

# **PART III**

## PART III

### MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 2012

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**Order made by the Monetary Board of the Central Bank of Sri Lanka under section 101(1) of the Monetary Law Act, No. 58 of 1949, as amended.**

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

Colombo  
 12 March 2012

**MONETARY LAW ACT ORDER NO. 1 OF 2012**  
**CEILING ON CREDIT GROWTH OF LICENSED BANKS**

In view of the higher than desired increase in credit extended by licensed banks and its impact on the monetary aggregates and inflation, the Monetary Board in the exercise of powers conferred by section 101(1) of the Monetary Law Act, No. 58 of 1949, as amended, hereby issues Order No. 1 of 2012 as follows:

**Credit growth limits** 1. The credit growth of a licensed bank in the year 2012 shall not exceed 18 per cent of the total outstanding of credit as at end of year 2011 or Rs. 800 million, whichever is higher. Provided however, that a licensed bank may grant credit in the year 2012 in excess of 18 per cent or Rs. 800 million, up to 23 per cent of the total outstanding of credit as at end of year 2011 or Rs. 1000 million, whichever is higher, where corresponding funds are raised from overseas sources.

**Definitions** 2. The following definitions shall be applicable for the purposes of this Order.

i. "Credit" shall mean all on-balance sheet rupee credit facilities such as any loan, overdraft or advance inclusive of finance leases, hire purchase and trade finance.

ii. "Outstanding amount of credit" shall mean:

a. In the case of overdrafts and credit card receivables, the total of outstanding amount after deducting all accrued interest of all non-performing overdrafts and credit card receivables.

b. In the case of other loans and advances (other than overdrafts and credit card receivables), the total of capital outstanding amount after deducting all accrued interest on performing and non-performing loans and advances.

**Ref: 02/17/800/007/001**

Bank Supervision Department  
 19 March 2012

To : CEOs of Licensed Commercial Banks and Licensed Specialised Banks  
 Dear Sir/Madam,

**THRESHOLD AGE OF THE SENIOR CITIZENS FOR TRANSACTIONS WITH LICENSED BANKS**

The Monetary Board having observed that licensed banks and licensed finance companies use different thresholds of age to identify senior citizens when conducting banking operations has decided to request the licensed banks to use a common threshold of 55 years of age in identifying senior citizens.

Accordingly, you are requested to take appropriate measures to implement the above.

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

**Ref: 02/17/550/002/003**

Bank Supervision Department  
 29 March 2012

To : Chief Executive Officers of all Licensed Banks and Panel of Qualified Auditors  
 Dear Sir,

**DISCLOSURES IN ANNUAL REPORTS**  
**BANKING ACT DIRECTIONS ON CORPORATE GOVERNANCE**

We write to inform you that, the Monetary Board has approved of accepting the following as substitutes for compliance with the Directions 3(8)(ii)c and 3(8)(ii)g of the Banking Act Directions No.11 and 12 of 2007.

Direction	Disclosure Requirements	Substitute Disclosure Requirements
3(8)(ii)c)	The external auditor's certification on the effectiveness of the internal control mechanism reported by the board of directors	The Assurance Report issued by the auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050- Assurance Reports for Banks on Directors' Statements on Internal Control".
3(8)(ii)g)	The external auditor's certification of the compliance with Corporate Governance Directions in the annual corporate governance reports published in the annual report	A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the "Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report, provided that auditors confirm to the Director of Bank Supervision to this effect.

Accordingly, you are required to adhere to the above requirements.

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

**Ref: 02/17/600/002/001**

Bank Supervision Department  
17 April 2012

To : CEOs of Licensed Commercial Banks and Licensed Specialised Banks  
Dear Sir/Madam,

### **INTEREST RATES ON CREDIT CARDS AND HOUSING LOANS**

We refer to our letter dated 21 September 2010 on the Reduction of Interest Rates on Loans and Advances and write to inform you that, considering the recent trends in market interest rates, the Monetary Board is of the view that licensed banks may increase interest rates on housing loans to 16 per cent per annum and credit card advances to 28 per cent per annum.

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

**Explanatory Note: 1/2012**

Bank Supervision Department  
6 July 2012

### **AUTHORITY OF THE MONETARY BOARD TO ISSUE DIRECTIONS TO LICENSED BANKS REAFFIRMED BY THE COURT OF APPEAL**

The Monetary Board of the Central Bank of Sri Lanka (CBSL) issued Directions on corporate governance to licensed banks on 26 December 2007. The Directions were issued in terms of the Banking Act requiring, inter alia, fitness and propriety of bank directors, limiting the age of a director of a bank to 70 years, the term of office of a director to be not more than 9 years, etc.

Consequent to issuing these Directions, the authority of the Monetary Board of the CBSL to issue such Directions was challenged in the Court of Appeal CA (Writ) Application No. 330 /2008 by K.C. Vignarajah, the Petitioner.

As per the Court of Appeal judgment of the above action delivered on 28 March 2012, it was held that, inter-alia, the Banking Act No. 30 of 1988 falls within the category of legislation referred to as Administrative Legislation, and that a necessary aspect of such legislation is one of delegating powers to an extraneous body of persons to act at Parliament's bidding. The Court further held that, accordingly, the Banking Act is a Primary Legislation for the purpose of providing for any aspect of banking business and of business of such banks and includes the right to control the existing systems and functions of banks, and therefore that the Monetary Board has been delegated with the power to make directions

which had the approval, licence or stamp of a legislative power. On that basis, the Court of Appeal ruled that Direction No.11 of 2007 on Corporate Governance of 26 December 2007 is within the powers prescribed in the Banking Act No. 30 of 1988, as amended.

**Ref: 02/17/600/0036/001**

Bank Supervision Department  
17 July 2012

To : Chief Executive Officers of all Locally Incorporated Licensed Banks  
Dear Sir/Madam,

### **SPECIAL PAYMENTS/BENEFITS TO DIRECTORS AT THEIR RETIREMENT**

Having observed that exorbitant special payments/benefits have been made in the form of gratuity to retiring directors of some banks and that such payments/benefits are not prudent in terms of good governance, the Monetary Board has decided to require licensed banks to obtain prior approval of shareholders for any special payments/benefits made to bank directors at their retirement in addition to normal remuneration.

