidance is issued to ensure that sufficient information is provided by banks for assessing the fitness and propriety of the CEOs.

## B. AFFIDAVITS

1. It is preferable that the affidavit is prepared as a fresh document, based on the format provided by the Bank Supervision Department, so as to avoid inclusion of unnecessary words. However, if the given format is filled, all alterations, erasures and interlineations should be initialed by the Commissioner for Oaths.
2. Academic/professional qualifications
  - Relevant qualification should be mentioned clearly with:
    - Qualification obtained
    - Name of the Institution/University
    - Year of obtaining the qualification
    - Name of the Professional body where he/she is a member
3. Effective experience should include:
  - Institution
  - Designation
  - Period
4. Complete all blank spaces and clauses appropriately (E.g. Name in full, NIC No/Passport No., Address, Chief executive officer/proposed chief executive officer, Name of the Bank, etc.)
5. Appropriate words should be used based on the religion of the person
- 5.1 Delete/strike out inappropriate words  
Eg.
  - Buddhist/Hindu: affirm/affirmant/solemnly, sincerely and truly declare and affirm.
  - Christian/Catholic/Muslim: deponent/state/make oath and state/ swear.
  - If a person refrains/objects to disclose his/her religion: affirm/affirmant/solemnly, sincerely and truly declare and affirm. In this event, a confirmation should be submitted by the officer stating that:
    - he/she is an atheist or belongs to a religion not mentioned in this affidavit; or
    - he/she objects to disclosing his/her religion.
- 5.2 If the inappropriate words are stricken out, the Commissioner for Oaths/Justice of the Peace should place his initials immediately after all such amendments.
6. If the person is a foreigner and signs the affidavit while overseas:
  - signature of the person should be attested by a Commissioner for Oaths or an equivalent in the country in which he places his signature.
  - attestation should be made in front of the Sri Lankan High Commissioner in the respective country.
7. Affix a stamp for a sum of Rs.25/- and the signature of the person. In the case of future affidavits, the denomination of the stamp should be changed according to the value applicable as at the date of signing the affidavit.
8. Attest by a Commissioner for Oaths/Justice of the Peace immediately after the signature of the person at 'Before me'.

## C. DECLARATIONS

1. Declarations:
  - should be duly completed: All the sections (1-8) should be completed (full name, date etc.) and irrelevant sections stated as Not applicable/nil/none or cancelled out.
  - should be signed and dated.
2. The last section should be completed, dated and signed with official stamp/seal by the Chairman/ Regional Head (in the case of foreign banks). If there is no comment it should be stated as Not applicable/nil/none.
3. Terms of appointment (including designation, date of appointment, duties, responsibilities and remuneration package) should be attached.

**D. INTERPRETATION**

1. "Close relation" means spouse or dependent child.
2. "Business Transaction" means any accommodations, investment and deposits and in the case of foreign banks, only the business transactions with Sri Lankan operations.
3. "Accommodation" means any loan, overdraft or advance or such other facility as may be determined by the Monetary Board or any commitment to grant any loan, overdraft or advance or such other facility as may be determined by the Monetary Board, including a commitment to accept a contingent liability.

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

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

Colombo  
 26 August 2011

**BANKING ACT DIRECTIONS NO. 5 OF 2011  
 EXPOSURE TO STOCK MARKET  
 FOR LICENSED COMMERCIAL BANKS IN SRI LANKA**

In order to ensure the soundness of the banking system, Section 46(1) of the Banking Act empowers the Monetary Board to issue Directions to licensed commercial banks regarding the manner in which any aspect of the business of such banks is to be conducted. In that context, the Monetary Board is of the view that excessive exposure of banks to the stock market may cause systemic risks arising from possible volatility and price bubbles of assets. Such risks which may arise from the speculative behaviour of participants of asset markets may adversely affect the asset quality, liquidity, profitability and capital of banks. Therefore, the adoption of appropriate risk management standards is necessary to mitigate such risks to prudent levels and to promote the safety and soundness of the banking system.

Accordingly, the Monetary Board 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, hereby issues Directions No. 5 of 2011 on Exposure to Stock Market for Licensed Commercial Banks.

- |   |   |
|---|---|
| <b>Limits on Margin Trading on Shares</b>                   | <ol style="list-style-type: none"> <li>1. A licensed commercial bank may extend margin trading facilities on shares to customers/ investors, provided that:           <ol style="list-style-type: none"> <li>(i) a margin trading facility given to any customer shall not exceed fifty per cent of the market value of the customer's share portfolio as at the close of each trading day,</li> <li>(ii) all shares purchased from margin trading facility shall be under pledge to the bank providing margin trading facility, and</li> <li>(iii) total margin trading facilities granted to all customers/ investors and loans granted to customers for margin trading do not exceed five per cent of total loans outstanding of the bank as at the end of the preceding quarter.</li> </ol> </li> </ol> |
| <b>Limits on issue of guarantees for purchase of shares</b> | <ol style="list-style-type: none"> <li>2. A licensed commercial bank may issue guarantees for the purpose of purchase of shares from Initial Public Offerings not exceeding fifty percent of the value of such Initial Public Offering.</li> <li>3. The guarantees issued against cash deposits shall be exempted from the above limit, provided that:           <ol style="list-style-type: none"> <li>(i) the cash deposit is not less than the value of the guarantee;</li> <li>(ii) the cash deposit is not financed from any loans from the bank; and</li> <li>(iii) the bank has have the right to take possession of such cash deposits in the event of default of commitments by the customer.</li> </ol> </li> </ol>   |

- Role of Board of Directors** 4. The Board of Directors of each licensed commercial bank shall formulate a board approved risk management policy, guidelines and internal controls on their exposures to stock market activities including a prudential limit for total exposure relative to Tier I capital of the bank and assess risk exposures, such as credit, liquidity and concentration with appropriate risk management information on an on-going basis.
- Control on Concentrations** 5. Each bank shall spread margin trading facilities among a reasonable number of customers with diversified portfolios of shares to mitigate risky concentrations.
- Reporting** 6. Licensed commercial banks shall maintain details of exposure to the stock market in accordance with the reporting format at Annex A and report to the Director of Bank Supervision on or before the 15th day of the month following each quarter.
- Transitional Provision** 7. A bank that has granted margin trading facilities in excess of the maximum limit as at the date of these Directions shall reduce such facilities to be within the limit by 31 March 2012.
- Revocation of Directions** 8. Banking Act Directions No. 3 of 2011 dated 28 April 2011 on Exposure to Stock Market for Licensed Commercial Banks are hereby revoked.

## Annex A

To : Director of Bank Supervision  
Central Bank of Sri Lanka

Name of Bank :  
Quarter ended :

## Quarterly Statement of Exposure to the Stock Market

Item				Amount outstanding (Rs. mn)
<b>1. On-balance Sheet Exposure</b>				
(i) Margin Trading				
(ii) Other loans granted for purchase of listed shares				
<b>Sub Total</b>				
<b>2. Off-balance Sheet Exposure</b>				
(i) Guarantees issued for purchase of shares at IPOs				
Name of IPO	Size of IPO	Fully cash backed guarantees (Rs. mn)	Guarantees issued without cash deposit (Rs. mn)	
Total value of guarantees issued				
(ii) Under-writing and other commitments, credit lines, etc.				
<b>Sub Total</b>				
<b>Total Exposure (1 + 2)</b>				
<b>3 Prudential Ratios</b>				
(i) Margin Trading facilities as a % of total loans outstanding <sup>(b)</sup>				
(ii) Total on-balance sheet exposure as a % of total loans outstanding <sup>(b)</sup>				
(iii) Total exposure as a % of Tier I capital				

Notes:

- (a) if any, please specify  
(b) as at the end of the preceding quarter

This statement should be submitted to the Bank Supervision Department by the 15<sup>th</sup> day of the month following each quarter please e-mail to [banksup@cbsl.lk](mailto:banksup@cbsl.lk) or fax to 2477711

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

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

Colombo  
 26 August 2011

**BANKING ACT DIRECTIONS NO. 6 OF 2011  
 EXPOSURE TO STOCK MARKET  
 FOR LICENSED SPECIALISED BANKS IN SRI LANKA**

In order to ensure the soundness of the banking system, Section 76J(1) of the Banking Act empowers the Monetary Board to issue Directions to licensed specialised banks regarding the manner in which any aspect of the business of such banks is to be conducted. In that context, the Monetary Board is of the view that excessive exposure of banks to the stock market may cause systemic risks arising from possible volatility and price bubbles of assets. Such risks which may arise from the speculative behaviour of participants of asset markets may adversely affect the asset quality, liquidity, profitability and capital of banks. Therefore, the adoption of appropriate risk management standards is necessary to mitigate such risks to prudent levels and to promote the safety and soundness of the banking system.

Accordingly, the Monetary Board 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, hereby issues Directions No. 6 of 2011 on Exposure to Stock Market for Licensed Specialised Banks.

- |   |   |
|---|---|
| <b>Limits on Margin Trading on Shares</b>                   | 1. A licensed specialised bank may extend margin trading facilities on shares to customers/ investors, provided that: <ul style="list-style-type: none"> <li>(i) a margin trading facility given to any customer shall not exceed fifty per cent of the market value of the customer's share portfolio as at the close of each trading day,</li> <li>(ii) all shares purchased from margin trading facility shall be under pledge to the bank providing margin trading facility, and</li> <li>(iii) total margin trading facilities granted to all customers/ investors and loans granted to customers for margin trading do not exceed five per cent of total loans outstanding of the bank as at the end of the preceding quarter.</li> </ul> |
| <b>Limits on issue of guarantees for purchase of shares</b> | 2. A licensed specialised bank may issue guarantees for the purpose of purchase of shares from Initial Public Offerings not exceeding fifty percent of the value of such Initial Public Offering.<br>3. The guarantees issued against cash deposits shall be exempted from the above limit, provided that: <ul style="list-style-type: none"> <li>(i) the cash deposit is not less than the value of the guarantee;</li> <li>(ii) the cash deposit is not financed from any loans from the bank; and</li> <li>(iii) the bank has have the right to take possession of such cash deposits in the event of default of commitments by the customer.</li> </ul>   |
| <b>Role of Board of Directors</b>                           | 4. The Board of Directors of each licensed specialised bank shall formulate a board approved risk management policy, guidelines and internal controls on their exposures to stock market activities including a prudential limit for total exposure relative to Tier I capital of the bank and assess risk exposures, such as credit, liquidity and concentration with appropriate risk management information on an on-going basis.  |
| <b>Control on Concentrations</b>                            | 5. Each bank shall spread margin trading facilities among a reasonable number of customers with diversified portfolios of shares to mitigate risky concentrations.  |
| <b>Reporting</b>  | 6. Licensed specialised banks shall maintain details of exposure to the stock market in accordance with the reporting format at Annex A and report to the Director of Bank Supervision on or before the 15th day of the month following each quarter.   |
| <b>Transitional Provision</b>                               | 7. A bank that has granted margin trading facilities in excess of the maximum limit as at the date of these Directions shall reduce such facilities to be within the limit by 31 March 2012.  |
| <b>Revocation of Directions</b>                             | 8. Banking Act Directions No. 4 of 2011 dated 28 April 2011 on Exposure to Stock Market for Licensed Specialised Banks are hereby revoked.  |

## Annex A

To : Director of Bank Supervision  
Central Bank of Sri Lanka

Name of Bank :

Quarter ended :

### Quarterly Statement of Exposure to the Stock Market

Item				Amount outstanding (Rs. mn)
<b>1. On-balance Sheet Exposure</b>				
(i) Margin Trading				
(ii) Other loans granted for purchase of listed shares				
<b>Sub Total</b>				
<b>2. Off-balance Sheet Exposure</b>				
(i) Guarantees issued for purchase of shares at IPOs				
Name of IPO	Size of IPO	Fully cash backed guarantees (Rs. mn)	Guarantees issued without cash deposit (Rs. mn)	
Total value of guarantees issued				
(ii) Under-writing and other commitments, credit lines, etc.				
<b>Sub Total</b>				
<b>Total Exposure (1 + 2)</b>				
<b>3 Prudential Ratios</b>				
(i) Margin Trading facilities as a % of total loans outstanding <sup>(b)</sup>				
(ii) Total on-balance sheet exposure as a % of total loans outstanding <sup>(b)</sup>				
(iii) Total exposure as a % of Tier I capital				

Notes:

- (a) if any, please specify  
(b) as at the end of the preceding quarter

This statement should be submitted to the Bank Supervision Department by the 15<sup>th</sup> day of the month following each quarter please e-mail to [banksup@cbsl.lk](mailto:banksup@cbsl.lk) or fax to 2477711

Determination 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 and  
Governor of the Central Bank of Sri Lanka**

Colombo  
29 September 2011

### BANKING ACT DETERMINATION NO. 1 OF 2011 ANNUAL LICENCE FEE OF LICENSED COMMERCIAL BANKS

- Annual licence fee for the period 2012 - 2014**
1. In terms of Section 8(1) of the Banking Act, the Monetary Board has determined that the licence fee that shall be paid by a licensed commercial bank for the period 2012 to 2014 shall be based on the total assets as follows:

Total assets as at end of the previous year	Licence fee
Above Rs. 200 bn	Rs. 20 mn
Rs. 125 bn to Rs. 200 bn	Rs. 15 mn
Rs. 75 bn to Rs. 125 bn	Rs. 10 mn
Rs. 25 bn to Rs. 75 bn	Rs. 5 mn
Less than Rs. 25 bn	Rs. 2 mn

- Payment of licence fee**
- Every licensed commercial bank shall pay the licence fee to the Central Bank of Sri Lanka on or before 31st day of January of the respective year.
  - Licence fee shall be paid on calendar year basis.

Determination 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 and  
 Governor of the Central Bank of Sri Lanka**

Colombo  
 29 September 2011

**BANKING ACT DETERMINATION NO. 2 OF 2011  
 ANNUAL LICENCE FEE OF LICENSED SPECIALISED BANKS**

- Annual licence fee for the period 2012 - 2014**
- In terms of Section 76D(6) of the Banking Act, the Monetary Board has determined that the licence fee that shall be paid by a licensed specialised bank for the period 2012 to 2014 shall be based on the total assets as follows:

Total assets as at end of the previous year	Licence fee
Above Rs. 200 bn	Rs. 20 mn
Rs. 125 bn to Rs. 200 bn	Rs. 15 mn
Rs. 75 bn to Rs. 125 bn	Rs. 10 mn
Rs. 25 bn to Rs. 75 bn	Rs. 5 mn
Less than Rs. 25 bn	Rs. 2 mn

- Payment of licence fee**
- Every licensed specialised bank shall pay the licence fee to the Central Bank of Sri Lanka on or before 31st day of January of the respective year.
  - Licence fee shall be paid on calendar year basis.

Direction issued by the Monetary Board in terms of Sections 46(1) and 76(J)(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  
 5 October 2011

**BANKING ACT DIRECTION NO.7 OF 2011  
 INTEGRATED RISK MANAGEMENT FRAMEWORK FOR LICENSED BANKS**

In order to ensure the soundness of the banking system, Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No.46 of 2006, empowers the Monetary Board to issue Directions to licensed banks regarding the manner in which any aspect of the business of such banks is to be conducted. Accordingly, the Monetary Board issues this Direction to all licensed banks on integrated risk management as management of risks on banking business operations in an integrated manner would promote the soundness of banks and the banking system.

- Requirement of the Framework**
- All licensed banks shall adopt a specific Integrated Risk Management (IRM) framework in compliance with guidelines annexed to this Direction in addition to risk management principles and rules required in regulatory and supervisory procedures and other market best practices of bank risk management.
- Nature of the Framework**
- The IRM framework which shall be documented shall cover various potential risks, possible sources of such risks, mechanism of management information and reporting to identify and monitor such risks, effective measures to control and mitigate risks at prudent levels and relevant officers and committees responsible for such control and mitigation.

- |                                   |  |
|-----------------------------------|--|
| <b>Oversight of the Board</b>     | 3. The IRM framework shall be approved by the Board of Directors (BOD) and reviewed and updated at least annually.   |
|                                   | 4. Through the IRM framework, the BOD shall assess the integrated risk profile of the bank and its management at least quarterly and be responsible for overall oversight of the orderly implementation of the IRM framework.  |
| <b>Steps to secure Compliance</b> | 5. All banks shall implement the IRM framework within 6 months from the date of this Direction.  |
|                                   | 6. In the event of any material lapses in the IRM framework in the opinion of the Director of Bank Supervision, the fitness and propriety of those who are found to be responsible for such lapses will be re-assessed under the relevant provisions of the Banking Act. |

**Annexure****INTEGRATED RISK MANAGEMENT SYSTEMS IN BANKS****A. INTEGRATED RISK MANAGEMENT****1. Introduction**

- 1.1. Banks are exposed to various risks during their business operations. Under the Basel II framework, the major categories of risks are credit, market and operational risks. However, the banks are also facing other risks such as liquidity, interest rate, foreign exchange rate, legal, regulatory, reputational etc. All these risks are highly interdependent.
- 1.2. Risk management is a complex function, which requires specialised skills and expertise. Internationally, banks have been moving towards the use of sophisticated models for measuring and managing risks in an integrated manner with a view to ensuring a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 of the Basel II framework.
- 1.3. The capital adequacy ratio prescribed by the Central Bank of Sri Lanka (CBSL) under the Pillar – 1 of the Basel II framework is the regulatory minimum level, which addresses only credit, market and operational risks on an average basis. Thus, the need for banks to have their own assessment of various integrated risk exposures and maintain adequate capital as a cushion for such risks has become an urgent necessity.
- 1.4. The objective of these guidelines is to encourage banks to develop integrated risk management techniques for monitoring and managing their risks and to assure CBSL that adequate capital is held to meet various risks to which they are exposed.

**2. Integrated Risk Management oversight**

- 2.1. **Board and Senior Management** - The responsibility of understanding the risks assumed by the bank and ensuring that the risks are appropriately managed should be vested with the Board of Directors (BOD). The Board should:
  - a) Ensure that the bank has established a robust and pervasive risk culture and clear policies that define risk management as the responsibility of each bank's senior management, subject to the oversight of the Board.
  - b) Establish risk limits based on risk appetite of the bank.
  - c) Ensure that the Senior Management of the bank:
    - i. establishes an integrated framework in order to assess and appropriately manage various risk exposures of the bank;
    - ii. develops a system to monitor the bank's risk exposures and to relate them to the bank's capital;
    - iii. establishes a method to monitor the bank's compliance with internal policies, particularly with regard to risk management; and
    - iv. effectively communicates all relevant policies and procedures throughout the bank.
  - d) Adopt and support strong internal controls.
- 2.2 **Integrated Risk Management Committee (IRMC)** - The overall risk management should be assigned to an independent Integrated Risk Management Committee (IRMC) of the BOD, established as per Rules 3(6)(v) of the Banking Act Directions Nos. 11&12 of 2007 on Corporate Governance for Licensed Banks in Sri Lanka with the responsibilities stated therein.
- 2.3 **Internal Audit** - Integrated risk management policies and procedures as well as the functionalities at various levels of the risk management function should be reviewed by the internal audit function of banks on an on-going basis while the external audit makes an independent review at least on an annual basis.
- 2.4 **Operational Level** - Risk management in operational areas viz. front office, loan origination function etc. should be confined to the operational procedures and guidelines set forth by the BOD and the Senior Management.

### 3. Integrated Risk management framework priorities and processes

- 3.1 Given the diversity of balance sheet profile of banks in Sri Lanka, it is neither prudent nor desirable to adopt a uniform framework for management of risks. The architecture of an integrated risk management function should be bank-specific, dictated by the size, complexity of functions, operating environment and technical expertise of staff.
- 3.2 All relevant factors that present a material source of risk should be incorporated in a well-developed integrated risk management system.
- 3.3 All measurements of risk incorporate both quantitative and qualitative elements, but to the extent possible, a quantitative approach should form the foundation of a bank's measurement framework.
- 3.4 Quantitative tools can include the use of large historical databases; when data are scarcer, a bank may choose to rely more heavily on the use of stress testing and scenario analyses.
- 3.5 Banks should understand when measuring risks that measurement error always exists, and in many cases the error itself is difficult to quantify. In general, an increase in uncertainty related to modelling and business complexity should result in a larger capital cushion.
- 3.6 Quantitative approaches that focus on most likely outcomes for budgeting, forecasting, or performance measurement purposes may not be fully applicable for capital adequacy because the ICAAP under Pillar 2 of the Basel II framework should also take less likely events into account.
- 3.7 Stress testing and scenario analysis can be effective in gauging the consequences of outcomes that have low probability of occurrence but would have a considerable impact on safety and soundness of the banks.
- 3.8 To the extent that risks cannot be reliably measured with quantitative tools – for example, where measurements of risk are based on scarce data or unproven quantitative methods – qualitative tools, including experience and judgment, may be more heavily utilised.
- 3.9 Banks should be cognisant that qualitative approaches have their own inherent biases and assumptions that affect risk assessment; accordingly, banks should recognise the biases and assumptions embedded in, and the limitations of the qualitative approaches used.

### 4. Risk aggregation and diversification effects

- 4.1 An effective risk management system should assess risks across the entire bank. A bank choosing to conduct risk aggregation among various risk types or business lines should understand the challenges in such aggregation.
- 4.2 In addition, when aggregating risks, banks should ensure that any potential concentrations across more than one risk dimension are addressed, recognizing that losses could arise in several risk dimensions at the same time, stemming from the same event or a common set of factors.
- 4.3 In considering the possible effects of diversification, management should be systematic and rigorous in documenting decisions, and in identifying assumptions used in each level of risk aggregation.
- 4.4 Assumptions about diversification should be supported by analysis and evidence. The bank should have systems capable of aggregating risks based on the bank's selected framework. For example, a bank calculating correlations within or among risk types should consider data quality and consistency, and the volatility of correlations over time and under stressed market conditions.

### 5. Disclosure

CBSL strongly considers that the market discipline could play an important role in maintaining financial system stability. However, market discipline could be achieved only through meaningful disclosures by licensed banks which would also provide a more meaningful picture of the extent and nature of various risks that banks are exposed to and of the efficiency of banks' risk management practices.

## B. CREDIT RISK MANAGEMENT

### 1. Management Oversight

The BOD should put in place and periodically review the credit risk strategy and significant credit risk policies of the bank.

- 1.1 The strategy shall include:
  - a) a statement of the bank's willingness to grant loans based on the type;
  - b) identification of target markets and business sectors;
  - c) preferred levels of diversification and concentration;
  - d) the cost of capital in granting credit and bad debts; and
  - e) the cyclical aspects and the resulting shifts in the composition and quality of the loan portfolio. This strategy should be viable in the long run and across business cycles.

- 1.2 The credit risk policies and procedures shall be consisted with following elements, at a minimum.
- a) Written policies that define target markets, risk acceptance criteria, credit approval authority, credit origination and maintenance procedures and guidelines for portfolio management and remedial management.
  - b) Proactive credit risk management practices such as annual/half yearly industry studies and single borrower reviews, periodic credit calls and customer visits that are documented, and carry out at least quarterly management reviews of troubled exposures/ weak credits.
  - c) Vesting accountability with the business managers for managing risk and, in conjunction with the credit risk management framework, for establishing and maintaining appropriate risk limits and risks arrangement procedures.
  - d) Delegation of lending powers to individual credit officers based upon a consistent set of standards of experience, judgment and ability.
  - e) Requirement for higher level of authority to approve credit limits as risk ratings worsen.
  - f) Requirement for every extension of credit, other than small value consumer/retail loans to be approved by at least two authorized credit officers, one of whom must be an officer from business and another invariably from an independent Credit Risk Management Department (CRMD).
  - g) Requirement for every obligor and facility to be assigned a risk rating.
  - h) Consistent standards for the origination, documentation and maintenance of documents for extensions of credit.
  - i) Consistent approach towards early problem recognition, classification of problem exposures, and remedial action.
  - j) Emphasis on maintaining a diversified portfolio of risk assets in line with the capital desired to support such a portfolio.
  - k) Credit risk limits by obligor, concentration, industry or geography.
  - l) Responsibility of the credit function to report the comprehensive set of credit risk data into the independent risk system.
- 1.3 The credit risk strategy and policy should be approved and periodically reviewed by the BOD. These documents should be effectively disseminated throughout the banking organisation. All relevant personnel should clearly understand the bank's approach to granting credit and should be held accountable for complying with established policies and procedures.

## 2. Risk Management

- 2.1 **Structure** - In a well functioning integrated risk management framework, credit risk management is vested with an independent unit and each bank should, depending on the size of the organisation or loan book, constitute a high level Credit Policy Committee (CPC) also called Credit Risk Management Committee or Credit Control Committee with the following responsibilities:
- a) The committee should be headed by the Chief Executive Officer (CEO)/General Manager (GM) and should comprise Heads of Credit Departments, including Consumer Banking, Treasury and CRMD.
  - b) The committee should, *inter alia*, formulate clear credit policies including standards on presentation of credit proposals, financial covenants, rating standards and benchmarks, delegation of credit approving powers, prudent limits on large credit exposures, assets concentrations and lending to related parties, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning, regulatory/legal compliance, etc. for BOD's approval.
  - c) The committee will be responsible for the setting up of CRMD which should lay down risk assessment systems, monitor quality of loan portfolio and prudential limits set by CPC, identify problems and correct deficiencies, develop management Information System (MIS) and undertake loan review/audit.
- 2.2 **Prudential limits** - Credit risk can be mitigated to a great extent by stipulating prudential risk limits on various risk parameters. Banks should consider stipulating:
- a) Benchmark financial ratios, with flexibility for deviation in deserving cases. The conditions subject to which deviations are permitted and the authority for permitting such deviations should be clearly spelt out in the Credit Policy.
  - b) Single/related party borrower limits, which could even be more stringent than the limits prescribed by CBSL, to provide a filtering mechanism.
  - c) Substantial exposure limit, i.e., aggregate of large exposures should not exceed a percentage of the Tier – II capital of the banks, depending upon the degree of concentration risk the bank is exposed to.

- d) Maximum exposure limits to industry, regions, country, etc. There must also be systems in place to evaluate the exposure at reasonable intervals and the limits should be adjusted especially when a particular sector or industry faces a slowdown or other specific problem.
- e) Maturity and currency profile of the loan book, keeping in mind the market risk inherent in the balance sheet, risk management capability, liquidity etc.
- 2.3 Risk Rating** – Banks should develop a robust internal credit-risk grading system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner while communicating the default risk associated with an exposure. The risk rating, in short, should:
- a) reflect the underlying credit risk of the loan book.; and
- b) be drawn up in a structured manner, incorporating both quantitative (financial ratios) and qualitative standards (industry, payment history, credit reports, management, purpose of the loan, quality of financial information, facility characteristics etc.).
- 2.4 Risk Pricing** – Risk pricing is a fundamental tenet of credit risk management. Thus, banks should:
- a) evolve scientific systems to price the credit risk, which should have a bearing on the expected Probability of Default (PD); and
- b) establish the maximum expected loss in each product line and linking the capital to this loss, thus making it possible to compare products of different risk levels.
- 2.5 Portfolio Management** – The need for credit portfolio management emanates from the potential adverse impact of concentration of exposures and necessity to optimise the benefits associated with diversification. In this regard, banks should consider the following measures to maintain the portfolio quality:
- a) Stipulate quantitative ceilings on aggregate exposure in specified rating categories, i.e., certain percentage of total advances in the rating category 1 to 4 or to 6 etc.
- b) Evaluate the rating-wise distribution of borrowers in various industries, business, personal segments, etc.
- c) Exposure to one industry/sector should be evaluated on the basis of overall rating distribution of borrowers within the sector/group. In cases where portfolio exposure to a single industry/segment is performing badly or the concentration of borrowers is in the lower notches of ratings, the bank may increase the quality standards for the specific industry or group.
- d) Target rating-wise volume of loans, probable defaults and provisioning requirements as a prudent planning exercise. For any deviation/s from the expected parameters, an exercise for restructuring the portfolio may immediately be undertaken and if necessary, the entry-level criteria could prudently be enhanced to insulate the portfolio from further deterioration.
- e) Undertake rapid portfolio reviews, stress tests and scenario analyses when the external environment undergoes rapid changes (rise in oil prices, global/ country specific slowdowns, international/market risk events, extreme liquidity conditions, war situation etc.).
- f) Introduce discriminatory time schedules for review/renewal of borrower exposures. Lower rated borrowers whose financials show signs of weakness should be subject to renewal control twice/thrice a year.
- 2.6 Risk models** – Credit risk models offer banks a framework for quantifying, aggregating and managing risk across geographical and product lines in a timely manner. Therefore, banks should evaluate the utility of various models with suitable modifications to the environment in Sri Lanka and build up adequate internal expertise and databases to facilitate the models utilisation.
- 2.7 Loan Review Mechanism (LRM)** – LRM is an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit administration. In this regard, banks should formulate a loan review policy under the review of BOD, annually. The policy should, *inter alia*, address:
- a) **Qualification and Independence** - Loan Review Officers should be independent in reporting to the BOD and have sound knowledge of the credit appraisal, lending practices and loan policies of the bank.
- b) **Frequency and Scope of Reviews** - Reviews of high value loans should be undertaken usually within three months of sanction/renewal, or more frequently when factors indicate a potential for deterioration in the credit quality. The scope of the review should cover all performing loans above a cut-off limit. At least 30% – 40% of the loan portfolio should be subjected to LRM each year to provide reasonable assurance that all major credit risks embedded in the balance sheet have been tracked.
- c) **Depth of Reviews** - Loan reviews should focus on: the approval process, accuracy and timeliness of credit ratings assigned by loan officers, adherence to internal policies and procedures, and applicable laws/regulations, compliance with loan covenants, post-sanction follow-up, sufficiency of documentation, portfolio quality and recommendations for improving portfolio quality.

- 2.8 **Risk in Investment banking** – A significant degree of credit risk, in addition to market risk, is inherent in investment banking. Therefore, banks should stipulate entry level minimum ratings/quality standards, industry, maturity, duration, issuer-wise, etc. limits in investment proposals as well, to mitigate the adverse impacts of concentration and risk of illiquidity.
- 2.9 **Inter-Bank Exposure** - A suitable framework should be evolved to provide a centralised overview on the aggregate exposure to other banks. Bank-wise exposure limits could be set on the basis of external or internal ratings.
- 2.10 **Risk in Off-balance sheet exposure** - Mechanics involved in the assessment of non-funded lines should be similar to the assessment of funded lines. Utmost care must be taken whilst extending these facilities. Banks should, therefore, evolve adequate frameworks for managing their exposure in off-balance sheet products such as Forex forward contracts, forward rate agreements, swaps, options, futures etc. as a part of credit appraisal, limits and monitoring procedures.

## C. MARKET RISK MANAGEMENT

### 1. Management Oversight

The BOD should clearly articulate market risk management policies, procedures, prudential risk limits, review mechanisms and reporting and auditing systems.

#### 1.1 policies should address the following:

- a) assessment of bank's exposure on a consolidated basis, considering issues related to interest rate, currency, equity price and liquidity risks; and
- b) risk measurement systems capture all material sources of market risk and assess the effects on bank's capital.

1.2 The BOD should ensure that bank's overall market risk exposure is maintained at prudent levels and consistent with the available capital. The operating prudential limits and the accountability of line management should also be clearly defined.

### 2. Risk Management

2.1 **Structure** - Each bank should establish an organizational set up for market risk management, including the following:

- a) **Asset-Liability Management Committee (ALCO)** - The ALCO, consisting of the bank's senior management, including the CEO/GM must function as the top-end operational unit for managing the balance sheet within the performance/risk parameters laid down by the BOD. The ALCO should also articulate the bank's view on various market variables and base its decisions for future business strategy.
- b) **Middle Office** - The banks should set up an independent Middle Office to track the magnitude of market risk on a real time basis. The Middle Office should:
  - i. consist of experts in market risk management, economists, statisticians and general bankers and may be functionally placed directly under the ALCO; and
  - ii. be separated from the Treasury Department and should not be involved in the day-to-day management of the treasury;
  - iii. apprise the top management/ALCO/Treasury about adherence to prudential/risk parameters and also aggregate the total market risk exposures assumed by the bank at any point of time.

2.2 **Foreign Exchange (Forex) Risk** – Forex risk could be mitigated through fixing appropriate limits on open positions, gaps, adopting risk measurement methods and monitoring exposures. In this regard, the banks are encouraged to adopt the following measures:

- a) Fix appropriate limits (even less than the limits set by CBSL) depending upon the capital position, overall risk profile and risk management capabilities.
- b) Fix appropriate limits on individual and aggregate gaps on major currencies, linked to capital.
- c) Adopt the Value at Risk (VaR) technique to measure the risk associated with exposures.
- d) Monitor Forex risk exposures with the preparation of the statement of Maturity of Assets and Liabilities (MAL) (Attachment - 1), statement of Sensitivity of Assets and Liabilities (SAL) (Attachment – 2) and statement of Forex Position (FXP) (Attachment – 3).
- e) Ensure clear-cut and well-defined division of responsibility between front, middle and back offices.

2.3 **Foreign currency liquidity risk management** - In running multi currency balance sheets, and particularly when domestic currency assets are funded with foreign currency liabilities, banks are exposed to another layer of complexity to liquidity management. Banks should, therefore, be vigilant in creating understandable currency mismatches to avoid liquidity crises.

## D. OPERATIONAL RISK MANAGEMENT

### 1. Management Oversight

An effective operational risk management strategy requires that BOD should recognise that operational risk is distinct and controllable, and should put in place appropriate risk management policies, procedures and practices and an independent audit and review mechanism.

1.1 BOD should put in place well defined policies on operational risk management. These policies and procedures should be based on common elements across business lines or risks. The policy should address:

- a) product review processes;
- b) business involved;
- c) risk management; and
- d) internal control functions.

### 2. Risk Management

2.1 **Structure** – Taking into account institution-specific factors, banks should consider establishing an independent bank-wide Operational Risk Committee or Unit under Integrated Risk Management Committee (IRMC) or Chief Risk Officer, with the following responsibilities:

- a) Establish consistent definitions for operational risk across business units.
- b) Develop policies, procedures and practices.
- c) Report and review risk exposures.
- d) Oversee and ensure the integrity of risk management procedures.
- e) Allocate and maintain economic capital.
- f) Develop strategies for risk mitigation techniques.

2.2 **Risk measurement** – Since, there is no uniformity of approach in measuring operational risk in the banking system, and a number of breakdowns in internal controls and corporate governance evidenced lately, need for more advanced techniques for allocating capital in this regard has become an important issue. Therefore, during the measurement of operational risks, banks should:

- a) Consider both internal factors (such as complexity of structure, nature of activities, quality of personnel, organisational changes and employee turnover) and external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the banks' stated objectives.
- b) Make clear distinction between controllable and uncontrollable operational risk events.
- c) Assess their operational activities against a menu of operational risk events (i.e., internal and external frauds, employment practices and work place safety, clients, products and business practices, damage to physical assets, business distribution and system failures, execution, delivery and process management, etc.).
- d) Review key risk indicators such as failed trades, staff turnover rates, frequency and/or severity of errors and omission to track the magnitude of risk concerns, with thresholds or limits set on key risk indicators.
- e) Develop simple benchmarks based on an aggregate measure of business activity such as gross revenue, fee income, operating costs, total assets adjusted for off-balance sheet exposures or a combination of these variables, in the event the bank does not have so far evolved any scientific methods for quantifying the risk.
- f) Carry out Business Impact Analysis (BIA) with its Recovery Time Objectives (RTO) under the proposed Business Continuity and Disaster Recovery Plan.

2.3 **Risk Monitoring** – The operational risk monitoring system should:

- a) Focus on operational performance measures such as volume, turnover, settlement facts, delays and errors.
- b) Monitor operational loss directly with an analysis of each occurrence and description of the nature and causes of the loss.
- c) Integrate internal controls into the bank's operations and produce regular reports to the Senior Management.
- d) Undertake compliance reviews by the Internal Audit and the Risk Management Department, separately.

2.4 **Internal Control** – Banks should adopt well-established internal control systems, which include segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks. As per Directions Nos. 3(8)(ii)(b)&(c) of the Banking Act Direction Nos. 11 & 12 of 2007 on Corporate Governance for licensed banks:

- a) a report by the Board should be included in the Annual Report on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the

reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements; and

- b) the external auditor's certification on the effectiveness of the internal control mechanism referred to in (a) above, in respect of any statements prepared or published.

A proper internal control system should:

- a) promote effective and efficient operation;
- b) provide reliable financial information;
- c) safeguard assets;
- d) minimise the operating risk of loss from irregularities, fraud and errors;
- e) ensure effective risk management systems; and
- f) ensure compliance with relevant laws, regulations and internal policies.

**2.5 Risk mitigation techniques** – Risk mitigation techniques or tools should be used to contain the severity of operational risk events. Investment in appropriate information technology under Business Continuity and Disaster Recovery Plan is also important for risk mitigation.

**2.6 Insurance policies** – Innovative insurance policies could be used to externalise the risk of 'low frequency and high severity losses', which may occur as a result of events such as errors and omissions, physical loss of securities, frauds and natural disasters.

**2.7 Outsourcing** - Banks should establish sound policies for managing risks associated with outsourcing activities in line with the Banking Act Directions Nos. 7 & 8 of 2010 on Outsourcing of Business Operations.

**2.8 Contingency Plan** – An enterprise-wide contingency plan should be in place to handle failures and switch to alternative service providers at short notice.

## E. LIQUIDITY RISK MANAGEMENT

### 1. Management Oversight

- a) Managing liquidity is no longer purely the responsibility of the treasury function. Effective oversight by the BOD and the Senior Management is a critical element of the liquidity risk management process.
- b) The ALCO should be mandated to execute liquidity management policies, procedures and practices approved by the BOD, effectively.
- c) The BOD should, however, periodically monitor the liquidity profile to assess the liquidity risk more frequently where significant funding concentrations have been observed.

### 2. Risk Management

**2.1 Structure** - Liquidity risk management could either be centralized or decentralized, or a combination of the two. The structure should be commensurate with the size and complexity of the bank's operations. It should be flexible while ensuring that the liquidity strategy approved by the BOD can be effectively implemented.

**2.2 Liquidity Measurement** – Liquidity measurement is a difficult task and can be measured through stock or flow approaches.

- a) **Stock approach** – Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet. Banks should calculate and analyse following ratios during their risk management process:
  - i. Net loans to total assets
  - ii. Loans to customer deposits
  - iii. Liquid assets to short-term liabilities
  - iv. Large liabilities (minus) temporary investments to earning assets (minus) temporary investments, where large liabilities represent wholesale deposits which are market sensitive and temporary investments which are those maturing within one year and those investments which are held in the trading book and are readily sold in the market.
  - v. Purchased funds to total assets, where purchased funds include the entire inter-bank and other money market borrowings, including certificates of deposits and institutional deposits.
  - vi. Commitments to total loans, where the commitment in the nature of Letter of Credits (LCs), guarantees and acceptances.
- b) **Flow approach** - Banks should prepare a statement of Maturities of Assets and Liabilities (MAL) placing all cash inflows and outflows in the time bands according to the residual time to maturity. A format for the MAL is attached. (Attachment – 1). The time bands may be distributed as under:
  - i. Up to one month

- ii. Over one month and up to 3 months
- iii. Over 3 months and up to 6 months
- iv. Over 6 months and up to 9 months
- v. Over 9 months and up to 1 year
- vi. Over 1 year and up to 3 years
- vii. Over 3 years and up to 5 years
- viii. Over 5 years

**(Assumptions to be made** - Some of the assets and liability items like overdraft, savings and current deposits etc. lack any definite contractual maturity. Similarly, a part of time deposits are also rolled over on maturity while the consumer loans are topped-up at frequent intervals. Thus, while determining the likely cash inflows/outflows, banks should make a number of assumptions according to the behaviour of assets and liabilities. At least, assumptions should be validated, bi-annually. Such assumptions may be fine-tuned, over a period, to facilitate near reality predictions about future behaviour of on/off-balance sheet positions).