Accordingly, all locally incorporated licensed banks are requested to:

- (1) Incorporate such special payments/benefits to its directors at their retirement to the remuneration policy;
- (2) Obtain prior approval of the shareholders for any special payments/benefits made to directors at their retirement in addition to normal remuneration;
- (3) Ensure that all special payments/benefits are extended on arm's length basis; and
- (4) Disclose separately the aggregate value of total special payments/benefits made to retiring directors during the respective financial year in the Annual Report.

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

Cc: Chairmen of all locally incorporated licensed banks

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

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

Colombo  
18 September 2012

### **BANKING ACT DIRECTION NO. 1 OF 2012 FOREIGN EXCHANGE TRADING ACTIVITIES OF LICENSED COMMERCIAL BANKS IN SRI LANKA**

In the exercise of the powers conferred by section 46(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions on Foreign Exchange Trading Activities of Licensed Commercial Banks.

<b>Citation</b>	1(1)	These Directions may be cited as the Banking Act Direction No. 1 of 2012.
<b>Scope and Applicability</b>	2(1)	These Directions shall be applicable to: <ol style="list-style-type: none"> <li>(i) Licensed commercial banks authorised to engage in foreign exchange trading activities.</li> <li>(ii) "Authorised Persons", who are:             <ol style="list-style-type: none"> <li>(a) Persons described as "persons engaged in foreign exchange business" as per the Banking Act, Directions No. 3 of 2009 on Risk Management Relating to Foreign Exchange Business of Licensed Commercial Banks dated September 1, 2009; and</li> </ol> </li> </ol>

- (b) Persons determined as Officers Performing Executive Functions in licensed commercial banks and who are involved in foreign exchange trading activities, in terms of Determination No. 3 of 2010 made by the Monetary Board on Assessment of Fitness and Propriety of Officers Performing Executive Functions in Licensed Commercial Banks dated November 24, 2010.
- (iii) All rupee/foreign currency trading activities in the market for CASH, TOM, SPOT, FORWARD, SWAPS and other permitted foreign exchange derivative transactions.
- Market practices and procedures to be followed**
- 3(1) In order to maintain the smooth functioning and integrity of the market, all licensed commercial banks and/or Authorised Persons shall:
- (i) Undertake foreign exchange trading activities that are based on underlying transactions only. For the purpose of these Directions, an underlying transaction shall mean a current account transaction or a permitted capital account transaction, in terms of the Exchange Control Act, No. 24 of 1953, effected on the following basis:
    - (a) Purchase of foreign currency from non-commercial bank customers such as exporters, foreign currency account holders, and persons sending inward foreign currency remittances;
    - (b) Sale of foreign currency to non-commercial bank customers such as importers and persons who are permitted by law to make outward remittances in foreign exchange for approved purposes;
  - (ii) Purchase and/or sell foreign currency subject to the limit of the respective net open positions of the licensed commercial bank;
  - (iii) Adhere to the net open position at the end of each day, and also be within the intra-day net open position limit specified from time to time by the Director of International Operations Department;
  - (iv) Use clear and precise market terminology which is understood by all counterparties, at all times;
  - (v) Determine any annual performance-linked remunerations of the Authorised Persons engaged in foreign exchange trading activities, with the annual performance assessment;
  - (vi) Establish claw back arrangements for pay-outs of performance-linked remunerations;
  - (vii) Ensure all remuneration payments are based on a documented remuneration policy and avoid making any ad-hoc payments outside the pre-determined remuneration structures.
- 3(2) In order to maintain the smooth functioning and integrity of the market, any licensed commercial bank and Authorised Person shall not:
- (i) Undertake any transaction for the purpose of concealing foreign exchange positions including transferring profits and losses, which may undermine the integrity of the foreign exchange market;
  - (ii) Engage in manipulative or deceptive conduct, or any other form of conduct which would give other users of the foreign exchange market, a false or misleading impression as to the prevailing market conditions, including price, supply or demand;
  - (iii) Pressurise any other licensed commercial bank or Authorised Person by duress, inducement, threat or promise, for information or action.
- 3(3) When quoting price/rates in the foreign exchange market, all licensed commercial banks and Authorised Persons shall:
- (i) Ensure a clear distinction between firm and indicative quoted prices;
  - (ii) Set the relevant rates in a Foreign Exchange Swap transaction based on the prevailing market rates.
- 3(4) When quoting price/rates in the foreign exchange market, any licensed commercial bank and Authorised Person shall not:
- (i) Make quotes with the intention of distorting the exchange rates;