**c) Net funding requirement –**

- i. The difference between cash inflows and outflows in each time band, the excess or deficit of funds, becomes a starting point for a measure of a bank's future liquidity surplus or deficit, at a series of points in time.
- ii. While the mismatches up to one year would be relevant as these provide early warning signals of impending liquidity problems, the main focus should be on mismatches up to three months.
- iii. Banks, however, are expected to fix prudential mismatch limits appropriate to the size, complexity and financial conditions across all time bands.
- iv. The liquidity position should be measured in all major currencies in which banks deal at both individual and aggregate levels. Banks which are reliant on short-term funding should, however, concentrate primarily on managing their liquidity in the very short-term horizons and preferably on a day-to-day basis.

**d) Alternate Scenarios –**

- i. Banks should evaluate liquidity profile under different stress situations, viz. normal situation, bank specific crisis and market crisis scenarios.
- ii. Under each scenario, banks should account for any significant positive or negative liquidity swings that could occur on account of factors that are both internal (bank specific) and external (market-related).
- iii. In this regard, banks must assign the timing of cash flows for each type of asset and liability by assessing the probability of the behaviour of those cash flows under alternative scenarios.
- iv. For each funding source, banks would have to decide whether a liability would be (a) repaid in full at maturity, (b) gradually run off over the next few weeks or (c) virtually certain to be rolled over or available, if tapped.

**c) Contingency Plan –**

- i. Banks should prepare liquidity contingency plans to measure their ability to withstand bank-specific or market crisis scenarios.
- ii. The blue-print for assets sales, market access, capacity to restructure the maturity and composition of assets and liabilities should be clearly documented and alternative options of funding in the event of the bank's failure to raise liquidity from existing sources should be clearly articulated.
- iii. Liquidity from CBSL, as the lender of last resort, should not be reckoned for contingency plans.
- iv. Availability of back-up liquidity support in the form of committed lines of credit, reciprocal arrangements, liquidity support from other external sources, liquidity of assets etc. should also be clearly established.

## **F. INTEREST RATE RISK MANAGEMENT**

### **1. Management Oversight**

Management of interest rate risk should be one of the critical components of market risk management of banks. The BOD should clearly articulate interest rate risk management policies, procedures, review mechanisms and reporting systems.

Policies and prudential limits should include the following.

- a) Clear policies with regard to volume, maximum maturity, holding period, duration, position limits, stop loss, rating standards, etc. for classifying securities in the trading book.
- b) Bank-wide VaR exposure limits to the trading portfolio (including Forex derivatives and commodities, if any, etc.).
- c) Loss making tolerance limits for trading book.

## 2. Risk Management

2.1 **Forms of Risk** - The Net Interest Income (NII) or Net Interest Margin (NIM) of banks are dependent on the movements of interest rates. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose banks' NII or NIM to variations. As financial intermediaries, banks encounter interest rate risk in many forms:

- a) Gap or Mismatch Risk
- b) Basis Risk
- c) Embedded Option Risk
- d) Yield Curve Risk
- e) Price Risk
- f) Reinvestment Risk
- g) Net Interest Position Risk

2.2 **Measuring Risk** – Before the interest rate risk (IRR) is to be managed, same should be identified and quantified. In this regard, banks need to adopt an IRR measurement system which should:

- a) Address all material sources of interest rate risk including gap or mismatch, basis, embedded option, yield curve, price, reinvestment and net interest position risks, exposures associated with assets, liabilities and off-balance sheet positions.
- b) Take into account the specific characteristics of each individual interest rate sensitive position.
- c) Capture the full range of potential movements in interest rates, in detail.
- d) Use different techniques, ranging from the traditional maturity Gap Analysis (to measure the interest rate sensitivity of earnings), Duration (to measure interest rate sensitivity of capital), Simulation and VaR.
- e) Match on a daily basis the potential loss in Present Value Basis Points (PVBP) vis-à-vis prudential limits for trading book.
- f) Undertake scenario analysis with specific possible stress situations by linking hypothetical, simultaneous and related changes in multiple risk factors present in the trading portfolio to determine the impact of moves on the rest of the portfolio.
- g) Adopt VaR as an analytical tool for measuring and managing currency risk in the Banking Book.

### 2.3 Measuring Techniques –

- a) **Maturity Gap Analysis** - The simplest analytical technique for calculating IRR exposure begins with Maturity Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate). Gaps may be identified in the following time bands:
  - i. Up to one month
  - ii. Over one month and up to 3 months
  - iii. Over 3 months and up to 6 months
  - iv. Over 6 months and up to 1 year
  - v. Over 1 year and up to 2 years
  - vi. Over 2 years and up to 3 years
  - vii. Over 3 years and up to 4 years
  - viii. Over 4 years and up to 5 years
  - ix. Over 5 years and up to 7 years
  - x. Over 7 years and up to 10 years
  - xi. Over 10 years and up to 15 years
  - xii. Over 15 years and up to 20 years
  - xiii. Over 20 years
  - xiv. Non-sensitive

Various items of rate sensitive assets and liabilities and off-balance sheet positions may be classified in line with their sensitivity to interest rates. A reporting format for Sensitivity of Assets and Liabilities (SAL) for interest rate sensitive assets and liabilities is also attached. (Attachment – 2)

- b) **Duration Gap Analysis** - Matching the duration of assets and liabilities, instead of matching the maturity or re-pricing dates, is a more effective way to protect the economic values of banks from exposure to IRR than the simple gap model.
- c) **Simulation** - Simulation is a popular tool among banks to gauge the effect of market interest rate variations on reported earnings/economic values over different time zones. Simulation techniques attempt to overcome the limitation of gap analysis and duration approach by computer modelling the bank's interest rate sensitivity.

## G. STRESS TESTING

### 1. Management Oversight

- a) BOD or a committee formed under the Board with delegated authority should put in place a 'Stress Testing Framework' as a part of integrated risk management system with approved 'Stress Testing Policy', procedures to be followed and the methodology to be adopted.
- b) BOD and the Senior Management should regularly review the results of stress tests, including major assumptions that underpin them.
- c) BOD and Senior Management should put in place appropriate fall-back mechanisms for mitigating tail-end risks, considering an organised approach to manage extreme systemic risks.

#### 1.1 Stress Testing Policy should include the following aspects:

- a) Frequency and procedure for identifying the principal risk factors, which affect the bank's portfolio and required to be stressed.
- b) Methodology for constructing stress tests.
- c) Procedure for setting the stress tolerance limits.
- d) Process of monitoring the stress loss limits.
- e) Necessary remedial/trigger actions to be taken at various risk levels as revealed by the stress tests.
- f) Delegation of authority to ensure timely execution of remedial/trigger action.

#### 1.2 Roles and responsibilities of the persons involved in the exercise must be defined by well constituted organisational structure and they should be independent.

#### 1.3 An effective Management Information System (MIS) is necessary to ensure flow of information to take necessary measures to avoid certain difficult conditions by the Senior Management.

### 2. Frequency of Stress Testing

Banks may apply stress tests at varying frequencies dictated by their respective business requirements, relevance and cost. In general, stress tests on market-sensitive portfolios should be run more frequently (eg: daily, weekly). These may include trading portfolios in marketable securities, foreign exchange and interest rate exposures. Other portfolios which are less volatile in nature could be stress-tested at longer intervals (eg: monthly, quarterly). Further, ad-hoc stress tests may be warranted when there are any special circumstances.

### 3. Scope of Stress Tests

Stress testing can and should be applied to the full range of material risks that a bank runs both at business unit level and on an aggregated group basis. Stress testing can be commonly used for interest rate, equity, liquidity, foreign exchange, credit and market instruments. Further, it is also important to introduce stress testing for operational risk. There are three different hypothetical scenarios that can be used in stress testing:

- (a) Major Level Shocks: It involves large shocks to all the risk factors and is also defined separately for each risk factor.
- (b) Moderate Level Shocks: It involves medium level shocks and the level is defined each risk factor separately.
- (c) Minor Level Shocks: It involves small shocks to risk factors.

### 4. Methodology and Calibration of Shocks

#### 4.1 Credit Risk

Stress test for credit risk assesses the impact of increase in the level of non-performing loans of the bank on Capital Adequacy Ratio (CAR). This involves three types of shocks, namely;

- a) Type One deals with the increase in the Non-Performing Loans (NPLs) and the respective provisioning.
- b) Type Two deals with the negative shift in the NPL categories and hence the increase in respective provisioning.
- c) Type Three deals with the fall in the Forced Sale Value (FSV) of mortgaged collateral.

#### 4.2 Liquidity Risk

Stress test for liquidity risk evaluates the resilience of the banks towards the fall in liquid liabilities. The ratio "liquid assets to liquid liabilities" should be calculated before and after the shocks by dividing the liquid assets with liquid liabilities. They include cash and balances with banks, call money lending, lending under repo and investment in government securities. Liquid liabilities include deposits and borrowings.

#### 4.3 Equity Price Shock

Stress test for equity price risk assesses the impact of the fall in the stock market index. The impact of resultant loss should be calculated after shocks on current market value of all the on-balance sheet and off-balance sheet securities listed on stock exchanges including shares, mutual funds, etc. and it should be calibrated in terms of the CAR.

#### 4.4 Exchange Rate Risk

Stress test for exchange rate assesses the impact of change in exchange rate on the value of equity. To model direct foreign exchange risk, only, the overall Net Open Position (NOP) of the bank including the on-balance sheet and off-balance sheet exposures should be given an adverse shocks. The overall NOP is measured by aggregating the sum of net short positions or the sum of net long positions, whichever is greater regardless of sign. The impact of the respective shocks should be calibrated in terms of the CAR. The revised CAR should be calculated after adjusting total loss from the risk-weighted assets of the bank.

#### 4.5 Interest Rate Risk

Interest rate risk is the potential that the value of the on-balance sheet and the off-balance sheet positions of the bank would be negatively affected with the change in the interest rates. The vulnerability of an institution towards the adverse movements of the interest rate can be gauged by using duration gap analysis. Banks should follow the under mentioned steps in carrying out the interest rate stress tests.

- a) Estimate the market value of all on-balance sheet rate sensitive assets and liabilities of the bank to arrive at market value of equity.
- b) Calculate the durations of each class of asset and the liability of the on-balance sheet portfolio.
- c) Arrive at the aggregate weighted average duration of assets and liabilities.
- d) Calculate the duration gap by subtracting aggregate duration of liabilities from that of assets.
- e) Estimate the changes in the economic value of equity due to change in interest rates on on-balance sheet positions along the three interest rate changes.
- f) Calculate surplus/(deficit) on off-balance sheet items under the assumption of three different interest rate changes, i.e., 1%, 2%, and 5%.
- g) Estimate the impact of the net change (both for on-balance sheet and off-balance sheet) in the market value of equity on the CAR.
- h) Market value of the assets or liabilities should be assessed, by calculating its present value discounted at the prevailing interest rate. The outstanding balances of assets and liabilities should be taken along with their respective maturity or reprising period, whichever is earlier.

#### 4.6 Interpretation of Stress Testing Results

- a) Before interpretation of stress testing results, it is important to the banks to be aware of its limitations as stress testing is influenced by the judgment and experience of the risk managers designing the stress tests. Therefore, the effectiveness of the stress tests will depend upon whether banks have identified their major risks and they have chosen the right level of stress/ stress scenarios.
- b) Senior Management should review the results of the various stress tests and report to the Board. It is important to document the results of each of the sensitivity tests and scenario analysis undertaken and should also document, as part of the details of those tests and analyses, the key assumptions including the aggregation of the results. These should be preserved for a considerable period as mentioned in the policy document.

#### 4.7 Review & Update

- a) Regular review and updating is important to ensure effectiveness of the stress testing programme of the bank.
- b) Such review should be done at least once a year or more frequently if the portfolio or the environment changes are significant. Following should be covered in the review process.
  - i. The integrity of the management information system.
  - ii. Completeness and accuracy of the data used.
  - iii. Consistency, timeliness and reliability of data sources.
  - iv. The approval process for the stress testing programme.
  - v. Integration of stress testing into risk management.
  - vi. Interpretation of stress testing results.

### H. DISCLOSURE REQUIREMENTS

#### 1. Principles

- 1.1 Banks should adopt a formal disclosure policy approved by the BOD that addresses the bank's approach for determining what disclosures to be made and internal controls over the disclosure process.
- 1.2 Banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency of them.

- 1.3 In order to enhance the role of market discipline, banks should take into account the following norms to improve their disclosure practices.
- A balance between quantitative and qualitative disclosures - Disclosures should be consistent with banks' own risk management practices.
  - Banks should endeavour to disclose information about inter-period exposures – particularly in the form of high, median and low observations – which could provide a more meaningful view of licensed banks' risk profile than period end data alone.
- 1.4 Banks should decide relevant disclosures based on the materiality concept.
- 1.5 Qualitative disclosures such as bank's risk management objectives and policies, reporting systems and definitions set out here should be made at least bi-annually.

## 2. Disclosure requirements

### 2.1 Risk exposure and assessment

#### (a) General qualitative disclosure requirement

For each separate risk area viz. credit, market, operational, liquidity etc. Licensed banks should describe their risk management objectives and policies, including:

- strategies and policies;
- structure and nature of the relevant risk management function;
- scope and nature of risk reporting and/or management system;
- policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

**Table - 1**  
**CREDIT RISK – GENERAL DISCLOSURES**

<b>Qualitative Disclosures</b>	<p>(a) Definition of past due and impaired (for LKAS 32 &amp; 39 purposes).</p> <p>(b) Description of approaches followed for specific and general loan loss provisioning and statistical methods.</p> <p>(c) Discussion of the bank's credit risk management policy.</p> <p>(d) Policies and processes for, and an indication of the extent to which the bank makes use of, on-balance sheet and off-balance sheet netting.</p> <p>(e) Policies and processes for collateral valuation and management.</p> <p>(f) A description of the main types of collateral taken by the bank.</p> <p>(g) Main types of guarantor/credit derivative counterparty and their creditworthiness.</p> <p>(h) Information about (market or credit) risk concentrations within the mitigation taken.</p>
<b>Quantitative Disclosures</b>	<p>(a) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure.</p> <p>(b) Geographic distribution of exposures, broken downs in significant areas by types of credit exposure.</p> <p>(c) Industry or counter-party type distribution of exposures, broken down by major types of credit exposure.</p> <p>(d) Residual contractual maturity breakdown of the whole credit portfolio, by major types of credit exposure.</p> <p>(e) By major industry or counterparty types:</p> <ul style="list-style-type: none"> <li>- Amount of past due loans and if available impaired loans, provided separately,</li> <li>- Specific and general loan loss provisioning, and</li> <li>- Charges for specific loan loss provisions and charges-offs during the reporting period.</li> </ul> <p>(f) Amount of past due loans and , if available, impaired loans provided separately broken down by significant geographic area including the amount of specific and general loan loss provisions related to each geographical area.</p> <p>(g) Reconciliation of changes in the provisions for loan losses/impairment.</p>

**Table - 2**  
**MARKET RISK – GENERAL DISCLOSURES**

<b>Qualitative Disclosures</b>	<p>(a) The general qualitative disclosure requirement described in Para 2.1 (a) above.</p> <p>(b) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</p> <p>(c) Discussion of important policies covering the valuation and accounting of equity holdings in the Banking Book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.</p>
<b>Quantitative Disclosures</b>	<p>(a) Interest rate risk, including Interest Rate Sensitivity Gap Analysis of local and foreign currency denominated assets and liabilities in the format given in Attachment – 1&amp;2.</p> <p>(b) Equity position risk –</p> <ul style="list-style-type: none"> <li>• Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share value where the share price is materially different from fair value.</li> <li>• Types and nature of investments, including the amount that can be classified as: <ul style="list-style-type: none"> <li>- Publicly traded; and</li> <li>- Privately held.</li> </ul> </li> <li>• The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.</li> <li>• Total unrealised gains (losses).</li> <li>• Total latent revaluation gains (losses).</li> <li>• Any amounts of the above included in Tier 1 and/or Tier 2 capital.</li> </ul> <p>(c) Foreign exchange risk, including statements of foreign exchange position (Attachment – 3), Maturity Gap Analysis of foreign currency denominated assets and liabilities.</p> <p>(d) Commodity risk.</p>

**Table - 3**  
**OPERATIONAL RISK – GENERAL DISCLOSURES**

<b>Qualitative Disclosures</b>	<p>(a) The general qualitative disclosure requirement described in Para 2.1 (a) above.</p> <p>(b) Description of the use of insurance for the purpose of mitigating operational risk.</p> <p>(c) Details of activities that have been outsourced together with parties and basis for payment for such services.</p> <p>(d) Details of investment in appropriate information technology, if any, and other risk mitigation techniques taken during the reporting period.</p> <p>(e) Details of due diligence tests of third party service providers.</p> <p>(f) Details of a contingency plan in place to handle failure situations.</p>
<b>Quantitative Disclosures</b>	<p>(a) Major operational viz. system or human, failures and financial losses incurred by the bank due to such failures during the reporting period.</p>

**Table - 4**  
**LIQUIDITY RISK – GENERAL DISCLOSURES**

<b>Qualitative Disclosures</b>	<p>(a) The general qualitative disclosure requirement described in Para 2.1 (a) above.</p> <p>(b) Details of a liquidity contingency plan in place to bridge unforeseen liquidity difficulties.</p>
<b>Quantitative Disclosures</b>	<p>(a) Trends in the following indicators:</p> <ul style="list-style-type: none"> <li>• Net loans to total assets</li> <li>• Loans to customer deposits</li> <li>• Liquid assets to short term liabilities</li> <li>• Large liabilities (minus) temporary investments to earning assets (minus) temporary investments</li> <li>• Purchased funds to total assets.</li> <li>• Commitments to total loans.</li> </ul> <p>(Please refer to Section 1.4 of Appendix for definitions)</p> <p>(b) Maturities of Assets and Liabilities (MAL) in the format given in Attachment-1.</p>

## Attachment 1

**Maturities of Assets and Liabilities (MAL)**  
**(CURRENCY .....)\***

(...Million)

Heads of Accounts		Up to 1 month	1 – 3 months	3 – 6 months	6 – 9 months	9 – 12 months	1 – 3 years	3 – 5 years	Over 5 years
Sr.	Item								
<b>A</b>	<b>Inflows</b>								
1.	Cash on hand								
2.	Deposits with CBSL								
3.	Balances due from Head Office, Affiliates and Own Branches								
4.	Balances due from Other Banks								
5.	Investments (Net of provisions)								
6.	Bills of Exchange								
7.	Overdraft								
8.	Loans and Advances								
9.	NPLs								
10.	Net Inter-Branch Transactions								
11.	Other Assets								
12.	Lines of credit committed from institutions								
13.	Other – Please Specify								
	<b>Total (a)</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>
<b>B</b>	<b>Outflows</b>								
1.	Demand Deposits								
2.	Savings Deposits								
3.	Balances due to Head Office/Affiliates/Own Branches								
4.	Balances due from Other Banks								
5.	Time Deposits								
6.	Certificates of Deposits, Borrowings and Bonds								
7.	Net Inter-branch Transactions								
8.	Bills Payable								
9.	Interest Payable								
10.	Provisions other than for loan losses and depreciation in the value of investment portfolio								
11.	Other Liabilities								
12.	Lines of credit committed to institutions								
13.	Unutilized portion of Overdraft, Loans and Advances								
14.	Letters of Credit/Guarantees/Acceptances								
15.	Repo/Bills Rediscounted/Swaps/Forward contracts								
16.	Other – Please Specify								
	<b>Total (b)</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>
	<b>Gap = (a) – (b)</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>
	<b>Cumulative Gap</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>
	<b>Cumulative Liabilities</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>
	<b>Cumulative gap as a % of cumulative liabilities</b>	<b>x%</b>	<b>x%</b>	<b>x%</b>	<b>x%</b>	<b>x%</b>	<b>x%</b>	<b>x%</b>	<b>x%</b>

\* Separate returns for LKR, US\$ and all other major currencies should be prepared.

## Attachment 1 (A)

**MATURITIES OF ASSETS AND LIABILITIES**  
**GUIDELINES ON CLASSIFICATION OF ASSETS AND LIABILITIES INTO TIME BANDS**

Sr.	Heads of Accounts	Details sought
<b>A</b>	<b>Inflows</b>	
1.	<b>Cash on Hand</b>	Up to one-month time band.
2.	<b>Deposits with CBSL</b>	While the excess balance in the Clearing Account over the required statutory reserves could be placed under the 'up to one-month' time band, the statutory reserve against deposit should be distributed amongst various time bands, corresponding to the behavioral maturity profile of deposits.
3.	<b>Balances due from the Head Office, Affiliates and own branches</b>	Demand balances may be placed under the 'up to one-month' time band, all other balances should be distributed across the time bands as per the respective residual maturities.
4.	<b>Balances due from Other Banks</b>	Respective maturity time bands.
5.	<b>Investments (Net of provisions)</b>	Respective residual maturities. Investment 'held-for-trading' may be placed in the first three time bands, on the basis of liquidity profile of the instruments, irrespective of their residual maturities.
6.	<b>Advances (performing)</b> <b>(a) Bills of Exchange and promissory notes</b>	(a) Respective residual maturities bands.
7.	<b>(b) Overdraft</b>	(b) 7.5% each of the outstanding should be distributed under one-month, 1-3 months, 3-6 months, 6-9 months, and 9-12 months time bands, respectively and the balance 62.5%, being the core component, should be shown equally under 1-3 years, 3- years and over 5 years time bands, respectively.
8.	<b>(c) Loans and Advances</b>	(c) Respective residual maturities. However, 50% of the consumer loans, including credit cards, should be shown under over 5 years time band. The balance amount of 50% should be shown under respective time bands, on the basis of residual maturities.
9.	<b>NPLs</b>	25% and 75% of the balances, net of reserved interest and specific loan loss provisions should be shown in the 9-12 months and over five years time bands, respectively.
10.	<b>Net Inter-Branch Transactions</b>	Up to one-month time band.
11.	<b>Other Assets</b>	As per pattern of cash flows. However, intangible assets and assets not representing cash receivables should be shown in over five years time band.

## Attachment 1 (A) cont...

Sr.	Heads of Accounts	Details sought
<b>B</b>	<b>Outflows</b>	
1.	<b>Demand Deposits</b>	75% of the balances in demand deposits should be distributed under the first five time bands, at the rate of 20%, 20%, 15%, 10% and 10%, respectively and the balance of 25% in over 5 years time band.
2.	<b>Savings Deposits</b>	25% of the saving deposits should be distributed equally under one-month, 1-3 months, 3-6 months, 6-9 months, and 9-12 months, respectively, and the balance of 75%, being the core component, should be shown equally under 1-3 years, 3-5 years and over 5 years time bands, respectively.
3.	<b>Balances due to Head Office/Affiliates/ Own Branches</b>	Respective residual maturity time bands.
4.	<b>Balances due to other Banks</b>	Respective residual maturity time bands.
5.	<b>Time Deposits</b>	30% of the time deposits from individual depositors and pension funds, irrespective of their residual maturities, should be shown under over 5 years time band. The balance amount of 70% should be shown under respective time bands, on the basis of residual maturities.
6.	<b>Certificates of Deposits, borrowings and Bonds (including subordinated debts)</b>	Respective residual time bands. Where call/put options are built into the issue structure of any instrument/s, the call/put date/s should be reckoned as the residual maturity date/s and the balance should be shown in the respective residual maturity time bands.
7.	<b>Net Inter-branch Transactions</b>	Up to one month time band.
8.	<b>Bills Payable</b>	Up to one month time band.
9.	<b>Interest Payable</b>	Respective residual maturity time bands.
10.	<b>Provisions other than for loan losses and depreciation in the value of investment portfolio</b>	Respective residual maturity time bands depending on the purpose.
11.	<b>Other Liabilities</b>	Respective maturity time bands. Items not representing cash payables (i.e. income received in advance etc) should be placed over 5 years time band.

Sr.	Heads of Accounts	Details sought
<b>C</b>	<b>Contingent Liabilities/Lines of credit committed/available and other in-flows &amp; out- flows</b>	
12.	<b>Lines of Credit Committed to institutions and other borrowers</b>	Up to one month time band
13.	<b>Unutilized portion of Overdraft, Loans and Advances.</b>	Probable disbursements should be shown in the respective time bands on the basis of historical databases.
14.	<b>Letters of credit /guarantees / acceptances</b>	Probable funding obligations should be shown in the respective time band on the basis of past experiences.
15.	<b>Repo / Bills Rediscounted / Swaps / Forward contracts (LKR against. Other Currencies)</b>	Respective maturity bands.

## Attachment 2

SENSITIVITY OF ASSETS AND LIABILITIES (SAL)  
(CURRENCY\*)Name of Bank :  
Period Ended :

(.....Million)

No.	Assets and OBS	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 6 years	5 - 7 years	7 - 10 years	10 - 15 years	15 - 20 years	Over 20 years	Non Sensitive	Total
1.	Cash on Hand															
2.	Deposits with CBO															
3.	Balances due from HO/Affiliates/ Branches															
4.	Balances due from Other Banks															
5.	Investments															
6.	Bills of Exchange and Promissory Notes															
7.	Overdrafts															
8.	Loans and Advances															
9.	Non Performing Loans															
10.	Fixed Assets															
11.	Net Inter-branch Transactions															
12.	Accrued Interest															
13.	Other Assets															
14.	Reverse Repos															
15.	FRAs															
16.	Swaps															
17.	Futures															
18.	Options															
19.	Others (Specify)															
	Total															
	Liabilities and OBS															

## Attachment 2 cont...

No.	Assets and OBS	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 6 years	5 - 7 years	7 - 10 years	10 - 15 years	15 - 20 years	Over 20 years	Non Sensitive	Total
1.	Demand Deposits															
2.	Savings Deposits															
3.	Time Deposits															
4.	Other Deposits															
5.	Balances due to HO/Affiliates/ Branches															
6.	Balance due to other Banks															
7.	Certificate of Deposits															
8.	Other Borrowings															
9.	Net Inter-branch Transactions															
10.	Bills Payable															
11.	Interest Payable															
12.	Provisions (others)															
13.	Capital															
14.	Reserves															
15.	Retained Earnings															
16.	Subordinated Debts															
17.	Other (Specify)															
18.	Repos															
19.	FRAs															
20.	Futures															
21.	Swaps															
22.	Options															
	<b>Total</b>															
	<b>Gap</b>															

\* Separate returns for LKR, US\$ and all other major currencies should be prepared.

## Attachment 2 (A)

**SENSITIVITY OF ASSETS AND LIABILITIES  
GUIDELINES ON CLASSIFICATION OF ASSETS AND LIABILITIES INTO TIME BANDS**

Sr.	Heads of Accounts	Rate Sensitivity and Time Band
<b>A</b>	<b>Inflows</b>	
1.	<b>Cash on Hand</b>	Non-sensitive
2.	<b>Deposits with CBSL</b>	Non-sensitive
3.	<b>Balances due from head office, Affiliates and Own branches</b>	Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive
4.	<b>Balances due from Other Banks</b>	Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive
5.	<b>Investments (Net of provisions)</b> (a) Fixed rate/Zero coupons. (b) Floating rate (c) Shares and investments in units	(a) Sensitive and should be shown under the time band corresponding to residual term to maturity. (b) Sensitive and should be shown under the time band corresponding to residual term to maturity. (c) Non-sensitive
6.	<b>Advances (performing)</b> (a) Bills of Exchange and promissory notes	(a) Sensitive on maturity.
7.	(b) Overdraft/loans (Fixed rates)	(b) Sensitive and should be shown under the time bands corresponding to the interim and final cash flows.
8.	(c) Overdraft/ Loans and Advances (Floating rates)	(c) Sensitive and should be shown under the time band corresponding to the interim and final cash flows.
9.	<b>NPLs</b> (a) Special mentioned (b) Substandard (c) Doubtful (d) Loss	(a) Over 1-2 years time band (b) Over 3-5 years time bands (c) Over 5 years time band (d) Non-sensitive
10.	<b>Fixed Assets</b>	Non-sensitive
11.	<b>Net Inter-Branch Transactions</b>	Non-sensitive
12.	<b>Accrued interest</b>	Non-sensitive
13.	<b>Other Assets</b> (a) Leased assets (b) Other	(a) Sensitive on interim and final cash flows. The amount should be distributed to the respective maturity bands corresponding to the cash flows. (b) Non-sensitive
14 16	<b>Reverse repos, Swaps, (Buy/sell), and bills discounted</b>	Sensitive on maturity.
15 17 18	<b>FRAs Futures Options</b>	<p>These instruments should be treated as a combination of loan (assets) and short (liabilities) positions. The maturity of a Future or a FRA will be the period until delivery or exercise of the contract. The corresponding positions should undergo changes with passage of time.</p> <p>Swaps should be treated as two notional positions with relevant maturities. For e.g. an interest rate swap under which a bank is receiving floating rate of interest and paying fixed will be treated as long floating rate position of maturity equivalent to the period until the next interest fixing and a short position of maturity equivalent to the residual life of the swap.</p> <p>The notional underlying of the given option should be placed under the respective time band.</p>

## Attachment 2 (A) cont...

Sr.	Heads of Accounts	Rate Sensitivity and Time Band
1.	Demarnd Deposit	Non-sensitive
2.	Savings Deposits	Sensitive and reprices when interest rate is reset.
3. 4. 7.	Time Deposits, Certificate of Deposits, and Other deposits	Sensitive and reprices on maturity. The amounts should be distributed to different time bands on the basis of remaining term to maturity. However, in case of floating rate term deposits, the amounts should be shown under the time band when deposits contractually become due for repricing.
5.	Balances due to Head Office/Affiliates/ Own Branches	Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive
6.	Balances due to other Banks	Interest payable portion is sensitive and should be shown under the time band corresponding to the remaining term to maturity or repricing. The non-interest paying portion is non-sensitive
8.	Borrowings (a) Fixed rate borrowings  (b) Floating rate borrowings  (c) Zero Coupon borrowings  (d) Borrowings from CBSL	(a) Sensitive and reprices on maturity. The amounts should be distributed to different time bands on the basis of remaining term to maturity. (b) Sensitive and reprices when interest rate is reset. The amounts should be distributed to the appropriate time bands, coinciding with the contracted repricing date. (c) Sensitive and reprices on maturity. The amounts should be distributed to the respective maturity bands. (d) Up to one month time band
9.	Net-inter branch transactions	Non-sensitive
10.	Bills Payable	Non-sensitive
11.	Interest Payable	Non-sensitive
12	Provisions	Non-sensitive
13	Capital	Non-sensitive
14	Reserves	Non-sensitive
15	Retained earnings	Non-sensitive
16	Sub-ordinated debts	Please refer to Item (8) above.
17	Reverse Repos, and other derivatives instruments	Reprices only on maturity and should be distributed to respective maturity bands.

Sr.	Heads of Accounts	Details sought
<b>C</b>	<b>Contingent Liabilities/Lines of credit committed/available and other inflows &amp; out flows</b>	
3.	Lines of Credit Committed to institutions and other borrowers	Up to one month time band
4.	Unutilized portion of Overdraft, Loans and Advances.	Probable disbursements should be shown in the respective time bands on the basis of historical databases.
5.	Letters of credit /guarantees / acceptances	Probable funding obligations should be shown in the respective time band on the basis of past experiences.
6.	Repo / Bills Rediscounted / Swaps / Forward contracts (LKR against. Other Currencies)	Respective maturity bands.

## Attachment 3

## FOREIGN EXCHANGE POSITION

Bank:  
As at end of:

Currency (1)	Spot		Forward(a)		Net Open Position (8)	Net position in other exchange contracts (b) (9)	Overall exposure in respective foreign currency (10)	Overall exposure in Sri Lankan rupees(d) (11)
	Assets (2)	Liabilities (3)	Net (4)=(2)-(3)	Assets (5)				
US Dollars								
Pound Sterling								
Euro								
Japanese Yen								
Indian Rupee								
Australian Dollar								
Canadian Dollar								
Other currencies (c)								
<b>Total Exposure (e)</b>								
<b>Total capital funds as per the latest audited financial statements(f)</b>								
<b>Total exposure as a % of total capital funds as per the latest audited financial statements (should not exceed 30%)</b>								<b>X%</b>

(a) Unsettled tom and spot transactions also should be included under forward operations

(b) Report the net foreign exchange position in other foreign exchange contracts such as currency options, futures etc.

(c) The Sri Lankan rupee equivalent of other currencies should be shown under column 11.

(d) Column 11 should show the Sri Lankan rupee equivalent of column 10.

(e) The exposure indicated against each currency in column 11 should be added ignoring signs to arrive at exposure under (e).

Directions issued by the Monetary Board in terms of Sections 46(1) and 76(J)(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  
5 October 2011

### **BANKING ACT DIRECTION NO. 8 OF 2011 CUSTOMER CHARTER OF LICENSED BANKS**

In order to ensure the soundness of the banking system, Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No.46 of 2006, empowers the Monetary Board to issue Directions to licensed banks regarding the manner in which any aspect of the business of such banks is to be conducted. Safeguarding the interests of the customers, building up a healthy relationship between customers and banks; and improving the customer confidence in the banking sector would promote and ensure stability in the banking sector. In view of the above, the Monetary Board issues this Direction to all licensed banks to adopt a 'Code of Conduct' in line with the Customer Charter annexed to this Direction.

1. All licensed banks shall ensure that the customers' rights are protected in line with 'Customer Charter' annexed to this Direction and adopt a 'Code of Conduct' based on the charter.
2. All licensed banks shall obtain written confirmation on adherence to the 'Code of Conduct' from the current employees and all new employees (prior to taking up their employment in the bank).
3. All licensed banks shall publish the 'Customer Charter' in their websites, make copies available for customers on request in their preferred language and educate them when necessary.
4. All licensed banks shall ensure the implementation of this Direction within 6 months from the date of the Direction.

**Annexure**

### **CUSTOMER CHARTER OF LICENSED BANKS**

#### **1. Introduction**

This Charter sets key standards of fair banking practices envisaged by customers when they undertake transactions with licensed banks and provides guidance to the licensed banks to adopt a 'Code of Conduct' on customer protection. The Charter also includes a set of customer obligations towards licensed banks in the interest of stable relationship.

#### **2. Receiving information and understanding the banking Products/ Services**

The customers have the right to receive factual information and understand the financial products/services offered by banks. In this regard, certain good practices of banks would be as follows:

- a) The licensed banks should help the customers to understand the financial products/services offered by providing adequate information about them, explaining their financial implications and assisting the customers to choose the appropriate banking products/services.
- b) Each licensed bank should have Key Facts Document in the form of a brochure/leaflet written in simple language for its products or services, separately or in combination and which should be distributed to the customers seeking such products/services. These brochures/leaflets should, at minimum, contain the following basic information and be available in languages preferred by the customers (i.e., Sinhala/Tamil/English):
  - i. Description of the products/services.
  - ii. Financial and other benefits to customers including any incentives and promotions.
  - iii. Fees/charges, commission, interest etc., charged from customers.
  - iv. Procedures to be followed to obtain the product/service.
  - v. Major terms and conditions.
  - vi. A common complaint procedure for customers.
- c) All advertisements by licensed banks should contain factual information on products/services offered by them in any media and promotional material, which can be understood by the targeted customers and not contain information that may be likely to mislead the public. In addition, all such advertisements should give the contact details and state that the respective bank is a licensed bank supervised by the Central Bank of Sri Lanka.

- d) Further information or clarification on any advertisements on bank's products/services (i.e., fees/charges and interest rates etc.) should be provided by banks on request.
- e) The following information should be conspicuously displayed in the Head Offices and all branches and other banking outlets of the licensed banks.
  - i. Current interest rates on all deposit and loan products
  - ii. Buying and selling rates of foreign currencies
  - iii. Credit rating of the bank with underlying specifications
  - iv. The contact details of the Financial Ombudsman and Credit Counselling Centre
  - v. Banking hours and Holiday notices
  - vi. Any other relevant information
- f) A periodic statement should be sent to customers either in printed form or electronic form opted by them regarding transactions and balances in their deposit or loan accounts or other services other than passbook savings accounts of non-dormant category.  
Statements for credit cards should set out the minimum payment required and the total interest amount charged if only the required minimum payment is made and late payment fee if the minimum payment is not made.
- g) The licensed banks should improve the customer awareness on financial products/services and risks by arranging specific financial literacy programmes.
- h) The licensed banks should act fairly and reasonably by ensuring that the banks' staff follows procedures and practices stipulated in the 'Code of Conduct', the products/services offered are in line with relevant laws and regulations and the maintenance of the principles of integrity and transparency.

### 3. Awareness and understanding the 'Terms & Conditions' on Products/ Services

- 3.1 The customers have the right to access to and fully understand the terms and conditions relevant to each and every product or service they obtain from banks. In this regard, the licensed banks should ensure that:
  - a) the 'Terms and Conditions' associated with each product or service are made available to customers in languages preferred by them;
  - b) a copy of the 'Terms and Conditions' is given to the prospective customer prior to offering or recommending a product or service and any clarification sought by customers is clearly explained;
  - c) an officer carrying out the duties of a relationship officer should clearly explain to the customer of the terms and conditions and features of the products/services, provide a comparison of alternative products/services available and give reasonable time for the customer to make a decision;
  - d) a written confirmation is obtained from the customer that the details of the products or services and their terms and conditions were received, explained and understood;
  - e) all the documents pertaining to the product or service are duly completed and signed by the customer. (Incomplete documents and obtaining signatures on blank papers/documents are avoided.);
  - f) any changes made by licensed banks to the agreed terms and conditions on products or services should be informed to the customers in writing or through paper notice or any other appropriate way before such changes are made.
- 3.2 The customers have the right to know specifically the following under 'Terms and Conditions'.
  - a) The details of the bank's general charges such as interest rates, fees and commissions, if any, required to be paid by the customer including the method of computing interest charges.
  - b) The bank's procedure for receiving complaints and the resolution mechanism.
  - c) The course of recovery actions a bank may follow in the event of any default by the customer on his/her obligations and bank's expenses that will be reimbursed from the customer.

- d) Any compensation proposed to be paid by the relevant customers in case of pre-mature withdrawal/termination of participation in a product/service by the customers.
- e) Any restrictions on opening of accounts, closing of accounts, maintenance of accounts (e.g., minimum balance), transfer of funds by customers and policies and procedures on dormant accounts and abandoned property.
- f) The disclosure of customer information to a party legally authorised to obtain such information.
- g) The rules regarding
  - (i) reporting of suspicious transactions and above-the-threshold transactions to the Financial Intelligence Unit
  - (ii) the reporting procedures that the customer should follow in the case of stolen cards /financial instruments and
  - (iii) liability of the bank and the customer.
- h) The procedures to be employed by the bank to foreclose on the property held as collateral for a loan and the consequences thereof to the customer and options available to him/her.

**4. Compensation from withdrawal/cancellation of products/ services by banks**

In the event a licensed bank seeks to withdraw/terminate a product or service already on contract, especially deposit products, customers have the right to receive a reasonable time with an exit compensation scheme disclosed in advance.

**5. Protection from Agents of banks**

The customers have the right to know the details of the agents appointed for customer services by licensed banks and the 'Code of Conduct' issued to them by banks to refrain from doing any of the following.

- a) Harassing customers.
- b) Using abusive debt collection practices.
- c) Disclosing customer information to others.
- d) Giving false or misleading information about products/services.
- e) Unduly influence customers or the general public to buy or get involved in the bank's products/services.
- f) Engage in getting any security documents signed outside the bank.

**6. Complaint measures and relief**

The customers have the right to resolve their complaints with transparency and effectively. In this regard, licensed banks should:

- a) implement a quick and effective resolution mechanism on disputes between customers and banks by rectifying disputes quickly, handling complaints within a short period, directing to take the complaints forward if the customer is still not satisfied and reversing any charges that applied due to a mistake;
- b) have in place a written procedure for receiving complaints and steps to be taken to resolve such complaints;
- c) acknowledge the receipt of any complaint in writing within a reasonably short period of time and inform the complainants of the procedure that will be followed by the bank for the resolution of the complaint and the contact details of the officer/officers handling the complaint;
- d) facilitate receiving complaints verbally or in writing and the banks shall not insist that complaints be necessarily made only in writing;
- e) establish a management information system regarding complaints and process of resolution as part of the duties of risk management committee relating to operational risks;
- f) assign an officer with the duty of handling the complaints and management information in each branch or office; and
- g) advise the customers to seek affordable and efficient recourse through the Financial Ombudsman or in Courts in the event the complaint is not resolved to their satisfaction.

**7. Special attention and Care**

The customers such as elderly, disabled or customers with low financial literacy have the right to receive special attention to facilitate them to have a fair access to banking services.

## 8. Customer obligations toward banks

Customers should foster the relationship with banks fulfilling their obligations. In this regard:

- a) Customers should not borrow beyond their affordable repayment capacity limit.
- b) Customers should not allow the repayments or instalments to go into arrears and the prompt repayments will create healthy relationships with the banks.
- c) If a customer wants to settle his/her loan before the end of the loan period, he/she has to pay certain amount of money over the loan amount as agreed at the time of accepting the offer.
- d) If a customer is unable to repay his/her loan outstanding as agreed, the bank will have the right to recover the amount owing to the bank including the bank's expenses specified in the 'Terms & Conditions'.
- e) If a customer finds himself/herself in financial difficulties, he/she should let the bank know as early as possible. The sooner the bank discusses the customer's problems, the easier it will be for both of the customer and the bank to find a solution.
- f) When a customer account goes into default, the first step the bank takes is to contact the customer. In this regard, it is imperative that the customer should inform the bank at all times of any changes to his/her address and contact details.
- g) Customers should have the full knowledge and understanding of the product/service offered before entering into the contract.
- h) Customers should duly fill and submit the required application forms and supporting documents in time.
- i) Customers should exercise due care in all transactions with banks.
- j) Customers should notify the bank promptly of any fraudulent transaction/s or such attempts in their accounts with the banks whenever they become aware of such instances.
- k) Customers should exercise utmost care in using and storing/handling Personal Identification Numbers (PIN) and security measures of other electronic cards issued by the bank.
- l) Customers should not treat any operational lapse of a bank on its obligations mentioned in Clause 2 to 7 above other than any dispute on the amount payable to the bank as a reason for his/her non settlement or delay in settlement of a debt unless otherwise allowed by a court of law. All such incidents need to be resolved separately or individually.

Bank Supervision Department  
27 October, 2011

**Ref. No. : 02 / 17 / 600 / 0009 / 002**

To : The CEOs of all Licensed Commercial Banks

### DESIGNATED FOREIGN CURRENCIES

This is to inform you that the Monetary Board of the Central Bank of Sri Lanka, with the approval of the Minister, has specified the Chinese Renminbi as a designated currency for foreign exchange transactions in both Domestic Banking Units and Off-shore Banking Units of Licensed Commercial Banks.

Accordingly, the Banking (Off-Shore Banking Business Scheme) Order No. 1 of 2008 dated 12 September, 2008 made under sections 23, 25 and 26 of the Banking Act, No. 30 of 1988 is hereby amended to include the Chinese Renminbi as a designated currency.

The Banking Act, Order No. 1 of 2011 which contains the amended Schedule of Designated Foreign Currencies is attached.

Yours faithfully,

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

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

K G D D Dheerasinghe  
**Senior Deputy Governor**  
**Central Bank of Sri Lanka**

Colombo  
 27 October, 2011.

**BANKING ACT, Order NO.1 OF 2011**  
**Banking (Off-Shore Banking Business Scheme) Order**

Citation	This Order may be cited as the Banking Act Order No. 1 of 2011. The Sections referred to in this Order will be those of the Banking Act No. 30 of 1988, as amended.
Designated Foreign Currencies	The foreign currencies set out in the Schedule below in this Order are determined as the Designated Foreign Currencies under the Banking (Off-Shore Banking Business Scheme) Order. The Schedule in this Order replaces the Schedule in the Banking (Off-Shore Banking Business Scheme) Order No. 1 of 2008 dated 12 September, 2008.

**SCHEDULE**

**Designated Foreign Currencies**

- |                      |                          |
|----------------------|--------------------------|
| 1. Australian Dollar | 8. New Zealand Dollar    |
| 2. Canadian Dollar   | 9. Norwegian Kroner      |
| 3. Chinese Renminbi  | 10. Pound Sterling       |
| 4. Danish Kroner     | 11. Singapore Dollar     |
| 5. Euro              | 12. Swedish Kroner       |
| 6. Hongkong Dollar   | 13. Swiss Franc          |
| 7. Japanese Yen      | 14. United States Dollar |

Bank Supervision Department  
 31 October 2011

**Ref: 02/17/800/0014/02**

The CEOs of licensed commercial banks and licensed specialised banks

**AMENDMENTS TO GUIDELINES ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT**

An amendment to paragraph 3.1 (iii) of the above Guidelines and the amended format to submit information on the utilisation of the investment fund account on a monthly basis are enclosed for compliance.

Yours faithfully,

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

Encl.

**Annex I**

**AMENDMENT TO GUIDELINES TO LICENSED COMMERCIAL BANKS  
 AND LICENSED SPECIALISED BANKS  
 ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT PROPOSED IN THE 2011 BUDGET**

The following Guidelines will replace 3.1(iii) of the above.

3.1 (iii) Lend only for the following purposes commencing 1 November 2011:

- Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries
- Factory/mills modernization/establishment/expansion
- Small and medium enterprises: loans up to Rs. 200 mn to enterprises with annual turnover less than Rs. 600 mn

- (d) Information Technology related activities and Business Process Outsourcing
- (e) Infrastructure development
- (f) Education: vocational training and tertiary education
- (g) Housing: up to Rs. 2 mn per customer for construction of a house for residential purposes
- (h) Construction of hotels and for related purposes
- (i) Restructuring of loans extended for the above purposes.

### UTILIZATION OF INVESTMENT FUND ACCOUNT (IFA)

Name of Bank :

Month ended :

(Rs. 000')

Item			Amount
<b>A. Total Transferred to IFA</b>			XXXXX
<b>B. Total Loans Granted</b>			
Sector	Description	Amount	
(a) Agriculture		XX	
(b) Factory/mills modernization		XX	
(c) Small and Medium Enterprises		XX	
(d) Information Technology and BPO		XX	
(e) Infrastructure development		XX	
(f) Education		XX	
(g) Housing		XX	
(h) Construction of hotels and for related purposes		XX	
(i) Restructuring of loans extended for above purposes		XX	XXXXX
<b>C. Total investments in Government Securities - long-term</b>			XXXXX
<b>- short-term</b>			XXXXX
<b>D. Balance available for utilization</b>			XXXXX

**NOTE:** E-mail the above details to [dbsd@cbsl.lk](mailto:dbsd@cbsl.lk) with copies to [mayadunne@cbsl.lk](mailto:mayadunne@cbsl.lk) and [jayaminiv@fpd.treasury.gov.lk](mailto:jayaminiv@fpd.treasury.gov.lk) by 10th of each month following the month of reporting.

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

B D W A Silva  
**Senior Deputy Governor**  
**Central Bank of Sri Lanka**

Colombo  
 31 October 2011

### BANKING ACT DIRECTION NO. 9 OF 2011 AMENDMENT TO DIRECTIONS ON MAINTENANCE OF CAPITAL ADEQUACY RATIO

The qualifying criteria for the SME exposures given in paragraph 6.4.3.1.8 (i) (d) of Schedule I in Direction 1(2) of the Banking Act Directions No. 9 of 2007 is amended by replacing with the following paragraph:

- SME Exposures**
- i. The maximum credit exposure of the lending bank to an SME shall not exceed Rs. 200 million.
  - ii. The annual turnover of the SME shall not exceed Rs. 600 million.
  - iii. The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year.
  - iv. In the case of grant of credit facilities less than Rs. 50 million, the condition iii above shall not be applicable and banks shall adopt their own internal mechanism to verify the SME's annual turnover.

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

B D W A Silva  
Senior Deputy Governor  
Central Bank of Sri Lanka

Colombo  
31 October 2011

**BANKING ACT DIRECTION NO. 10 OF 2011  
AMENDMENT TO DIRECTIONS ON  
MAINTENANCE OF CAPITAL ADEQUACY RATIO**

The qualifying criteria for the SME exposures given in paragraph 6.4.3.1.8 (i) (d) of Schedule I in Direction 1(2) of the Banking Act Directions No. 10 of 2007 is amended by replacing with the following paragraph:

- SME Exposures**
- i. The maximum credit exposure of the lending bank to an SME shall not exceed Rs. 200 million.
  - ii. The annual turnover of the SME shall not exceed Rs. 600 million.
  - iii. The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year.
  - iv. In the case of grant of credit facilities less than Rs. 50 million, the condition iii above shall not be applicable and banks shall adopt their own internal mechanism to verify the SME's annual turnover.

Bank Supervision Department  
8 November 2011

**Ref.: 02/17/600/0034/001**

To: The CEOs of the Licensed Commercial Banks

**AMENDMENT TO BANKING ACT, OFF-SHORE BANKING SCHEME ORDER, 2000**

This is to inform you that the Clause 5 of the Banking Act (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 has been amended.

The Banking Order, No. 2 of 2011 on the above mentioned amendment is attached.

Yours faithfully,

(Mrs) T M J Y P Fernando  
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.

K G D D Dheerasinghe  
Senior Deputy Governor  
Central Bank of Sri Lanka

Colombo  
08 November 2011

**BANKING ACT, ORDER NO.2 OF 2011  
BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER**

- Citation**
1. This Order may be cited as the Banking Act, Order No.2 of 2011. The Sections referred to in this Order will be those of the Banking Act, No.30 of 1988, as amended.
- Amendment to Clause 5 in the Banking (Off-shore Banking Business) Order, 2000 issued on 7th April 2000.**
2. The following new Clause replaces the Clause 5 in the Banking (Off-Shore Banking Business Scheme) Order, 2000, dated 7th April 2000.
 

<b>Permitted deposits in an account of a non-resident.</b>	5. An account maintained by a non-resident in an off-shore unit shall be credited with funds received on inward remittances and fund transfers in any designated currency from the Domestic Banking Units on all current account transactions falling under the general or specific permission of the Controller of Exchange.
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Directions issued by the Monetary Board under Section 46(1) of the Banking Act No. 30 of 1988, as amended.

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

Colombo  
16 December 2011

**BANKING ACT DIRECTION NO. 11 OF 2011  
AMENDMENTS TO DIRECTION ON EXPOSURE TO STOCK MARKET  
FOR LICENSED COMMERCIAL BANKS IN SRI LANKA**

The Monetary Board reviewed the banks' exposures to the stock market and the credit limit on margin trading facilities of 5 per cent of total loans introduced on 26 August 2011. Considering the market correction reflected in the Price Earnings Ratio and the low utilisation of the credit limit on margin trading by many banks since August 2011, indicating banks' commitment towards prudent risk management, the Monetary Board is of the view that a possible assets prices bubble may not arise. The Monetary Board, therefore, decided to remove the credit limit imposed on margin trading on shares requiring banks' board of directors to monitor and manage exposures to stock market within prudent internal limits based on tolerable levels.

Accordingly, the Monetary Board 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, hereby issues Banking Act Direction No. 11 of 2011 on Exposure to Stock Market for Licensed Commercial Banks amending the Banking Act Direction No. 5 of 2011 as follows:

1. Direction Nos. 1(iii) will be replaced with the following:
  - (iii) the board of directors set their internal limit on margin trading on shares based on tolerable levels in line with the risk management framework referred to in Direction 4 below and maintain the total exposure to margin trading on shares within such limit.
2. Direction No. 7 is hereby repealed.

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

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

Colombo  
16 December 2011

**BANKING ACT DIRECTION NO. 12 OF 2011  
AMENDMENTS TO DIRECTION ON EXPOSURE TO STOCK MARKET  
FOR LICENSED SEPCIALISED BANKS IN SRI LANKA**

The Monetary Board reviewed the banks' exposures to the stock market and the credit limit on margin trading facilities of 5 per cent of total loans introduced on 26 August 2011. Considering the market correction reflected in the Price Earnings Ratio and the low utilisation of the credit limit on margin trading by many banks since August 2011, indicating banks' commitment towards prudent risk management, the Monetary Board is of the view that a possible assets prices bubble may not arise. The Monetary Board, therefore, decided to remove the credit limit imposed on margin trading on shares requiring banks' board of directors to monitor and manage exposures to stock market within prudent internal limits based on tolerable levels.

Accordingly, the Monetary Board 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, hereby issues Banking Act Direction No. 12 of 2011 on Exposure to Stock Market for Licensed Specialised Banks amending the Banking Act Direction No. 6 of 2011 as follows

1. Direction Nos. 1(iii) will be replaced with the following:
  - (iii) the board of directors set their internal limit on margin trading on shares based on tolerable levels in line with the risk management framework referred to in Direction 4 below and maintain the total exposure to margin trading on shares within such limit.
2. Direction No. 7 is hereby repealed.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No. 1690 / 11 – THURSDAY, JANUARY 27, 2011

**(Published by Authority)**

**PART I : SECTION (I) – GENERAL**

**Central Bank of Sri Lanka Notices**

**THE MONETARY LAW ACT**

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

Nivard Ajith Leslie Cabraal  
**Chairman,  
Monetary Board.**

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

**SRI LANKA DEPOSIT INSURANCE SCHEME REGULATIONS  
AMENDMENT TO THE SRI LANKA DEPOSIT INSURANCE SCHEME REGULATIONS, NO. 1 OF 2010**

- |  |   |
|--|---|
| <b>1. Citation</b>                               | 1.1 These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2011”.  |
| <b>2. Amendments to the principal regulation</b> | 2.1 Sri Lanka Deposit Insurance Regulations, No. 1 of 2010 published in <i>Gazette Extraordinary</i> No. 1673/11 of 28th September, 2010 is hereby amended as follows:-   |
| <b>Substitution for the word “regulation”</b>    | 2.2 By the substitution for word “regulation” of the word “regulation” wherever it is applicable.   |
| <b>Substitution for regulation 5.2(iii)</b>      | 2.3 In regulation 5 thereof by the repeal of paragraph 5.2(iii) of that regulation and the substitution therefor of the following paragraph:<br>“5.2 (iii) Deposit liabilities to directors, key management personnel and other related parties excluding shareholders as defined in Banking Act Direction, No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act Direction, No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Registered Finance Companies.” |

Bank Supervision Department  
20 April 2011

**Circular No.: 01/2011**

To : CEOs of all Member Institutions of  
Sri Lanka Deposit Insurance Scheme  
Dear Sir/Madam,

**SRI LANKA DEPOSIT INSURANCE SCHEME – OPERATING INSTRUCTIONS**

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

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

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

Yours faithfully,

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

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

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No. 1711 / 14 – WEDNESDAY, JUNE 22, 2011

**(Published by Authority)**

**PART I : SECTION (I) – GENERAL**

**Central Bank of Sri Lanka Notices**

**THE MONETARY LAW ACT**

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

Nivard Ajith Leslie Cabraal  
**Chairman,  
Monetary Board.**

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

**SRI LANKA DEPOSIT INSURANCE SCHEME REGULATIONS  
AMENDMENT TO THE SRI LANKA DEPOSIT INSURANCE SCHEME REGULATIONS, NO. 1 OF 2010**

- |  |   |
|--|---|
| <b>1. Citation</b>                               | 1.1 These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 2 of 2011”.  |
| <b>2. Amendments to the principal regulation</b> | 2.1 Sri Lanka Deposit Insurance Regulations, No. 1 of 2010 published in Gazette Extraordinary No. 1673/11 of 28th September, 2010 are hereby amended as follows:-   |
| <b>Substitution for regulation 7.3</b>           | 2.2 In regulation 7 thereof by the repeal of paragraph 7.3 of that regulation and the substitution thereof of the following paragraph:<br>“7.3 Debits to the Fund shall be for compensation payments to depositors, investments and operating expenses of the Scheme as may be determined by the Monetary Board”. |

Currency Department  
07 March 2011

**Ref.: 12/02/008/0002/01**

**Circular No.: 01/2011**

To: All Commercial Banks

Dear Sir/Madam,

**GUIDELINES FOR HANDLING COUNTERFEIT/SUSPECT CURRENCY NOTES OF SRI LANKA**

Reference our circular No.01/2009 dated 01.01.2009 on the above subject. We have observed that many banks do not follow the above guidelines and wish to send the guidelines again for strict compliance by banks.

**Suspect/Counterfeit notes detected at bank counters**

**Best endeavor should be made at the counters to check all currency notes thoroughly to verify whether they are genuine notes or counterfeits. Banks should ensure that the counting /sorting machines used by them are calibrated to detect counterfeit notes.**

- 1.1. Look for more than one security feature if a note is suspect.
- 1.2. A note suspected to be a counterfeit, should not be reissued to a customer.
- 1.3. Do not perforate a note suspected to be a counterfeit and return it to a customer.
- 1.4. If a customer presents a note suspected to be a counterfeit and the bank is convinced it to be a counterfeit note by the absence of reliable security features, the bank should obtain the customer’s signature and date on the note in such a manner, without blemishing the note.
- 1.5. Do not place bank seal or perforate the note in any way.
- 1.6. The following information should be obtained from the customer:
  - Name

- Address
  - Telephone No.
  - NIC No.
  - How the customer had received the note
  - Serial number of such note/s
  - Denomination of note/s
  - Total number of notes.
- 1.7. On detection of a note suspected to be a counterfeit, immediately inform the Counterfeit Currency Bureau (CCB) of the Criminal Investigation Department (CID) of the Police (Telephone: 24 Hour Hotline: 011-2422176 or Office Hours: 011-2326670) and act on their advice or inform the nearest Police Station.
2. Suspect/ Counterfeit notes detected while sorting or/ and counting
- 2.1. Check all currency notes thoroughly to verify whether they are genuine notes or counterfeits. Notes suspected to be counterfeits should be signed and dated without blemishing the notes with bank seal etc.
- 2.2. Information related to the suspected note/s (serial no, denominations, number of notes) should be recorded.
- 2.3. Note/s suspected to be counterfeits should be handed over **immediately** to the CCB or to the nearest Police Station with the recorded information while retaining a copy of it for later reference. Do not hold/retain these notes for long periods as it is an offence.
3. The sole authority of deciding whether a note is a counterfeit or a genuine note issued by the Central Bank lies with the Governor of the Central Bank of Sri Lanka(CBSL).
4. Counterfeiting currency is an offence under the Monetary Law Act No.58 of 1949 and is punishable with imprisonment or a fine or both, under Sections 478 A to D of the Penal Code and we request you to assist the CBSL and CCB in mitigating the counterfeit currency hazard.
5. All Commercial Banks should ensure that all their officers who are involved in handling currency are well informed about the contents of this circular with immediate effect.

For any clarification on the instructions or guidelines in this circular, and information on recognizing genuine Sri Lanka currency notes, please contact the following officers of the Currency Department.

Superintendent	0112477355
Addl. Superintendent	0112477603
Deputy Superintendent	0112477014
Deputy Superintendent	0112477362
Senior Asst. Superintendent – Currency Management	0112477364 or 2398736
Senior Asst. Superintendent – Regulation “E”	0112477130

### ***Superintendent of Currency***

Copy to: Director, Bank Supervision  
Director, Policy Review and Monitoring

Currency Department  
10 March 2011

**Ref.: 12/02/008/0002/01**

**Circular No.: 02/2011**

To: All Licensed Specialised Banks  
All Registered Finance Companies  
All Registered Finance Leasing Establishments  
All Primary Dealers

Dear Sir/Madam,

### **GUIDELINES FOR HANDLING COUNTERFEIT/SUSPECT CURRENCY NOTES OF SRI LANKA**

All the above institutions are hereby requested to adhere to the following instructions and guidelines with respect to matters pertaining to handling counterfeit/suspect currency notes with immediate effect.

#### **Suspect/Counterfeit notes detected at cash counters**

**Best endeavor should be made at the cash counters to check all currency notes thoroughly to verify whether they are genuine notes or counterfeits. Institutions should ensure that the counting /sorting machines used by**

**them are calibrated to detect counterfeit notes.**

- 1.1. Look for more than one security feature if a note is suspect.
- 1.2. A note suspected to be a counterfeit, should not be reissued to a customer.
- 1.3. Do not perforate a note suspected to be a counterfeit and return it to a customer.
- 1.4. If a customer presents a note suspected to be a counterfeit and the institution is convinced it to be a counterfeit note by the absence of reliable security features, the institution should obtain the customer's signature and date on the note in such a manner, without blemishing the note.
- 1.5. Do not place the seal of the institution or perforate the note in any way.
- 1.6. The following information should be obtained from the customer:
  - Name
  - Address
  - Telephone No.
  - NIC No.
  - How the customer had received the note
  - Serial number of such note/s
  - Denomination of note/s
  - Total number of notes.
- 1.7 On detection of a note suspected to be a counterfeit, immediately inform the Counterfeit Currency Bureau (CCB) of the Criminal Investigation Department (CID) of the Police (Telephone: 24 Hour Hotline: 011-2422176 or Office Hours: 011-2326670) and act on their advice or inform the nearest Police Station.
2. The sole authority of deciding whether a note is a counterfeit or a genuine note issued by the Central Bank lies with the Governor of the Central Bank of Sri Lanka (CBSL).
3. Counterfeiting currency is an offence under the Monetary Law Act No.58 of 1949 and is punishable with imprisonment or a fine or both, under Sections 478 A to D of the Penal Code and we request you to assist the CBSL and CCB in mitigating the counterfeit currency hazard.
4. All institutions should ensure that all their officers who are involved in handling currency are well informed about the contents of this circular with immediate effect.

For any clarification on the instructions or guidelines in this circular, and information on recognizing genuine Sri Lanka currency notes, please contact the following officers of the Currency Department.

Superintendent	0112477355
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Senior Asst. Superintendent – Regulation "E"	0112477130

***Superintendent of Currency***

Copy to: Director, Bank Supervision  
 Director, Policy Review and Monitoring  
 Director, Supervision of Non Bank Financial Institutions  
 Superintendent, Department of Public Debt

**Circular No.35/01/005/0006/29**

24 March 2011

**To : All Licensed Commercial Banks and Primary Dealers**

**OPERATING INSTRUCTIONS ON PROVISION OF INTRA-DAY LIQUIDITY FACILITY (ILF)  
 AGAINST SCRIPLESS GOVERNMENT SECURITIES ON LANKASETTLE**

Reference : Our Circular No.35/01/005/0006/05 dated 27 January 2004 and the subsequent amendment Circular No.35/01/005/0006/09 dated 28 April 2005 on the Operating Instructions of Intra-day Liquidity Facility (ILF).

As you are aware, the procedure on releasing ILF has already been changed. Consequently, the Participating Institutions (PIs) are now permitted to carry out multiple ILF requirements and reversals at their discretion instead of case by case approval that was granted by the Central Bank in the past.

Accordingly, Pls are hereby informed of the withdrawal of the amendment Circular No. 35/01/005/0006/09 and notwithstanding the provisions contained in the aforesaid Operating Instructions on provision of additional draw downs of ILF during the business day, Clause 8 of the aforesaid Circular (No.35/01/005/0006/05) is hereby amended with immediate effect to read as follows :

**“Pls may carry out multiple ILF requests and reversals at their discretion within a business day as per the liquidity requirements of Financial Institutions to meet any urgent Intra-day liquidity requirements of a PI”.**

R A A Jayalath  
**Director/Domestic Operations.**

## **OPERATING INSTRUCTIONS NO.35/01/005/0007/05**

19 April 2011

**To : All Licensed Commercial Bankss**

### **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.1702/3 of 19 April, 2011 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 eight per centum (8.00%) of the total of such deposit liabilities.
3. The above amendment takes effect from 29 April, 2011. All other instructions contained in our Operating Instructions No.35/01/005/0007/01 of 20 March, 2003 will continue to apply.

R A A Jayalath  
**Director/Domestic Operations.**

**Ref No: 06/04/01/2011**  
**DIRECTIONS TO AUTHORIZED DEALERS**

6 January 2011

### **APPROVAL FOR SERVICE EXPORTERS TO BORROW FOREIGN EXCHANGE FROM DOMESTIC BANKS**

Authorized dealers are hereby permitted to grant foreign currency loans from the Domestic Banking Unit (DBU) to Exporters of Services who have adequate foreign currency exposure to meet their working capital and fixed capital requirements, subject to the following terms and conditions.

- (1) Permitted borrowers will be the services exporters listed at Annex 1.
- (2) Repayment period and the interest rate are to be decided between the lending bank and the borrower.
- (3) Purpose of borrowing should be to meet fixed or working capital requirements of the borrower.
- (4) Procedure to be followed in the case of a default :  
 All efforts should be made to realise the proceeds of the sale of domestic assets on enforcement of the mortgage in the foreign currency of the transaction. If such efforts fail, rupee proceeds may be converted upto the extent of the amount required for the settlement of the outstanding balance of the loan without my prior approval.
- (5) These loans should be given only to exporters of services whose bona-fides will have to be determined by the commercial bank processing the loan application. In determining the bona-fides of the exporters, the commercial banks are required to be prudent and use their judgment.
- (6) On request of the borrower, loan proceeds may be credited to the FCAPS (Foreign Currency Account for Professional Services Providers) maintained by the same borrower at the same bank.
- (7) You are also required to furnish quarterly a statement of foreign currency facilities granted to exporters of services indicating the followings:

- i. Name of the Company
- ii. Date of granting the accommodation
- iii. Type of accommodation
- iv. Period for which accommodation is granted
- v. Nature of Security
- vi. Amount
- vii. Purpose

The statement should be sent to the Monitoring Unit of the Exchange Control Department, Central Bank of Sri Lanka, Janadhipathi Mawatha, Colombo 01, before the 15th day of the month immediately, following the end of each quarter.

Yours faithfully

**Controller of Exchange**

**Annex 1**

### **Service Exporters Eligible to obtain Foreign Currency Loans**

1. Legal Services
2. Accounting, Auditing and Book Keeping Services
3. Taxation Services
4. Architectural Services
5. Engineering Services
6. Medical and Dental Services
7. Veterinary Services
8. Services provided by, Physiotherapists and Paramedical personnel
9. Software Development Services
10. Data Processing Services
11. Database Development Services
12. Research and Development Services on Natural Sciences, Social Sciences and Humanities
13. Advertising Services
14. Management Consulting Services
15. Scientific and Technical Consulting Services
16. Photographic Services
17. Packaging Services
18. Printing and Publishing Services
19. Convention Services
20. Hotel Registered with the Tourists Board
21. Entertainment Services (including theater, live bands)
22. Services of Fashion Designers, Modelers of Clothes, Hats etc.
23. Services Exporters in the SME (Small and Medium Enterprises) sector with the prior approval of the Controller of Exchange

**Ref: 06/04/02/2011**

21 January 2011

**DIRECTIONS TO AUTHORIZED DEALERS**

Dear Sir/Madam,

#### **OUTWARD INVESTMENT ACCOUNT (OIA)**

1. A general permission has been granted by the Hon. Minister of Finance in an Order published in the Gazette No 1686/50 of 01.01.2011 allowing the investor categories of individuals and entities specified in sub paragraph 1.1 below (hereinafter referred to as "Resident Investors") to invest in shares of companies incorporated outside Sri Lanka and sovereign bonds issued by foreign governments and governmental organizations. A general permission has also been granted by the Controller of Exchange in an Order published in the Gazette No 1686/52 of 01.01.2011 allowing the Resident Investors other than the persons specified in Category 3 of sub paragraph 1.1 below to make payments to persons resident outside Sri Lanka in respect of setting up and maintenance of Branch, Liaison, Marketing, Agency, Project, Representative offices or other similar offices (hereinafter referred to as "Overseas Offices") outside the country.

**1.1 Category 1:** Companies other than companies limited by guarantee registered under the Companies Act, No. 07 of 2007.

**Category 2:** Partnerships registered in Sri Lanka

**Category 3:** Individuals resident in Sri Lanka.

2. In view of the above, Authorized dealers are hereby granted permission to open, maintain and operate accounts titled Outward Investment Accounts (OIA) in the name of Resident Investors subject to the stipulations set out in the above Gazettes and the following conditions.
- i) OIA should be operated as a foreign currency account in the domestic banking unit in designated foreign currencies.
  - ii) Closure of any OIA requires the prior permission of the Controller of Exchange.
  - iii) Any outward remittance from OIA shall be effected only after the submission of the documents at Annex I by a Resident Investor.
  - iv) Credits and Debits to OIA shall be confined to the following:-
    - (A) Credits:
      - (a) Rupee proceeds of the eligible Resident Investor converted into foreign currency, up to the investment requirement, subject to the stipulations set out in the above Gazette Notifications and conditions of this direction.
      - (b) Transfers from foreign currency accounts (except the foreign currency accounts specially permitted by the Controller of Exchange) of the Resident Investors.
      - (c) Proceeds of a loan obtained from a foreign source with the prior permission from the Controller of Exchange in order to finance an overseas investment.
      - (d) Inward remittances received as dividend payments in connection with the overseas investment.
      - (e) Proceeds of sale and maturity of sovereign bonds.
      - (f) Profits, margins and surplus funds received from the Overseas Offices.
      - (g) Inward remittances received as management fees, consultancy fees and commissions related to the investments made through this account.
      - (h) Inward Remittances received as sale proceeds of shares including capital gains and liquidation proceeds in the case of a liquidation of the overseas company and proceeds realized by closure of an Overseas Office.
      - (i) Interest earned on funds lying to the credit of the account.
    - (B) Debits:
      - (a) Payments for acquisition of shares in overseas companies and sovereign bonds.
      - (b) Setting up and maintenance costs of Overseas Offices.
      - (c) Bank charges, broker fees, commissions related to the investments made through the OIA.
      - (d) Payments in foreign currency outside Sri Lanka for current transactions.
      - (e) Withdrawals in Sri Lanka Rupees.
  - v) Rupee proceeds should be converted into foreign currency and be credited to OIA only after the fulfillment of all the requirements stipulated in the above Gazettes by a Resident Investor. Under no circumstances such funds shall be retained in OIA without making the investment.
  - vi) Authorised Dealers shall obtain the following documents from the resident investor and submit such documents to the Controller of Exchange within a week of such collection.
    - (A) Within three months from the outward remittance of foreign exchange the Authorized Dealers shall also obtain from the resident investor:
      - (a) Certificate of Incorporation, Memorandum and Articles of Association of the new company incorporated outside the country in case of an investment in the shares of an unlisted company.
      - (b) Registration Certificate of Overseas Offices.
      - (c) Copies of the share certificates issued or any other evidence in respect of a share investment in an unlisted corporate incorporated outside Sri Lanka.
      - (d) Copies of share investment/enrolment certificates issued to all resident employees who subscribed to an Employee Share Option Scheme.
    - (B) On monthly basis statements from relevant Central Depository Systems of overseas Stock Exchanges with regard to the investments in listed shares of companies incorporated outside Sri Lanka and sovereign bonds issued by foreign governments and government organizations.
    - (C) On an annual basis, the Audited accounts of the unlisted overseas companies and overseas offices.

- vii) If the Resident Investor fails to submit any of the above documents within the stipulated time period, the Authorized Dealers shall report such failure to the Controller of Exchange within one week of the expiration of such period.
- viii) The Authorized Dealers shall report on all transactions related to OIA to the Controller of Exchange as per the format at Annex II.

Yours faithfully

**Controller of Exchange**

**Annex I**

### Check List of documents for Resident Investors

Following documents should be obtained for all foreign investments under this direction.

- (i) Request with the application form at Annex III
- (ii) Recommendation by a Fellow Member of the Institute of Chartered Accountants of Sri Lanka in the format at Annex IV.
- (iii) Clearance from the Exchange Control Department that there is no pending investigation under the provisions of Exchange Control Act.
- (iv) Affidavit at Annex V

In addition, following category-specific documents should also be obtained.

#### Category 1

- (i) Certificate of incorporation and Articles of Association
- (ii) Board Resolution on the proposed investments.

#### Category 2

- (i) Certified copy of the partnership agreement
- (ii) Tax clearances to cover the amount of investment by each partner.

#### Category 3

Tax Clearance to cover the investment amount

**Annex II**

### Monthly Statement of Outward Investment Accounts (OIA)

Name of the Bank:

Account No.	Currency	Name of the account Holder	Opening Balance as at the beginning of the month	Total inward remittance during the month	Total out ward remittance during the month	Closing Balance as at the end of the month

**Annex III**

### Application form on Investments Abroad

#### 1. General Information

- a. Name of the Company/Partnership/Individual:
- b. Registration No./NIC or Passport No.:

#### 2. Details on Foreign Investment

##### 2.1 Investment in shares of overseas companies

- a. Total amount to be Invested
- b. Name of Overseas Company
- c. Number of shares to be acquired
- d. Price of a share

##### 2.2. Investments in Sovereign Bonds

- a. Total amount to be Invested
- b. Name of Issuer
- c. Number of bonds to be acquired
- d. Price of a bond

**2.3. Investments for Setting up and maintenance of Overseas Offices**

- a. Total amount to be Invested
- b. Type and purpose of Overseas office

I hereby declare that the above information is true and accurate to the best of my knowledge.

Director:

Director:

**Annex IV**

**Recommendation by..... a Fellow Member of the Institute of Chartered Accountants for the release of foreign exchange for the purposes of the Gazette Notifications No. 1686/50 and No 1686/52 of 01.01.2011**

To: Manager

Branch:

Name of the Commercial Bank:

I hereby confirm that the below investment was analyzed by me on the basis of the criteria laid down by the Controller of Exchange in that regard and recommend the said investment details of which are set out below.

Name of the Investor:

Amount in USD (or equivalent amount in other designated foreign currencies):

Details of the Investment:

**Shares**

Company:

No of shares:

Price of a share:

**Sovereign Bonds**

Issuer:

Number of bonds:

Price of a bond:

**Overseas Offices**

Company:

Country of investment:

**Signature:**

**Date:**

**Annex V**

**Specimen affidavit to be submitted by investors specified in Category 1 of sub paragraph 1.1 of paragraph 1.**

I..... (Full Name) ..... (Holder of National Identity Card No. /Passport No.. of..... (Address).....being a (Buddhist/Hindu do hereby solemnly, sincerely and truly declare and affirm/Christian/Catholic/Muslim make oath and state) as follows.

1. I am the (affirmant/deponent) above named and ....(Designation ) of ....(name of the company)
2. I have been authorized by the board of directors of the (name of the Company) to submit this affidavit as per the attached letter of authorization.
3. I do hereby (affirm/state) that.... (name of the Company) has not remitted any funds to make overseas investments from any other Outward Investment Account in any other bank.
4. I further (affirm/state) the statements given above are true and correct.

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

}

Before me

(Justice of the Peace)

**Specimen Affidavit to be submitted by Resident Investors specified in Category 2 and 3 of sub paragraph 1.1 of paragraph 1.**

I.....(Full name) .....(Holder of National Identity CardNo/Passport No).....of.....(Address) .....being a (Buddhist/Hindu do hereby solemnly, sincerely and truly declare and affirm/Christian/Catholic/Muslim make oath and state) as follows.

1. I am the (affirmant/deponent) above named.
2. I do hereby (affirm/state) that I have not remitted any funds to make overseas investments from any other Outward Investment Account in any other bank.
3. I also hereby (affirm/state) that I have not submitted an application to any bank to obtain the migrant allowance.
4. I further (affirm/state) the statements given above are true and correct.

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

}

before me

(Justice of the Peace)

**Ref: 06/04/03/2011**  
DIRECTIONS TO AUTHORIZED DEALERS

8 March 2011

Dear Sirs/Madam,

**AUTHORIZATION OF REMITTANCES IN RESPECT OF RE-INSURANCE**

Your attention is invited to the Direction bearing No.06/02/02/2001 of 13th March 2001 issued by the Controller of Exchange.

In terms of the Order of the Minister of Finance and Planning published in the Gazette Notification bearing No.1528/20 of 19th December 2007, all insurance companies in Sri Lanka are required to reinsure 20% of the total liability arising out of every general re-insurance excluding long term reinsurance contracts entered into by the insurance companies, with National Insurance Trust Funds (NITF).

Accordingly, you are hereby informed to obtain the confirmation of NITF on the compliance of the insurance companies with the aforesaid requirement at the time of making outward remittances for making payments of their reinsurance premia to overseas insurers.

Yours faithfully,  
**Controller of Exchange**

**Ref: 06/04/04/2011**  
DIRECTIONS TO AUTHORIZED DEALERS

5 July 2011

Dear Sirs,

**DESIGNATION OF CHINESE RENMINBI (RMB)**

Authorized Dealers are hereby informed that the Monetary Board of the Central Bank of Sri Lanka has approved designation of Chinese Renminbi (RMB) for foreign exchange transactions of Licensed Commercial Banks.

Yours faithfully,  
**Controller of Exchange**

**Ref: 06/04/05/2011**

18 August 2011

DIRECTIONS TO AUTHORIZED DEALERS

Dear Sirs,

**OPENING OF NON-RESIDENT BLOCKED ACCOUNTS**

Authorized dealers are hereby informed that they are permitted to open and maintain "Non-Resident Blocked Accounts" in the name of non resident Sri Lankans without references to the Exchange Control Department subject to the following terms and conditions:

1. Local income of the non resident Sri Lankans including the sale proceeds which is derived in Sri Lanka in terms of the Government Gazette Notification No.1719/24 dated 18.08.2011 shall be credited to this account;
2. Disbursements in Sri Lanka rupees are freely permitted;
3. Outward remittances from this account are subject to the prior approval of the Controller of Exchange;
4. Existing rupee accounts of the non resident Sri Lankans could be re-designated as "Non-Resident Blocked Accounts" by the authorized dealers.

Further, authorized dealers are instructed to abide by the terms and conditions stipulated in our Direction No.06/04/07/2008 dated 02.07.2008 issued on Non-Resident Blocked Accounts by the Controller of Exchange.

Yours faithfully,

**Controller of Exchange****Ref: 06/04/06/2011**

18 August 2011

DIRECTIONS TO AUTHORIZED DEALERS

Dear Sirs,

**REPAYMENT OF LOANS OBTAINED BY SRI LANKAN CITIZENS WHO HAVE PROCEEDED OUTSIDE SRI LANKA FOR EDUCATIONAL PURPOSES FROM BANKS, FINANCIAL INSTITUTIONS, UNIVERSITIES OR EDUCATIONAL INSTITUTIONS OF FOREIGN COUNTRIES**

A General permission has been granted by the Controller of Exchange in an Order published in the Gazette Notification No.1719/23 of 18.08.2011 to Sri Lankan citizens who have proceeded outside Sri Lanka for educational purposes to borrow from banks, financial institutions, universities or educational institutions of foreign countries and to repay such loans by remitting funds from Sri Lanka through authorized dealers.

2. In view of the above, authorized dealers are hereby permitted to make outward remittances to respective lending institutions to effect the repayment of the said loans after verifying the authenticity of the loans.
3. Authorized dealers are required to furnish quarterly reports to the Exchange Control Department on the total outward remittances made under this direction not later than 15th day of the following quarter.