- (ii) Make quotes where the licensed commercial bank or Authorised Person has no intention of honouring, and merely to mislead market participants.
- 3(5) When making transactions, all licensed commercial banks and Authorised Persons shall:
- (i) Transact directly through the electronic platform, telephone, e-mail, facsimile or through a money market broker recognised by the Central Bank of Sri Lanka;
  - (ii) Maintain records of the foreign exchange trading activities so as to ensure a clear audit trail;
  - (iii) Update interbank foreign exchange transactions in the on-line system of the Central Bank of Sri Lanka, within the time prescribed by the Director of International Operations Department of the Central Bank of Sri Lanka;
  - (iv) Maintain and preserve documentary evidence, electronically or otherwise, of the underlying transactions of customers on all foreign exchange trading activities for a period of six years, and forward such documents to the International Operations Department of the Central Bank of Sri Lanka, as and when required;
  - (v) Disclose the profit generated through interbank foreign exchange transactions separately in the audited financial statements.
- 3(6) When making transactions, any licensed commercial bank and Authorised Person shall not enter in to transactions with the intention of manipulating the market.
- 3(7) In respect of foreign exchange derivative transactions, in addition to these Directions, licensed commercial banks and Authorised Persons shall comply with the Directions on Financial Derivative Products issued on August 1, 2009.
- 3(8) In settlement of foreign exchange transactions, licensed commercial banks shall:
- (i) Use the Society for World-wide Inter-bank Financial Telecommunications (SWIFT) System;
  - (ii) Ensure the minimizing of operational errors while preventing any gridlock in the Real Time Gross Settlement (RTGS);
  - (iii) Effect such transactions through NOSTRO Accounts only.
- 3(9) If and when an interbank transaction is to be cancelled, such cancellation may be carried out only in exceptional circumstances and where all institutions to the trade agree to such cancellation. Provided, however, that:
- (i) Both licensed commercial banks shall act in a reasonable manner in such a situation;
  - (ii) Both licensed commercial banks shall separately report full details of such cancelled interbank transaction, on the date of such cancellation, to the Director of International Operations Department of the Central Bank of Sri Lanka.
- 3(10) Licensed commercial banks shall engage in foreign exchange trading activities within the specified premises during the normal working hours (8.00 a.m. to 5.00 p.m.) on bank working days subject to Direction 3(11) hereof.
- 3(11) Foreign exchange trading activities after hours and/or off-premises, if undertaken, shall be undertaken in accordance with the formulated policy as established by the licensed commercial bank, which policy shall set out, the procedure for such foreign exchange trading activities, which shall include:
- (i) Names of Authorised Persons permitted to engage in such foreign exchange trading activities;
  - (ii) Transaction limits;
  - (iii) Establishment of the internal control system to ensure prompt recording and confirmation of all after-hours and off-premises foreign exchange trading activities.
- Ethics, standards of conduct to be followed and practised, and the knowledge levels that need to be maintained**
- 4(1) In order to preserve the integrity of the market, Authorised Persons shall:
- (i) Exercise skill, care and diligence, and act in good faith;
  - (ii) Exercise due care when in possession of non-public price sensitive information;
  - (iii) Preserve confidentiality as required by Section 77 of the Banking Act;
  - (iv) Comply with the Directions and established procedures when routinely sharing information with other counterparties.

- 4(2) In order to preserve the integrity of the market, any Authorised Person shall not:
- (i) Deal on his own account, or on the account of the licensed commercial bank which he represent, or induce another party to deal on the basis of such information, when in possession of non-public price sensitive information;
  - (ii) Enter in to any transaction which may lead to conflict of interest, or insider trading, or front running;
  - (iii) Willfully spread rumors or disseminate false or misleading information.
- 4(3) Authorised Persons shall adhere to any Code of Ethical Conduct issued by their institution so as to conduct themselves with integrity and uphold the highest standard of professionalism.
- 4(4) Licensed commercial banks shall implement internal policies and procedures in order to prohibit any form of market misconduct.
- 4(5) Licensed commercial banks and Authorised Persons shall, wherever not specifically mentioned in these Directions, be governed by the International Code of Conduct and Practice for the Financial Markets (ACI Model Code) issued and revised from time to time by ACI – The Financial Market Association.
- 4(6) In order to ensure that the Authorised Persons are properly equipped to handle their responsibilities, licensed commercial banks shall:
- (i) Ensure that a high level of awareness and understanding of market practices and conduct is provided to Authorised Persons in their institutions;
  - (ii) Ensure that the professional knowledge of the Authorised Persons in their institutions is maintained and systematically updated and upgraded;
  - (iii) Ensure that Authorised Persons in their institutions obtain the necessary qualifications as set out in Direction 10.2 of the Banking Act, Direction No. 3 of 2009 on Risk Management Relating to Foreign Exchange Business of Licensed Commercial Banks, issued on September 1, 2009.
- 4(7) In the effort to control the practices of entertainment, granting of gifts and favours, licensed commercial banks shall:
- (i) Formulate policies which protect against the receipt of unacceptable entertainment, gifts or favours by any of the Authorised Persons in their institutions, or persons connected to such Authorised Persons;
  - (ii) Establish internal value thresholds for acceptance or grant of gifts and/or entertainment, the acceptable frequency and a system whereby Authorised Persons in their institutions are required to disclose all such gifts, favours and entertainment, as and when it exceeds the applicable established internal thresholds;
  - (iii) Ensure that Authorised Persons in their institutions do not solicit gifts of any kind, and are under compulsion to immediately notify the management of the licensed commercial bank, if any unusual favours are offered to them by any other institution or person;
  - (iv) Ensure that Authorised Persons in their institutions do not make or arrange bets or indulge in gambling of any kind, in relation to foreign exchange transactions with any person.
- 4(8) In order to ensure recording of telephone conversations, licensed commercial banks shall:
- (i) Establish internal policies with regard to the appropriate data and tape recording of trading conversations and the retention of such discussions, and ensure compliance thereof;
  - (ii) Adopt appropriate policies to restrict the usage of mobile phones in the dealing rooms, so as to ensure that mobile phones are not used to circumvent the telephone recording system;
  - (iii) Ensure that access to tapes in use or in store, is strictly controlled and are not tampered with.

**Sanctions on non-compliance with these Directions**

- 5(1) In the event any licensed commercial bank and/or Authorised Person fails to comply with these Directions, the Monetary Board may, after an investigation carried out, take anyone or more of actions as it may consider necessary, including:

- (i) Reprimanding any Authorised Person who has been in non-compliance with these Directions.
  - (ii) Directing the licensed commercial bank to remove any Authorised Person, who has been in non-compliance with these Directions, from performing any function in relation to foreign exchange trading activities in the respective licensed commercial bank.
  - (iii) Reducing the Net Open Foreign Exchange Position limits of the non-compliant licensed commercial bank.
- 5(2) In the event any licensed commercial bank and/or Authorised Person fails to comply with these Directions, and the Director of Bank Supervision of the Central Bank of Sri Lanka after a preliminary investigation, is of the view that the provisions of the Exchange Control Act, No. 24 of 1953, may have been violated, such licensed commercial bank and/or Authorised Person shall be reported to the Controller of Exchange for further investigation and action by the Controller of Exchange.
- Transitional Provision** 6(1) All licensed commercial banks shall fully comply with these Directions with effect from 19 September 2012 except in the case of Directions 3(1) (v), (vi) and (vii), 3(11), 4(5), 4(7) and 4(8) which will be effective from 1 November 2012.