Yours faithfully,

**Controller of Exchange****Ref: 06/04/07/2011**

18 August 2011

DIRECTIONS TO AUTHORIZED DEALERS

Dear Sirs,

**RESIDENT NON – NATIONALS' FOREIGN CURRENCY (RNNFC) ACCOUNTS**

Further to my Operating Instructions bearing No. EC/19/80(D) dated 14.05.1980, authorized dealers are hereby informed that they are permitted to accept following credits to RNNFC accounts held by non nationals employed in Sri Lanka on valid employment visa issued by the Department of Immigration and Emigration being payments to such employees which include salaries, wages and other benefits paid by the employers:

1. Transfer of funds from the accounts of the employers at the Off-Shore Banking Units; and monthly salary in Sri Lanka rupees to the expatriate employees converted into foreign currency at the exchange rate of the day of credit subject to the conditions that authorized dealer should verify the employment contract and the valid visa of the expatriate employee;  
However, the monthly amount of rupee conversion should not exceed the amount of the salary mentioned in the employment contract at any time.
2. Any other employee benefits in rupees other than the superannuation benefits such as Employees' Provident Fund

and Employees' Trust Fund, converted into foreign currency at the exchange rate of the day of credit after verifying the documentary evidence.

Authorized dealers are further informed that they are permitted to transfer funds by debiting the RNNFC accounts of such employees to the credit of employers' account in the event an overpayment has been made by employer or any other payment due to the employer.

Yours faithfully,  
**Controller of Exchange**

28 October 2011

**Ref: 06/04/08/2011**  
DIRECTIONS TO AUTHORIZED DEALERS

Dear Sirs,

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

Authorized Dealers are hereby informed that the Chinese Renminbi should be included to the list of Designated Foreign Currencies with which a NRFC Account could be maintained.

Yours faithfully,  
**Controller of Exchange**

6 December 2011

**Ref: 06/04/09/2011**  
DIRECTIONS TO AUTHORIZED DEALERS

Dear Sir/Madam,

### **SECURITIES INVESTMENT ACCOUNTS (SIA)**

This has reference to our Directions dated 11th March 2010 bearing No.06/04/01/2010 on the above subject.

The Central Bank of Sri Lanka has decided to increase the current threshold for foreign investments in Treasury bills and Treasury bonds from 10 per cent of the outstanding Treasury bills and Treasury bonds stock to 12.5 per cent.

Accordingly, paragraph 8 of the Direction referred to above is hereby amended as follows:

"8. Eligible investors are permitted to purchase Treasury bonds (T-bonds) and Treasury bills (T-bills) through both primary and secondary markets provided that all such investments in aggregate do not exceed 12.5% of the outstanding T-bonds or T-bills stock at any given point of time. However, this limit will not be applicable for T-bonds and T-bills held by eligible investors under category 3(v) and resident Sri Lankans under category 3(vi)".

Yours faithfully,  
**Controller of Exchange**

## **The Gazette of the Democratic Socialist Republic of Sri Lanka**

### **EXTRAORDINARY**

No 1686/50 – SATURDAY, JANUARY 01, 2011

**(Published by Authority)**

### **PART 1: SECTION (1) – GENERAL** **Government Notifications**

### **EXCHANGE CONTROL ACT (CHAPTER 423)** **Order under section 17**

BY virtue of the powers vested in me under subsections (1) and (2) of section 17 of the Exchange Control Act (Chapter 423) read with paragraph (2) of Article 44 of the Constitution of the Democratic Socialist Republic of Sri Lanka, I, Mahinda Rajapaksa, President, do by this Order-

- (1) grant permission to any person resident in Sri Lanka or any company registered under Companies Act, No. 7 of 2007 or any partnership registered in Sri Lanka, to acquire, hold and transfer shares of companies incorporated outside Sri Lanka and the sovereign bonds issued by foreign governments and governmental organizations rated on or above the sovereign credit rating for the time being of Sri Lanka, subject to the directions specified in paragraph

(3) below and any other direction issued by me from time to time.

Provided that, the above shall not be applicable in respect of the following:-

- (i) Any company limited by guarantee within the meaning of the Companies Act No.7 of 2007;
  - (ii) Any non-governmental organization;
  - (iii) Any person against whom, or any company or partnership against which legal proceedings are pending in respect of a prosecution made against such person, company or partnership under the provisions of Exchange Control Act.
- (2) Direct that every person, company or partnership referred to in paragraph (1) above shall-
- (i) make outward remittances for the purposes specified in paragraph (1) above, only out of an Outward Investment Account opened in a licensed commercial bank in accordance with such directions as may be issued by the Controller of Exchange;
  - (ii) repatriate within three months from the date of payment, all dividends, capital gains and profits from the sale of shares, liquidation or capital reduction receivable from a foreign company and proceeds of sale and maturity of sovereign bonds, including the capital gains, if any, with the interest earned on such sovereign bonds, credited to the Outward Investment Account through which the initial investment was made;
  - (iii) submit a request to an authorized dealer along with a recommendation from a Fellow Member of the Institute of Chartered Accountants of Sri Lanka who possesses a valid certificate to practice at the time of issue of such recommendation;
  - (iv) submit with every request referred to in sub-paragraph (iii), an affidavit stating that no outward remittance has been effected through any other authorized dealer for the same investment and that no application has been forwarded to obtain foreign exchange allowance for the purpose of migration;
  - (v) obtain the prior written approval of the Minister of Finance, prior to making an investment which exceeds the limitations set out in paragraph (3);
  - (vi) submit the documents and information required by the authorized dealer in accordance with the guidelines issued by the Controller of Exchange to the authorized dealers.
- (3) Specify that the following limitations shall operate in respect of any permission granted under paragraph (1) to any person, company or partnership:-
- (i) US dollars Five Hundred Thousand (\$500,000) or an equivalent amount in any designated foreign currency per annum, in respect of a company listed at the Colombo Stock Exchange;
  - (ii) US dollars One Hundred Thousand (\$100,000) or an equivalent amount in any designated foreign currency per annum, in respect of a company which is not listed at the Colombo Stock Exchange;
  - (iii) US dollars One Hundred Thousand (\$100,000) or its equivalent amount in any designated foreign currency, in respect of a partnership registered in Sri Lanka, subject to providing a tax clearance certificate by each partner to the authorized dealer to cover the amount to be remitted;
  - (iv) US dollars One Hundred thousand (\$100,000) or its equivalent amount in any designated foreign currency, in respect of any individual resident in Sri Lanka, subject to providing a tax clearance certificate to the authorized dealer to cover the amount to be remitted;
  - (v) US dollars One Hundred Thousand (\$100,000) or its equivalent amount in any designated foreign currency per individual employee of a branch in Sri Lanka or subsidiary of a company incorporated outside Sri Lanka, to acquire shares of such company under an Employee Share Option Scheme;  
Provided however, maximum number of shares that can be acquired by all employees of the branch in Sri Lanka or of subsidiary shall not exceed five percent (5%) of the value of total shares issued by the company incorporated outside Sri Lanka.
- (4) Further states that-
- (i) shares under bonus issue and shares received by capitalization of reserves of companies incorporated outside Sri Lanka, shall also be deemed to have been acquired pursuant to this Order; and
  - (ii) nothing contained in this Order shall be construed as affect or having a bearing on enterprises within the meaning of the Board of Investment of Sri Lanka Law, No. 4 of 1978, in relation only to exemptions already granted.

In this Order unless the context otherwise requires :-

“Exchange Control Act” means the Exchange Control Act (Chapter 423);

“foreign currency” shall have the same meaning assigned to that expression under Exchange Control Act (Chapter 423);

“licensed commercial bank” means a company or bank, licensed to carry on the business of a licensed commercial bank in terms of the Banking Act, No.30 of 1988;

“resident in Sri Lanka” shall have the same meaning assigned to that expression in the Directions published under the Exchange Control Act, in Gazette No.15007 dated April 21, 1972;

“subsidiary” shall have the same meaning as in the Companies Act, No. 7 of 2007.

MAHINDA RAJAPAKSA,  
President.

Ministry of Finance and Planning,  
Colombo,  
01st day of January, 2011.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No 1686/52 – SATURDAY, JANUARY 01, 2011

**(Published by Authority)**

**PART 1: SECTION (1) – GENERAL**

**Government Notifications**

**EXCHANGE CONTROL ACT (CHAPTER 423)**

**Notice under section 7**

NOTICE is hereby given in terms of the provisions of section 7 of the Exchange Control Act (Chapter 423), read with section 3 of the aforesaid Act, subject to the direction of the Governor of the Central Bank of Sri Lanka, -

- (1) that permission is hereby granted to any company registered under Companies Act, No.7 of 2007 or any partnership registered in Sri Lanka, to make payments to persons resident outside Sri Lanka where the same is required for the purpose of setting up and maintaining any Branch, Liaison, Marketing, Agency, Project, Representative or other similar offices (hereinafter referred to as the “Overseas Offices”) thereof in accordance with the directions specified in paragraph (2) and (3) below:

Provided that, the above shall not be applicable in respect of the following:-

- (i) any company limited by guarantee within the meaning of the Companies Act No. 7 of 2007;
  - (ii) any non-governmental organization;
  - (iii) any company or partnership against which legal proceedings are pending in respect of a prosecution made against such company or partnership under the provisions of Exchange Control Act (Chapter 423).
- (2) that every company or partnership in respect of which the permission is granted under paragraph (1) shall -
- (i) submit a request to an Authorized Dealer along with a feasibility report on setting up of a place of business outside Sri Lanka, recommended by a Fellow Member of the Institute of Chartered Accountants of Sri Lanka who possesses a valid certificate to practice at the time of issue of such recommendation;
  - (ii) make all outward remittances for the purposes specified in paragraph (1) above, only out of an Outward Investment Account opened in a Licensed Commercial Bank in accordance with such directions as may be issued by the Controller of Exchange;
  - (iii) repatriate within three months from the date of payment, all profits, margins and surplus funds from the overseas offices to Sri Lanka only through the Outward Investment Account through which the initial investment was made;
  - (iv) submit with every request referred to in sub paragraph (i), an affidavit stating that no outward remittance has been effected through any other Authorized Dealers for the purpose stated herein;
  - (v) submit all relevant information and documents required by the Authorized Dealer in accordance with the guidelines issued by the Controller of Exchange, to the Authorized Dealer.
- (3) that all payments made in pursuance of the permission granted under paragraph (1), shall not exceed US dollars One Hundred Thousand (\$100,000) or its equivalent amount in any designated foreign currency:

Provided that, the prior permission of the Controller of Exchange shall be obtained, if any payment being made in pursuance of such permission, exceeds the limitation specified above.

For the purposes of this Notice “resident outside Sri Lanka” shall have the same meaning assigned to that expression in the Directions published under the Exchange Control Act, in Gazette No.15007, dated April 21, 1972.

P. H. O. CHANDRAWANSA,  
Controller of Exchange.

Central Bank of Sri Lanka,  
Colombo,  
01st day of January, 2011.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No.1686/53 - SATURDAY, JANUARY 01, 2011

**(Published by Authority)**

**PART 1: SECTION (1) – GENERAL**

**Government Notifications**

**NOTICE UNDER THE EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE)**

**Permission in terms of Section 7 of the Exchange Control Act**

NOTICE is hereby given in terms of the provisions of Section 7 of the Exchange Control Act (Chapter 423) read with Section 3 of the aforesaid Act, subject to the Direction of the Governor of the Central Bank of Sri Lanka, that permission is granted to any person resident in Sri Lanka, any company registered under Companies Act, No.7 of 2007 or any partnership registered in Sri Lanka to make payments to persons resident outside Sri Lanka for the purpose of acquisition of shares of companies incorporated outside Sri Lanka and the sovereign bonds issued by foreign governments and governmental organizations as specified by the Directions of Minister of Finance in the *Government Extraordinary Gazette* No. 1686/50 of 01st January, 2011.

For the purposes of this Notice "resident in Sri Lanka and resident outside Sri Lanka" shall have the same meaning assigned to that expressions in the Directions published under the Exchange Control Act, in *Gazette* No.15007 dated April 21, 1972.

P. H. O. CHANDRAWANSA,  
**Controller of Exchange.**

Central Bank of Sri Lanka,  
Colombo,  
01st day of January, 2011.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No 1719/22 – THURSDAY, AUGUST 18, 2011

**(Published by Authority)**

**PART 1: SECTION (1) – GENERAL**

**Central Bank of Sri Lanka Notices**

**NOTICE UNDER THE EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE)**

**1. Permission in terms of Sections 7, 10, 11 and 15 of the Exchange Control Act**

- (a) Permission is hereby granted for the purposes of Sections 10, 11 and 15 of the Exchange Control Act (Chapter 423 of the CLE), as applicable for the issue and transfer of units in a Unit Trust operated on a licence issued under the Securities & Exchange Commission of Sri Lanka Act, No. 36 of 1987, as amended, to foreign institutional investors, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka), subject to the conditions contained in paragraph 2.
- (b) Permission is hereby granted for the purposes of Section 7 of the Exchange Control Act, for making any payment to or for the credit of a person resident outside Sri Lanka in respect of a transaction permitted under sub-paragraph (a) above and such payment shall only be made in accordance with paragraph 2(c).

**2. Conditions :**

- (a) A person resident outside Sri Lanka who is a party to a transaction permitted hereunder shall make a declaration to the effect that such person is resident outside Sri Lanka on the application form for the purchase of units.
- (b) The payment for the purchase of units in any issue or transaction permitted hereunder shall be made only out of or into a Securities Investment Account opened in any licensed commercial bank in Sri Lanka in accordance with directions given by the Controller of Exchange in that behalf to such licensed commercial banks.
- (c) A managing company, trustee, licensed commercial bank, a licensed broker or any other person entrusted with the payment of monies such as redemption proceeds, sale proceeds, monies or commissions in respect of any transaction permitted hereunder shall make such payments only into or out of a Securities Investment Account referred to in sub-paragraph (b) above.
- (d) A managing company or any other person who is entrusted with maintaining a register of unit holders or of the issue or transfer of units by any Unit Trust shall not register the names of foreign institutional investors, corporate

bodies incorporated outside Sri Lanka or individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) or their nominee as a holder of units of such Unit Trust unless evidence to the satisfaction of such person is furnished that the terms and conditions applicable to such issue or transfer in terms of this notice have been complied with.

### 3. Interpretation :

- (a) "Unit Trust", "Managing Company", "Trustee" and "Unit Holder" shall have the same meaning as in the Securities & Exchange Commission of Sri Lanka Act, No. 36 of 1987 as amended.
- (b) "Person Resident in Sri Lanka" and "Person Resident outside Sri Lanka" shall have the same meaning as in the order published under the Exchange Control Act, in Gazette No. 15007 dated 21.04.1972.

Colombo,  
18<sup>th</sup> August, 2011

P. H. O. CHANDRAWANSA,  
Controller of Exchange.

## The Gazette of the Democratic Socialist Republic of Sri Lanka

### EXTRAORDINARY

No.1719/23 - THURSDAY, AUGUST 18, 2011  
(Published by Authority)

#### PART 1: SECTION (1) – GENERAL Central Bank of Sri Lanka Notices

#### NOTICE UNDER THE EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE) Permission in terms of Section 5 and 7 of the Exchange Control Act

Permission is hereby granted to Sri Lankan Citizens who have proceeded outside Sri Lanka for educational purposes to borrow from banks, financial institutions, universities or educational institutions in foreign countries and to repay such loans by remitting funds from Sri Lanka through authorized dealers.

Colombo,  
18<sup>th</sup> August, 2011

P. H. O. CHANDRAWANSA,  
Controller of Exchange.

## The Gazette of the Democratic Socialist Republic of Sri Lanka

### EXTRAORDINARY

No 1719/24 - THURSDAY, AUGUST 18, 2011  
(Published by Authority)

#### PART 1: SECTION (1) – GENERAL Central Bank of Sri Lanka Notices

#### NOTICE UNDER THE EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE) Permission in terms of Sections 7 and 31 of the Exchange Control Act

### 1. Permission is hereby granted:

- (i) in terms of provisions of Section 7(a) of the Exchange Control Act to persons in Sri Lanka for making payments in Sri Lanka rupees to or for the credit of non resident Sri Lankans as consideration for the purchase of real estate properties in Sri Lanka owned by such non resident Sri Lankans, subject to the condition that all the payments should be credited to "Non-Resident Blocked Accounts" opened with authorized dealers in Sri Lanka, in the name of seller in accordance with the paragraph (ii) below;
- (ii) in terms of provisions of Section 31 of the Exchange Control Act for the authorized dealers to open Non-Resident Blocked Accounts in the name of non resident Sri Lankans who sell real estate properties in Sri Lanka owned by them. However, outward remittances from such blocked accounts should be subject to the stipulations in the directions issued by the Controller of Exchange from time to time.

Colombo,  
18<sup>th</sup> August, 2011

P. H. O. CHANDRAWANSA,  
Controller of Exchange.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No. 1733/19 - TUESDAY, NOVEMBER 22, 2011

**(Published by Authority)**

**PART 1: SECTION (1) – GENERAL**

**Central Bank of Sri Lanka Notices**

**NOTICE UNDER THE EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE)**

**Permission for issue and transfer of debentures of companies incorporated in Sri Lanka to foreign investors**

THE notice under the Exchange Control Act published in the *Government Gazette (Extraordinary)* No. 1681/11 of 22nd November 2010, is hereby amended as follows :

- i). by the repeal of condition 1.2 and substitution therefore the following,  
 “The period of redemption or conversion to ordinary shares, of the debentures issued under this Notice shall not be less than two years and such conversion should be subject to the exclusions and limitations stipulated in the *Government Gazette Notification* No. 1232/14 dated 19th April 2002”.
- ii). by the deletion of condition 1.4.
- iii). by the deletion of condition 2.3.
- iv). by renumbering conditions 2.4, 2.5 and 2.6 as conditions 2.3, 2.4 and 2.5 respectively, thereof.

P. H. O. CHANDRAWANSA,  
**Controller of Exchange.**

22<sup>nd</sup> day of November, 2011,  
 Colombo.

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

No. 1737/9 - TUESDAY, DECEMBER 20, 2011

**(Published by Authority)**

**PART 1: SECTION (1) – GENERAL**

**Central Bank of Sri Lanka Notices**

**NOTICE UNDER THE EXCHANGE CONTROL ACT (CHAPTER 423 OF THE CLE)**

**Permission in terms of sections 7, 10, 11, 15 and 30(5) of the Exchange Control Act**

THE notice under the Exchange Control Act published in the *Government Gazette (Extraordinary)* No. 1232/14 of 19th April 2002, as last amended by *Government Gazette (Extraordinary)* No. 1685/2 of 21st December, 2010 is further amended as follows :

- i). By the repeal of item (i) of paragraph 2 and substitution therefore the following,  
 “Money lending other than the business of providing of credits to investors to purchase securities of a listed company by a company registered as a margin provider in terms of Section 19(A) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1981 as amended”.

P. H. O. CHANDRAWANSA,  
**Controller of Exchange.**

Colombo 01,  
 20<sup>th</sup> day of December, 2011

**Ref: 37/04/001/0004/011****Circular – 01/11**

May 6, 2011

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

Dear Sir/Madam,

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

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

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

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

Your cooperation in this regard is highly appreciated.

Yours faithfully,

Sigd.  
Director

**Financial Intelligence Unit**

**Cc : Compliance Officer**

**Ref: 37/05/005/0015/011****Circular – 02/11**

May 20, 2011

To: CEOs of Registered Finance Companies,  
Dear Sir/Madam,

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

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

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

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

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

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

Yours faithfully,

Sigd.  
Director

**Financial Intelligence Unit**

**Cc : Compliance Officer**

**The Gazette of the Democratic Socialist Republic of Sri Lanka**

**EXTRAORDINARY**

1699/10 - MONDAY MARCH 28, 2011

**(Published by Authority)**

**PART 1: SECTION (1) – GENERAL**

**Central Bank of Sri Lanka Notices**

L.D-B 3/2006.

**FINANCIAL TRANSACTIONS REPORTING ACT, NO. 6 OF 2006**

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

Financial Intelligence Unit.

28th March, 2011,

Colombo.

**RULES**

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

**PART I**

**GENERAL**

**A. Natural Persons**

4. Every Financial Institution shall, obtain from natural persons, the following information :-
  - (a) full name and any other names used (such as maiden name) ;
  - (b) male/female ;
  - (c) permanent address (the full address should be obtained; a post office box number is not sufficient);
  - (d) telephone number, fax number, and e-mail address;
  - (e) date of birth ;
  - (f) place of birth ;
  - (g) nationality or citizenship(s) ; current / previous (add period) ;
  - (h) an official personal identification number or any other identification (e.g. passport, national identity card, driving licence) that bears a photograph of the customer;
  - (i) occupation, public position held and/or name of employer ;
  - (j) type of account.
5. Every Financial Institution shall verify the above information submitted to it, in any one of the following ways-
  - (a) confirming the date of birth from an official document (e.g. birth certificate, passport, national identity card);
  - (b) confirming the permanent address (e.g. utility bills, tax assessment, bank statement, a letter from a public authority, Certificate of a Grama Niladhari or electoral register);
  - (c) contacting the customer by telephone, by letter or by e-mail to confirm the information supplied after an account has been opened or conduct a field visit to verify the information given. If the confirmation of information reveals a disconnected phone, returned mail, or incorrect e-mail address, then the Financial Institution shall carry out further investigation;
  - (d) confirming the validity of the official documentation provided through certification by an authorized person.
 

Note : The instances mentioned above are some of the available methods to verify the information, but there may be other documents or information of an equivalent nature which may be produced as satisfactory evidence of customer's identity.
6. Every Financial Institution shall apply effective customer identification procedures in the case of both customers who are available for interview as well as to those customers who are not so available.
7. Every Financial Institution shall make an initial assessment of a customer's risk profile. Particular attention needs

to be focused on the customers identified as having a higher risk profile. In such cases additional inquiries shall be made or information shall be obtained, in respect of such customers, including the following:-

- (a) evidence of the customer's permanent address sought through independent verification by field visits;
- (b) personal reference (i.e. by an existing customer of the same institution) ;
- (c) prior bank reference regarding the customer and the customer contact with the Financial Institution;
- (d) the customer's source of wealth ;
- (e) verification of details relating to employment, public position previous/present, if any (where appropriate),  
supplied by the customer.

8. Every Financial Institution shall with regard to one-off or occasional transactions where the amount of the transaction or series of linked transactions does not exceed the amount prescribed under paragraph (a) of section 6 of the Act, obtain the minimum information specified in rule 4 of these rules.

#### **B. Partnerships**

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

#### **C. Institutions**

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

#### **C1. Corporate Entities**

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

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

14. Every Financial Institution shall, obtain the following information from corporate entities :-
  - (a) name of corporate entity ;
  - (b) the certified copy of the Certificate of Incorporation;
  - (c) the certified copy of Article of Association ;
  - (d) the resolution of the Board of Directors to open an account and identification of those who have authority to operate the account;
  - (e) nature and the purpose of the business of such corporate entity and its legitimacy;
  - (f) principal place of business operation/activity of the corporate entity ;
  - (g) details of previous areas or locations where the corporate entity carried out its business operation activities, with duration;
  - (h) the mailing address of the corporate entity ;
  - (i) the contact telephone and Facsimile numbers ;
  - (j) any official identification number, if available (e.g. company registration number, tax identification number).
15. Every Financial Institution shall verify the above information in any one of the following ways : -
  - (a) carrying out a review of the latest financial statements (audited, if available) of the corporate entity;
  - (b) conducting an enquiry through a business information service, or an undertaking from a reputable firm of lawyers or accountants confirming the documents submitted;
  - (c) undertaking a company search or other conducting enquiries as to the financial stability of the corporate entity, to verify to that the corporate entity has not been, or is not in the process of being, dissolved, struck off, wound up or terminated;

- (d) utilizing an independent information verification process, such as by accessing public and private databases;
  - (e) obtaining prior bank references ;
  - (f) visiting the corporate entity, where practical ;
  - (g) contacting the corporate entity by telephone, mail or e-mail.
16. Every Financial Institution shall also take reasonable steps to verify the identity and reputation of any agent that opens an account on behalf of a corporate customer, if that agent is not an officer of the corporate customer.

### **C2. Pension Programmes or Retirement Benefit Programmes**

17. In the case of pension programmes or retirement benefit programmes trustee and any other person who has control over the relationship (e.g. administrator, programme manager, and account signatories) shall be considered as the principal and the Financial Institution shall take steps to verify their identities. The provision contained in rule 4 to rule 8, shall mutatis mutandis, be followed in respect of such programme.

### **C3. Societies and Cooperatives**

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

### **C4. Charities, Clubs and Associations**

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

## **D. Trusts, nominee and fiduciary accounts**

21. Every Financial Institution shall establish whether the customer is taking the name of another customer, acting as a "front" or acting on behalf of another person as trustee, nominee or other intermediary. If so, the receipt of satisfactory evidence of the identity of any intermediaries and of the persons upon whose behalf they are acting, as well as details of the nature of the trust or other arrangements in place specifically, the identification of a trust shall include the trustees, settlers, grantors and beneficiaries, shall be an initial requirement.
22. Every Financial Institution shall take reasonable steps to verify the trustee, the settler of the trust (including any persons settling assets into the trust) any protector, beneficiary, and signatory. Beneficiaries shall be identified where they are defined.
23. In the case of a foundation, every Financial Institution shall verify the founder, the managers, directors and the beneficiaries.

## **E. Beneficial Owners**

24. Every Financial Institution shall be able to justify the reasonableness of the measures taken to identify the beneficial owners, having regard to the circumstances of each case. Every Financial Institution may also consider obtaining an undertaking or declaration from the customer, on the identity of, and the information relating to, the beneficial owner.

## **F. Professional Intermediaries**

25. Every Financial Institution shall identify every single client on behalf of whom a professional intermediary such as a lawyer, notary, other independent legal professional or accountant, opens a client account. Where funds held by the intermediary are not co-mingled but where there are "sub-accounts" which can be attributable to each beneficial owner, all beneficial owners of the account held by the intermediary shall be identified. Where the funds are co-mingled, the Financial Institution shall look through to the beneficial owners; however, there may be circumstances which should be set out in supervisory guidance where the Financial Institution may not need to look beyond the intermediary (e.g. When the intermediary is subject to the same due diligence standards in respect of its client base as the Financial Institution).
26. In the above circumstances where an account is opened for an investment company, unit trust or limited partnership and the same due diligence requirements are applicable to Financial Institution are applicable in respect of its client base, the following shall be considered as principals, and the Financial Institution shall take steps to identify:

- (a) the fund itself ;
  - (b) its directors or any controlling board where it is a company ;
  - (c) its trustee where it is a unit trust ;
  - (d) its managing (general) partner ;
  - (e) account signatories;
  - (f) any other person who has control over the relationship (e.g. fund administrator or manager).
27. Where other investment methods are involved, the same steps shall be taken as in rule 25 where it is appropriate to do so. In addition all reasonable steps shall be taken to verify the identity of the beneficial owners of the funds and the identity of those who have control of the funds.
28. Every Financial Institution shall treat intermediaries as individual customers of such Institution and shall verify separately the standing of the intermediary. The provision of rule 10 and rule 11 shall mutatis mutandis apply in this instance.

### G. Other Types of Institutions

29. For the categories of accounts referred to in the headings under B, C1 - C4, D, E and F of these Rules, the following information shall be obtained in addition to the requirements needed to verify the identity of the principal :-
- (a) name of account ;
  - (b) mailing address ;
  - (c) contact telephone and fax numbers ;
  - (d) any official identification number, if available  
(e.g. company registration number, tax identification number);
  - (e) description of the purpose/activities of the account holder  
(e.g. in a formal constitution);
  - (f) copy of documentation confirming the legal existence of the account holder  
(e.g. registration document of charity).
30. Every Financial Institution shall verify this information in any one of the following ways :-
- (a) obtaining an independent undertaking from a reputable firm of lawyers or accountants confirming the documents submitted;
  - (b) obtaining prior bank references ;
  - (c) accessing public and private databases or official sources.

### H. Introduced Business

31. No Financial Institutions shall rely on introducers who are subject to weaker standards than those governing the Financial Institutions' own KYC procedures or those who are unwilling to furnish copies of their own due diligence documentation.
32. Every Financial Institution that relies on an introducer shall always carefully assess whether the introducer is a fit and proper person who exercises the necessary due diligence in accordance with the standards set out in these Rules.  
5 G 14339
33. Every Financial Institution shall use the following criteria to determine whether an introducer can be relied upon:
- (a) complying with the minimum customer due diligence practices set out in these Rules;
  - (b) adapting the same customer due diligence procedures which a Financial Institution shall observe with respect to customer identification;
  - (c) satisfying itself as to the reliability of the system put in place by the introducer to verify the identity of the customer;
  - (d) reaching agreement with the introducer that it will be permitted to verify the due diligence undertaken by the introducer at any stage;
  - (e) all relevant identification data and other documentation pertaining to the customer's identity shall be immediately submitted by the introducer to a Financial Institution who shall carefully review the

- documentation provided. Such information shall be available for review by the supervisory authority and the Financial Intelligence Unit; and
- (f) conducting periodic reviews to ensure that an introducer whom/which it relies on, continues to conform to the criteria set out above.

## PART II REQUIREMENTS

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

### Opening of Accounts

- (1) Individual Accounts :
- (a) The following information shall be obtained :-
- (i) Full name as appearing in the identification document ;
  - (ii) Identification document to be specified as, national identity card, valid passport or valid driving licence;
  - (iii) Permanent address as appearing on the identification document. Any other address to be accepted should be supported by a utility bill not over three months old. Utility bills are to be specified as electricity bill, water bill and telecom or any fixed line operator's bill. No post-box number should be accepted. In the case of 'C/o', property owner's consent and other relevant address verification documents are required to be obtained;
  - (iv) Telephone number, facsimile number, and e-mail address ;
  - (v) Nationality ;
  - (vi) Occupation, business, public position held and the name of the employer;
  - (vii) Purpose for which the account is opened ;
  - (viii) Expected turnover/volume of business ;
  - (ix) The reason for choosing to open the account in a foreign jurisdiction in case of NRFC/NRRAs;
  - (x) Satisfactory reference ;
  - (xi) Verification of Signature.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Mandate/Account Opening form.
  - (ii) Copy of identification document.
  - (iii) Copy of address verification documents.
  - (iv) Copy of the valid visa/permit in the case of RNNFC/NRRA/RGFC accounts for non-nationals.
  - (v) Copy of the business registration if the account is opened for such purpose.
- (2) Proprietorship/Partnership Accounts :
- (a) The following information shall be obtained :-
- (i) Full name as appearing in the registration document.
  - (ii) Personal details of the proprietor/partners as in the case of individual accounts.
  - (iii) Registered address or the principle place of business and the permanent address of the proprietor/partners.
  - (iv) Contact telephone, fax numbers.
  - (v) Tax file number.
  - (vi) Satisfactory reference.
  - (vii) Signature.
  - (viii) The extent of the ownership controls.
  - (ix) Other connected business interests.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Mandate/Account opening form.
  - (ii) Copy of the business registration document.
  - (iii) Proprietors'/partners' information document.
  - (iv) Copy of identification and address verification documents.
- (3) Corporations/Limited Liability Company :
- (a) The following information shall be obtained : -

- (i) Registered name of the institution.
  - (ii) Principal place of institution's business operations.
  - (iii) Mailing address, if any.
  - (iv) Nature and purpose of business.
  - (v) Telephone/Fax/E-mail. (vi) Income Tax file number.
  - (vii) Bank references.
  - (viii) Personal details of all Directors as in the case of individual customers.
  - (ix) Major share holders and their financial interests and control.
  - (x) List of subsidiaries/associates and other business connections.
  - (xi) Signatures.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Mandate/Account Opening form.
  - (ii) Copy of the Certificate of Incorporation, Copy of the Form 40 or Form 1 and Articles of Association.
  - (iii) Board Resolution authorizing the opening of the account.
  - (iv) Copy of Form 18.
  - (v) Copy of Form 20.
  - (vi) Copy of Form 44 (applicable for offshore companies).
  - (vii) Copy of Form 45 (applicable for offshore companies).
  - (viii) Copy of the Board of Investment Agreement if a BOI approved company.
  - (ix) Copy of the Export Development Board (EDB) approved letter if EDB approved company.
  - (x) Copy of the certificate to commence business if a public quoted company.
  - (xi) Latest audited accounts if available.
- Note : The above documents should apply to a company registered abroad as well. The non-documentary methods in the absence of the above documents would entail a search at the Credit Information Bureau (CRIB), bank references, site visits and visiting the business website of the customer.
- (4) Clubs, Societies, Charities, Associations and NGO :
- (a) The following information shall be obtained : -
- (i) Name and address as appearing in Charter, Constitution etc.
  - (ii) Detailed information of at least two office bearers, signatories, administrators, members of the governing body or committee or any other person who has control and influence over the operations of the entity as in the case of individual accounts.
  - (iii) The purpose for which the account is opened, the objectives and the areas of activities.
  - (iv) The source and level of income/funding.
  - (v) Other connected institutions/associates/organizations.
  - (vi) Telephone/Facsimile numbers/e-mail address.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Copy of the registration document/constitution, charter etc.
  - (ii) Customer information form as in the case of individual accounts.
  - (iii) Mandate/Account Opening Form.
- (5) Trust, nominees, and fiduciary accounts :
- (a) The following information shall be obtained : -
- (i) Identification of all trustees, settlers/grantors and beneficiaries in case of trustees;
  - (ii) Whether the customer is acting as a 'front' or acting as a trustee, nominee, or other intermediary.
- (b) The following documents shall be obtained (each copy should be verified against the original)
- (i) Mandate/Account Opening Form.
  - (ii) Copy of the Trust Deed.
  - (iii) Particulars of all individuals.
- (6) Sole proprietorship :
- A copy of the business registration licence/permit (should be verified against the original).

### Maintenance of Accounts

1. No Financial Institution shall open an account unless and until adequate identity of the prospective customer is obtained. If there appears to be any discrepancy in the information furnished at a subsequent date the account shall be suspended until the veracity of such information is confirmed.
2. The general customer information to be recorded at the outset shall include details of the customer's business, profession, level of income, economic profile, business associates and other connections, source of funds, and the purpose for which the account is opened.
3. Every Financial Institution shall retain copies of all identification and address verification documents.
4. Where the permanent address given in the application is at a location far away from that of the branch which receives the account opening request, the request shall be discouraged or turned down and the prospective customer shall be requested to open the account at the closest branch to his residence or his business, unless an acceptable and a valid reason is given. Such exceptions shall be recorded in file. If a change of address is made after the opening of the account, the account shall be transferred to the nearest branch of that bank.
5. Where two or more accounts are opened in the same bank by a customer the Financial Institution shall record the specific purpose for which such accounts are opened, in order to enable continued due diligence of all accounts.
6. Every Financial Institution shall verify whether any prospective customer appears on any list of any known suspected terrorist list or alert, list issued by the relevant government authorities, such as the Controller of Immigration, Director General of Customs, the Governor of the Central Bank, Ministry of Foreign Affairs.
7. When instructions are received from customer to transfer funds from one account to another account numbers should be recorded internally to aid future reference.
8. When foreign currency accounts and temporary rupee accounts are opened for non-nationals/foreign passport holders who are resident in Sri Lanka, a local address shall be obtained as their permanent address during their stay in the Island. A copy of the passport, visa with validity period, foreign address and the purpose for which the account is opened shall be made available in the file. On the expiry of the visa, the account shall cease to operate unless and otherwise appropriate instructions are received. On leaving the Island the account shall either be closed or be converted into a non-resident account. Financial Institutions must ensure that a valid visa is held at all times by the clients during the continuation of the account with them.
9. Every Financial Institution shall, when rupee accounts are opened and maintained for non-residents (foreign passport holders), use a foreign address as a permanent address and for all correspondence. The reason for choosing to open the account in a foreign jurisdiction should be recorded.
10. All rupee accounts for resident non-nationals shall carry a Sri Lankan address. A foreign address shall be used temporarily until the account holder is resident abroad. Every Financial Institution shall update the address on the client's return, under the ongoing due diligence standards. In the case of joint accounts a foreign address may be used only when all parties are domiciled abroad. If any one party remains in the Island, the local address needs to be maintained.
11. Accounts for charitable and aid organizations, non governmental organisations and non profit organisations shall be opened only with the registration of the regulatory authority empowered to regulate charitable and aid organizations, non governmental organisations and non profit organisations for the time being and with other appropriate credentials. Due regard shall be paid to specific directions governing their operations i.e. issued by the Department of Bank Supervision and Department of Supervision of non-bank Financial Institute of the Central Bank and the Controller of Exchange.
12. Opening of accounts for 'politically exposed persons' (PEPs) shall be required to obtain the authorization of senior management.  
For the purpose of this paragraph politically exposed persons means "individuals in Sri Lanka or abroad who are, or have been, entrusted with prominent public functions" e.g. Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of State owned corporations, important political party officials. Business relationships with family members or close associates of such person involve reputational risks similar to those of such persons themselves. This is not intended to cover middle ranking or more junior officials in the forgoing categories.
13. All cash deposits made into savings and/or current accounts by third parties shall have on record, the identity of the depositor. The required details are, the name, address, identification number of a valid identification document, purpose and the signature. However, clerks, accountants and employees of business houses who are authorized to deal with the accounts do not come within the definition of 'third parties' .
14. When outward remittances/wire transfers are made out of Foreign Currency accounts, it shall be mandatory that a complete application be forwarded to the Financial Institution incorporating important and meaningful originator information such as name, address, account number, identification number together with a brief

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

### **Introduction of new technologies**

1. Every Financial Institution shall pay special attention to any money laundering threats that may arise from new or developing technologies, including internet banking, that might favour anonymity and where so required take measures, to prevent their use in money laundering schemes. Financial Institutions should be mindful of a variety of Electronic Cards that are used by customers for buying goods and services, drawing cash from ATMs and for the electronic transfer of funds. Pre-loading of credit cards in particular can be resorted to, inter-alia, for money laundering and terrorist financing purposes and should not be permitted, as to do so would tantamount to the abuse of credit cards.
2. Additional KYC and CDD on existing and new credit card merchant bases with a special focus on the nature of business of credit card merchants, shall be undertaken and appropriate measures taken in terms of the provisions of the FTRA against any customer, transaction or merchant involved in any unlawful activity. Payments made through the internet by credit card customers in particular warrant very close attention to ensure that payments are not made for unlawful activities.
3. Every Financial Institution shall ensure that appropriate KYC procedures are duly applied to the customers as well as to the agents where marketing of credit cards is done through agents.
4. When applications for opening of accounts are received by mail or e-mail due care shall be exercised to record the true identity of the client prior to opening the accounts or activating them. In any event Financial Institutions shall not deviate from the required identity procedures just because the prospective client is unable to present himself in person.
5. Every Financial Institution shall preserve Society for Worldwide Inter bank Financial Telecommunication (SWIFT) messages that accompany inward remittances for a period of six years.
6. Every Financial Institution shall when Financial Institution maintain accounts for money changers/money remitters they need to be aware that such clients are engaged exclusively in the money changing/money remitting business in compliance with the terms and conditions of the permit issued to them. Since money changers are covered by the provisions of the Act and the Prevention of Money Laundering Act, No.5 of 2005, it is the duty of the Financial Institutions to ensure that they fully comply with the requirements of law. Any unauthorized engagement in financial transactions should be brought to the notice of the Financial Institution's Compliance Officer, for appropriate action.

### **Alternative Remittance Systems (Hundi, Hawala etc.)**

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

### **Correspondent Banks and Shell Banks**

Prior to commencing banking relationships with 'correspondent Banks/ financial institutions', the Financial Institutions should gather sufficient information with regard to their management, major business activities, and their money laundering prevention and detection efforts. It is also the duty of the Financial Institutions to ensure that the purpose of the account is exclusively for correspondent banking activities and that the bank is effectively supervised by the relevant authorities for their due diligence and anti money laundering standards in that country. The Financial Institutions should refuse to enter into, or conduct business and provide services to, financial institutions that are located in jurisdictions that have poor KYC standards or have been identified as being 'non-co-operative' in the fight against money laundering and

terrorist financing. It is also imperative that the Financial Institutions ensure that their correspondent financial institutions do not undertake business with shell financial institutions. No accounts for 'shell' financial institutions should be opened without the prior approval of the Controller of Exchange, being obtained.

### Treasury Dealings

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

### Trade Finance/Letters of Credit and other contingencies

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

## PART III MISCELLANEOUS

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

07 January 2011

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

**Circular No.: RTGS/01/2011**

To: All participants of the LankaSettle System

### RESTRICTION OF BUSINESS HOURS OF THE LANKASETTLE SYSTEM ON JANUARY 14, 2011

The Central Bank of Sri Lanka, having considered the restricted business hours of participating institutions of the LankaSettle System on January 14, 2011, (a declared half-holiday in lieu of Tamil Thai Pongal Day falling on Saturday) has decided to restrict business hours of the LankaSettle System on January 14, 2011 from 8.00 a.m. to 3.00 p.m. Accordingly, the events after 12.00 noon of the Operating Schedule of the LankaSettle System for January 14, 2011 will be revised as follows:

Event	Revised Time
OMO-Repo (Auction) Settlement	12.45 p.m.
MLNS-Rupee Draft Clearing, Adjustment Clearing and Settlement Clearing	2.00 p.m.
Cut-off time for third party transactions	2.15 p.m.
MLNS-SLIPS (Session 2)	2.15 p.m.
OMO-Repo (Standing Facility) settlement	2.30 p.m.
ILF Reversal and Reverse Repo settlement	2.45 p.m.
Close for business	3.00 p.m.
System shut down	3.30 p.m.

S S Ratnayake  
Superintendent of Public Debt

Ranjani Weerasinghe  
Director, Payments and Settlements

### General Direction No. 01/2011

#### PAYMENT AND SETTLEMENT SYSTEMS ACT NO. 28 OF 2005

General direction given by the Monetary Board of the Central Bank of Sri Lanka under Section 44 of the Payment and Settlement Systems Act No. 28 of 2005.

P D J Fernando  
Deputy Governor  
Central Bank of Sri Lanka

Colombo  
27 January, 2011

#### GENERAL DIRECTION

This direction is issued in terms of section 44 of the Payment and Settlement Systems Act No. 28 of 2005, for the proper and efficient implementation, administration and enforcement of the provisions of the aforesaid Act. This direction may be cited as the General Direction on Sri Lanka Interbank Payment System No. 01 /2011 and shall apply to Lanka Clear (Pvt) Ltd. ( LCPL) and the participants of the Sri Lanka Interbank Payment System (SLIPS) and shall come into operation on 27 January 2011.

This direction is in addition to and not in derogation of any other written law, rules, regulations and terms and conditions to which LCPL and participants of SLIPS are subject to and/or may be subject to from time to time.

Without prejudice to the generality of the above paragraph, this direction shall not be construed to limit any obligation or responsibility imposed by the Payment and Settlement Systems Act No. 28 of 2005.

#### Introduction

SLIPS is an electronic system which processes payment orders to facilitate money transactions. SLIPS was introduced by the CBSL in 1993 as an off-line Interbank Payment System. In 2002, the CBSL divested the clearing operations of Cheques and SLIPS to LCPL. The objectives of the SLIPS are to establish a uniform and common electronic retail payment system and to promote payment system safety and efficiency while promoting cooperation among all SLIPS participants in the evolution of the country's retail payment systems. SLIPS was upgraded to an on-line Interbank Payment System by LCPL in September 2010 to facilitate settlement of transactions on the same business day.

#### A. Definitions

- 1 "Beneficiary" shall mean any legal or natural person named as the beneficiary of Monetary Value in a Payment Order and/ or such person's nominee, agent or representative.
- 2 "Business Day" shall mean any day of the calendar year on which the SLIP System shall operate, unless declared as a non-business day by LCPL in concurrence with Sri Lanka Banks' Association (Guarantee) Limited (SLBA) and the CBSL.
- 3 "Clearing Cycle" shall mean the time duration from one settlement time to the next immediate settlement time.

- 4 **"Customer"** shall mean any legal or natural person, who issues, directs or authorizes a Payment Order on his own behalf or on behalf of some third party and who, towards such end, authorizes the SLIPS Participant to debit an account or tenders Monetary Value to the extent of the value of the Payment Order.
- 5 **"CBSL"** shall mean the Central Bank of Sri Lanka as established under the Monetary Law Act (Chapter 422).
- 6 **"Digital Certificate"** shall mean the certification issued by LCPL, in the capacity of the certificate service provider to the financial sector, to each SLIPS Primary Participant and/or Secondary Participant for the purposes of maintaining the non-repudiation, authenticity, and integrity of the SLIPS Messages.
- 7 **"Electronic Information"** shall mean information generated, sent, received, or stored by electronic, magnetic, optical, or similar capacities regardless of the medium.
- 8 **"Electronically"** shall mean by means of either on-line telecommunications including over the internet or email, or the physical delivery of tapes, diskettes, or similar devices off-line.
- 9 **"Funds"** shall mean and include cash, deposits, monetary value, and any other credit available for withdrawal held in an account.
- 10 **"Licensed Commercial Bank" or "Bank"** shall mean a public company duly incorporated in Sri Lanka or abroad which has received a banking license from the Monetary Board of the CBSL with the approval of the Minister in charge of the subject of Finance, under Section 5 of Banking Act No. 30 of 1988 as may be amended.
- 11 **"LCPL"** shall mean LankaClear (Private) Limited incorporated under the Companies Act No.17 of 1982 and re-registered under Companies Act No.07 of 2007 and who shall be the lawful authority to operate the SLIP System in Sri Lanka.
- 12 **"Money Transmission"** shall mean issuing money value and/or receiving money or monetary value either from the Customer or Remitter or for a Beneficiary and includes the provisions of a facility for the withdrawal of money, for the transfer of monetary value between accounts or for the payment of monetary value to third parties. The term includes the taking part in any transaction or arrangement involved in carrying out the transmission from the Customer or Remitter to the Beneficiary even if neither the Customer, Remitter nor the Beneficiary is a party or direct Participant to such transaction or arrangement. Money Transmission under the SLIP System shall be within Sri Lanka, in domestic currency.
- 13 **"Monetary Value"** shall mean a medium of exchange, whether or not redeemable in money, including in the form of stored value, payment instrument or credit to an account.
- 14 **"Payment Order"** shall mean a writing issued or generated by a Customer directing or instructing a SLIPS Primary Participant or SLIPS Secondary Participant to effect and execute a payment of Monetary Value to a named Beneficiary through a named SLIPS Participant.
- 15 **"Net Remittances"** shall mean the net Monetary Value of all Payment Orders received and Payment Orders effected by a SLIPS Participant under the SLIP System such that the SLIPS Participant is either a net debtor or net creditor to another SLIPS Participant at the end of each Clearing Cycle.
- 16 **"Operational Procedure Manual"** shall mean the document containing the procedures laid down for the guidance of LCPL and SLIPS Participants as regards to operations of the SLIP System.
- 17 **"Remitter"** shall mean a SLIPS Participant who initiates and generates a SLIPS transaction authorizing the Receiver to effect a payment.
- 18 **"Receiver"** shall mean a SLIPS Participant who receives a SLIPS Transaction from a Remitter and who is authorized by the SLIPS Data contained therein to effect a payment.
- 19 **"RTGS System"** shall mean the Real Time Gross Settlement System, which is a fully automated systematically important payment system owned and operated by the CBSL. The RTGS System is a component of the LankaSettle System.
- 20 **"SLIPS"** shall mean "Sri Lanka Inter Bank Payment System" an electronic system, process or arrangement maintained and/or centrally controlled by LCPL for and on behalf of the CBSL and facilitating the communication and processing of Payment Orders and other messages, effecting, ordering, enabling, authorizing or facilitating money transactions, money withdrawals or transfers of monetary value, and shall include LCPL systems, processes and procedures for the electronic transfer and transmission of payment sought to be effected by a SLIPS Participant.
- 21 **"SLIPS Data"** shall mean unique identification codes and all other information derived from data generated by SLIPS, SLIPS Participants, and LCPL, including both outward data and inward data.
- 22 **"SLIPS File"** shall mean a SLIPS Data file generated by a SLIPS Participant containing its outward SLIPS Transactions and transmitted to LCPL through the SLIP System for clearing.
- 23 **"SLIPS Transaction"** shall mean the electronic transaction generated by a SLIPS Participant and / or the CBSL through the SLIP System to effect, communicate or execute a Payment Order.
- 24 **"SLIPS Record"** shall mean SLIPS related information that is inscribed on a tangible medium or that is stored in

an electronic or other medium and is retrievable in perceivable form.

- 25 **"SLIP System"** shall mean systems and processes operated and maintained by LCPL and SLIPS participants relating to SLIPS including without any limitation, systems for dispatching, receiving, processing and archival of SLIPS Data.
- 26 **"SLIPS Participant"** shall mean SLIPS Primary Participant and/or SLIPS Secondary Participant.
- 27 **"SLIPS Primary Participant"** shall mean the CBSL or any Licensed Commercial Bank operating in Sri Lanka and being a participant in the RTGS System with the CBSL and authorized by the CBSL and LCPL to participate in the SLIP System.
- 28 **"SLIPS Secondary Participant"** shall mean any legal entity authorized by a SLIPS Primary Participant to execute transactions on the SLIP System and to settle net balances through the RTGS account maintained by the said Primary Participant, and authorized by the CBSL & the LCPL to participate in the SLIP System.
- 29 **"Settlement Day"** shall mean a day on which Banks are open for business in Sri Lanka (as declared by the SLBA in concurrence with the CBSL) and a day on which multilateral net- settlement/s would take place through the RTGS System.
- 30 **"Settlement Time"** shall mean times specified from time to time by the CBSL, at which times the net settlement among the SLIPS Participants is determined by the RTGS System.
- 31 **"SLBA"** shall mean Sri Lanka Banks' Association (Guarantee) Limited.
- 32 **"Transaction Limits"** shall mean the maximum value assigned per transaction within the SLIP System as agreed upon by and among the CBSL, LCPL, and SLIPS Primary Participants.
- 33 **"User Agreement"** shall mean an agreement entered into by LCPL with each SLIPS Primary Participant and/or SLIPS Secondary Participant relating to the SLIP System.
- 34 **"User Password"** shall mean the secret code assigned to each SLIPS Primary Participant and/or Secondary Participant by LCPL to grant them access to the SLIP System.
- 35 **"Value Date"** shall mean the date stipulated by the Remitter or Customer in his Payment Order on which date the Beneficiary shall be entitled to receive the Monetary Value stated in the Payment Order.

#### **B. Responsibilities of LCPL and SLIPS Participants**

1. Each SLIPS Participant and LCPL shall enter into a User Agreement relating to participation in and operation of the SLIP System.
2. SLIPS Participants and LCPL shall adhere to the specifications set out by LCPL with the concurrence of the CBSL in respect of the SLIP System to ensure clarity and standards.
3. LCPL shall issue to each SLIPS Participant, Digital Certificates and User Passwords, which the SLIPS Participants shall treat with utmost secrecy.
4. SLIPS Participants and LCPL shall adhere to the arrangements between them in respect of electronic fund transfers, including those in the form of rules, procedures or such other arrangements prescribed by LCPL from time to time with the concurrence of the CBSL.
5. SLIPS Participants and LCPL shall agree to follow the stipulations and guidelines stated in the Operational Procedure Manual and its addenda and related notices, listed in the Schedules annexed to the Operational Procedure Manual.
6. LCPL and SLIPS Secondary Participants shall make arrangements to clear and settle Payment Orders of such participants only through SLIPS Primary Participants.

#### **C. Responsibilities of LCPL**

1. LCPL shall be the sole operator of the SLIP System.
2. LCPL shall be responsible for operating SLIPS daily on business days, at its registered office announced with the concurrence of the CBSL or at its Disaster Recovery Site (DRS), in the event of a critical operational failure at the primary site.
3. LCPL shall be responsible for installation, set-up, maintenance, operation, security and access control of the SLIPS and any other systems necessary to establish and maintain connectivity between the SLIPS and the SLIPS communication network.
4. LCPL shall operate the SLIP System, facilitating the clearing and settlement of transactions for SLIPS Participants according to the principle of multilateral clearing, by calculating net claims and liabilities on the basis of the Payment Orders submitted by SLIPS participants.
5. LCPL shall treat all sensitive or restricted information, including participants' payment information, technical and organizational information, as confidential, unless the participant consents to disclosure in writing, or unless the disclosure of data and information is required by any written law.
6. LCPL shall make available to the CBSL, the SLIPS multilateral settlement batch files setting out net clearing

position of each SLIPS Primary Participant on or before the Settlement Times of each Clearing Cycle set out by the CBSL and such other aggregated statistical information that the CBSL may require in respect of the operation of the SLIP System.

7. LCPL shall develop and issue the SLIP System Rules with the concurrence of the CBSL and an Operational Procedure Manual for the SLIP System. Such rules and operational procedures of SLIP System shall be laid down clearly and comprehensively. System Rules and Operational Procedure Manual issued by LCPL shall govern the operations and administration of the SLIP System and shall be binding between LCPL and SLIPS participants.
8. LCPL shall amend the System Rules with the concurrence of the CBSL and/or Operational Procedure Manual as and when necessary and inform such amendments to SLIP System participants by way of circulars.
9. LCPL shall ensure that all transactions transmitted through the SLIPS are:
  - i. Compliant with security measures to ensure secure and authenticated transmission; and
  - ii. Archived in accordance with the Financial Transactions Reporting Act No. 6 of 2006.
10. LCPL shall be responsible for observing and performing its duties, obligations and undertakings in respect of SLIPS operations in accordance with the standard of competence, skill and knowledge, and the standard of prudence, care and diligence.
11. LCPL shall establish and maintain a Help Desk at LCPL to assist SLIP System participants to address any service difficulties encountered. The Help Desk shall be available throughout the business day and contact details shall be given in the Operational Procedure Manual.
12. The Board of Directors of LCPL represented by all commercial banks and the CBSL, shall reserve the right to revise the fees from time to time.
13. A schedule containing penalties and fines in respect of non-conformity and breach of rules shall be determined by the Board of Directors of LCPL in consultation with the CBSL and shall be communicated to SLIPS participants from time to time.
14. LCPL shall conduct training, awareness and education programmes on SLIP System on continuous basis to SLIPS participants and the general public.

#### **D. Responsibilities of SLIPS Participants**

Every SLIPS Participant shall

1. not operate or participate in any national level inter-bank payment and clearing system which centrally clears retail payments, other than the retail payments and clearing systems operated by the LCPL.
2. be responsible for procuring their own hardware, software, and network infrastructure.
3. ensure that the hardware and software procured is available to receive and execute transactions under the SLIP System with provisions to future enhancements and take all necessary steps to maintain such hardware and software in good working order.
4. be responsible for the compliance of file format and defined transaction flows, and for the correct and accurate submission and finalization of the Payment Orders of Customers and SLIPS Participants in a timely manner, and for the authenticity of all Payment Orders.
5. be responsible to safeguard the SLIP System and conform to and observe all security features and instructions issued by LCPL to SLIPS Participants and ensure that any act/s or omission/s do not threaten or cause prejudice to the security of the overall SLIP System or to the security of the system of any other SLIPS Participant.
6. ensure that unauthorized access (hacking, traffic generating, sniffing etc.) and other activities that effect change/damage and corrupt the SLIP System are prevented.
7. inform the CBSL and LCPL of any change in its legal status and capacity to participate in the SLIP System.
8. ensure that adequate funds are available in their RTGS settlement accounts to settle SLIPS multilateral net settlement batch in the RTGS System at the end of each Settlement Cycle.
9. set up a procedure and/or mechanism to acknowledge the completion or non-completion of a Money Transmission through the SLIP System to the Customer.
10. adhere to technical, legal, administrative, security and other requirements specified by LCPL from time to time in respect of the SLIP System.
11. ensure crediting of the account of the Beneficiary or tendering Monetary Value to the Beneficiary, to the extent of the value of the Payment Order, on the receipt of relevant SLIPS Data from LCPL, on Value Date of the Payment Order.
12. set up service norms and standards and maintain infrastructure to provide facilities stated in 11 above.

13. be responsible for making regular backups of databases and all its information and data relating to SLIP System.
14. reconcile the daily transaction reports and inform the LCPL Help Desk in writing of any discrepancies not later than one Business Day from the time of the original transaction.
15. comply with applicable laws, instructions and procedures specified by LCPL or any other direction issued by the CBSL in relation to the operations of the SLIP System.
16. notify the Financial Intelligence Unit (FIU) of the CBSL if there is any unusual increase in the number and value of Payment Orders received for execution through the SLIP System from a particular customer, in terms of the Financial Transactions Reporting Act No.6 of 2006 and act according to the instructions of FIU.

#### **E. Business Continuity Planning**

1. LCPL and SLIPS participants shall have well defined business continuity plans for SLIP System operations endorsed by the respective Board of Directors to ensure a very high level of system availability which is required for a system-wide important payment system.
2. LCPL and SLIPS participants shall have fully equipped disaster recovery sites and well trained disaster management and business recovery teams for SLIP System to resume business operations immediately after a disruption, to continue and complete the ongoing SLIPS operations.
3. LCPL shall have a skilled and trained backup staff in respect of core functionalities of the SLIPS to be deployed in contingency situations, including labour disputes in order to ensure carrying out SLIPS operations without any interruption.
4. If LCPL experiences any technical or operational problem that prevents from performing its functions in the SLIPS, such problem shall be conveyed to the CBSL within 15 minutes of becoming aware of the problem. In the event of an unrecoverable failure at the primary site, LCPL shall immediately inform the CBSL and commence SLIPS operations at DRS and submit the SLIPS multilateral net settlement batch file to the CBSL. In the event of a prolonged unrecoverable failure at both primary site and DRS, LCPL shall inform the CBSL immediately and shall use alternative methods to derive the SLIPS multilateral net settlement for the time period from the last statement cycle to the time of the failure of the system and shall make available the same to the CBSL.
5. SLIPS participants shall be responsible for making regular backups of its databases and all its information and data relating to SLIPS and for establishing and maintaining data redundancy and recovery procedures in the event of system failure or data corruption or loss, in order to meet cut-off times.

#### **F. Confidentiality of the SLIPS data and records**

1. SLIPS participants shall maintain confidentiality in respect of all SLIPS records, including information relating to transactions, accounts and any instructions issued to SLIPS participants and shall ensure that its officers, employees, agents and/or any person employed in any capacity, at all times maintain confidentiality in accordance with this direction and applicable laws.
2. LCPL and all SLIPS participants shall subject themselves jointly and severally to the control, supervision, regulation and oversight of the CBSL in the exercise of any or all its functions and powers from time to time vested by law or otherwise, on the operations of SLIPS and shall comply with all orders and directions of the CBSL thereto.
3. In furtherance of and without prejudice to the foregoing, the CBSL may from time to time and at any time require LCPL and SLIPS participants to provide such information in respect of SLIP System, and LCPL and SLIPS participants shall be bound to provide such information to the CBSL.
4. All reports and information from LCPL and SLIPS participants to the CBSL in respect of SLIPS pursuant to the provisions of this direction shall be deemed to be accurate and complete.

#### **G. Dispute Resolution**

1. LCPL and SLIPS participants shall make every endeavor to resolve any dispute arising between the LCPL and the SLIPS participants and/or between SLIPS participants in relation to operations of the SLIPS, through mutual discussions, negotiations or mediation.
2. Dispute resolution by way of arbitration or litigation before a Court of Law shall be resort to only if such mutual discussions, negotiations or mediation have failed to resolve the dispute in question.
3. The procedure for such mutual discussions, negotiations or mediation and arbitration shall be laid down clearly and comprehensively in the SLIP System Rules.

#### **H. Offences**

Any person who fails to comply with this direction or any directive, instruction or rule made hereunder shall be guilty of an offence under the Payment and Settlement Systems Act No. 28 of 2005.

## **MOBILE PAYMENTS GUIDELINES NO. 1 OF 2011 FOR THE BANK-LED MOBILE PAYMENT SERVICES**

### **1. Introduction**

- 1.1 The Central Bank of Sri Lanka (CBSL) has taken-up the position to encourage electronic payments among the consumers of financial services considering the efficiency, relatively lower cost, safety and the possibility to use in a wider range of transaction situations. Mobile phone based payment applications are explored by the financial industry, as an option to provide electronic payment services in Sri Lanka, due to the rapid growth in the number of mobile phone subscribers. In fact, few banks have already commenced providing the banking services to their customers through mobile phones. Owing to the precautions that need to be taken particularly on the security of such financial transactions, the CBSL have issued this set of guidelines to be adopted by licensed commercial banks.
- 1.2 Under the Payment and Settlement Systems Act No. 28 of 2005 (PSSA), the CBSL is empowered to formulate, adopt and monitor the implementation of a payment system policy for Sri Lanka, to facilitate the overall stability of the financial system, promote payment system safety, efficiency and control risk. Considering the necessity of improving the electronic payment mechanisms in the country, to protect the customers as well as service providers, and being guided by the international standards and best practices, Service Providers of Payment Cards Regulations No.1 of 2009 (hereinafter referred to as "Regulations") were issued on 31 July 2009. The objective of issuing these guidelines is to promote safety and effectiveness of mobile payment services and thereby enhance user confidence of such services. These guidelines will outline broad principles and standards to be followed by banking institutions providing mobile payment services and will come in to force with immediate effect.

### **2. Regulatory and Supervisory Provisions**

- 2.1 Banks offering mobile payment services are responsible to ensure compliance to these guidelines. Banks may operate Customer Account based Mobile Payment Systems, through which services can be offered only to their account holders. Under the Customer Account Based System, three types of mobile payment service facilities may be offered, namely;
  - i. The basic type;  
Facility to obtain information on account balance, record of previous transactions, payment orders, which do not relate to fund transfers.
  - ii. The standard type;  
Facility to make fund transfers and stop payments, in addition to the basic type services. Fund transfers may include utility bill payments, own account fund transfers and third-party fund transfers, on the basis of instructions transmitted through the mobile phones.
  - iii. The extended type – operated through agents;  
In addition to the basic and standard type services, facility to deposit/withdraw cash through agents appointed by the respective banks.  
No person other than a Licensed Commercial Bank (LCB) licensed under the Regulations to function as a service provider of payment cards, shall offer customer account based mobile payment services. However, banks that provide only basic type services of mobile payments are exempted from obtaining a licence under the Regulations provided that such banks adhere to the relevant provisions in the Banking Act No. 30 of 1988 and any other legal provisions in operation in this regard.
- 2.2 Mobile payment services shall be in Sri Lanka Rupees and used only for domestic transactions.
- 2.3 Mobile payment services shall be provided only for Residents of Sri Lanka who are above 18 years of age.
- 2.4 Banks shall ensure that they adhere to all applicable laws and regulations, including but not limited to Payment and Settlement Systems Act No. 28 of 2005, Financial Transactions Reporting Act No. 6 of 2006, Electronic Transactions Act No. 19 of 2006 and Exchange Control Act No. 24 of 1953, in offering mobile payment services, introducing new technologies and upgrading software/ hardware systems.
- 2.5 Guidelines on 'Know Your Customer' (KYC) and 'Customer Due Diligence' (CDD) as part of an effective Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) shall be applicable for customers opting for mobile phone based banking services and the banks shall restrict provisioning of mobile payment services to customer accounts which are complied thereon.
- 2.6 Banks may use the services of agents for providing extended type mobile payment services and shall adhere to all applicable laws and regulations on appointing and obtaining the services of such agents.

### **3. Registration of Customers for Mobile Payment Services**

- 3.1 Banks shall only offer mobile payment services to their own customers.

- 3.2 Banks shall have a proper system for registration of customers before providing mobile phone based payment services.
- 3.3 Customer registration shall be carried out through signed documents.

#### **4. Technology and Information Security Standards**

- 4.1 The technology used for supplying payment service facilities must be safe and secure and shall ensure confidentiality, integrity, authenticity and non-repudiation of the payment related information.
- 4.2 Banks shall update and implement the information security policy to adequately address the security requirements of the mobile phone based delivery channels.
- 4.3 An illustrative but not exhaustive framework is given in Annex 1.

#### **5. Inter-operability**

- 5.1 When a bank offers mobile payment services, it may be ensured that customers having mobile phones of any network operator will be in a position to request for the service.
- 5.2 The long term goal of the CBSL with regard to mobile phone based payments is to ensure ability to effect fund transfers from anywhere and at any time from an account in one bank to another account in the same or a different bank on a real time basis irrespective of the mobile network that is being used by the customer. Therefore, banks shall note this objective while developing solutions or entering into agreements with mobile payment solution providers.

#### **6. Clearing and Settlement for Inter-bank Fund Transfers**

- 6.1 For inter-bank fund transfers, banks can either have bilateral or multilateral arrangements.

#### **7. Customer Protection**

- 7.1 Banks shall provide the terms and conditions applicable for the utilization of mobile payment services in an appropriate manner in websites, brochures and registration forms. These terms and conditions should be unambiguous and available in any of the three languages (Sinhala, Tamil or English) as preferred by the customer and shall consist of following, inter alia;
  - a. Authorized types of payments;
  - b. Rights and responsibilities of banks, account holders and agents with regard to mobile payment services;
  - c. All applicable fees and charges;
  - d. Benefits, incentives and rewards of mobile payment services;
  - e. Provisions for dispute resolution;
  - f. Procedure for reporting lost or stolen mobile phones;
  - g. Procedure for stop payments;
  - h. Customer service contact numbers.
- 7.2 Banks shall ensure that terms and conditions on mobile payment operations shall not vary, amend or modify in any manner except by a prior written notice to the customers in any of the three languages (Sinhala, Tamil or English) as preferred by the customer, through appropriate communication media.
- 7.3 Banks shall maintain the confidentiality of customer information and shall be responsible to ensure that their service providers will also treat customer information as confidential. Banks shall institute appropriate and adequate risk control measures to manage the risk of liability to the customers on account of breach of secrecy, for which the banks may be exposed due to the high level of information security risk associated with mobile payments.
- 7.4 Banks shall enter into commercial contracts with service providers, in addition to the agreements with account holders who subscribe for mobile payment services. The rights and obligations of each party shall be made clear through these contracts and shall be valid and enforceable in a court of law.
- 7.5 Banks shall adhere to the laws and regulations applicable to the security procedure adopted to authenticate users as a substitute for signature, when providing mobile payment services to account holders.

#### **8. Customer Education, Grievance and Redress Mechanism**

- 8.1 Banks shall educate customers on applying security features and capabilities and the importance of protecting their personal information.
- 8.2 An appropriate dispute resolution mechanism shall be developed by banks for handling of disputed payments, transactions and loss of mobile phones. Banks shall establish a call centre to respond to customer inquiries and complaints. Each complaint received shall be provided with a reference number and shall be resolved within 3 business days.

- 8.3 Banks shall be responsible to address the customer grievance in an event where a customer files a complaint on a disputed transaction. Chargeback procedures for addressing such customer grievances may be formulated by banks.

## 9. General Rules and Conditions

- 9.1 Banks which intend to operate mobile payment systems shall obtain the approval of their respective Boards before offering services to customers. The Board approval shall document the extent of operational and fraud risk assumed by the bank and the bank's processes and policies designed to mitigate such risks. Banks which have already started offering mobile payment services shall review the position and comply to these guidelines within a period of five months from the issuance of the same.
- 9.2 Banks which provide extended type mobile payment services shall ensure that a consistent notice is displayed in every service outlet, with the logo representing the bank and the mobile service provider and indicating regulatory powers delegated to the agent and operational instructions for the customers.
- 9.3 Banks which provide extended type mobile payment services shall ensure that appointed agents only provide services of taking deposits and permitting withdrawals, only for the customers of the bank. Banks shall not permit agents to provide any other banking service without obtaining prior approval of the CBSL. Banks shall also specify transaction limits and day limits for agents with the prior approval of the CBSL.
- 9.4 Banks which provide extended type mobile payment services shall ensure that deposits and withdrawals made by customers at appointed agents are accounted on real time basis.
- 9.5 Banks shall monitor and supervise the appointed agents to ensure that they will not engage in any unauthorized activities.
- 9.6 Banks shall use their best endeavours to use methods consistent with industry best practices to authenticate user identity.
- 9.7 Banks shall provide controls that allow customers the ability to receive payment alerts and notices in accordance with their preference.
- 9.8 Banks shall implement a robust security risk management framework to actively identify, assess, reduce and monitor security risk. The security system shall ensure;
- Confidentiality of the sensitive information. All confidential information shall be maintained in a secured manner and protected from unauthorized viewing or modification during transmission and storage;
  - Accuracy, reliability and completeness of information processed, stored or transmitted;
  - Proper authentication of users and agents;
  - Proper authorization of functions performed by users and agents.
- 9.9 In providing mobile payment services, banks shall take all necessary steps to address, mitigate or eliminate agent-related risks i.e. credit risks, operational risks, legal risks, liquidity risks, reputational risks and risks relating to the safety of funds collected from customers.
- 9.10 Banks shall maintain a standard business continuity and disaster recovery procedure. In the event of any disaster or operational failure, the disaster recovery site shall be capable to take over the operations without causing any inconvenience to customers. The business continuity plan and disaster recovery site shall be tested and reviewed periodically.

## 10. Interpretation

In these guidelines unless the context otherwise requires:

- "Agents" shall mean the institutions/persons appointed by banks to carry out mobile payment services;
- "Customers" shall mean account holders;
- "Licensed Commercial Bank" shall mean licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988;
- "Licensed Service Provider" shall mean a mobile payment service provider licensed under the Service Providers of Payment Cards Regulations No.1 of 2009;
- "Mobile payments" mean information exchange between a bank and its customers for financial transactions through the use of mobile phones;
- "Service Providers" shall mean mobile payment solution providers and relevant mobile network operators.

**Signed by:** P D J Fernando  
Deputy Governor  
09 March, 2011

## TECHNOLOGY GUIDELINES FOR SERVICE PROVIDERS OF MOBILE PHONE BASED PAYMENT SERVICES

### 1. Technology Constraints, Security Issues, Principles and Practices

Mobile users/customers could face security issues and poor quality services while making mobile payments due to certain technological constraints and characteristics of wireless technologies, which should be minimized to avoid any negative impact on customers and the financial system. Therefore, banks must ensure to implement adequate security measures and install reliable systems that address risks, threats and ensure a very high quality of service, regardless of the underlying network and carrier infrastructure used for service delivery.

Given the dynamic nature and magnitude of security threats in the wireless environment, it is mandatory for banks to perform periodic independent security vulnerability assessments and reviews of their systems before launching new products/services. Subsequent updates and reviews should also be carried out regularly to ensure adequate mitigation against operational risks. To facilitate such reviews, security architecture information need to be documented and updated regularly.

Banks shall evaluate service delivery channels in terms of security and risks involved and offer appropriate services, mitigating risks involved.

#### 1.1 Authentication and Non-repudiation.

The following guidelines with respect to authentication and ensuring of non-repudiation should be adhered to:

- a. When customers are required to provide their passwords or PINs for banking services, these should be encrypted immediately at the point of entry. No sensitive data should be allowed to be displayed as clear text on the mobile screen.
- b. Authentication methods based on more than one factor should be implemented to validate the transactions, where appropriate.
- c. Ensure that encrypted and authenticated sessions remain intact throughout the duration of communications with the customers.
- d. Authentication processes should be repeated after session failures and subsequent resumptions.
- e. Details of all transactions, including those that are incomplete or aborted, should be logged and such logs should be reviewed daily for abnormality or aberrations that might constitute security breaches.

#### 1.2 PIN Security

A high level of security is required when bank accounts are directly accessed through mobile channel, to prevent misuse and eliminate fraud by unauthorized users. The banks shall issue a new mobile pin (mPIN) to facilitate the mobile payments and such PINs may be issued and authenticated by the bank. Banks and the various service providers involved in mobile payments should comply with the industry accepted security principles and practices with respect to issuance and usage of the mPIN.

In the case of non-mobile network operator based mobile proximity/contactless payments, a second factor authentication shall be used along with mPIN. It is suggested that either card number or OTP (one time passwords) be used as the second factor authentication rather than the mobile phone number.

#### 1.3 Cryptographic Key Management

Proper key management is vital for the effective use of cryptography and digital certificates. Banks must establish adequate control measures and procedures to enable crypto keys to be created, stored, distributed, replaced, revoked or destroyed, securely. Periodic audits and compliance reviews should be carried out to maintain a high degree of confidence in relevant security procedures.

#### 1.4 Network and System Security

The following guidelines with respect to network communications and system security should be adhered to:

- a. Use strong encryption standards for protecting sensitive and confidential information of the bank and customers while in transit.
- b. Establish proper information protection systems and incident response procedures.
- c. Conduct periodic risk management analysis and security vulnerability assessment of the related systems and networks.
- d. Maintain proper and regularly updated documentation of security practices, guidelines, methods and procedures used in mobile payments and payment systems based on the risk management analysis and vulnerability assessment carried out.
- e. Implement appropriate physical security measures to protect the system gateways, network equipment, servers, host computers, and other hardware/software used from unauthorized access and tampering.

The data centre of the bank and service providers should have proper wired and wireless data network protection mechanisms.

#### 1.5 Transaction Logs

Mobile banking and payment systems should maintain detailed transaction logs to enable processing audit trails to be reconstructed in the event of any disputes or errors. The retention period of logs should be six years in duration. Banks shall ensure that such information is protected from any loss or damage. Security safeguards should also be implemented to protect the information from unauthorized modification or destruction.

#### 1.6 Data Confidentiality and Integrity

The following guidelines with respect to data confidentiality and integrity should be adhered to:

- a. End-to-end application layer encryption of sensitive customer details and authentication data such as PINs should be implemented to ensure keeping intact such data from the data-entry device right through to the host end.
- b. Software for wireless applications should implement adequate measures to avoid duplicate transactions resulting from intra-session delays or session failures when customers move from areas with good wireless service coverage to those where coverage is poor.
- c. Banks and service providers should install adequate security measures, firewalls, intrusion detection/prevention systems, surveillance control procedures to ensure capability for immediate recovery. They should also implement integrity checks on systems, files and code, to ensure the reliability of systems. All changes to such systems should be properly authorized.

#### 1.7 System Availability and Recoverability

Banks shall ensure that proper recovery and back-up plans are in place to minimize disruption to services due to system failures. Such plans shall cater for single points of failure to ensure speedy recoverability and an acceptable level of high system availability. Mobile traffic and system capacity should be closely monitored to ensure that any service degradation due to capacity problems are addressed in a timely manner.

## 2. Other Related Guidelines

Banks should also be mindful of the following:

### 2.1 Security Related Practices

- a. The opening up of banking systems to service providers to facilitate mobile payment services may place knowledge of bank systems and customers in a public domain. Therefore, it is imperative that sensitive customer data, and security and integrity of transactions are protected.
- b. The mobile payment servers at the bank's end or at the service provider's end, if any, should be certified appropriately in compliance with each bank's security guidelines. In addition, banks should conduct regular information security audits on all systems used for mobile payments to ensure full compliance with such security guidelines.
- c. It is recommended that for channels which do not contain the phone number as an identity, a separate log-in ID and password be provided which is different from the internet banking ID. Banks are required to implement appropriate risk mitigation measures such as transaction limits (per transaction, daily, weekly, monthly), transaction velocity limits, fraud checks, AML checks etc., depending on the bank's own risk perception, unless otherwise mandated by the CBSL.

### 2.2 Minimizing Financial Losses from a Lost/Stolen Phone

- a. Strengthen security measures to prevent criminal activity while using Near Field Communication (NFC) based mobile payment systems. Action to prevent criminals abusing new mobile phone technology, which allows the mobile to be used like debit/ credit and pre-paid stored value cards, must be agreed by all stakeholders.
- b. Request a PIN verification for transactions over a specified value - any transaction above the maximum contactless payment value defined by the CBSL will require additional security measures/verification, such as a PIN code. This shall also be applicable if more than a certain number of low-value transactions are carried out consecutively in quick succession.
- c. Ensure that contactless payment functions, SIM cards and phone will be disabled immediately, once a mobile phone equipped with payment technology is reported lost or stolen. Any installed financial applications should also be disabled.

### 2.3 Customer Education

- a. Ensure that the PIN request is activated in customers' mobile phone. The PIN code should also be changed immediately after a new mobile phone is purchased.
- b. Customers should be educated on how to maintain PIN safety and not reveal their PINs to another party.
- c. On some mobile phone units, PINs entered may be recalled through redial menus. Instructions should

- be given to customers to erase PINs immediately from the phone memory to prevent PIN discovery by accessing previously dialed numbers.
- d. Customers should be advised not to use the same PIN for different delivery channels or systems as they have different security levels and implications depending on the security risks attached to each of them.
  - e. Ensure that customers refrain from saving any confidential information such as passwords, credit card, bank card PINs etc. in mobile phones. Customers shall also be advised to delete such information when the phone is sold or given away.
  - f. Advise customer to keep the mobile phone's IMEI code in a separate place in case the mobile phone gets lost. Customers can prevent making of unauthorized payments using their lost/stolen mobile phone, by reporting the phone's IMEI code to the mobile network operator.
  - g. Banks shall provide clear configuration instructions if their customers are required to manually configure their own mobile phones to access mobile banking and payment services.
  - h. Advise customers to take extra precautions when using mobile banking and payment services.
  - i. Customers should be educated to enable them to safely check the authenticity of the established connection, before making any payment.
  - j. Provide advice to customers on dispute handling, reporting procedures and the expected time for resolution.
  - k. Avoid use of complex, legal and technical jargon in communications with customers.

## **MOBILE PAYMENTS GUIDELINES NO. 2 OF 2011 FOR CUSTODIAN ACCOUNT BASED MOBILE PAYMENT SERVICES**

### **1. Introduction**

- 1.1 The Central Bank of Sri Lanka (CBSL), with a view of facilitating the development of emerging electronic payment mechanisms whilst promoting safety, efficiency and reliability of such mechanisms, has been engaged in providing guidance through building up a regulatory framework for innovative payment systems. Accordingly, in the context of the financial industry exploring and introducing mobile phone based payment applications, CBSL, as the initial step of regularizing the mobile phone based payment systems, issued Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services to be complied by banks operating mobile payment systems. As a further measure to broaden the regulatory framework relating to mobile phone based payments and provide guidance to service providers operating custodian account based mobile payment systems, these guidelines are issued by the CBSL to be adhered to, by such service providers.
- 1.2 Under the Payment and Settlement Systems Act No. 28 of 2005 (PSSA), the CBSL is empowered to formulate, adopt and monitor the implementation of a payment system policy for Sri Lanka, to facilitate the overall stability of the financial system, promote payment system safety, efficiency and control risk. In order to protect the interests of the customers and service providers involved in electronic payment mechanisms and being guided by the international best practices, Service Providers of Payment Cards Regulations No.1 of 2009 (hereinafter referred to as "Regulations") were issued on 31 July 2009. In accordance with the regulation 21 of the said Regulations, these guidelines are issued to outline broad principles and standards for service providers offering custodian account based mobile payment services and will come in to force with immediate effect.
- 1.3 Custodian account based mobile payment services shall be operated only by service providers licensed under the Regulations to function as service providers of payment cards. Under the custodian account based system, licensed service providers may issue e-money by accepting physical money from customers/merchants. On the other hand, licensed service providers operating custodian account based mobile payment systems may convert e-money into physical money for e-money holders (cash-outs) on their request, directly or through appointed merchants. Based on the transactions made by customers and merchants, it is mandatory that the e-money accounts are updated on real time basis. Licensed service providers operating custodian account based mobile payment systems shall operate a custodian account/s with Licensed Commercial Bank (LCB)/s and shall maintain the cumulative sum collected from all e-money account holders in the custodian account/s at all times.

### **2. Regulatory and Supervisory Provisions**

- 2.1 Licensed service providers operating custodian account based mobile payment systems are responsible to ensure compliance to these guidelines.
- 2.2 Mobile payment services shall be in Sri Lanka Rupees and used only for domestic transactions.
- 2.3 Mobile payment services shall be provided only for residents of Sri Lanka who are above 18 years of age.
- 2.4 Licensed service providers shall ensure that they adhere to all applicable laws and regulations, including but not limited to, Payment and Settlement Systems Act No. 28 of 2005, Financial Transactions Reporting Act No.