Ref: 02/17/600/0035/001

Bank Supervision Department  
19 September 2012

To : Chief Executive Officers of Licensed Commercial Banks

### ADOPTION OF THE ACI MODEL CODE BY SRI LANKA

Chief Executive Officers of Licensed Commercial Banks are hereby informed that the applicability of the Circular issued under Ref. No. 105/09/002/0024/001 dated 11 August 2006 for Commercial Banks on the above subject is revoked with effect from 19 September 2012.

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

Explanatory Note: 2/2012

Bank Supervision Department  
26 September 2012

## DIRECTION NO.1 OF 2012 ON FOREIGN EXCHANGE TRADING ACTIVITIES

### Frequently Asked Questions (FAQs)

These Frequently Asked Questions (FAQs) have been developed to assist the licensed commercial banks (LCBs) in complying with the Direction No. 1 of 2012 on Foreign Exchange Trading Activities of LCBs issued on 19 September 2012 and to clarify the provisions and the potential queries relating to these Directions.

- Q1** Is there a real need for another regulation on Foreign Exchange Trading Activities as CBSL issued detailed Directions dated 1 September 2009 and agreed to observe ACI model code as per circular dated 11 August 2006?
- A1** The purpose of the Direction No 3 of 2009 dated 1 September 2009, is to standardise and strengthen the foreign exchange risk management in LCBs. The applicability of the circular dated 11 August 2006 for commercial banks is revoked with effect from 19 September 2012.
- Q2** Does this Direction apply only for non-commercial bank customer transactions or can an authorized person carry out inter-bank trading for his own needs? (Direction No. 3(1) (i) and (ii)).
- A2** LCBs are allowed to carry out inter-bank trading for their own needs, within the NOP limit.
- Q3** What is the underlying transaction for SWAPs as those are commonly used for funding balance sheet mismatches and short term liquidity deficits? Can an Authorised Person buy foreign currency from the market to cover a usance bill due for settlement in the future? (Direction No. 3(1) (i) and (ii)).

- A3 LCBs are allowed to carry out foreign currency trading activities for market making, future settlements of usance bills and SWAPs transactions for funding balance sheet mismatches and short term liquidity deficits as these transactions constitute underlying transactions.
- Q4 Will enforcing this Direction significantly reduce market depth and liquidity and the ability to quote competitive prices to customers? Does this preclude market making or two-way price without underlying transactions? (Direction No. 3(1) (i) (a)).**
- A4 This Direction imposes clarity that will lead to further development in the market and facilitate market making activities. It will not reduce market depth and liquidity.
- Q5 How and when will CBSL determine Net Open Position (NOP) limits? (Direction No. 3(1) (iii)).**
- A5 Banks should comply with the existing NOP limits. However, the Director of International Operations Department of CBSL will determine the NOP limits from time to time considering the developments in the foreign exchange market.
- Q6 How and when CBSL determine intra-day position limits and whether the intra-day limit will be sufficiently large enough to accommodate large customer transactions for international trade and equity/ fixed income investment? (Direction No. 3(1) (iii)).**
- A6 The Director of International Operations Department of CBSL will determine the intra-day position limits from time to time considering the size and the behavior of the transactions.
- Q7 Is it not discriminatory to make claw back arrangements applicable only to dealers? Shouldn't it be established for pay-outs of performance based, unvested and deferred awards rather than for remuneration and rewards paid out in cash? (Direction No. 3(1) (vi)).**
- A7 LCBs may develop remuneration policies for the bank covering the basis, scope, acceptable vesting period and the coverage of the claw back arrangements.
- Q8 Are the following provisions of the Directions relating to the smooth functioning and the integrity of the market vague and ambiguous as they cover routine functions? (Direction No. 3(2) (i), (ii) and (iii)).**
- (a) Undertake any transaction for the purpose of concealing foreign exchange positions including transferring profits and losses, which may undermine the integrity of the foreign exchange market;
- (b) Engage in manipulative or deceptive conduct, or any other form of conduct which would give other users of the foreign exchange market, a false or misleading impression as to prevailing market conditions, including price, supply or demand;
- (c) Pressurise any other licensed commercial bank or Authorised Person by duress, inducement, threat or promise, for information or action.
- A8 This Regulation is aimed at further improving the smooth functioning and integrity of the foreign exchange trading activities in Sri Lanka.
- Q9 Sometimes dealers quote wide bid/offer rate to avoid inter-bank transactions. Would this be construed to be a distortion of market rates? If so, this will lead to loss of market making activity and liquidity in the market. (Direction No. 3(4) (i) and (ii)).**
- A9 Yes. Quoting wide bid/offer rate to avoid inter-bank transactions will distort the market rates. Hence, off market rates cannot be accepted.
- Q10 Does CBSL maintain a list of approved brokers? (Direction No. 3(5) (i)).**
- A10 CBSL has disclosed in its web site a list of Money Brokering Institutions recognised by CBSL.
- Q11 "When making transactions, LCBs and Authorised Persons shall not enter into transactions with the intention of manipulating the market". Would there be a time limit for making these claims or can they be applied retrospectively without a time bar? (Direction No. 3(6)).**
- A11 Claims can be applied without a time bar.
- Q12 Under what circumstances does the CBSL envisage the requirement for cancellation of a deal? Does this lead to more relaxed attitude and a practice of cancelling deals at will? (Direction No. 3(9)).**
- A12 CBSL does not encourage cancellation of deals. However, only in exceptional circumstances a deal can be cancelled provided that both licensed commercial banks to the trade agree to such cancellation.

**Q13** Although CBSL requires adopting appropriate policies to restrict the usage of mobile phones in the dealing rooms, so as to ensure that mobile phones are not used to circumvent the telephone recording system, it is difficult to entirely fool-proof usage of mobile to circumvent the recording system. (Direction No. 4(8) (ii)).

A13 Banks should have a mechanism to ensure that all the deal conversations are recorded.

**Ref: 02/17/500/0540/001**

Bank Supervision Department  
15 October 2012

To : CEOs of All Licensed Commercial Banks

### **DEFINITION OF LIQUID ASSETS UNDER SECTION 86 OF THE BANKING ACT NO. 30 OF 1988, AS AMENDED**

The Monetary Board has determined that Reverse Repurchase Agreements in Treasury bills and Treasury bonds shall be treated as liquid assets in terms of item (g) of the definition of "liquid assets" under Section 86 of the Banking Act, No. 30 of 1988.