6 of 2006, Electronic Transactions Act No. 19 of 2006 and Exchange Control Act No. 24 of 1953, in offering mobile payment services, introducing new technologies and upgrading software/ hardware systems.

- 2.5 Licensed service providers shall adhere to guidelines on 'Know Your Customer' (KYC) and 'Customer Due Diligence' (CDD) as part of effective Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT). Licensed service providers shall restrict provisioning of e-money services only to customers who comply with KYC and CDD requirements.

### 3. Registration of Customers for E-money Services

- 3.1 Licensed service providers shall have a formal system for registration of customers before providing e-money services and registration of customers shall be carried out through signed documents.
- 3.2 Licensed service providers shall have a one time registration procedure. However, in an event where the customer requests to change his/her mobile number or registered name, producing supportive documents, re-registration should be carried out, terminating the existing registration. If the customer requests for any other data modification with supportive documents, as and where applicable, details of the existing customer account shall be updated.
- 3.3 Licensed service providers shall enter into agreements with each customer in duplicate, in any of the three languages (Sinhala, Tamil or English) as preferred by the customer, at the time of registration. A copy of the agreement has to be provided to the customer and such agreement shall be protected by service providers at all times.

### 4. Technology and Information Security Standards

- 4.1 The technology used for supplying payment service facilities must be safe and secure and shall ensure confidentiality, integrity, authenticity and non-repudiation of the payment related information.
- 4.2 Licensed service providers shall update and implement the information security policy to adequately address the security requirements of the mobile phone based delivery channels.
- 4.3 An illustrative but not exhaustive technology framework is given in Annex 1.

### 5. Operations of the Custodian Account Based System

- 5.1 Licensed service providers operating custodian account based mobile payment systems shall ensure that customers are notified, on real time basis, of top-ups made to e-money accounts, cash-outs made from e-money accounts and any other transaction which increases/decreases the value of e-money stored in their accounts.
- 5.2 Licensed service provider shall open and maintain separate e-money accounts for each customer and a statement of the e-money account shall be made available to the customer electronically or in print form periodically or upon request.
- 5.3 The licensed service provider shall not:-
- grant any form of credit to e-money holder;
  - pay interest or profit on the e-money account balances that would add to the monetary value of e-money;
  - issue e-money at a discount, i.e. provide e-money that has a monetary value greater than the sum received; and
  - any other facility that exceeds the monetary value of the deposit made by the e-money holder.
- 5.4 Individual stored value limits, transaction limits, Merchant's limits and day limits shall be decided with the approval of the CBSL. Any subsequent amendments to such limits shall also be made only with the approval of the CBSL.
- 5.5 If an e-money holder requires to close his/her e-money account, the licensed service provider shall inform the e-money holder to make a request in writing to redeem the remaining amount of e-money available in his/her e-money account. In such events, redemption shall be made no later than three business days from the date the claim is made, without any additional cost other than what is necessary to complete the transaction. The e-money holder shall be notified with written confirmation by the licensed service provider, after the completion of the process of closing the e-money account.
- 5.6 In the case of a mobile network operator being licensed under the Regulations as a licensed service provider to operate a custodian account based mobile payment system, such licensed service provider shall ensure that the mobile accounts and e-money accounts of customers are maintained separately. The monetary value of the air time stored in the mobile account is not permitted to be transferred to the e-money account. However, the customer may purchase air time using the balance in the e-money account.
- 5.7 The licensed service provider operating custodian account based system shall be responsible for the following:

- a. Strictly adhere to the KYC and CDD procedures in registering customers and maintaining customer accounts;
- b. Monitor and supervise the activities of e-money holders and merchants to ensure that they only engage in permitted services;
- c. Submit periodic reports and provide access to the e-money system, as and when requested by the custodian bank, in order to monitor balances and activities of e-money holders;
- d. Report to the custodian bank of any suspicious transactions as per the regulations issued by the Financial Intelligence Unit (FIU) established in terms of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA);
- e. Comply to any direction issued by the CBSL and adhere to reporting requirements imposed by the CBSL with regard to the custodian account based system;
- f. Handle disputes of all customers and merchants according to the guidelines applicable to the custodian account based system.

## 6. Arrangements for Maintaining the Custodian Account

- 6.1 Licensed service providers operating custodian account based mobile payment systems shall open a custodian account/s at a LCB/s and shall deposit funds collected from e-money holders in exchange of e-money, in this account. An agreement including inter alia, the responsibilities given in section 5.7 and 6.2 in these guidelines, shall be signed by the licensed service provider with the custodian bank to ensure that the fund movements of the system are transparent. However, when a licensed service provider opens multiple custodian accounts with more than one LCB, the licensed service provider shall clearly define the set of e-money accounts related to each custodian account, and such information shall also be provided to the relevant custodian bank.
- 6.2 The custodian bank shall be responsible for the following:
  - a. Formulating the KYC and CDD procedures to be adopted by the service provider and ensure the compliance by the service provider;
  - b. Ensuring the licensed service provider's responsibility of monitoring and supervising the activities of the appointed merchants to ensure that they will not engage in any unauthorized activities other than the permitted services;
  - c. Monitoring of all transactions made by licensed service provider with the custodian account at predefined periods of time and reporting to the CBSL as per regulations applicable to a regular bank account;
  - d. Reconciliation of funds held in the custodian account with the cumulative values of all e-money accounts issued by the licensed service provider. Any discrepancy between the e-money accounts and the custodian account shall be reconciled and cleared within 7 days. Discrepancies that cannot be cleared within this period shall be reported to the CBSL for information. However, the custodian bank shall have a mechanism to resolve those discrepancies within a reasonable time;
  - e. Ensuring that the licensed service provider shall report any suspicious transactions of e-money holders based on the guidelines issued by the FIU established in terms of the FTRA and report such transactions to the FIU as specified by the same Act;
  - f. Carrying out regular audits of all e-money accounts with the licensed service provider;
  - g. Monitoring of licensed service provider for compliance with regulations, guidelines of the proposed solution and any other requirements imposed by the CBSL at the time of approval or changes made thereafter;
  - h. Adhering to the reporting requirements of the CBSL;
  - i. Reporting the deposits in the custodian accounts as part of the deposit liabilities of the bank;
  - j. Formulating a proper mechanism for customer protection in the event of a disruption/closure of the licensed service provider's operations.
- 6.3 When an application is submitted to obtain the licence to carryout mobile payment services, a letter from the respective custodian bank/s has to be submitted with an undertaking that the custodian bank agrees to fulfill the conditions and discharge all responsibilities given in the Section 6.2 above.
- 6.4 Notwithstanding anything contrary to these guidelines, the custodian bank may be authorized to invest funds in the custodian account, in an interest bearing account. However, licensed service provider shall not have access to funds in the custodian account and shall not use funds in the custodian account as security or collateral at any time.
- 6.5 Custodian bank may open an interest bearing custodian account for the licensed service provider. However, the interest earned through the custodian account shall be credited to a separate account.
- 6.6 The licensed service provider and the custodian bank shall ensure that credits/debits to the custodian account are made only to effect changes in the cumulative sum of e-money in the mobile payment system.

- 6.7 Licensed service providers shall identify dormant e-money accounts and report the amount to be set aside as the dormant deposit from the custodian account with individual e-money holder details to the custodian bank. The custodian bank/s shall report such deposits as per Banking Act Directions No. 5 of 2009 on identifying, reporting, transferring and maintaining abandoned property of LCBs, issued on 02 September, 2009.
- 6.8 Custodian banks shall ensure that the funds lying in the custodian accounts shall be blocked in the case of bankruptcy/close of the business of the licensed service provider.
- 6.9 The licensed service provider operating the custodian account based system shall have no claim to the funds lying in the custodian account in the case of bankruptcy/close of business of the licensed service provider.

## 7. Appointing Merchants

- 7.1 Licensed service providers may appoint merchants to perform authorized functions related to mobile phone based payments.
- 7.2 Licensed service provider shall sign agreements with merchants authorized to accept funds and make cash-outs on behalf of the licensed service provider for the purpose of adding/deducting monetary value to/from e-money accounts. All duties, responsibilities and procedures to be followed by such merchants shall be specified in the respective agreements.
- 7.3 The licensed service provider operating custodian account based system shall be responsible to perform CDD when registering merchants.
- 7.4 In providing e-money services, licensed service providers shall take all necessary steps to address, mitigate or eliminate merchant-related risks i.e. credit risks, operational risks, legal risks, liquidity risks, reputational risks and risks relating to the safety of funds collected from customers.

## 8. Customer Protection

- 8.1 Licensed service providers shall provide the terms and conditions applicable for the utilization of e-money services in an appropriate manner in websites, brochures and registration forms. These terms and conditions should be unambiguous and available in any of the three languages (Sinhala, Tamil or English) as preferred by the customer and shall consist of following, inter alia,
  - a. Authorized types of payments;
  - b. Rights and responsibilities of licensed service provider, e-money holder and merchants with regard to e-money services;
  - c. All applicable fees and charges;
  - d. Benefits, incentives and rewards of e-money services;
  - e. Provisions for dispute resolution;
  - f. Procedure for reporting lost or stolen mobile phones;
  - g. Procedure for stop payments;
  - h. Customer service contact numbers.
- 8.2 Licensed service providers shall ensure that terms and conditions on e-money services shall not vary, amend or modify in any manner except by a prior written notice to the customers, through appropriate communication media, in any of the three languages (Sinhala, Tamil or English) as preferred by the customers.
- 8.3 Licensed service providers shall maintain the confidentiality of customer information and shall be responsible to ensure that their service providers will also treat customer information as confidential.
- 8.4 Licensed service providers shall enter into commercial contracts with service providers, in addition to the agreements with e-money holders who subscribe for e-money services. The rights and obligations of each party shall be made clear through these contracts and shall be valid and enforceable in a court of law.
- 8.5 Licensed service providers shall adhere to the laws and regulations applicable to the security procedure adopted to authenticate users as a substitute for signature, when providing e-money services to e-money holders.

## 9. Customer Education, Grievance and Redress Mechanism

- 9.1 Licensed service providers shall educate customers on applying security features and capabilities and the importance of protecting their personal information.
- 9.2 An appropriate dispute resolution mechanism shall be developed by licensed service providers for handling of disputed payments, transactions and loss of mobile phones. Licensed service providers shall establish a call centre to respond to customer inquiries and complaints. Each complaint received shall be provided with a reference number and shall be resolved within 3 business days.
- 9.3 Licensed service providers shall be responsible to address the customer grievances in an event where a customer files a complaint on a disputed transaction. Charge back procedures for addressing such customer grievances may be formulated by licensed service providers.

## 10. General Rules and Conditions

- 10.1 Licensed service providers which intend to operate custodian account based mobile payment systems shall obtain the approval of their respective Boards before offering services to customers. The Board approval shall document the extent of operational and fraud risk assumed by the licensed service provider and the processes and policies designed to mitigate such risks.
- 10.2 Licensed service providers shall ensure that a consistent notice is displayed in every service outlet, indicating regulatory powers delegated to the merchant and operational instructions for the e-money holders.
- 10.3 Licensed service providers shall use their best endeavours to use methods consistent with industry best practices to authenticate user identity.
- 10.4 Licensed service providers shall provide controls that allow customers the ability to receive payment alerts and notifications in accordance with their preference.
- 10.5 The licensed service provider shall establish adequate operational arrangements to mitigate operational risks of the respective e-money scheme. Such arrangements shall include, but not limited to;
  - a. measures taken to ensure safety, security and operational reliability of e-money including contingency arrangements;
  - b. maintenance of a separate set of records and accounts for its e-money activities excluding any other business activities;
  - c. provisioning of adequate internal controls for systems and personnel administration;
  - d. provisioning of robust clearing and settlement arrangements to ensure that the system will operate in an efficient, reliable and secure manner;
  - e. maintenance of adequate information and accurate accounting for the purpose of proper reconciliation process and accounting treatment for e-money transactions.
- 10.6 Licensed service providers shall implement a robust security risk management framework to actively identify, assess, reduce and monitor security risk. The security system shall ensure;
  - a. Confidentiality of the sensitive information - All confidential information shall be maintained in a secured manner and protected from unauthorized viewing or modification during transmission and storage;
  - b. Accuracy, reliability and completeness of information processed, stored or transmitted;
  - c. Proper authentication of users and agents;
  - d. Proper authorization of functions performed by users and agents.
- 10.7 Licensed service providers shall maintain a standard business continuity and disaster recovery procedure. In the event of any disaster or operational failure, the disaster recovery site shall be capable to take over the operations without causing any inconvenience to customers. The business continuity plan and disaster recovery site shall be tested and reviewed periodically.

## 11. Interpretation

In these guidelines unless the context otherwise requires:

- a. "Cash-outs" shall mean the process of converting e-money into physical money and issuing to e-money holders;
- b. "CDD" means ongoing scrutiny of any transaction undertaken throughout the course of the business relationship with a customer to ensure that any transaction that is being conducted is consistent with the institution's knowledge of the customer and the customer's business and risk profile etc.;
- c. "Custodian Bank" shall mean LCBs which maintain custodian accounts on behalf of licensed service providers;
- d. "Customer" shall mean e-money holders;
- e. "E-money" shall mean the monetary values stored in the e-money accounts of individuals, to be utilized through the mobile devices for mobile payments;
- f. "E-money Account" shall mean individual accounts maintained by licensed service providers under the custodian account based system;
- g. "KYC procedure" shall mean the procedure to be followed in accordance with the Financial Transactions Reporting Act No. 6 of 2006;
- h. "Licensed Commercial Bank" shall mean licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988;
- i. "Licensed Service Provider" shall mean a mobile payment service provider licensed under the Service Providers of Payment Cards Regulations No.1 of 2009;
- j. "Merchants" shall mean the institutions/persons appointed by licensed service providers to carryout mobile payment services;
- k. "Mobile payments" mean financial transactions effected based on information exchanged through the use of mobile phones;

- l. "Service Providers" shall mean mobile payment solution providers and relevant mobile network operators;
- m. "Top-ups" shall mean purchase of e-money by paying equivalent amounts of physical money to merchants.

**Signed by:** P D J Fernando  
Deputy Governor  
09 March, 2011

Annex 1

## TECHNOLOGY GUIDELINES FOR SERVICE PROVIDERS OF MOBILE PHONE BASED PAYMENT SERVICES

### 1. Technology Constraints, Security Issues, Principles and Practices

Mobile users/customers could face security issues and poor quality services while making mobile payments due to certain technological constraints and characteristics of wireless technologies, which should be minimized to avoid any negative impact on customers and the financial system. Therefore, licensed service providers must ensure to implement adequate security measures and install reliable systems that address risks, threats and ensure a very high quality of service, regardless of the underlying network and carrier infrastructure used for service delivery.

Given the dynamic nature and magnitude of security threats in the wireless environment, it is mandatory for service providers to perform periodic independent security vulnerability assessments and reviews of their systems before launching new products/services. Subsequent updates and reviews should also be carried out regularly to ensure adequate mitigation against operational risks. To facilitate such reviews, security architecture information need to be documented and updated regularly. Licensed service providers shall evaluate service delivery channels in terms of security and risks involved and offer appropriate services, mitigating risks involved.

#### 1.1 Authentication and Non-repudiation.

The following guidelines with respect to authentication and ensuring of non-repudiation should be adhered to:

- a. When customers are required to provide their passwords or PINs for e-money services, these should be encrypted immediately at the point of entry. No sensitive data should be allowed to be displayed as clear text on the mobile screen.
- b. Authentication methods based on more than one factor should be implemented to validate the transactions, where appropriate.
- c. Ensure that encrypted and authenticated sessions remain intact throughout the duration of communications with the customers.
- d. Authentication processes should be repeated after session failures and subsequent resumptions.
- e. Details of all transactions, including those that are incomplete or aborted, should be logged and such logs should be reviewed daily for abnormality or aberrations that might constitute security breaches.

#### 1.2 PIN Security

The licensed service providers shall issue a new mobile pin (mPIN) to facilitate the mobile payments and such PINs may be issued and authenticated by the licensed service provider. Licensed service providers and the various service providers involved in mobile payments should comply with the industry accepted security principles and practices with respect to issuance and usage of the mPIN.

In the case of non-mobile network operator based mobile proximity/contactless payments, a second factor authentication shall be used along with mPIN. It is suggested that either card number or OTP (one time passwords) be used as the second factor authentication rather than the mobile phone number.

#### 1.3 Cryptographic Key Management

Proper key management is vital for the effective use of cryptography and digital certificates. Licensed service providers must establish adequate control measures and procedures to enable crypto keys to be created, stored, distributed, replaced, revoked or destroyed, securely. Periodic audits and compliance reviews should be carried out to maintain a high degree of confidence in relevant security procedures.

#### 1.4 Network and System Security

The following guidelines with respect to network communications and system security should be adhered to:

- a. Use strong encryption standards for protecting sensitive and confidential information of the customers while in transit.
- b. Establish proper information protection systems and incident response procedures.
- c. Conduct periodic risk management analysis and security vulnerability assessment of the related systems and networks.

- d. Maintain proper and regularly updated documentation of security practices, guidelines, methods and procedures used in mobile payments and payment systems based on the risk management analysis and vulnerability assessment carried out.
- e. Implement appropriate physical security measures to protect the system gateways, network equipment, servers, host computers, and other hardware/software used from unauthorized access and tampering. The data centre of the licensed service provider and other service providers should have proper wired and wireless data network protection mechanisms.

#### 1.5 Transaction Logs

Mobile payment systems should maintain detailed transaction logs to enable processing audit trails to be reconstructed in the event of any disputes or errors. The retention period of logs should be six years in duration. Licensed service providers shall ensure that such information is protected from any loss or damage. Security safeguards should also be implemented to protect the information from unauthorised modification or destruction.

#### 1.6 Data Confidentiality and Integrity

The following guidelines with respect to data confidentiality and integrity should be adhered to:

- a. End-to-end application layer encryption of sensitive customer details and authentication data such as PINs should be implemented to ensure keeping intact such data from the data-entry device right through to the host end.
- b. Software for wireless applications should implement adequate measures to avoid duplicate transactions resulting from intra-session delays or session failures when customers move from areas with good wireless service coverage to those where coverage is poor.
- c. Licensed service providers and other service providers should install adequate security measures, firewalls, intrusion detection/prevention systems, surveillance control procedures to ensure capability for immediate recovery. They should also implement integrity checks on systems, files and code, to ensure the reliability of systems. All changes to such systems should be properly authorized.

#### 1.7 System Availability and Recoverability

Licensed service providers shall ensure that proper recovery and back-up plans are in place to minimize disruption to services due to system failures. Such plans shall cater for single points of failure to ensure speedy recoverability and an acceptable level of high system availability. Mobile traffic and system capacity should be closely monitored to ensure that any service degradation due to capacity problems are addressed in a timely manner.

## 2. Other Related Guidelines

Licensed service providers shall also be mindful of the following:

### 2.1 Security Related Practices

- a. The mobile payment servers at the licensed service provider's end or at the service provider's end, if any, should be certified appropriately in compliance with each licensed service provider's security guidelines. In addition, licensed service providers should conduct regular information security audits on all systems used for mobile payments to ensure full compliance with such security guidelines.
- b. It is recommended that for channels which do not contain the phone number as an identity, a separate login ID and password be provided. Licensed service providers are required to implement appropriate risk mitigation measures such as transaction limits (per transaction, daily, weekly, monthly), transaction velocity limits, fraud checks, AML checks etc., depending on the licensed service provider's own risk perception, unless otherwise mandated by the CBSL.

### 2.2 Minimizing Financial Losses from a Lost/Stolen Phone

- a. Strengthen security measures to prevent criminal activity while using Near Field Communication (NFC) based mobile payment systems. Action to prevent criminals abusing new mobile phone technology, which allows the mobile to be used like debit/ credit and pre-paid stored value cards, must be agreed by all stakeholders.
- b. Request a PIN verification for transactions over specified value - any transaction above the maximum contactless payment value defined by the CBSL will require additional security measures/verification, such as a PIN code. This shall also be applicable if more than a certain number of low-value transactions are carried out consecutively in quick succession.
- c. Ensure that contactless payment functions, SIM cards and phone will be disabled immediately, once a mobile phone equipped with payment technology is reported lost or stolen. Any installed financial applications should also be disabled.

### 2.3 Customer Education

- a. Ensure that the PIN request is activated in customers' mobile phone. The PIN code should also be changed immediately after a new mobile phone is purchased.

- b. Customers should be educated on how to maintain PIN safety and not reveal their PINs to another party.
- c. On some mobile phone units, PINs entered may be recalled through redial menus. Instructions should be given to customers to erase PINs immediately from the phone memory to prevent PIN discovery by accessing previously dialed numbers.
- d. Customers should be advised not to use the same PIN for different delivery channels or systems as they have different security levels and implications depending on the security risks attached to each of them.
- e. Ensure that customers refrain from saving any confidential information such as passwords, credit card, bank card PINs etc. in mobile phones. Customers shall also be advised to delete such information when the phone is sold or given away.
- f. Advise customer to keep the mobile phone's IMEI code in a separate place in case the mobile phone gets lost. Customers can prevent making of unauthorised payments using their lost/stolen mobile phone, by reporting the phone's IMEI code to the mobile network operator.
- g. Licensed service providers shall provide clear configuration instructions if their customers are required to manually configure their own mobile phones to access e-money services.
- h. Advise customers to take extra precautions when using e-money services.
- i. Customers should be educated to enable them to safely check the authenticity of the established connection, before making any payment.
- j. Provide advice to customers on dispute handling, reporting procedures and the expected time for resolution.
- k. Avoid use of complex, legal and technical jargon in communications with customers.

16 March 2011

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

Circular No.: RTGS/02/2011

To: All participants of the LankaSettle System

**AMENDMENTS TO THE LANKASETTLE SYSTEM RULES -  
REVISION OF RTGS/SSSS FEES AND CHARGES IN THE LANKASETTLE SYSTEM**

All participants of the LankaSettle System are hereby informed that as per the Rule 8 of Volume 4 of the LankaSettle System Rules, and Clause 4 of the Mandate Agreement, the Attachment B to the System Rules is amended as per Schedule hereto, in order to increase the transaction fee from LKR 420/- to LKR 450/- with effect from 2nd May, 2011.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

**ATTACHMENT B (Amended on 16 March 2011)****SCHEDULE OF LANKASETTLE FEES AND CHARGES**

The Central Bank of Sri Lanka will charge all LankaSettle participants all inclusive per transaction fee of LKR 450/- with effect from 2nd May, 2011.

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.

7 April 2011

**Ref.: 34/07/029/ 0001/001****Circular No.: RTGS/03/2011**

To: All participants of the LankaSettle System

**DECLARATION OF 15 APRIL 2011 AS A PUBLIC & SPECIAL BANK HOLIDAY**

This is to inform you that the LankaSettle System will not be open for business on 15 April 2011 (Friday) as the Government has declared the day as a public and special bank holiday. All participants are hereby informed not to enter any transaction to the system with the value date of 15 April 2011. If you have already entered transactions with the value date of 15 April 2011, such transactions are to be re-entered with the value date of the next business day of the LankaSettle System.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

24 May 2011

**Ref.: 34/07/029/0001/001****Circular No.: RTGS/04/2011**

To: All participants of the LankaSettle System

**OPERATIONS OF LANKASETTLE SYSTEM ON MAY 27, 2011**

This is to inform you that the Central Bank of Sri Lanka (CBSL) will conduct the normal daily operations of the LankaSettle System on May 27, 2011 (Friday) from its backup site. However, as there are no technical changes for participants, you are requested to operate your system in the usual manner.

You may contact the relevant officers of the CBSL on May 27, 2011 on this matter through the following means:

Tel: 2477858, 2477832, 4858876, 4858879

Fax: 2866184, 2873244

E-mail: No changes to the e-mail addresses

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

19 May 2011

**Ref.: 34/07/029/ 0001/001****Circular No.: RTGS/05/2011**

To: All participants of the LankaSettle System

**CHANGE OF NAME OF UNION BANK OF COLOMBO LIMITED**

Under section 8 of the Companies Act No. 07 of 2007, Union Bank of Colombo Limited has changed its name to Union Bank of Colombo PLC.

Accordingly, the static data of the LankaSettle System will be changed as indicated below with effect from May 23, 2011

**Participant organization name** : Union Bank of Colombo PLC

The account name and SWIFT BIC of Union Bank of Colombo PLC will remain unchanged

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

29 July 2011

**Ref.: 34/07/029/0001/001****Circular No.: RTGS/06/2011**

To: All participants of the LankaSettle System

**APPOINTMENT OF AMANA BANK LTD. AS A PARTICIPANT  
OF THE LANKASETTLE SYSTEM**

Amana Bank Ltd. of No. 480, Galle Road, Colombo 3 has been licensed to carry on both domestic banking business and off-shore banking business under the Banking Act No. 30 of 1988. It has also been appointed as a Direct Participant and a Dealer Direct Participant under the Registered Stock and Securities Ordinance No. 7 of 1937 and the Local Treasury Bills Ordinance No. 8 of 1923 and as a Participant of the Real Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System.

The SWIFT User Identification Code (BIC), RTGS Settlement Account Number and the contact details of Amana Bank Ltd. are given below:

SWIFT User Id. Code (BIC) : AMNALKLXXXX  
RTGS Settlement Account : AMNALKLXXXX010004427

**Contact Details:**

Chief Executive Officer : Mr. M.O. Faizal Salieh  
Telephone : +94-11-4710087  
Fax : +94-11-2574419  
E-mail : fsalieh@amana.lk

Amana Bank Ltd. will participate in the LankaSettle System with effect from August 01, 2011, using its Primary Participant External Id. AMNALKLXXXX.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

19 September 2011

**Ref.: 34/07/029/ 0001/001****Circular No.: RTGS/07/2011**

To: All participants of the LankaSettle System

**APPOINTMENT OF WEALTHTRUST SECURITIES LIMITED AS A PARTICIPANT  
IN THE LANKASETTLE SYSTEM**

WealthTrust Securities Limited (WTSL) of No. 32, Castle Street, Colombo 8 has been appointed as a Primary Dealer in Government Securities in terms of the Local Treasury Bills Ordinance, No. 08 of 1923 and the Registered Stock and Securities Ordinance, No. 07 of 1937. It has also been appointed as a Participant of the Real Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System with effect from September 21, 2011.

The SWIFT User Identification Code (BIC), RTGS Settlement Account Number and the contact details of WealthTrust Securities Limited are given below:

SWIFT User Id. Code (BIC) : WTEYLKXXXX  
RTGS Settlement Account : WTEYLKXXXX010004564

**Contact Details:**

Chief Executive Officer : Mr. D.H.B. Ranawana  
Telephone : +94-11-2689823  
Fax : +94-11-2689605  
E-mail : ranawana@wealthtrust.lk

WealthTrust Securities Limited will participate in the LankaSettle System with effect from September 21, 2011, using its Primary Participant External Id. WTEYLKXXXX.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

04 November 2011

**Ref.: 34/07/029/ 0001/001****Circular No.: RTGS/08/2011**

To: All participants of the LankaSettle System

**DECLARATION OF 07 NOVEMBER 2011 AS A PUBLIC & BANK HOLIDAY**

This is to inform you that the LankaSettle System will not be open for business on 07 November 2011 (Monday), as the Government has declared the day as a public and bank holiday in view of Id-UI-Alha (Hadji Festival) Day. All participants are hereby informed not to enter any transaction to the system with the value date of 07 November 2011. If you have already entered transactions with the value date of 07 November 2011, such transactions are to be re-entered with the value date of 08 November 2011.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

15 December 2011

**Ref.: 34/07/029/ 0001/001****Circular No.: RTGS/09/2011**

To: All participants of the LankaSettle System

**OPERATIONS OF LANKASETTLER SYSTEM ON 16 DECEMBER 2011**

This is to inform you that the Central Bank of Sri Lanka (CBSL) will conduct the operations of the LankaSettle System from 1200 hrs. to 1630 hrs. on 16 December 2011 (Friday) from its backup site. However, as there are no technical changes for participants, you are requested to operate your system in the usual manner.

You may contact the relevant officers of the CBSL from 1200 hrs. to 1630 hrs. on 16 December 2011 on this matter through the following means.

Tel : 2477858, 2477832, 4858876, 4858879  
Fax : 2866184, 2873244  
E-mail : No changes to the e-mail addresses

Ranjani Weerasinghe  
**Director, Payments and Settlements**

S S Ratnayake  
**Superintendent of Public Debt**

28 December 2011

**Ref.: 34/07/029/ 0001/001****Circular No.: RTGS/10/2011**

To: All participants of the LankaSettle System

**APPOINTMENT OF AXIS BANK LIMITED AS A PARTICIPANT  
OF THE LANKASETTLER SYSTEM**

Axis Bank Limited of No. 356, Galle Road, Colombo 3 has been licensed to carry on both domestic banking business and off-shore banking business under the Banking Act No. 30 of 1988. It has also been appointed as a Direct Participant and a Dealer Direct Participant under the Registered Stock and Securities Ordinance No. 7 of 1937 and the Local Treasury Bills Ordinance No. 8 of 1923 and as a Participant of the Real Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System.

The SWIFT User Identification Code (BIC), RTGS Settlement Account Number and the contact details of Axis Bank Limited are given below:

SWIFT User Id. Code (BIC) : AXISLKLXXX  
RTGS Settlement Account : AXISLKLXXX010004428

**Contact Details:**

Chief Executive Officer : Mr. Ashok Kumar Basu  
 Telephone : +94-11-2577 733  
 Fax : +94-11-2577 724  
 E-mail : ashok.basu@axisbank.com

Axis Bank Limited will participate in the LankaSettle System with effect from December 30, 2011, using its Primary Participant External Id. AXISLKLXXXX.

A J Luxman Peiris  
**Addl. Director, Payments and Settlements**  
**DebtADDENDUM**

J P R Karunaratne  
**Actg. Superintendent of Public**

**Ref: 08/24/008/0018/001**

Public Debt Department  
 09 February 2011

To: All Chief Executive Officers of Primary Dealer Institutions

### AMENDMENTS TO ARTICLES OF ASSOCIATION

As you aware, an application for appointment as a primary dealer in government securities shall be accompanied by the Articles of Association (AoA) of the applicant company, among other documents. Accordingly, it is intended that changes to such AoA should have the prior approval of the Central Bank of Sri Lanka (CBSL)

You are, therefore, informed that in the event your company intends to make any amendments to the AoA, you are required to obtain prior approval of the CBSL

Yours faithfully,  
 S S Ratnayake  
**Superintendent of Public Debt**

### TO THE ADMINISTRATIVE AGREEMENT ON POST-TSUNAMI COASTAL REHABILITATION AND RESOURCE MANAGEMENT PROGRAMME

This Addendum ("Addendum") amends and is hereby incorporated into the existing Agreement known as Administrative Agreement of Post-Tsunami Coastal Rehabilitation and Resource Management Programme ("Agreement"), entered into 20th day of April 2010, by and between the Government of the Democratic Socialist Republic of Sri Lanka (hereinafter referred to as the GOSL) of the one part and the Monetary Board of the Central Bank of Sri Lanka, a body corporate duly established by the Monetary Law Act No.58 of 1949 and having its principal place of business at No.30 Janadhipathi Mawatha, Colombo 01 (hereinafter referred to as "the Central Bank") of the other part.

#### WHEREAS

The Mid Term Review Mission of International Fund for Agriculture Development visited Sri Lanka during the period from 28th June to 27th July 2010 has evaluated the Agreement and suggested reducing the agreed amounts of credit having considered the present expenditure level of the program and has recommended reducing the lines of credit to the original amounts appearing in the project Appraisal Document.

1. Therefore, the loan amount of the Agreement is hereby revised and be replaced as follows;
  - a) Loan 664-LK      SDR 80,000
  - b) Loan 693-LK      SDR 940,000
2. All the other terms and conditions of the Agreement are remained unchanged.

IN WITNESS WHEREOF, each of the undersigned has caused this Addendum to be duly executed in its name and on its behalf.

## THE GOVERNMENT

Authorized Representative  
Deputy Secretary to the Treasury  
Ministry of Finance and Planning

MONETARY BOARD OF THE CENTRAL  
BANK OF SRI LANKA

Authorized Representative  
Deputy Governor  
Central Bank of Sri Lanka

**OPERATING INSTRUCTIONS NO. RDD/PR/2010/03 (Amendment)**

Regional Development Department  
Central Bank of Sri Lanka  
P.O. Box 590  
No.30, Janadhipathi Mawatha  
Colombo 1.  
01 April 2011.

Tel : 2477447/2477472/2477448  
Fax : 2477733/2477734  
To : All PFIs  
Dear Sir/Madam

**ENHANCEMENT OF LOAN UPPER LIMIT UNDER SAUBAGYA LOAN SCHEME**

This is to inform you that Section 3, 4, 6 and 7 of the Operating Instructions No. RDD/PR/2010/03 dated 22 March 2010, have been amended as follows.

**Section 3**

- 3.2 Loan Limits : Loans granted to Small and Medium Scale Enterprises (SMEs), other than the activities in the Agriculture Livestock and Fisheries sub sectors, are eligible to receive refinance from CBSL up to a maximum of Rs.25 million per sub projects. The branch manager who recommends the sub loan amount over Rs.500,000/-, for a sub project should forward a project appraisal along with the Registration Application.
- 3.6 Rate of interest on refinance to PFIs : 4 percent per annum
- 3.7 Rate of interest for sub loans : 9 percent per annum

**Section 4**

4. Eligible Sub Projects : Only the following enterprises are eligible for refinance claims under Saubagya Loan Scheme.
- i. Small and Medium Scale Enterprises (SMEs) which total assets value is below Rs.40 million excluding land and buildings and that employed 5-100 persons.

**6. Participatory Financial Institutions**

The following LCBs and LSBs have been selected as Participatory Financial Institutions (PFIs):

- Bank of Ceylon
- People's Bank
- Hatton National Bank PLC
- Commercial Bank
- Smpath Bank Ltd.
- Seylan Bank PLC
- Pradeshiya Sanwardana Bank
- Lankaputhra Development Bank
- Sanasa Development Bank
- National Development Bank PLC
- Nation Trust Bank PLC

- PABC Bank PLC
- Union Bank of Colombo Ltd.
- DFCC Bank
- DFCC Vardhana Bank Ltd.

## 7 Registration of Sub borrowers

7.1 The Branch Manager should complete the registration application as given in Amended Annex I and send to CBSL through respective PFI Head Office for registration.

PFI Head Offices are requested to forward duly certified copies of loan registration application and credit appraisal report in respect of sub-loans over Rs.500,000/-. **All other terms and conditions of the Saubagya Loan Scheme will remain unchanged.** This amended Operating Instructions will be effective from 01 April 2011.

Yours faithfully  
E A Hettiarachchi  
Director/Regional Development

Amended Annex I

REGISTRATION NO.....

### SAUBAGYA LOAN SCHEME LOAN REGISTRATION APPLICATION

- 1) Name of PFI : .....
- 2) Name of the Branch : .....
- 3) Address of the Branch : .....
- 4) Telephone Nos/Fax Nos. : .....
- 5) Status of Applicant/s : Individual  Partnership
- 6) Name and Address of Applicant/Partner/Director :

Name	Address	Telephone No.	NIC Number
i			
ii			

- 7) Complete Address of the Project Site and Location :  
.....
- 8) District : .....
- 9) Type of sub-project :  
1. Small Enterprises   
2. Medium Enterprises
- 10) Brief description of the Project to be financed under Saubagya Loan Scheme (Purpose of the loan) :  
.....  
.....
- 11) Estimated cost of the Project : Rs.....
- 12) Borrowers' equity contribution : Rs.....
- 13) Required loan amount : Rs.....
- 14) Amount recommended/approved by the PFI : Rs.....

I certify that the proposed project described at 10 above has been examined by me/credit officer and found that it has a sufficient cash flow for profitability and hence recommended for finance under the saubagya credit scheme.

.....  
Date

.....  
Signature of Branch Manager/Rubber Stamp

**AMENDMENT OF OPERATING INSTRUCTIONS (2011) NO. RDD/TDPRF/2006/02  
UNDER  
TEA DEVELOPMENT PROJECT REVOLVING FUND CREDIT SCHEME**

Regional Development Department  
Central Bank of Sri Lanka  
30, Janadhipathi Mawatha  
Colombo 1  
01.06.2011

To: All PFIs

Dear Sir / Madam

**Tea Development Project Revolving Fund Credit Scheme (TDPRFCS)**

This is to inform you that the Operating Instructions No. RDD/TDPRF/2006/02 on the above Credit Scheme has been amended in order to accommodate following activities under the scheme.

Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL) has decided to amend the above Operating Instructions in consultation with the Ministry of Plantation, Tea Small Holder Authority (TSHDA) and Sri Lanka Tea Board (SLTB) for eligible sub projects under Sections 3.4 and 3.5 of the Operating Instructions. Accordingly, following activities/purposes are eligible to consider financing under the scheme.

**3.4 ELIGIBLE ACTIVITIES FOR FINANCING**

**01. Transport of green leaves (Tea)**

**Total Allocation of Funds Rs.50 million**

- (i) Purchasing of transport vehicle
  - Maximum loan amount for one unit - Rs.1.5 million
  - Repayment period - maximum 5 years (no grace period)
  - Eligible vehicles - 2 wheel tractors, 4 wheel tractors and lorries
- (ii) Purchasing of Racks and Crates - maximum loan amount per unit  
Rs.200,000/-

Those who are to obtain a loan under (i) are eligible to obtain a loan under (ii).

- Applications/PFIs required to forward the recommendation of the Tea Commissioner to CBSL, along with the registration application.

**02. Development of Tea Lands**

**Total allocation of funds – Rs.150 million**

The funds could be utilized for replanting, infilling and nursery development.

- (i) Tea replanting and Infilling - maximum loan amount if Rs.750,000/- per hectare.  
(maximum 2 hectares could be considered)
- (ii) Nursery Development - maximum loan amount per unit is Rs.1 million to  
produce 100,000 tea plants.

Recommendation of Tea Inspector and Regional Manager of the TSHDA should be attached to the registration application.

**“Paragraph 3.5”** The eligibility to receive a 50% interest subsidy for tea replanting on request as a cess rebate payable by TSHA of Operating Instruction No. RDD/TDPRF/2006/02 is deleted.

All other terms and conditions of the Tea Development Project Revolving Fund Scheme will remain unchanged. This will be effective from 1st June.

Yours faithfully  
E A Hettiarachchi  
**Director / Regional Development Department**

**NEW COMPREHENSIVE RURAL CREDIT SCHEME (NCRCS)  
OPERATING INSTRUCTIONS NO. RDD/NCRCS/2011 DATED 23RD SEPTEMBER 2011**

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### Operating instructions No. RDD/NCRCS/2011

#### 1. Introduction

New Comprehensive Rural Credit Scheme - "NCRCS" has been introduced with the primary purpose of uplifting the socio economic conditions of micro and small scale farmers who engage in cultivation of seasonal (short term) crops, by providing working capital requirements at a lower cost. Through this scheme, it is expected to reduce the cost of borrowing, to provide a roll over facility in the event of a natural calamity or other disaster and to guarantee a portion of loans and thus share a portion of default risk.

The scheme will be operated by the Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL) on behalf of Ministry of Finance and Planning (MOFP), Government of Sri Lanka (GOSL). **The funds for the scheme such as interest subsidy and credit guarantee will be made available by GOSL out of budgetary allocations from time to time.** The Director of the RDD is empowered with the authority to operate the scheme.

#### 2. Objectives of the Scheme

- 2.1 Provision of the working capital requirements of the farmers for short term crop cultivation
- 2.2 Provision of the working capital requirements for nurseries
- 2.3 Promote financial inclusiveness among farming communities
- 2.4 Promote/develop domestic agriculture sector
- 2.5 Improve the income level of small farmers
- 2.6 Reduction of rural poverty

#### 3. Participating Financial Institutions (PFIs)

Following PFIs operating in Sri Lanka are eligible to receive the facilities of NCRCS, provided that they participate in the scheme;

- Bank of Ceylon
- People's Bank
- Commercial Bank of Ceylon PLC
- Hatton National Bank PLC
- Seylan Bank PLC

Sampath Bank PLC  
 DFCC Bank  
 Union Bank of Colombo PLC  
 Pradeshiya Sanwardhana Bank  
 National Development Bank PLC  
 Sanasa Development Bank Ltd.  
 Lankaputhra Development Bank Ltd.

#### 4. Eligibility Criteria for Applicants

The borrowers, fulfilling following requirements are eligible for obtaining loans under this scheme;

- 4.1 Applicant should be a farmer
- 4.2 Loans under this scheme may grant to
  - 4.2.1 the farmers with land ownership
  - 4.2.2 the farmers with lease ownership
  - 4.2.3 the tenant farmers
  - 4.2.4 the farmers without land ownership but with government license, permits etc.,
  - 4.2.5 the farmers who do not own land, but have obtain the rights and authority from the land owner to cultivate.
- 4.3 The borrower must not be a defaulter in respect of a loan, borrowed from a PFI.
- 4.4 To obtain a loan by a borrower who is 65 years or above, a family member (such as spouse, daughter or son) should be enrolled with the borrower as co - borrower.

#### 5. Scales of Finance

- 5.1 The applicable scales of finance is attached at Annexure II. The scales have been prepared on the basis of prevailing cost of cultivation. CBSL will communicate the scales of finance for each crop determined by Agriculture Department, to the Head Offices of PFIs at the beginning of each cultivation season.
- 5.2 The facilities under the scheme are provided in accordance with the land extent mentioned in the scales of finance. A PFI can grant a loan facility exceeding the extent mentioned, at commercial rates for which (the excess amount) interest subsidy will not be granted .
- 5.3 The amount of the loan should not exceed 75 per cent of the total cost of the cultivation. The farmer should contribute a minimum amount of 25 per cent of the total cost of cultivation in cash or kind.
- 5.4 CBSL, in consultation with Agriculture Department and other relevant institutions, reserves the rights to make changes in Scales of Finance from time to time.

#### 6. Roles and Responsibilities of PFIs

The PFIs may carry out the following roles and responsibilities in order to qualify for NCRCS;

- 6.1 Grant loan facilities using PFIs' own resources, complying with the terms and conditions of the scheme.
- 6.2 Grant loans only for the purposes mentioned in Annexure I.
- 6.3 Charge an interest rate determined by GOSL (currently 8 per cent per annum) from the borrowers.
- 6.4 PFI is responsible in identifying the genuine farmers in granting the loans. Branch managers, through the field officers, should get a confirmation on borrowers as genuine farmers.
- 6.5 PFI is further responsible in confirming the availability of required resources for the cultivation such as suitability of land, availability of water, agricultural potential etc., actual requirements of the borrower and the repayment capacity of the borrower when granting the loan.
- 6.6 PFI may draw a Demand Promissory note from the borrower, assign crop insurance policy where applicable and inter-se guarantee of two other non defaulting farmers.
- 6.7 Release of loan should be in stages, to coincide with the requirements during various stages in the agricultural operations of the borrower. Loan may be disbursed in three or more instalments in the manner where each instalment shall be released after verifying the utilisation of the previous instalments.
- 6.8 PFIs are responsible in
  - 6.8.1. paying premium
  - 6.8.2. furnishing required data and information related to interest subsidy, credit guarantee and post claims
  - 6.8.3. remitting post claim recoveries  
to CBSL in the relevant formats, through the respective head offices on or before the closing dates. The time period for submission of such information are mentioned in the Time Schedule attached at Annexure III.
- 6.9 The interest subsidy applications, credit guarantee applications and the premium payments made after the closing dates will be automatically rejected.

- 6.10 PFIs should perform pre and post supervision functions for the loans granted by them. It is an obligation of the PFI to
  - 6.10.1 Observe normal care and prudence in disbursing the loans to the borrowers and to take all reasonable steps to ensure that the loans are utilized for the purposes for which they have been granted.
  - 6.10.2 Take all possible means and ways to recover the dues. PFIs are advised to carry out recovery actions during the harvesting period.
- 6.11 Where there is evidence that the PFI has willfully neglected to take adequate steps to ensure proper supervision, care and prudence in lending resulting in fictitious loans, mis-utilization of loans by the borrowers or where there is evidence of any misdemeanor committed by the PFI in the grant of loans, the CBSL will deny liability and where a claim has been admitted, reserves the right to recall any sums paid on a claim to a PFI.

## 7. Responsibilities of CBSL

CBSL will perform the following functions in its capacity as the implementing agency to ensure the successful implementation of the scheme;

- 7.1 CBSL, on behalf of the GOSL will carry out the monitoring and evaluating process of the scheme and implement the necessary policy actions.
- 7.2 CBSL reserves rights to carry out field inspection, visit PFIs and inspect the ledgers and books etc. and any other supervisory action where deemed to be necessary.
- 7.3 CBSL will forecast the budgetary allocations for the interest subsidy and credit guarantee payments for the current year and forward them to GOSL for the approval.
- 7.4 CBSL will calculate and recommend the interest subsidy payable to PFIs and forward such information to the GOSL.
- 7.5 CBSL will provide a credit guarantee to PFIs in respect of defaults by willful defaulters, subject to the availability of funds from GOSL.
- 7.6 When loans are granted to one farmer borrower for more than one crop, the CBSL reserves the rights to decide the maximum eligible loan amount.
- 7.7 Where there is a change in Operating Instructions, Scale of Finance or any other information, CBSL will communicate such changes to the head offices of PFIs.

## 8. Interest Subsidy

The GOSL will provide an interest subsidy at a rate determined by GOSL to PFIs for loans advanced by them out of their own resources as mentioned in the scales of finance. The PFIs, in order to qualify for this subsidy are required to grant loans to farmers at the interest rate determined by GOSL.

- 8.1 The interest subsidy payments will be made in two stages i.e. an advance payment and a final payment.
  - 8.1.1 The advance payment will be calculated for a period of 90 days at a rate determined by GOSL on the amount sanctioned. For this purpose, PFIs should submit the duly completed format RDD/NCRCS/IS/1 (given in Annexure IV) within the stipulated period as mentioned in Time Schedule (given in Annexure III).
  - 8.1.2 The final payment will be made after reporting of recovery dates by the PFIs for the balance period subject to maximum of 180 days, as the case may be, if the loan in question has not been recovered even after the period of 270 days. For this purpose, the format RDD/NCRCS/IS/2 (given in Annexure V), will be forwarded to the PFIs to enable them to report the amount granted, date and amount of recoveries of cultivation loans.
- 8.2 In a case where granted loan amount is higher than sanctioned amount, interest subsidy will be provided for the sanctioned amount and if granted amount is less than sanctioned amount then interest subsidy will be provided for the amount granted only.
- 8.3 PFIs are required to use the formats RDD/NCRCS/IS/1 and RDD/NCRCS/IS/2 to claim interest subsidy advance payment and interest subsidy final payment respectively from CBSL. The RDD will send prescribed forms for these purposes to Head Offices of all PFIs.
- 8.4 The Head Office of PFIs should summarise the branch-wise information and forward to RDD along with the interest subsidy applications (RDD/NCRCS/IS/1 and RDD/NCRCS/IS/2).
- 8.5 The Head Offices of PFIs are requested to submit all interest subsidy applications (both soft copies and hard copies) along with the eligible premium to CBSL on or before the due date/ within stipulated period.
- 8.6 Accordingly, all applications claiming interest subsidy from GOSL, should reach Director, Regional Development Department, Central Bank of Sri Lanka, No.30, Janadhipathi Mawatha, Colombo 01 through the respective Head Office of PFI.

## 9. Defaulted Loans

At the end of the cultivation season, branch manager should classify the defaulted farmers in to two categories; Willful Defaulters and Non-willful Defaulters. The classification should be made on the basis of information available to the manager through the field officers.

### 9.1 Willful Defaulters

If the available information indicates that the borrower had a good harvest but has failed to settle his obligations to the PFI, he should be classified as a willful defaulter.

### 9.2 Non-willful Defaulters

If a borrower has experienced difficulty in meeting his obligations to the PFI due to crop damage by natural calamity such as floods, drought or pests or other specific reason that is beyond the control of borrower and accepted by CBSL, he should be classified as a non-willful defaulter.

## 10. Recoveries

10.1 The procedure for the recovery action in the case of these two categories are as follow;

10.1.1 Immediate action should be taken to recover the dues from defaulters through legal action. Detailed steps in recovering the dues through legal action are mentioned in Section 11.

10.1.2 In the case of non-willful defaulters, PFI should establish the personal contacts with the borrower and offer the rescheduling facility, as mentioned in Section 13, to the borrower.

10.2 It is expected the PFI to take prompt and effective actions for the recovery of any overdue amount in all possible ways. The CBSL expects the PFI to be active in the recovery of loans even after submission of a claim, and even after the receipt of credit guarantee from CBSL. Thus, the PFI is obliged to carry out any action that may be suggested by CBSL.

10.3 The minimum requirements of the CBSL in this regard are as follows; When a loan is in arrears, the Branch Manager should take immediate recovery actions with a view to persuade the borrower to pay up the loan promptly. The actions may include the following:

- (i) to visit the borrower (minimum of 2 visits) to ascertain the reasons for the non-payments, and persuade him to repay the dues;
- (ii) to ascertain and examine the difficulties faced by the borrower and recommend to the borrower a course of actions to be followed by him to overcome such difficulties;
- (iii) Where the difficulties are bona fide and beyond the control of the farmer, reschedule the loan and give the borrower a new instalment plan according to his income pattern;
- (iv) In the case of a willful borrower, issue a notice of demand on the borrower and the guarantors;
- (v) Where it is found that the loan proceeds have been misused, the notice of demand should be issued forthwith and steps should be taken immediately to institute legal action.

## 11. Legal Action

11.1 If the PFI fails to collect the dues from defaulters even after taking the recovery steps mentioned in Section 10.2, such cases should be referred to Mediation Board initially and within 6 – 9 months from the due date of first instalment in arrears.

11.2 When defaulters do not come in to a settlement, PFI should file cases against such defaulters in an appropriate Court within 9 - 12 months from the due date of first instalment in arrears.

## 12. Credit Guarantee Settlement

In terms of Section 108A of the Monetary Law Act (Chapter 422), the Central Bank of Sri Lanka will provide guarantees to PFIs in New Comprehensive Rural Credit Scheme (NCRCS) in respect of loans granted for the purposes given in Annexure I. CBSL provides credit guarantee as a facilitation for the liquidity shortages that arise due to the non payment of expected loan repayment instalments and hence the PFIs should remit such credit guarantee settlement payments to the CBSL, once they recovered dues from defaulters.

12.1 The Director, RDD has been empowered with the authority to collect premia, receive government contributions, invest surplus funds, pay out guarantee claims and recall for the recoveries after the settlement of claims etc.

### 12.2 Eligible Loans

For the purpose of this scheme, all loans granted under NCRCS are eligible for the guarantee. A guarantee under this scheme is sought for a loan where,

12.2.1 Granted for the purposes given in Annexure I.

12.2.2 The amount of the loan should be within the scales of finance given in Annexure II.

12.2.3 Premium has been paid to CBSL within the appropriate period.

### 12.3 Loans not Covered

12.3.1 Any loan for which the PFI has obtained a guarantee of the government or any government institution is not eligible for credit guarantee cover under this scheme.

12.3.2 The loans for which credit guarantee premium has not been paid to CBSL within the required time period are not eligible for obtaining facilities under NCRCS.

### 12.4 Extent of Guarantee

- 12.4.1 The scheme provides a guarantee cover of 60 per cent of the principal amount in loss or of the amount guaranteed whichever is lower. The credit guarantee claims will be paid in two instalments.
- 12.4.2 The first instalment amounting to 75% of the claim will be paid on application and the balance 25% will be paid once after the PFI taking legal action against the defaulted borrower and notified the Court Case number to RDD.
- 12.5 Premium
- 12.5.1 The Premium is payable to the CBSL at the rate of half (½) per cent on the cultivation loans at the time of granting it. There is no separate application for the guarantee, and therefore the premium should be paid with application for interest subsidy, and it should be calculated on the total loan amount eligible under the scheme, as per the scales of finance.
- 12.5.2 PFIs are required to pay premium for the relevant season through the respective Head Office. The head office of the PFI is required to forward a cheque for the premium payable to Director, Regional Development, Central Bank of Sri Lanka for loans granted by all branches, with relevant soft copies and hard copies of interest subsidy applications within the stipulated period. However, the interest subsidy applications received without the premia are not eligible for NCRCS.
- 12.5.3 The premium for the Credit Guarantee should be borne by the PFI and should not be passed on to the borrower.
- 12.5.4 The guarantee will become effective upon realisation of the cheque. The CBSL will not issue a separate guarantee cover note for each batch of applications submitted.
- 12.6 Claims
- 12.6.1 Where any amount, as defined for the purpose of this guarantee, is in loss, the PFI should submit a claim to the Director, Regional Development Department, Central Bank of Sri Lanka, on the form prescribed for this purpose (RDD/NCRCS/CG/1). The RDD will send these forms to Head Offices of all PFIs as mentioned in Time Schedule at the end of each cultivation season.
- 12.6.2 A loan under the scheme is deemed to be in loss after completion of the following steps;
- Where the PFI has exhausted all the means available to recover the loan such as visiting the borrower to persuade him to repay the loan, invoking the assistance of guarantors where such guarantees have been taken and upon the issue of a demand notice to the borrower, the loan will be deemed to be in loss. A minimum of two visits to the borrower must be undertaken before submitting a claim to the CBSL. The records of such visits must be made available to Central Bank officials during inspection of PFIs. The PFI should serve the notice of demand on the borrower and on guarantors, where applicable.
  - If PFI does not get a considerable progress from actions mentioned in above 12.6.2 (a), the PFI is required to refer such cases to the Mediation Board as stipulated in the Section 11.1.
- 12.6.3 Accordingly, PFI should follow above steps and initiate appropriate legal action at the stipulated period, so that at the date of sending the credit guarantee claim applications for the 1st instalment; (RDD/NCRCS/CG/1) by CBSL to all PFIs, the cases against the defaulters should have already been referred to Mediation Board.
- 12.6.4 PFIs are strictly advised **not** to write off the loans for which credit guarantee has been paid under any circumstances, without the prior approval of the CBSL. The PFI should take all reasonable efforts to recover the loans **even after** the payment of credit guarantee.
- 12.6.5 In the case of a loan that is rescheduled and where the borrower fails to fulfill his obligations on the rescheduled loan, steps given at section 12.6.2 will have to be followed before a loan is considered to be in loss and a claim could be submitted.
- 12.6.6 On receipt of the claim form RDD/NCRCS/CG/1, the CBSL will pay 75 per cent of the CBSL liability subject to the right of recall of same, if it is found later that the branch had failed to exercise necessary supervision as required or PFI has recovered the dues later.
- 12.6.7 The balance 25 per cent of the claim will be paid once the PFI furnishes the RDD/NCRCS/CG/2 forms to the CBSL together with the Court Case numbers, arising from the legal action. The RDD will send the prescribed form (RDD/NCRCS/CG/2) for this purpose to Head Offices of all PFIs within six months from the first payment at 12.6.6 above, and the PFIs are requested to submit the remaining claims with the Court Case numbers arising from legal action.
- 12.6.8 CBSL reserves the rights to recall the amounts paid for credit guarantee 1st instalment if the PFI does not furnish the Court Case Numbers with the claim form RDD/ NCRCS/CG/2 for the 2nd instalment.
- 12.7 Computation of Loss and Claims  
For the purpose of computing the amount in loss, the principal capital outstanding balance as described in Section 12.4.1, is taken in to consideration.

### 13 Rescheduling the Loans of Non-willful Defaulters

- 13.1 As per the rescheduling programme introduced by the CBSL, the facility of rescheduling the loans in arrears, is available to PFIs in respect of loans granted to borrowers whose crops have failed owing to the factors beyond

- their control such as floods, drought, pests, natural calamities and other reasons accepted by CBSL. The area affected and the extent of damage caused to the crops or to the expected yield are determined and assessed by a committee set up in the respective area.
- 13.2 The committee responsible for determining the rescheduling in each district will consist of the following officers;
- Area Manager – Bank of Ceylon
  - Regional Manager – People’s Bank
  - Deputy General Manager – Pradeshiya Sanwardhana Bank
  - Senior Officer representing other PFIs - from the PFI which had granted a larger volume of loans in the affected area (other than above three)
  - Provincial Manager of the respective province – Central Bank of Sri Lanka
  - Authorized officer of Insurance Board
- Further, the Committee is empowered to obtain recommendations from the relevant Agricultural Officers or any other officers. The committee will determine the extent of damage caused to the crop or to the expected yield and will report to CBSL. The CBSL will accept the findings of the Committee as final.
- 13.3 The respective Committee referred to in Section 13.2 above is expected to complete the work of determining areas affected by such factors within a maximum period of one month to permit the affected borrowers to make use of the rescheduling facility as well as obtaining fresh loans for the next cultivation season.
- 13.4 The Committee should also decide whether the extent of crop loss is total or of a sufficient magnitude to relax the requirement of 10 per cent down payment required to be paid by the borrower at the time of rescheduling.
- 13.5 A borrower who is accepted by the CBSL as a non-willful defaulter as per Section 13.1 referred to above, is eligible for the following concessions;
- A minimum of 10% or more of the loan amount should be deposited with the PFI by the borrower concerned subject to above 13.4.
  - The facility of rescheduling the loan in arrears over a period of 4 successive cropping seasons or over a period of 36 months in the manner described in Section 13.6 below.
  - Get of a fresh cultivation loan for the forthcoming season considering the borrower’s repayment capacity.
  - No penal rate of interest would be charged on the loan in arrears
  - An interest rate determined by GOSL of (currently at 8% per annum) to be charged from borrowers on the rescheduled loans.
- 13.6 Applications for interest subsidy in respect of the loans rescheduled as per the terms and conditions referred to above, should be made on format RDD/NCRCS/RES/1. The PFI is required to take Demand Promissory Note from the borrower concerned for the rescheduled loan covering a period of 36 months.
- 13.7 The loans in arrears will be rescheduled as a medium term loan for a period of 4 successive cropping seasons or over a period of 36 months. The rate of interest subsidy payable for such rescheduled facility will be the prevailing interest rate determined by GOSL.
- 13.8 Recoveries made during the successive cultivation seasons in respect of the rescheduled loans should be reported to the CBSL. Where a borrower repays the rescheduled loan in full before the expiry of the period of 36 months, such recoveries should be reported to the CBSL.
- 13.9 If the loan instalments are being regularly repaid after the loan has been rescheduled, the loan balance outstanding as at the end of the relevant cultivation season should be shown in column 5 of the Form No. RDD/NCRCS/RES/1.
- Example: If the rescheduled loan amount is Rs.10,000/-, the loan balance outstanding as at the end of the first cultivation season will be Rs.7,500/-  
second cultivation season will be Rs. 5,000/-  
third cultivation season will be Rs. 2,500/- respectively.
- 13.10 PFIs are strictly advised not to submit the applications for the benefits available under the rescheduling facility without extending the benefits of rescheduled loans to the borrowers.
- 13.11 The interest subsidy payments in respect of the rescheduled loans will be made as follows;
- The payment of interest subsidy will be made in accordance with the balance payable after deducting the due amount to be paid at the end of every cultivation season or the balance remaining after deducting the loan instalment whichever is lower.
  - The payment of interest subsidy in respect of the rescheduled loans will be limited to a maximum period of 36 months. The length of a cropping season is considered as 270 days.
- 13.12 The duly completed applications in respect of the rescheduled loans should be submitted through the Head Office of the PFI concerned, to the Director, Regional Development Department, Central Bank of Sri Lanka, Colombo 1. The PFIs are advised to maintain carbon copies of these applications with themselves also.

- 13.13 The CBSL will accept the applications for rescheduling of the loans during following periods;
- Previous Maha Season - 1st May to 30th June  
 Previous Yala Season - 1st November to 31st December

#### 14 Post Claims Settlement

- 14.1 All amounts recovered by PFI from borrowers, after settlement of claims by CBSL should be shared between the CBSL and the PFI in the proportion of 60:40. The PFI should pass on to the CBSL 60 per cent of any recoveries made after the settlement of a claim. For this purpose, the format RDD/NCRCS/PC/1 (given in Annexure X) should be used.
- 14.2 The above form should be submitted semi annually for the time periods of January to June and July to December. Recovery proceeds should be made available to CBSL within 30 days from 30th June and 31st December respectively, through Head Office of the PFI.
- 14.3 Where a PFI delays remitting funds collected from the borrowers to the CBSL beyond 30 days from 30th June or 31st December during which recovery was effected, a penal rate determined by CBSL will be applied for the duration of the delay. Where a delay has occurred, the PFI is expected to add such penal interest amount when making remittance.
- 14.4 The PFIs are expected to maintain a register indicating the total guarantee received from the CBSL, interest charged and the recoveries made etc. and the register must be made available to Central Bank officials during inspections.
- 14.5 Head Office of the PFI should sum the amounts payable by each branch and submit one cheque made payable to RDD together with the recovery forms within 30 days period from 30th June and 31st December each year. When there has been any delay, the Head Office must add the penal interest at the rate determined by CBSL for the duration of delay beginning from the last date for submission of cheque and the forms.

#### 15 Inspection

The CBSL shall have the right to inspect books of accounts and other records of the PFI and carry out field visits pertaining to any loan guaranteed under the scheme.

#### 16 Modifications and Supplementary Provisions

The GOSL and CBSL reserve the right to modify or withdraw the scheme without affecting the rights or obligations arising out of any guarantees issued under the scheme prior to the date of such notification. In respect of any matter not specifically provided for in the scheme, the CBSL shall make such supplementary or additional provisions as may be necessary for the purpose of this scheme.

This Operating Instructions comes in to effect from 2011/12 Maha season.

E A Hettiarachchi  
 Director / Regional Development

Annexure I

### NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS Eligibility Criteria for Granting Loans

1. Cultivation of following crops are eligible for obtaining facilities under NCRCS

Category of Crop	Crop
Paddy	Paddy
Chillies	Chillies
Onion	Onion
Pulses	Cowpea, Green Gram, Black Gram, Soya Beans, Maize, Kurakkan
Oil Seeds	Ground Nut, Gingelly, Sunflower
Root & Tuber	Potato, Sweet Potato, Manioc, Kiri Ala
Vegetables	Brinjal, Ladies Fingers, Beet Root, Beans, Cabbage, Carrot, Capsicum, Tomato Leeks, Radish, Knol khol, Luffa, Bitter Gourd, Snake Gourd, Pumpkin
Other	Ginger

2. Nurseries of above crops (where applicable)

## NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS Scales of Finance for the Eligible Crops

1	Crop	Land Preparation	Seed Nursery and Planting	Fertilizer	Chemical (Pest/Weed/ fungus)	Others	Total Cost	Maximum loan limit per acre	Extend of Land Units (Acres)	
									Min.	Max.
1	Paddy	Irrigated	4,123	1,957	3,587	15,208	34,330	25,000	0.25	10.0
		Rain fed	4,966	1,374	3,180	13,257	31,330	15,000	0.25	10.0
2	Chillies		11,792	23,564	18,229	18,911	86,357	65,000	0.125	2.0
			65,124	14,330	6,761	37,926	130,491	95,000	0.125	2.0
4	Pulses	Cowpea	10,512	-	2,451	8,760	28,513	21,000	0.125	5.0
		Green Gram	4,480	-	6,491	11,158	30,580	23,000	0.125	5.0
	Black Gram		2,176	662	662	10,594	22,529	16,500	0.125	5.0
			3,200	4,068	5,500	6,650	24,018	18,000	0.125	5.0
	Maize		6,656	3,853	9,881	3,401	30,832	25,000	0.125	10.0
			5,086	-	-	10,060	20,840	15,500	0.125	5.0
5	Oil Seeds	Ground Nut	11,890	-	6,159	10,447	36,134	25,000	0.125	5.0
		Gingelly	2,666	-	-	7,747	17,706	12,000	0.125	5.0
	Sun Flower		3,000	2,500	1,000	4,000	14,500	8,000	0.125	5.0
			110,900	72,251	24,035	23,048	248,167	175,000	0.125	2.0
6	Root & Tuber	Potato	4,275	5,437	4,800	12,600	35,212	25,000	0.125	5.0
		Sweet Potato	12,000	5,000	-	8,000	45,000	25,000	0.125	5.0
7	Vegetable	Kiri Ala	4,800	10,980	20,700	18,400	60,880	40,000	0.125	2.0
		Brinjal	6,600	8,617	6,800	10,200	37,417	25,000	0.125	2.0
	Ladies fingers		17,940	9,987	8,850	13,500	77,877	50,000	0.125	2.0
			29,000	15,000	13,600	11,000	79,100	50,000	0.125	2.0
	Beans		16,764	42,998	24,979	25,871	134,045	90,000	0.125	2.0
			11,977	57,454	27,602	34,934	156,629	80,000	0.125	2.0
	Carrot		16,355	50,477	33,140	35,308	159,601	80,000	0.125	2.0
			10,366	29,926	27,419	28,693	115,417	50,000	0.125	2.0
	Tomato		16,050	12,729	11,200	24,300	93,479	70,000	0.125	2.0
			7,800	4,718	4,700	9,100	41,518	20,000	0.125	2.0
	Leeks		12,540	4,718	5,200	8,400	46,058	25,000	0.125	2.0
			10,200	8,043	11,000	30,200	64,943	45,000	0.125	2.0
	Radish		13,100	7,702	9,500	32,700	68,802	45,000	0.125	2.0
			11,600	8,864	10,700	31,100	67,764	45,000	0.125	2.0
	Knoh Khol		7,003	16,469	8,850	5,784	46,278	32,000	0.125	2.0
			4,000	6,000	-	5,000	80,000	70,000	0.250	2.0
8	Other		65,000	6,000	-	5,000	80,000	70,000	0.250	2.0
			4,000	6,000	-	5,000	80,000	70,000	0.250	2.0

9 Maximum amount for nurseries is Rs. 500,000.00

Note : The PFIs are authorized to release cultivation loans according to the requirements of the borrower subject to a maximum of 60% limit of the total loan amount for the first instalment for land preparation, seeds, plants, fertilizer, fungicide, insecticide etc. and the balance could be released in one or two instalments for purchasing fertilizer or harvesting as recommended by the field officer.

Since these amounts have been calculated on the basis of recommended dosages of chemical and fertilizer plus 75 per cent of labour cost and 100 per cent of machinery cost, the Branch Managers are requested to release only the amount required by each farmer considering his capacity to meet above costs by his own means.

The Branch Managers are entitled to decide loan amounts to be granted to each farmer according to the cultivation pattern, irrigated or rainfed the cultivation season - Yala or Maha, the crop mixture and the farmers' repaying capacity etc. within the above maximum loan amounts per acre.

**NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS**  
**Time Schedule for Cultivation Activities**

*15th June of every year should be request to the Treasury for the next year budgetary allocation*

Payment Schedule	Maha 01st October - 31st March (next year)		Yala 01st April - 30th September	
<b>1 Interest Subsidy 1st Installment</b>				
1.1 Issue of Operating Instruction to the PFIs	15th September	Year 1	15th March	Year 1
1.2 Closing date to send interest subsidy applications from PFIs to the CBSL	15th February	Year 2	15th August	Year 1
1.3 Recommend payment of 1st installment to the Treasury	15th March	Year 2	15th September	Year 1
<b>2 Interest Subsidy 2nd Installment</b>				
2.1 Dispatch printout of Recovery reports to the PFIs	01st September	Year 2	31st March	Year 2
2.2 Closing date to send printout of recovery reports from PFIs to the CBSL	31st October	Year 2	31st May	Year 2
2.3 Recommend payment of 2nd installment to the Treasury	31st December	Year 2	31st July	Year 2
<b>3 Credit Guarantee 1</b>				
3.1 Dispatch of Credit Guarantee 1 forms to PFIs	01st March	Year 3	30th September	Year 2
3.2 Closing date to send credit guarantee 1 forms from PFIs to the CBSL	15th April	Year 3	15th November	Year 2
3.3 Payment of Credit Guarantee Indemnity 1st installment	31st May	Year 3	31st December	Year 2
<b>4 Credit Guarantee 2</b>				
4.1 Dispatch of Credit Guarantee 2 forms to PFIs	15th September	Year 3	15th February	Year 3
4.2 Closing date to send credit guarantee 2 forms from PFIs to the CBSL	31st October	Year 3	31st May	Year 3
4.3 Payment of Credit Guarantee Indemnity 2nd installment	30th November	Year 3	30th June	Year 3

Annexure IV  
RDD/NCRCS/IS/1NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
APPLICATION FOR INTEREST SUBSIDY 1ST INSTALMENT

Bank: .....  
 Season: .....  
 Branch: .....  
 District: .....

Serial No.	Borrower's Name	Borrower's Address	Borrower's NIC No.	Category of Crop Financed	Extent of Land (acres)	Total Loan Amount Approved (Rs)	Date of Amount Released (MM/DD/YY)	Credit Guarantee Premium at 0.5 per cent (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1							.. / .. / ..	
2							.. / .. / ..	
3							.. / .. / ..	
								-

I hereby certify that the loans indicated above were granted out of the Bank's own resources at an interest rate of ..% per annum and that the bank is eligible to receive the interest subsidy in terms of Operating Instruction No: RDD/NCRCS/2011.

Name of Branch Manager : .....

Signature of Branch Manager : .....

Date: .....

Branch Stamp:-.....

Annexure V  
RDD/NCRCS/IS/2NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
APPLICATION FOR INTEREST SUBSIDY 2ND INSTALMENT  
SEASON  
PFI

Branch: .....  
 District : .....

Serial No.	Borrower's Name	Amount Sanctioned (Rs.)	Date of Amount Released (MM/DD/YY)	Total Amount of Loan Released (Rs.)	Amount Recovered (Rs.)	Date of Recovered (MM/DD/YY)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1						.. / .. / ..
2						.. / .. / ..
3						.. / .. / ..
	Total	-		-	-	

I certify that the amount in columns (5) and (6) indicating the amount released and amount recovered in respect of loans granted under NCRCS are accurate. Columns (4) and (7) indicating the dates released and recovered are also correct.

Name of Branch Manager : .....

Signature of Branch Manager : .....

Date: .....

Branch Stamp:-.....

Annexure VI  
RDD/NCRCS/RES/1NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
STATEMENT FOR RESCHEDULED LOANS – APPLICATION FOR INTEREST SUBSIDY  
SEASON  
PFI

Branch: .....

District: .....

Serial No.	Borrower's Name	Loan amount granted (Rs.)	Loan Amount Rescheduled (Rs.)	Date Rescheduled (MM/DD/YY)	Amount on which interest subsidy to be claimed			
					First (1st) Season (Rs)*	Second (2nd) Season (Rs)*	Third (3rd) Season (Rs)*	Fourth (4th) Season (Rs)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Total</b>								

\*Please state the relevant cultivation season, and rescheduled loan balances for each season.

eg: 1st season - Rs.10,000/=      2nd season - Rs.7,500/=  
3rd season - Rs.5,000/=      4th season - Rs.2,500/=

Name of Branch Manager :.....

Signature of Branch Manager :.....

Date: .....

Branch Stamp:-.....

Annexure VII  
RDD/NCRCS/RES/2NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
STATEMENT OF RECOVERIES FOR RESCHEDULED LOANS  
SEASON  
PFI

Branch: .....

District: .....

Serial No.	Borrower's Name	Loan Amount Granted (Rs.)	Loan Amount Rescheduled (Rs.)	Date Rescheduled (MM/DD/YY)	If Repaid Regularly, Capital Outstanding Balance (Rs.)	Recoveries Made (Rs.) during 1st /2nd/ 3rd Season *	Outstanding Balance as at End of Season (Rs.)	Date of Recovery (MM/DD/YY)	Eligible Amount for Interest Subsidy (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Total								

\* Delete whichever not applicable

Column 06 : If the loan instalments are being regularly repaid after rescheduling the loan, the balance outstanding as at the end of the relevant cultivation season should be shown in the column 06.

Column 07 : After the loan has being rescheduled, the loan instalment paid during the immediate cultivation season ie. The First, Second, or Third season should be shown in the column 06.

Column 08 : After deducting the respective instalments referred to in column 07 above from the loan amount rescheduled, the remaining balance outstanding in the loan ledger should be shown in the column 08.

Column 10 : Eligible amount for interest subsidy payment : The balance remaining outstanding after repaying the loan instalment regularly (Column 06) or the actual balance outstanding as per the loan ledger (Column 08) whichever is lower will qualify for the interest subsidy. This amount should be shown in column 10.

Name of Branch Manager :.....

Signature of Branch Manager :.....

Date: .....

Branch Stamp:-.....

Annexure VIII  
RDD /NCRCS/CG/1NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
CLAIM APPLICATION FOR CREDIT GUARANTEE 1st INSTALMENT  
SEASON  
PFI

Branch: .....

District: .....

Serial No.	Borrower's Name	Amount Granted (Rs)	Amount Recovered (Rs)	Outstanding Amount (Out of Capital Outstanding) as at Reporting Date (Rs.)	Name of the Mediation Board	Legal Action Taken (Mediation Board Case No.)	Date on which Legal Action Taken (DD/MM/YY)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total						

Interest and other charges should not be included in the Credit Guarantee claim 1st instalment.

Name of Branch Manager :.....

Signature of Branch Manager :.....

Date: .....

Branch Stamp:-.....

Annexure IX  
RDD / NCRCS/CG/2NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
CLAIM APPLICATION FOR CREDIT GUARANTEE 2nd INSTALMENT  
SEASON  
PFI

Branch: .....

District: .....

Serial No.	Borrower's Name	Amount Granted (Rs)	Amount in Loss (Rs)	Recoveries after Submission of 1st Claim (Rs)	Legal Action taken against Willful Defaulters			Net Loss (Rs.)
					Date of Case Filed (DD-MM-YY)	Name of the Court	Arbitration Case No.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Total							

## NOTE :

Column (5) :Recoveries after submission of 1st claim

Column (10) :Column (3) or Column (4) whichever is lower minus(-) Column (5)

Manager Name:.....

Signature :.....

Date: .....

Branch Stamp:-.....

Annexure X  
RDD /NCRCS/PC/1

**NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS  
DETAILS OF LOAN RECOVERIES  
SEASON  
PFI**

Branch: .....

District: .....

Season	Serial No.	Borrower's Name	Granted Loan Amount (Rs)	Amount Settled as Credit Guarantee (Rs)	Amount Recovered from the Borrower (Rs)	Amount to be Remitted to Central Bank (Rs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total					

Manager Name:.....

Date: .....

Signature :.....

Branch Stamp:-.....

5th December 2011

To: All PFIs

Dear Sir / Madam

**TEA DEVELOPMENT PROJECT REVOLVING FUND CREDIT SCHEME**

Further to the Operating Instructions No. (2011) RDD/TDPRF/2006/02 issued on 1st June 2011 under the Tea Development Project Revolving Credit Scheme.

As per the decision taken at the meeting held on 02.12.2011 at the Ministry of Plantation Industries, Secretary of the Ministry of Plantation Industries has recommended to amend the loan amount granted for purchasing lorries to transport green tea leaves as follows. Accordingly, the amendment is included to the Operations Instruction No.(2011) RDD/TDPRF/2006/02 from 5th December 2011.

1. 3.4.01 (i) For purchasing a vehicle to transport green tea leaves
  - Maximum loan limit per unit - Rs.3.0 million
  - Repayment Period - 5 Years
  - Eligible vehicles - Lorries

Yours faithfully

E A Hettiarachchi

**Director / Regional Development Department**

Directions issued by the Monetary Board under Section 9 of the Finance Companies Act, No. 78 of 1988, as amended.

Nivard Ajith Leslie Cabraal

**Chairman of the Monetary Board/  
Governor of the Central Bank of Sri Lanka**

Colombo

2 August 2011

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

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

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

- |  |   |
|--|---|
| <b>Minimum Core Capital</b>                            | 1. Every registered finance company shall at all times maintain an unimpaired core capital not less than Rs. 400 million (Rupees Four Hundred million) subject to the transitional provision at paragraph 2 herein.   |
| <b>Transitional Provision</b>                          | 2. The effective date of this Direction for a registered finance company in operation as at the date of this Direction shall be as follows; <ul style="list-style-type: none"> <li>(i) Every finance company should continue to maintain an unimpaired core capital at a level not less than Rs. 200 million (Rupees Two Hundred million) until end December 2012.</li> <li>(ii) Thereafter, every finance company shall, at all times, maintain an unimpaired core capital at a level not less than Rs. 300 million (Rupees Three Hundred million) from 01.01.2013 and Rs. 400 million (Rupees Four Hundred million) from 01.01.2015.</li> </ul> |
| <b>Sanctions imposed in the case of non-compliance</b> | 3. Where a registered finance company has failed to comply with this Direction; <ul style="list-style-type: none"> <li>a) The total amount of deposit liabilities and debt shall be capped at the level as at the end of the month in which the non-compliance was confirmed, and</li> <li>b) The company shall not pay dividend, until the minimum capital requirement is complied with and is confirmed to the satisfaction of the Director.</li> </ul>   |
| <b>Definition</b>                                      | 4. In this Direction; <ul style="list-style-type: none"> <li>a) <b>"core capital"</b> shall have the same definition as contained in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.</li> <li>b) <b>"Director"</b> means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</li> </ul>  |
| <b>Revocation of the Direction No. 1 of 2006</b>       | 5. Finance Companies (Minimum Core Capital) Direction No. 1 of 2006 is hereby revoked.  |

Directions issued by the Monetary Board under Section 9 of the Finance Companies Act, No. 78 of 1988, as amended.

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

Colombo  
 5 September 2011

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

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

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

- |  |   |
|--|---|
| <b>Requirement to submit information</b> | 1. Every finance company shall submit information to the Director according to the formats provided under the <i>Central Bank Financial Information System</i> by the due dates as specified in Schedule I.   |
| <b>Amendments to existing Directions</b> | 2. Paragraphs 3 and 7 of the Finance Companies (Liquid Assets) Direction No.1 of 2009, paragraphs 4(i) and 4(ii) of the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.2 of 2006, paragraphs 5(i), 5(ii) and 5(iii) of the Finance Companies (Provision for Bad and Doubtful Debts) Direction No.3 of 2006, and paragraph 4 of the Finance Companies (Interest) Direction No. 1 of 2010 are hereby repealed. Other reporting requirements imposed under the Act and Directions issued thereunder shall remain unchanged. |

**Sanctions imposed in the case of non-compliance**

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

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

- b) The respective RFC shall forward a cheque drawn in favour of "Chief Accountant, Central Bank of Sri Lanka" within 7 working days after being informed of the penalty by the Director.
- c) In an event of continued non-compliance where penalties have arisen in three consecutive reporting periods, the CEO will be deemed not fit and proper to hold the office.
- d) In an event of non-compliance where a penalty has been imposed, the respective RFC shall disclose it in the audited annual financial statement under a separate note titled "Penalties imposed by the Central Bank".

**Definitions**

4. 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-based data transmission system provided by the Central Bank to RFCs supervised by it for the purpose of submitting financial information.
- d) "Week" means a week beginning Monday.