Licensed commercial banks may, therefore, take into account the daily outstanding amount of the Reverse Repurchase Agreements or the market value of the underlying securities held under Reverse Repurchase Agreements, whichever is less, in computing their liquid assets ratio.

Licensed commercial banks are further informed that, the eligible value of the Reverse Repurchase Agreements in Treasury bills and Treasury bonds should be reported under code number 4.1.2.4.0.0 and 4.1.2.13.0.0, respectively, of the monthly web based return on Statutory Liquid Assets Ratio for Domestic Banking Unit (BSD-MF-04-LD).

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

**Ref: 02/17/500/0540/001**

Bank Supervision Department  
15 October 2012

To : CEOs of All Licensed Specialised Banks (LSBs)

### **DEFINITION OF LIQUID ASSETS UNDER SECTION 76J (1) OF THE BANKING ACT NO. 30 OF 1988, AS AMENDED**

The Monetary Board has determined that Reverse Repurchase Agreements in Treasury bills and Treasury bonds shall be treated as liquid assets in terms of item 3.11 of the Liquid Assets Direction of licensed specialised banks issued under Section 76J (1) of the Banking Act, No. 30 of 1988.

Licensed specialised banks may, therefore, take into account the daily outstanding amount of the Reverse Repurchase Agreements or the market value of the underlying securities held under Reverse Repurchase Agreements, whichever is less, in computing their liquid assets ratio.

Licensed specialised banks are further informed that, the eligible value of the Reverse Repurchase Agreements in Treasury bills and Treasury bonds should be reported under code number 4.1.2.4.0.0 and 4.1.2.13.0.0, respectively, of the monthly web based return on Statutory Liquid Assets Ratio (BSD-MF-04-LD).

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

**Ref: 02/03/004/0006/001**

Bank Supervision Department  
15 October 2012

To : Chief Executive Officers of Licensed Banks

### **SUBMISSION OF STATUTORY RETURNS**

A review of the submission of Statutory Returns to the Bank Supervision Department has revealed that several banks continue submission of some Statutory Returns in manual form which have already been discontinued due to the following.

- a) Implementation of the web based off-site surveillance system from the reporting period ending June 2009.
  - b) Withdrawal of certain Circulars.
2. As intimated to you by our letter dated 28.03.2006, banks were requested only to continue submission of Returns that are not replaced with web based Returns, in manual form. However, it is noted that few banks do not follow these instructions and continue submitting the same Returns both manually and as web based Returns.
  3. Accordingly, we request you to ensure that only the Returns enumerated in Annex are sent in manual form with effect from 01.11.2012 and to advise the respective officers accordingly.

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

### Annex

#### Returns to be Submitted Manually

	Return	Reference	Reporting Period
1.	Report of abandoned property - settlements during the period (Only for LCBs)	Banking Act Direction No. 05 of 2009 dated 02.09.2009	Weekly
2.	Cheque returns statement (Only for LCBs)		Monthly
3.	Donations received by Government, Non-Government Organisations (NGOs) and Others (Non-NGOs) – Table 1	02/19/40110072/001 dated 07.03.2006	Monthly
4.	Donations received by NGOs – Table 2	02/19/40110072/001 dated 07.03.2006	Monthly
5.	Utilization of investment fund account	02/17/800/0014/02 dated 31.10.2011	Monthly (by email)
6.	Statements of certification of weekly, monthly, quarterly and annual reports approved/submitted	Guidelines on Implementation of the new web based off-site surveillance system dated 28.07.2006	Monthly, quarterly and annually
7.	Information on shareholdings (Only for domestically incorporated private banks)	BD/CB/P dated 21.06.1996	Monthly
8.	Statement of exposure to the stock market	Banking Act Direction No. 05 & 06 of 2011 dated 26.08.2011	Quarterly (by email)
9.	Information on operation of banking outlet	02/03/004/ 0200/ 002 dated 18.01.2012	Quarterly (by email)
10.	Report of internal loss events in banks	Exposure Draft on implementation of the Standardised Approach for calculating capital charge for Operational Risk dated 22.06.2011	Quarterly
11.	Business operations that are/to be outsourced as at /during the year	Banking Act Direction No. 7 & 8 of 2010 dated 02.11.2010	Annually
12.	Report of abandoned property - additions during the period	Banking Act Direction No. 05 of 2009 dated 02.09.2009	Annually *
13.	Report of abandoned property - settlements during the period	Banking Act Direction No. 05 of 2009 dated 02.09.2009	Annually *
14.	Return on depositor wise details of eligible deposits	Circular No. 02/2010 dated 09.12.2010	Quarterly
15.	Sri Lanka deposit insurance scheme – payment of premium	Circular No. 01/2010 dated 15.10.2010	Quarterly

\* Only for Licensed Commercial Banks which are unable to upload data to the web based returns BSD-AF-18-AP- Report of Abandoned Property-Additions during the period and BSD-AF-18-AS - Report of Abandoned Property-Settlements during the period are required to submit manually.

Ref: 02/17/500/0540/001

Bank Supervision Department  
26 October 2012

To : CEOs of All Licensed Commercial Banks

### **DEFINITION OF LIQUID ASSETS UNDER SECTION 86 OF THE BANKING ACT NO. 30 OF 1988, AS AMENDED**

We refer to the Circular No. 02/04/002/005/002 dated 31 January 2001 on the above subject and write to clarify the following with respect to the requirement therein for Commercial Paper/Promissory Notes to be backed by an approved standby credit line from a licensed commercial bank/ licensed specialised bank.

A licensed commercial bank could consider 50% of its investments in Commercial Paper/Promissory Notes as liquid assets only if such Commercial Paper/Promissory Notes are backed by an approved standby credit line supporting the issue to the full redemption value from another licensed commercial bank/ licensed specialised bank.