**Revocation of the Direction No. 5 of 2009**

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

**SCHEDULE I: TIME SCHEDULE FOR REPORTING REQUIREMENTS**

Report		Periodicity	Due Date
i	NBD-WF-15-LA (Liquid Assets)	Weekly	First Working Day following the end of the respective week.
ii	NBD-WF-16-DL (Deposit Liability)	Weekly	First Working Day following the end of the respective week.
iii	NBD-MF-17-AD (Advances)	Monthly	By the 7th of the following month
iv	NBD-MF-04-LA (Liquid Assets)	Monthly	By the 7th of the following month
v	Rate of Interest	Monthly	By the 7th of the following month
vi	NBD-MF-01-BS (Balance Sheet)	Monthly	By the 15th of the following month
vii	NBD-MF-02-PL (Profit & Loss)	Monthly	By the 15th of the following month

viii	NBD-MF-03-CA (Classification of Adv.)	Monthly	By the 15th of the following month
ix	NBD-MF-07-SL (Secured Large Exposure <sup>(a)</sup> )	Monthly	By the 15th of the following month
x	NBD-MF-07-UL (Unsecured Large Exposure <sup>(b)</sup> )	Monthly	By the 15th of the following month
xi	NBD-MF-08-AR (Advances to Related Parties)	Monthly	By the 15th of the following month
xii	NBD-MF-09-IE (Investments in Equity)	Monthly	By the 15th of the following month
xiii	NBD-MF-10-GA (Maturity Gap Analysis)	Monthly	By the 15th of the following month
xiv	NBD-MF-11-IS (Interest Rate Sensitivity)	Monthly	By the 15th of the following month
xv	NBD-MF-12-C1(C1) (Capital Adequacy Ratio)	Monthly	By the 15th of the following month
xvi	NBD-MF-12-C2(C2) (Capital Adequacy Ratio)	Monthly	By the 15th of the following month
xvii	NBD-MF-12-C3(C3) (Capital Adequacy Ratio)	Monthly	By the 15th of the following month
xviii	NBD-MF-12-C4(C4) (Capital Adequacy Ratio)	Monthly	By the 15th of the following month
xix	NBD-MF-13-SC (Sector wise Credit Exposure)	Monthly	By the 15th of the following month
xx	NBD-MF-14-IS (Interest Spread)	Monthly	By the 15th of the following month
xxi	Balance Sheet - Audited	Annually	As required by the Act. (Currently, within six months from the end of each financial year).
xxii	Profit & Loss Account - Audited	Annually	As required by the Act. (Currently, within six months from the end of each financial year).
xxiii	Capital Adequacy Ratio - Audited	Annually	By the deadline specified by the Act to submit audited balance sheet. (Currently within six months from the end of each financial year).

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

Directions issued by the Monetary Board under section 9 of the Finance Companies Act, No. 78 of 1988, as amended.

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

Colombo  
 5 September 2011

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

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

**Disqualification for being appointed as a director or an officer performing executive functions**

1. No person shall be appointed as a director of a finance company or an officer performing executive functions (hereinafter referred as "officer") in such company unless that person is a fit and proper person to hold office as a director or an officer in terms of the provisions of these Directions.

**Criteria for assessment of fitness and propriety**

2.1 In assessing the fitness and propriety of a person for the purpose of Direction 1 above, the following matters shall be considered by the Director :-

- (a) that such person possesses academic or professional qualifications or effective experience in banking, finance, business or administration or of any other relevant discipline;
- (b) that such person is not being subjected to an investigation or inquiry involving fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, Commission of Inquiry, tribunal or other body established by law, in Sri Lanka or abroad;
- (c) that such person is not found by any court of law, regulatory or supervisory authority, professional association, Commission of Inquiry, tribunal or any other body established by law in Sri Lanka or abroad, to the effect that such person has committed or has been connected with the commission of, any act which involves fraud, deceit, dishonesty, improper conduct or non-compliance with provisions of any Statute or rules, regulations, directions or determinations issued thereunder;
- (d) that such person has not been convicted by any Court in Sri Lanka or abroad in respect of an offence involving fraud, deceit, dishonesty or similar criminal activity;
- (e) that such person has not been declared insolvent or declared bankrupt in Sri Lanka or abroad;
- (f) that such person has not failed to satisfy any judgment or order of any Court whether in Sri Lanka or abroad, or to repay a debt;
- (g) that such person has not been declared by a Court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;
- (h) that such person has not been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive officer or other officer or an employee in any bank, finance company or a corporate body in Sri Lanka or abroad;
- (i) that such person has not been a director, chief executive officer or held any other position of authority in any bank, finance company or financial institution:
  - (i) whose license or business has been cancelled or suspended on grounds of regulatory concerns; or
  - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated; whether in Sri Lanka or abroad.

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

**Procedure to be followed in assessing the fitness and propriety**

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

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

- 3.3 With respect to existing directors and officers, finance companies shall obtain and submit affidavits and declarations to the Director within thirty days of this Direction.
- 3.4 In respect of every continuing director, a finance company shall obtain and submit affidavits and declarations to the Director annually before the Annual General Meeting of the respective finance company if such directors are nominated for re-appointment.
- Approval of the Director**
- 4.1 The Director may, having regard to the matters specified in Direction 2 above, approve or refuse to approve the appointment or continuation as the case may be as a director or an officer of a finance company.
- 4.2 The Director shall notify the finance company of such approval or refusal giving reasons therefor and it shall be the duty of the finance company to communicate such notification to the director or the officer concerned and implement same.
- Determination by the Director at any time**
- 5 Where the Director, having regard to the matters specified in Direction 2 above, is satisfied at any time that a person appointed or continued is not fit and proper as a director or an officer for continuation, may determine that the person is not fit and proper to be a director or an officer of a finance company and the Direction 4.2 above shall be applicable thereafter.
- Subsequent ineligibility to be notified**
- 6.1 Every finance company shall notify the Director of any reasonable suspicions or findings to the effect that any director or an officer is not a fit and proper person to hold office in the respective finance company within fourteen days of it being aware of such suspicion or findings.
- 6.2 If circumstances vary, change, render invalid, make inapplicable or falsify the information contained in an affidavit or declaration submitted by a director or an officer, such person shall, within fourteen days, notify the Director.
- Appeal to the Monetary Board**
- 7.1 A person aggrieved by the refusal or determination of the Director under Direction 4.1 or 5 above may within fourteen days of receipt of the communication sent by the finance company make an appeal giving reasons in writing in justifiable manner to the Monetary Board.
- 7.2 The Monetary Board may, after considering reasons given by the Director and the objections of the aggrieved party, decide either to confirm or over-rule the refusal made by the Director.
- Interpretation**
8. In this Direction, unless the context otherwise requires :-
- (a) "Act" shall mean the Finance Companies Act, No. 78 of 1988.
  - (b) "Director" shall have the same meaning as contained in section 46 of the Finance Companies Act, No. 78 of 1988.
  - (c) "Date of receipt" of any document under this Direction shall be, if sent via facsimile, electronic mail or hand delivery: on the same day of dispatch; if sent via registered post: on the expiry of 3 working days from the date of dispatch. For purposes of clarity, if a document has been dispatched on more than one delivery method, the time of delivery of the most expeditious method shall be considered.
  - (d) Officers performing executive functions in a finance company are as follows:
    - i. Chief Executive Officer/General Manager
    - ii. Additional General Manager
    - iii. Senior Deputy General Manager
    - iv. Deputy General Manager

- v. Assistant General Manager
- vi. Chief Operating Officer
- vii. Chief Risk Officer
- viii. Chief Accountant
- ix. Chief Financial Officer
- x. Chief Internal Auditor
- xi. Compliance Officer
- xii. Head of Treasury
- xiii. Head of Legal
- xiv. Head of Information Technology
- xv. Company Secretary
- xvi. Officers serving as consultants or advisors to the board of directors of the finance company
- xvii. Officers involving in decisions on credit, assets and marketing of products of the respective finance company
- xviii. Any other officer within the meaning of "key management personnel" as stated in the Finance Companies (Corporate Governance) Direction, No. 3 of 2008

Annex I

Name of Registered Finance Company:

**AFFIDAVIT TO BE SUBMITTED BY DIRECTORS AND OFFICERS PERFORMING EXECUTIVE FUNCTIONS IN REGISTERED FINANCE COMPANIES**

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

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

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



Affix Stamps as applicable

Before me

JUSTICE OF THE PEACE/  
COMMISSIONER FOR OATHS

**Name of Registered Finance Company:****DECLARATION TO BE SUBMITTED BY DIRECTORS AND OFFICERS PERFORMING EXECUTIVE FUNCTIONS  
(WITH ENCLOSURES AS APPROPRIATE AS OF .....)****1. Personal Details**

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

**2. Appointment to the Finance Company**

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

**3. Personal Details of Relatives**

- 3.1 Full name of spouse:
- 3.2 National Identity Card No:
- 3.3 Passport Number:
- 3.4 Details of dependant children:

	Full name	NIC	Passport number
3.4.1			
3.4.2			
3.4.3			

**4. Background and Experience**

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

Name of the institution	Period of office	Designation

**5. Share holdings in Finance Companies and their Related Companies**

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

Name of the institution	No. of shares	Percentage holding

**6. Business Transactions<sup>1</sup>**

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

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

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

### 7. Appointment, Shareholdings and Business Transactions of Relatives

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

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

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

Full name of the relative	No. of Shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

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

Full name of the relative	Nature of business transaction	Date of transaction	Limit as at ..... (Rs. mn)	Out-standing as at ..... (Rs. mn)	Type and value of collateral (Rs. mn)	% of finance company's paid up capital

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

### DECLARATION:

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

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

Date:

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

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

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

Date:

**Signature of Chief Executive Officer  
and The Official Stamp**

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

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

Date:

**Signature of Chairman of The  
Board of Directors**

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

Direction issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

K M A N Daulagala  
Director  
Department of Supervision of  
Non-Bank Financial Institutions  
Central Bank of Sri Lanka

On this 30<sup>th</sup> day of March, 2011

**FINANCE LEASING  
(CAPITAL ADEQUACY RATIO) DIRECTION NO. 1 OF 2011**

- |  |   |
|--|---|
| <b>Citation</b>                                      | 1. This Direction may be cited as the Finance Leasing (Capital Adequacy Ratio) Direction No. 1 of 2011 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, No.56 of 2000 (hereinafter referred to as a 'specialised leasing companies').   |
| <b>Minimum Capital Adequacy Ratio</b>                | 2. (i) Every specialised leasing company shall at all times maintain a capital adequacy ratio of not less than 10 per cent in relation to its total risk weighted assets with core capital ratio constituting not less than 5 per cent in relation to its total risk weighted assets .<br>(ii) The capital adequacy ratios referred to in section 2 (i) above shall be computed as per guidelines given in Schedule I hereto. |
| <b>Reporting Formats</b>                             | 3. Specialised leasing companies shall use the format at Schedule II attached hereto for reporting of capital adequacy ratios on a periodic basis as specified in Schedule I.   |
| <b>Steps to secure compliance with the Direction</b> | 4. Where a specialised leasing company has failed to comply with this Direction, such specialised leasing company shall not pay dividends until such compliance is effected and confirmed to the Director.  |
| <b>Force of the Direction</b>                        | 5. This Direction shall come into force with effect from 01.07.2011.  |

## GUIDELINES ON COMPUTATION OF CAPITAL ADEQUACY RATIO

### 1. Minimum Capital Ratio

All specialised leasing companies shall at all times maintain the capital adequacy ratios determined by the Director.

### 2. Reporting Format

2.1 The attached reporting format (Schedule II) collects information on the capital adequacy position of specialised leasing companies. The returns comprise of 3 major parts and shall be submitted through the web – based.

2.1.1 Part I - NBL-MF-20-RWCA 1 (Computation of capital adequacy ratios)

2.1.2 Part II - NBL-MF-20-RWCA 2 (Computation of total capital base)

2.1.3 Part III - NBL-MF-20-RWCA 3 (Computation of total risk weighted assets)

### 3. Submission dates

3.1 A return as at end of each month within fifteen days after the end of each month.

3.2 A return as at end of each financial year within six months after the end of each financial year.

### 4. Computation of Capital Adequacy Ratio (Part I)

4.1 Eligible Core Capital (Eligible Tier I)

(WBRC 20.1.1.0.0.0)

The amount must agree with item 6 of the Part II computation of total capital base below.

4.2 Capital Base

(WBRC 20.1.2.0.0.0)

The amount must agree with item 13 of the Part II computation of total capital base below

4.3 Total Risk Weighted Amount

(WBRC 20.1.3.0.0.0)

The risk-weighted assets are determined by adding the risk to the various categories of the assets. The amount must agree with item 23 of the Part III computation of total risk weighted assets below

4.4 Core Capital (Tier I) Ratio, %

(WBRC 20.1.4.0.0.0)

Eligible core capital (item 1 of Part I) divided by Total risk weighted amount (item 3 of Part I)

4.5 Total Capital Ratio, %

(WBRC 20.1.5.0.0.0)

The total capital base (item 2 of part I) divided by Total risk weighted amount (item 3 of Part I)

### 5. Computation of Total Capital Base (Part II)

#### 6. Eligible Core Capital (Eligible Tier I) (WBRC 20.2.1.1.0.0)

The Eligible Core Capital shall be the total core capital less total amount of deductions/adjustments to core capital. The amount must agree with the item 7 less from item 8 of the Part II below.

#### 7. Core Capital (Tier I) (WBRC 20.2.1.1.1.0)

Core capital shall mean the definition given by the Finance Leasing (Minimum Core Capital) Direction No 1 of 2010. The amount must agree with the sum of items 7.1 to 7.8 of the Part II computation of total capital base below.

7.1 Issued and Paid –up Ordinary Shares or Common Stocks

(WBRC 20.2.1.1.1.1)

Issued and fully paid ordinary shares or common stock. For the computation, only the paid up portion of partly paid shares or stock should be taken as capital. Any shares issued against reserves, surpluses, retained profits which are not eligible to be included.

7.2 Non-Cumulative, Non-Redeemable Preference Shares

(WBRC 20.2.1.1.1.2)

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

- 7.3 The Excess of Issue Price over the Par Value of the Ordinary Shares  
(WBRC 20.2.1.1.1.3)  
The excess of issue price over the par value of the ordinary shares, common stock or non-cumulative, non-redeemable preference shares, if applicable.
- 7.4 Statutory Reserve Fund  
(WBRC 20.2.1.1.1.4)  
Balance as per last audited statement of accounts in the Reserve Fund set up by leasing companies in terms of the Finance Leasing (Reserve Fund) Direction No.5 of 2006.
- 7.5 General or other Free Reserves  
(WBRC 20.2.1.1.1.5)  
Disclosed reserves in the form of general or other free reserves created or increased by appropriation of retained earnings, share premium or other realised surpluses as per last audited statement of accounts.
- 7.6 Published Retained Profits/(Accumulated Losses)  
(WBRC 20.2.1.1.1.6)  
Balance in the profit and loss account brought forward from the previous financial years and as reported in the last audited statement of accounts. Accumulated losses should be reported in parentheses and deducted from the other capital constituents. Retained profits arising from the revaluation of investment property should not be included.
- 7.7 Surplus/loss after tax, arising from the sale of Fixed and Long Term Investments  
(WBRC 20.2.1.1.1.7)  
Any surplus/loss after tax, arising from the sale of fixed and long term investments since the closing date of the last audited accounts. Net loss arising from the sale of fixed and long term investments should be reported in parentheses and deducted from the other capital constituents.
- 7.8 Unpublished Current Year's Profits/Losses  
(WBRC 20.2.1.1.1.8)  
Current year's profits/losses (excluding any surplus/loss after tax, arising from the sale of fixed and long term investments) earned/incurred since the closing date of the last audited accounts and subject to certification by the specialised leasing company's external auditor.

## 8. Deductions/Adjustments- Tier I (WBRC 20.2.1.1.2.0)

The amount must agree with the sum of item 8.1 to 8.6 of Part II computation of total capital base below

- 8.1 Good will  
(WBRC 20.2.1.1.2.1)  
Report the amount of goodwill as shown in the balance sheet.
- 8.2 Net deferred tax  
(WBRC 20.2.1.1.2.2)  
Net debit balance of differed tax
- 8.3 Other Intangible Assets  
(WBRC 20.2.1.1.2.3)  
Intangible assets and losses in the current period and those brought forward from previous period should be deducted from core capital.
- 8.4 Advances granted to employees of the specialised leasing company for the purchase of shares of the specialised leasing company under a share ownership plan  
(WBRC 20.2.1.1.2.4)
- 8.5 50% of Investments in Banking and Financial Subsidiary Companies  
(WBRC 20.2.1.1.2.5)  
50 percent of investments in capital by way of shares, hybrid capital instruments or subordinated term debt in banking and financial subsidiary companies
- 8.6 50% of Investments in the capital of other Banking and Financial Institutions  
(WBRC 20.2.1.1.2.6)  
50 percent of investments in capital by way of shares, hybrid capital instruments or subordinated term debt in other banking and financial institutions

## 9. Supplementary Capital (Tier II) (WBRC 20.2.1.2.1.0)

The amount must agree to sum of following items from 9.1 to 9.4 of Part II computation of total capital base below. (WBRC 11.2.1.2.1.1 to 11.2.1.2.1.5)

### 9.1 Revaluation Reserves (approved by the Director)

(WBRC 20.2.1.2.1.1)

Revaluation surpluses/reserves, any shares issued against revaluation surpluses/reserves and retained profits/ revaluation surpluses arising from the revaluation of investment property and shares issued against such profits/ surpluses may be included in Tier 2 (Supplementary) Capital provided that such revaluation is prudently done reflecting fully the possibility of price fluctuations and forced sale, with prior approval from the Director. Shares issued against goodwill, promoters role and other similar non-cash considerations should not be included in Tier 2 (Supplementary) Capital

### 9.2 General Provisions

(WBRC 20.2.1.2.1.2)

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

### 9.3 Hybrid Capital Instruments (Debt/Equity)

(WBRC 20.2.1.2.1.3)

Capital instruments having certain characteristics of both equity capital and debt. e.g.: perpetual loan stock, non-redeemable preference shares, etc. which satisfy the following characteristics:

- (i) Prior written approval of the Director has been obtained for inclusion of such item in the capital.
- (ii) Unsecured, subordinated and fully paid.
- (iii) Not redeemable at the initiative of the holder in less than five years or without the prior consent of Director.
- (iv) Available to participate in losses without the company being obliged to cease trading.
- (v) Obligation to pay interest that can be deferred where the profitability of the company would not support such payment. Prior approval of Director is required for the inclusion of such items in the capital base.

### 9.4 Approved Subordinated Term Debt

(WBRC 20.2.1.2.1.4)

Subordinated term debt that satisfies following conditions:

- (i) Prior written approval of the Director has been obtained for inclusion as Tier II capital
- (ii) Unsecured, fully paid up and subordinated to the interests of all creditors other than holders of unsecured subordinated term debt instruments and hybrid (debt/equity) capital instruments.
- (iii) A minimum original maturity of an instrument to be 5 years.
- (iv) No early repayment or redemption to be made without the prior consent of Director.
- (v) Discounting of the amount counted as capital by 1/5th each year during the four years preceding maturity; and
- (vi) The total approved subordinated term debt should not exceed 50 per cent of total Tier I capital.

*Report total actual amount of approved subordinated term debts.*

## 10. Deductions/Adjustments- Tier II

### (WBRC 20.2.1.2.2.0)

#### 10.1 50% of Investments in Banking and Financial Subsidiary Companies

(WBRC 15.2.1.2.2.1)

50 percent of investments in capital by way of shares, hybrid capital instruments or subordinated term debt in banking and financial subsidiary companies.

#### 10.2 50% of Investments in the capital of other Banking and Financial Institutions

(WBRC 20.2.1.2.2.2)

50 percent of investments in capital by way of shares, hybrid capital instruments or subordinated term debt in other banking and financial institutions.

**11. Total Supplementary Capital (Tier II)**

The amount must agree to Supplementary Capital (Tier II) (9) less Tier II Deductions (10)  
(WBRC 20.2.1.2.0.0)

**12. Eligible Supplementary Capital (Tier II) (WBRC 20.2.1.3.0.0)**

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

**13. Capital Base (WBRC 20.2.1.4.0.0)**

The amount must agree with the sum of items of eligible core capital (6) and eligible supplementary capital (12)

An indicative list of institutions which may be deemed to be banking and financial subsidiaries/ institutions for the purpose of items 8.5, 8.6, 10.1 and 10.2

- i. Licence Commercial Banks and Licence Specialised Banks
- ii. Registered Finance Companies
- iii. Specialised Leasing Companies
- iv. Insurance Companies
- v. Merchant Bank
- vi. Primary Dealers

**PART III****COMPUTATION OF TOTAL RISK WEIGHTED ASSETS****14. Cash in Hand and Bank Balances (WBRC 20.3.1.1.0.0)**

Cash in Hand which are notes and coins are the legal tender in Sri Lanka and the credit balances in bank's current accounts (licensed commercial banks (LCBs) and licensed specialised banks (LSBs)).

**15. Call/Savings/Fixed Deposits with Other Institutions (WBRC 20.3.1.2.0.0)**

15.01 Deposits with banks (WBRC 20.3.1.2.1.0)  
Deposits maintained with LCBs and LSBs.

15.02 Deposits with Finance Companies (WBRC 20.3.1.2.2.0)  
Deposits maintained with Finance Companies.

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

**16. Central Bank and Government Securities (WBRC 20.3.1.3.0.0)**

Holdings of any securities in Central Bank and Sri Lankan Government eg.: Treasury bills, Treasury bonds, Rupee loans etc. and Central Bank securities.

**17. Investments in Promissory Notes/Commercial Papers with any other Institutions (WBRC 20.3.1.4.0.0)**

Any amount investing in commercial paper and promissory notes with other institutions

**18. Investments in Shares (WBRC 20.3.2.0.0.0)**

Investments in equity or other capital instruments in quoted or unquoted companies as reported in the balance sheet.

**19. Accommodations (WBRC 20.3.3.0.0.0)**

19.01 Finance Lease (WBRC 20.3.3.1.0.0)

Total outstanding finance leases net of with bad and doubtful accommodation and interest in suspense as reported in the balance sheet

19.02 Hire Purchase (WBRC 20.3.3.2.0.0)

Total outstanding hire purchase net of with bad and doubtful accommodation and interest in suspense as reported in the balance sheet

19.03 Term Loan (WBRC 20.3.3.3.0.0)

Total loans net of with bad and doubtful accommodation as reported in the balance sheet

- 19.04 Factoring (WBRC 20.3.3.4.0.0)  
Total outstanding factoring value net of with bad and doubtful accommodation as reported in the balance sheet
- 19.05 Inter Company Credit (WBRC 20.3.3.5.0.0)  
The outstanding inter company receivable balance as reported in the balance sheet
- 19.06 Other Accommodations (WBRC 20.3.3.6.0.0)  
All other outstanding accommodation other than the above reported in item 22.01 to 22.05 net of with bad and doubtful accommodation as reported in the balance sheet

**20. Fixed Assets (WBRC 20.3. 4.0.0.0)**

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

**21. Other Assets (WBRC 20.3.5.0.0.0)**

All other assets or investments not included elsewhere in the Return

**22. Off- Balance Sheet Items (WBRC 20.3.6.0.0.0)**

All other off-balance sheet assets

**23. Total Risk Weighted Assets (WBRC 20.3.7.0.0.0)**

The total risk weighted assets of on-balance sheet items and off-balance sheet items which is the total shown in column 3 of Part III.

**Schedule II**  
**Part I**

**NBL-MF-20-RWCA 1 (COMPUTATION OF CAPITAL ADEQUACY RATIO)**

AS AT .....

(Rs.'000)

Code	Web – Based Return Code	Item	Amount
1	20.1.1.0.0.0	Eligible Core Capital (Eligible Tier I) = Part II	
2	20.1.2.0.0.0	Capital Base Part II	
3	20.1.3.0.0.0	Total Risk Weighted Amount Part III	
4	20.1.4.0.0.0	Core Capital (Tier I) Ratio % = $(1/3 \times 100) = 5\%$	
5	20.1.5.0.0.0	Total Capital Ratio % = $(2/3 \times 100) = 10\%$	

**Part II**

**NBL-MF-20-RWCA 2 (COMPUTATION OF TOTAL CAPITAL BASE)**

AS AT .....

(Rs.'000)

Code	Web - Based Return Code	Constituents of Capital	Amount
6	20.2.1.1.0.0	Eligible Core Capital (Eligible Tier I) (item 7- item 8)	
7	20.2.1.1.1.0	Core Capital (Tier I) (sum of item 7.1 to item 7.8)	
7.1	20.2.1.1.1.1	Issued and Paid-up Ordinary Shares/Common Stock	
7.2	20.2.1.1.1.2	Non-cumulative, Non-redeemable Preference Shares	
7.3	20.2.1.1.1.3	The excess of issue price over the par value of the Ordinary/ Preference Shares	

7.4	20.2.1.1.1.4	Statutory Reserve Fund	
7.5	20.2.1.1.1.5	General and Other free Reserves	
7.6	20.2.1.1.1.6	Published Retained Profits/(Accumulated Losses)	
7.7	20.2.1.1.1.7	Surplus/Loss after tax arising from the sale of fixed and long-term investments	
7.8	20.2.1.1.1.8	Unpublished Current Year's Profits/(Losses)	
8	20.2.1.1.2.0	<b>Deductions/Adjustments- Tier I (sum of item 8.1 to item 8.6)</b>	
8.1	20.2.1.1.2.1	Goodwill	
8.2	20.2.1.1.2.2	Net Deferred Tax	
8.3	20.2.1.1.2.3	Other Intangible Assets	
8.4	20.2.1.1.2.4	Advances granted to employees of the specialised leasing company for the purchase of shares of the specialised leasing company under a share ownership plan	
8.5	20.2.1.1.2.5	50% of Investments in Banking and Financial Subsidiary Companies	
8.6	20.2.1.1.2.6	50% of Investments in the capital of other Banking and Financial Institutions	
9	20.2.1.2.1.0	<b>Supplementary Capital (Tier II) (sum of item 9.1 to item 9.4)</b>	
9.1	20.2.1.2.1.1	Revaluation Reserves (approved by the Director)	
9.2	20.2.1.2.1.2	General Provisions	
9.3	20.2.1.2.1.3	Approved Hybrid Capital Instruments (debt/equity)	
9.4	20.2.1.2.1.4	Approved Subordinated Term Debt (Actual amount is .....)	
10	20.2.1.2.2.0	<b>Deductions/Adjustments- Tier II (sum of item 10.1 and 10.2)</b>	
10.1	20.2.1.2.2.1	50% of Investments in Banking and Financial Subsidiary Companies	
10.2	20.2.1.2.2.2	50% of Investments in the capital of other Banking and Financial Institutions	
11	20.2.1.2.0.0	<b>Total Supplementary Capital (Tier II) (item 9- item10)</b>	
12	20.2.1.3.0.0	<b>Eligible Supplementary Capital (Tier II)</b>	
13	20.2.1.4.0.0	<b>Capital Base (sum of item 6 and 12)</b>	

Part III

## NBL-MF-20-RWCA 3 (COMPUTATION OF TOTAL RISK WEIGHTED ASSETS)

AS AT .....

(Rs.'000)

Code	Web - Based Return Code	On-Balance Sheet and Off-Balance Sheet Assets Item	(1) Principal Amount of Balance Sheet Item	(2) Risk Weight (%)	(3) Total Risk Weighted Assets Amount (1) X (2)
14.	20.3.1.1.0.0	Cash in hand & Bank's Current Accounts		0	
15.	20.3.1.2.0.0	Call/Savings/Fixed Deposits with other institutions			
15.01	20.3.1.2.1.0	Deposits with Banks		20	

15.02	20.3.1.2.2.0	Deposits with finance companies		50	
16.	20.3.1.3.0.0	<b>Central Bank and Government Securities</b>		<b>0</b>	
17.	20.3.1.4.0.0	<b>Investments in Promissory Notes/Commercial Paper with other institutions</b>		<b>100</b>	
18.	20.3.2.0.0.0	<b>Investments in Shares</b>		<b>100</b>	
19.	20.3.3.0.0.0	<b>Accommodations: *</b>			
19.01	20.3.3.1.0.0	Finance Lease		50	
19.02	20.3.3.2.0.0	Hire Purchase		100	
19.03	20.3.3.3.0.0	Term Loan		100	
19.04	20.3.3.4.0.0	Factoring		100	
19.05	20.3.3.5.0.0	Inter Company Credit		150	
19.06	20.3.3.6.0.0	Other accommodations (Other than specified above)		150	
20.	20.3.4.0.0.0	<b>Fixed Assets</b>		<b>100</b>	
21.	20.3.5.0.0.0	<b>Other Assets</b>		<b>100</b>	
22.	20.3.6.0.0.0	<b>Off – balance sheet assets</b>		<b>100</b>	
23.	20.3.7.0.0.0	<b>Total Risk Weighted Assets</b>			

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

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

Direction issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

K M A N Daulagala  
**Director**  
**Department of Supervision of**  
**Non-Bank Financial Institutions**  
**Central Bank of Sri Lanka**

On this 30<sup>th</sup> day of March, 2011

#### FINANCE LEASING (STRUCTURAL CHANGES) DIRECTION NO. 3 OF 2011

- Citation**
1. This Direction may be cited as the Finance Leasing (Structural Changes) Direction No.3 of 2011 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 No. 56 of 2000 (hereinafter referred to as 'specialised leasing company') with immediate effect.
- Approval for structural changes**
2. No specialised leasing company without the prior approval in writing from the Director :-
    - a) establish any subsidiary or associate company;
    - b) enhance or reduce its issued capital;
    - c) sell specialised leasing company's/subsidiary's business or part of business;
    - d) change the name of the company;
    - e) acquire whole or part of the business of any other leasing company, finance company or any other company;
    - f) change its Articles of Associations;
    - g) amalgamate, consolidate or merge the company with any other leasing company or any other institution(s);
    - h) change the Board of Directors and Chief Executive Officer/Managing Director/General Manager;
    - i) opening/closure/shifting of a branch or a business place; and
    - j) transfer assets and /or liabilities of the company.

- |  |   |
|--|---|
| <b>Charges to be paid</b>                        | 3. Any specialised leasing company which fails to comply with the provisions of section (2) shall, pay to the Central Bank a charge equivalent to Rs 250,000 per violation. |
| <b>Revocation of the Direction No. 7 of 2006</b> | 4. Finance Leasing (Corporate and Operational Information) Direction No. 7 of 2006 is hereby revoked.   |

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

Direction issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

K M A N Daulagala  
**Director**  
**Department of Supervision of**  
**Non-Bank Financial Institutions**  
**Central Bank of Sri Lanka**

On this 22 day of June, 2011

### FINANCE LEASING (LIQUID ASSETS) DIRECTION NO. 4 OF 2011

- |   |  |
|---|--|
| <b>Citation</b>                                 | 1. This Direction may be cited as the Finance Leasing (Liquid Assets) Direction No.4 of 2011 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 No. 56 of 2000 (hereinafter referred to as 'specialised leasing company').   |
| <b>Minimum holding of liquid assets</b>         | 2. Every specialised leasing company shall maintain minimum liquid assets at the close of the business on any day of an amount not less than 5 per cent of the total liabilities and off balance sheet items but excluding the liabilities to the share holders with effect from 01.01.2012 and not less than 10 per cent with effect from 01.01.2013.   |
| <b>Definition of liquid assets</b>              | 3. Liquid assets shall include: <ol style="list-style-type: none"> <li>a) Cash in hand;</li> <li>b) balances in a current or deposit account in a commercial bank free from any bankers lien or charge;</li> <li>c) Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any charge or lien;</li> <li>d) Sri Lanka Government Securities maturing within one year and free from any charge or lien;</li> <li>e) Central Bank of Sri Lanka securities maturing within one year and free from any charge or lien;</li> <li>f) such other assets as may be determined by the Director</li> </ol> |
| <b>Force of the Direction</b>                   | 4. This Direction shall come into force with effect from 01.01.2012.   |
| <b>Charges to be paid</b>                       | 5. Any specialised leasing company which fails to comply with the provisions of section (2) shall pay to the Central Bank one tenth of one per centum per day on the amount of the deficiency at end of every month.   |
| <b>Reporting Format</b>                         | 6. Every specialised leasing company shall use the format at Schedule I attached hereto for the reporting of statutory liquid assets as at the close of business on the last working day of each month and shall forward to the Director on or before the fifteenth day of the following month through the Web Base Reporting System.  |
| <b>Revocation of the Direction No 2 of 2011</b> | 7. Finance Leasing (Liquid Assets) Direction No.2 of 2011 is hereby revoked  |

**NBL-MF- 21 –LA (COMPUTATION OF STATUTORY LIQUID ASSETS)**

AS AT .....

Code	Web-Based Return Code	Item	Rs "000"
1.	21.1.1.0.0.0	Total Liabilities ( item 3.2.0.0.0.0 of NBL-MF-03-BS )	
2.	21.1.2.0.0.0	Total Off – Balance Sheet Assets ( item 3.3.0.0.0.0 of NBL-MF-03-BS )	
3.	21.1.3.0.0.0	Total Share Holders' Funds ( item 3.2.1.0.0.0 of NBL-MF-03-BS )	
4.	21.1.4.0.0.0	Total Amount for the Calculation (sum of item 1 +2 less item 3)	
5.	21.1.5.0.0.0	Available total Liquid Assets (sum of item 5.1 to item 5.5)	
5.1	21.1.5.1.0.0	Cash in hand	
5.2	21.1.5.2.0.0	balances in a current or deposit account in a commercial bank free from any bankers lien or charge	
5.3	21.1.5.3.0.0	Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any charge or lien	
5.4	21.1.5.4.0.0	Sri Lanka Government Securities maturing within one year and free from any charge or lien	
5.5	21.1.5.5.0.0	Central Bank of Sri Lanka securities maturing within one year and free from any charge or lien	
6.	21.1.6.0.0.0	Liquid Assets Ratio (5 as a % of 4)	
7.	21.1.7.0.0.0	Deficit Liquid Assets (item 5 less item 6)	
8.	21.1.8.0.0.0	Charge to be paid to the Central Bank (item7*1/10*1%)	

12 May, 2011

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

Dear Sir/Madam,

**GUIDELINES ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT**

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

Yours faithfully,

**Director**

Encl;

**GUIDELINES TO REGISTERED FINANCE COMPANIES AND SPECIALISED LEASING COMPANIES  
ON THE OPERATIONS OF THE  
INVESTMENT FUND ACCOUNT PROPOSED IN THE 2011 BUDGET**

**1. Establishment of an Investment Fund Account (IFA)**

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

**2. Initial Credits to IFA**

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

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

### 3. Utilization of Funds

- 3.1 RFCs & SLCs shall commence utilization of funds in the IFA in the following manner within three months from the date of transfer to the IFA;
- (i) Invest in long-term Government securities and/or bonds with maturities not less than seven years.
  - (ii) Lend on maturities not less than five years at interest rates not exceeding 5-year Treasury bond rates plus 2 per cent.
  - (iii) Facilities granted only for the following purposes:
    - (a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries.
    - (b) Factory/mills modernization/establishment/expansion
    - (c) Small and medium enterprises:
      - a loans up to Rs. 30 mn or
      - b loans over Rs. 10 mn to enterprises with annual turnover less than Rs. 300 mn and employees less than 400.
    - (d) Information Technology related activities and Business Process Outsourcing
    - (e) Infrastructure development
    - (f) Education - vocational training and tertiary education
    - (g) Restructuring of loans extended for the above purposes.
- 3.2 Facilities should be only in Sri Lanka Rupees.
- 3.3 RFCs & SLCs shall invest funds in short-term Government securities until the commencement of utilization of funds as stated in 3.1 above.
- 3.4 Facilities should not be granted for subsidiary companies, associate companies, holding company or any director or any other related party of such RFCs and SLCs.

### 4. Conditions

- 4.1 Applicability of Prudential Requirements
- (i) Transactions of the IFA shall be subject to all Regulations, Directions, Determinations and Circulars issued by the Central Bank of Sri Lanka as applicable.
- 4.2 Accounting for Transactions
- (i) Transfers to the IFA shall be treated as appropriations of profit after tax.
  - (ii) The IFA shall be maintained as a separate item under general and other reserves and constitutes a part of shareholder funds.
  - (iii) Cost of operations of IFA and income from investments and lending operations shall be accounted for in the financial statements of the RFC/SLC.
  - (iv) RFCs & SLCs shall maintain separate accounts with necessary details on all operations of the IFA.
  - (v) IFA shall not be impaired or reduced without the approval of the Central Bank of Sri Lanka.
- 4.3 Disclosures and Reporting to Central Bank of Sri Lanka
- (i) The following disclosures shall be made in the "Notes to the financial statements":
    - (a) Number of loans granted and total amount outstanding for each purpose stated in paragraph 3.1 (iii), interest rates and tenure of loans.
    - (b) Total investments in Government securities, interest rates and maturity.
  - (ii) Information on the operations of the IFA shall be made available as and when required by the Central Bank of Sri Lanka and Ministry of Finance.
- 4.4 Treatment of Taxation
- The tax liability in relation to the operations of IFA shall be computed in accordance with applicable tax laws. However, the following shall be noted:
- (i) Interest income on investments, stated in paragraphs 3.1 (i) and 3.3 is liable to income tax.
  - (ii) Interest income on loans granted utilizing the IFA will be exempt from income tax.
  - (iii) Specific provisions on loan losses will be subject to normal adjustments applicable to bad debts.
  - (iv) Any over-funding or under-funding shall be in accordance with the relevant tax laws/regulations/guidelines.

Ref. No: 24/03/005/0028/001

12 August 2011

Chief Executive Officer  
All Registered Finance Companies and Specialized Leasing Companies

Dear Sir/Madam,

**GUIDELINES TO REGISTERED FINANCE COMPANIES (RFCs) AND SPECIALIZED LEASING COMPANIES (SLCS)  
ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT PROPOSED IN THE 2011 BUDGET**

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

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

Yours faithfully,  
**Director**

12th December 2011

Chief Executive Officers  
All Registered Finance Companies and Specialized Leasing Companies

Dear Sir/Madam,

**AMENDMENTS TO THE GUIDELINES ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT**

An amendment to paragraph 3.1(iii) of the above Guidelines and the amended format to submit information on the utilization of the investment fund account on a monthly basis are enclosed for compliance.

Yours faithfully,

**Director**

Encl.

**Annex I**

**AMENDMENT TO GUIDELINES TO REGISTERED FINANCE COMPANIES AND  
SPECIALIZED LEASING COMPANIES ON THE OPERATIONS OF THE INVESTMENT FUND ACCOUNT PRO-  
POSED IN THE 2011 BUDGET**

The following Guidelines will replace 3.1(iii) of the above.

3.1 (iii) Lend only for the following purposes commencing 13 December 2011:

- a) Long-term loans for cultivation of plantation crops/agriculture crops including, fruits, vegetables, cocoa and spices and for livestock and fisheries
- b) Factory/mills modernization/establishment/expansion
- c) Small and medium enterprises: loans up to Rs.200 mn to enterprises with annual turnover less than Rs. 600 mn
- d) Information Technology related activities and Business Process Outsourcing
- e) Infrastructure development
- f) Education: vocational training and tertiary education
- g) Housing: up to Rs. 2 mn per customer for construction of a house for residential purposes
- h) Construction of hotels and for related purposes
- i) Restructuring of loans extended for the above purposes

## UTILIZATION OF INVESTMENT FUND ACCOUNT (IFA)

Name of RFC/SLC :

As at month ended :

(Rs. 000')

Item			Amount
<b>A. Total Transferred to IFA</b>			XXXX
<b>B. Total Loans Granted</b>			
Sector	Description	Amount	
(a) Agriculture		XX	
(b) Factory/mills modernization		XX	
(c) Small and Medium Enterprises		XX	
(d) Information Technology and BPO		XX	
(e) Infrastructure development		XX	
(f) Education		XX	
(g) Housing		XX	
(h) Construction of hotels and for related purposes		XX	
(i) Restructuring of loans extended for above purposes		XX	XXXX
<b>C. Total investments in Government Securities - long-term</b>			XXXX
<b>Total investments in Government Securities - short-term</b>			XXXX
<b>D. Balance available for utilization</b>			XXXX