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

Ref: 02/17/500/0554/001

Bank Supervision Department  
29 November 2012

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

Dear Sir/Madam,

### **CLASSIFICATION OF BANKING OUTLETS**

As intimated to you at the monthly meeting of the CEOs of licensed banks held on 26th January 2012, the current classification of banking outlets for licensed banks has been reviewed with a view to streamline and rationalize the branch approval procedures.

2. Accordingly, the Monetary Board has granted approval for licensed banks to:
  - a. reclassify the banking outlets into two categories, namely branches and student savings units, and seek future approvals under these two outlet categories;
  - b. upgrade all existing banking outlets except student savings units to branches with effect from 01.01.2013; and
  - c. conspicuously display the list of activities for the information of the customers in the premises of a branch when such branch is extending only selected banking services.
3. Circular issued under Ref. No. 02/08/005/0002/002 dated May 03, 2006 on the above subject is hereby rescinded.

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

Ref: 02/17/500/0086/001

Bank Supervision Department  
7 December 2012

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

### **ICRA LANKA LIMITED - RECOGNITION AS AN EXTERNAL CREDIT ASSESSMENT INSTITUTION**

The Monetary Board of the Central Bank of Sri Lanka (CBSL) has approved ICRA Lanka Limited as a recognised External Credit Assessment Institution, for the purpose of all regulatory requirements of CBSL applicable to Licensed Commercial Banks and Licensed Specialised Banks.

Accordingly, Table 1 and Table 3 under the item No 6.4.2.3.1 of the Guidelines on computation of Capital Adequacy Ratio is revised as in Annex.

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

Encl.

## Annex

**Table 1**  
**Mapping of Notations of the Credit Rating Agencies in Sri Lanka**

Fitch Rating Lanka	RAM Ratings (Lanka) Limited	Rating of ICRA Lanka Limited	Rating Scale for CAR
AAA (lka)	AAA	(SL) AAA	AAA
AA+ (lka)	AA+	(SL) AA+	AA+
AA (lka)	AA	(SL) AA	AA
AA- (lka)	AA-	(SL) AA-	AA-
A+ (lka)	A+	(SL) A+	A+
A (lka)	A	(SL) A	A
A-(lka)	A-	(SL) A-	A-
BBB+ (lka)	BBB+	(SL) BBB+	BBB+
BBB (lka)	BBB	(SL) BBB	BBB
BBB- (lka)	BBB-	(SL) BBB-	BBB-
BB+ (lka)	BB+	(SL) BB+	BB+
BB (lka)	BB	(SL) BB	BB
BB- (lka)	BB-	(SL) BB-	BB-
B+ (lka)	B+	(SL) B+	B+
B (lka)	B	(SL) B	B
B-(lka) & Lower	B- & Lower	(SL) B- & Lower	B- & Lower

**Table 3**  
**Mapping of Short Term Ratings**

Short term ratings					Risk Weights
RAM Ratings (Lanka) Limited	Standard and Poor's	Moody's	Fitch Ratings	ICRA Lanka Limited	
P – 1	A – 1+/A – 1	P – 1	F1+/F1	(SL) A1+/A1	20%
P – 2	A – 2+/A – 2	P – 2	F2	(SL) A2+/A2	50%
P – 3	A – 3+/A – 3	P – 3	F3	(SL) A3+/A3	100%
NP	Below A – 3	NP	Below F3	(SL) Below A3	150%

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**  
**Monetary Board**  
**Central Bank of Sri Lanka**

Colombo  
21 December 2012

**BANKING ACT DIRECTIONS NO. 2 OF 2012**  
**OUTSOURCING OF BUSINESS OPERATIONS OF**  
**A LICENSED COMMERCIAL BANK AND A LICENSED SPECIALISED BANK**

In the exercise of the powers conferred by Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by the Banking (Amendment) Act, No. 46 of 2006, the Monetary Board hereby issues the following Directions on Outsourcing of Business Operations of a Licensed Commercial Bank and a Licensed Specialised Bank, respectively (hereinafter referred to as a Licensed Bank).

**Citation** 1(1) These Directions may be cited as the Banking Act Directions No. 2 of 2012.

**Outsourcing – definition and applicability**

- 2(1) An ‘outsourcing arrangement’ is an agreement between a licensed bank and a third party ‘service provider’, whereby the service provider performs an activity, function or process connected with the operations of a licensed bank.
- 2(2) ‘Service provider’ includes the Head Office, parent institution, another branch or related company of a Licensed Bank, or an unrelated institution, whether located in Sri Lanka or elsewhere.
- 2(3) These Directions shall not apply to outsourced arrangements that are not directly related to the provision of financial services such as Mail, Courier services, Catering of staff, Housekeeping and janitorial services, Security of premises, Printing services (e.g., Application forms, brochures etc.), Recruitments on contract and temporary basis and Communication services.
- 2(4) Outsourcing arrangements shall be entered into only with service providers who have specialised resources and skills to perform the related activities.
- 2(5) Outsourcing arrangements shall not be entered into with a service provider of which the majority of the ownership is held by employees and/or close relatives of an employee of the respective licensed bank.
- 2(6) Every Licensed Bank that decides to outsource its functions/operations shall comply with Directions 3 to 9 below.

**Functions or activities that can be outsourced**

- 3(1) A Licensed Bank may outsource its functions/operations other than the following functions/operations or activities:
- (i) Services associated with acceptance of deposits and withdrawals excluding the agency arrangements approved under the provisions of section 12 (1)(b) of the Banking Act.
  - (ii) Assets and Liabilities management
  - (iii) Compliance function
  - (iv) Customer due diligence and Know Your Customer (KYC) procedures
  - (v) Treasury functions, foreign exchange trading and management
  - (vi) Risk Management
  - (vii) Strategic planning and decision-making
  - (viii) Sanctioning of loans except where the basis of approval has been previously approved by the Board
  - (ix) Internal Audit Function subject to Directions 3(2) and 3(3) below
  - (x) Information Technology (IT) related services subject to Directions 3(4) and 3(5) below

**Outsourcing of Internal Audit**

- 3(2) A Licensed Bank shall not outsource its Internal Audit Function other than in keeping with the following:
- (i) A Licensed Bank may outsource its Internal Audit Function, where the size of the bank and the extent of the risks do not justify the internal audit function to operate with a full time internal audit staff.
  - (ii) A Licensed Bank may outsource certain activities or specialised areas of its internal audit function such as branch and/or department audits, Information System (IS) audits, where the bank is in a position to justify the cost savings, improved efficiency and better management of resource constraints.
- 3(3) The outsourcing of the internal audit function or activities as per 3(2)(i) and 3(2)(ii) above shall be subject to the following conditions:
- (i) The responsibility and control of the outsourced audit assignments in the case of 3(2)(ii) above shall continue to be with the head of Internal Audit.
  - (ii) The selection of audit firms or staff shall be made from the panel of external auditors approved by the Central Bank of Sri Lanka (CBSL) other than the bank’s own external auditor.
  - (iii) Any such appointment as per 3(3)(ii) above shall be made after a “cooling off” period of 2 years if such audit firm or staff had been previously engaged in the external audit assignment of the bank.
  - (iv) The internal audit service provider shall not perform any management function or act, directly or indirectly, in a capacity equivalent to that of a member of management or an employee of the bank

- (v) The internal audit service provider shall not provide consultancy services to a function or activity of the bank it is expected to audit or vice versa within a period of 2 years.
- (vi) The head of Internal Audit shall ensure that, whenever practicable, one or more members of the bank's internal audit staff are also involved in the bank's internal audit related work of the internal audit service provider with the view to gather the relevant knowledge to perform such work by themselves in the future.
- (vii) The Licensed Bank shall be able to provide the internal audit plan, follow-ups, reports and related working papers, etc. to CBSL as and when required.
- Outsourcing of Information Technology**
- 3(4) A Licensed Bank may outsource the following IT and business processing functions:
- (i) Application/Systems development, testing, maintenance and support
  - (ii) Technology infrastructure management, maintenance and support, Help Desks
  - (iii) Maintenance and support to data centre operations
  - (iv) Network administration
  - (v) Disaster recovery support services
  - (vi) Data entry operations
  - (vii) Database maintenance and support
  - (viii) Data warehousing
  - (ix) Statements printing
  - (x) Electronic banking systems (e.g., Internet banking, Mobile banking and Tele-banking) development, maintenance and support
  - (xi) Web hosting and maintenance
  - (xii) Credit/Debit/ATM card printing
- 3(5) A Licensed Bank shall ensure in its security policies, procedures and controls that a service provider exercises a high standard of care and diligence to protect the confidentiality and security of banks' sensitive information especially relating to customers, hardware, operating systems and application software.
- Outsourcing Policy**
- 4(1) A Licensed Bank shall have a comprehensive policy to guide the assessment as to how its operations are to be outsourced. The policy shall contain at least the following:
- (i) The placing of overall responsibility on the Board of Directors or the Audit Committee and senior management for the outsourcing of activities and for the formulation of policy therefor.
  - (ii) A framework for identification and effective management of risks that could arise from outsourcing of activities.
  - (iii) Cost-benefit analysis on each activity or function or process to be outsourced.
  - (iv) Tender procedures to be followed for the procurement of outsourced services.
  - (v) Setting up of a monitoring and control unit in the event of having several outsourcing arrangements.
  - (vi) A framework to conduct KYC and due diligence process on the service provider.
  - (vii) A procedure to assess the service provider's capacity, capability and mode/basis of payment to perform the obligations under the outsourcing arrangement.
  - (viii) A format of the legally binding contract/agreement for outsourcing arrangement which should include at least the following:
    - (a) Service standards,
    - (b) Rights, responsibilities and expectations of all parties,
    - (c) Dispute resolution mechanism,
    - (d) Confidentiality and security of information,
    - (e) Termination of contract,
    - (f) Subcontracting, if involved, and
    - (g) Business continuity management.
  - (ix) A specific contingency plan to bring the outsourced activity back in-house in an emergency situation which could arise due to service provider's inability to provide, and the costs, time and resources that would be involved.
  - (x) A framework for cross-border outsourcing, taking into account the differences in country environments.

- (xi) Limits on maximum exposure to a single service provider both in terms of value and the number of contracts.
- Business Continuity Management**
  - 5(1) A Licensed Bank shall ensure that the bank’s Business Continuity Plan (BCP) contains all relevant operations including outsourcing arrangements.
  - 5(2) A Licensed Bank shall ensure that the service provider has a satisfactory BCP and performs regular tests on its BCP.
- Monitoring & Control**
  - 6(1) A Licensed Bank shall have a specifically designated unit/division at the Head Office to handle all outsourcing arrangements. A Licensed Bank incorporated outside Sri Lanka shall have the designated unit/division at the local Head Office.
  - 6(2) The monitoring unit shall handle complaints, maintain records of such complaints and carry out periodic supervision over outsourced activities.
  - 6(3) A Licensed Bank shall establish an effective management information system that would on a regular basis provide information such as the type of outsourced service activity, costs, volume, deliverables and expiry or renewal dates of the contracts, the complaints, and the financial and operational conditions of the service providers.
- Reporting to FIU**
  - 7(1) A Licensed Bank shall be responsible for submitting transactions reports and suspicious transactions reports to the Financial Intelligence Unit (FIU) in respect of its customer transaction activities, even if such activities are under outsourced arrangements.
- Outsourcing arrangements relating to Marketing & Recovery**
  - 8(1) A Licensed Bank shall ensure that marketing and recovery personnel employed by the service providers are properly trained to handle their responsibilities with care and prudence.
- Reporting Requirements**
  - 9(1) A Licensed Bank shall inform the proposed outsourcing arrangements during a particular calendar year to CBSL by 31 January of that year for concurrence.
  - 9(2) A Licensed Bank shall use the format annexed to this Direction for its reporting requirements at 9(1) above to CBSL.
- Revocation of previous Directions**
  - 10(1) The Banking Act Directions No. 7 of 2010 on Outsourcing of Business Operations of Licensed Commercial Banks and the Banking Act Directions No. 8 of 2010 on Outsourcing of Business Operations of Licensed Specialised Banks, issued on 02 November 2010 are hereby revoked.

**Annex**

**Business Operations that are to be Outsourced during the Year .....**

Name of the Bank:

	Activity/Function/ Process to be Outsourced	Name of the Service Provider	Address	Date of Commencement	Period	No. of persons involved/ authorised	Deliverables/ Services	Cost (per annum)
1.								
2.								
3.								

.....  
CEO/CCO/GM

.....  
Compliance Officer

Date:

Date:

**Circular No: 1/ 2012**Currency Department  
2 January 2012To: All Licensed Commercial Banks  
Dear Sir/Madam,**INFORMATION ON ATMS OPERATED BY LICENSED COMMERCIAL BANKS**

The Currency Department of Central Bank has decided to study the cash movements of Commercial Banks through ATMs and thereby facilitate with efficient and uninterrupted issue of currency notes in the future. All Commercial Banks are hereby requested to furnish the following details of ATM operations with the given format.

Name of the Bank :-.....  
Total number of ATMs operated :-.....  
How frequently the machines are loaded (average) :-.....

If all ATMs are not loaded with all the denominations, please indicate the number of ATMs with different denominations separately. In this regard, please follow the example given below.

No of Machines	Series of Notes Old/New	Denominations Allocated to the ATMs (Pls "√" for relevant denominations allocated)				
		Rs.5000	Rs.2000	Rs.1000	Rs.500	Rs.100
100	New	√	-	√	√	-
100	New	-	√	√	√	√
100	Old	-	√	√	√	√

We request you to provide the above information on or before 31st January 2012, by e mail [currency@cbsl.lk](mailto:currency@cbsl.lk) or by post to The Superintendent of Currency, Currency Department, No 30, Janadhipathi Mawatha, Colombo-01. For further clarification, please contact Ms.Rshna Assistant Superintendent of Currency Department by 011 2477369 or at e mail [rashna@cbsl.lk](mailto:rashna@cbsl.lk).

**Superintendent of Currency**

Copy to: Director Bank Supervision

**Ref: 12/02/015/0001/001**  
**Circular No: 1/2012**Currency Department  
21 February 2012

To : Chief Executive Officers of All Licensed Commercial Banks

**DISCREPANCIES IN CURRENCY DEPOSITS WITH  
CENTRAL BANK OF SRI LANKA**

Further to our Circular No: 2007-1 dated 12 March 2007 on Guidelines on Cash Transactions with the Central Bank of Sri Lanka.

All Licensed Commercial Banks are hereby informed that the following procedure will be adopted in respect of discrepancies in currency notes deposited by the banks from 2 April 2012 onwards until further notice.

1. In the instances where there is a shortage of currency notes detected upon the verification through 100% count or sample count by the Currency Department, such banks shall be charged with the settlement of the shortage and a penalty amounting the face value of the shortage.
2. In the case of a shortage where the verification is made through a sample count of currency bundles, both settlement of the shortage and the penalty shall be applied to all currency bundles in the box from which the sample was drawn.
3. The above penalty shall be charged to the current accounts maintained by the banks with the Central Bank of Sri Lanka. The settlement of the shortage shall continue as it is at present.
4. In the case of an excess of currency notes, the excess shall not to be returned.

For any clarification, you may contact the following officers of the Currency Department.

Addl. Superintendents	011- 2477603 or 011- 2477014
Senior Asst. Superintendent – Deposits	011- 2477363
Senior Asst. Superintendent – Accounts	011- 2477365

**Superintendent of Currency**

**Ref: 12/008/0005/001**

Currency Department

**Circular No: 02/2012**

15 May 2012

To: Chief Executive Officers of All Commercial Banks  
Dear Sir /Madam,

### **IMPROVING COMPLIANCE OF COMMERCIAL BANKS IN HANDLING COUNTERFEIT CURRENCY NOTES**

We wish to draw your attention to our Circular No. 01/2011 dated 7th March 2011.

As per the decision taken by the Monetary Board, a penalty of Rs. 5,000 or three times the value of the counterfeit note, whichever is higher will be imposed with effect from 21st May 2012, in relation to each counterfeit note deposited by commercial banks in addition to the replacement of the counterfeit note with a genuine note.

Further, it has been decided to collect proceeds of the penalty from the clearing account of the respective commercial banks with the Central Bank on a monthly basis.

Yours faithfully,  
**Superintendent of Currency**

Currency Department

11 June 2012

To: Chief Executive Officers of All Licensed Commercial Banks  
Dear Sir /Madam,

### **IMPROVING THE SYSTEM OF CASH SERVICES AND OPERATIONS**

I refer to the meeting the Central Bank had with the Cash Managers of commercial banks on 17th May 2012. At the meeting, it was discussed that a large volume of unfit notes remains in circulation since the present currency management system is not adequately supportive for the public to exchange currency through banks and, therefore, the system needs further improvements to provide cash services to the public.

Therefore, the following procedure is set out to be followed by banks and the Central Bank in providing of cash services to the public.

- 1) The provision of cash services to the public is one of banking services as cash involves and facilitates the banking business activities.
- 2) Cash services to the public shall include, subject to KYC rules applicable:
  - a) Accepting cash and exchange of cash in denomination, quality and quantity desired by the public, and
  - b) Releasing only serviceable currency notes for circulation, collection of unserviceable currency notes and delivery of such unserviceable currency notes to the Central Bank for destruction.
- 3) In this regard, the banks should have a suitably identified operational line for cash management with an appropriate risk management system to facilitate an effective delivery of cash services. The cash management system should be capable of meeting the cash services requirements of the public with effective internal controls and the latest technology to minimize risks involved.
- 4) In order to facilitate the cash management system, the banks are also required to adhere to the instructions given in circulars No 2007-1 dated 12.03.2007, No 01/2009 dated 01.01.2009 and No 01/2011 dated 07.03.2011 issued by the Currency Department of the Central Bank on sorting standards and handling of counterfeit notes.
- 5) The duly authorized officers of the Central Bank of Sri Lanka will conduct periodical risk assessment focused bank examinations to facilitate the banks in maintaining an effective cash management system.
- 6) As a part of effective delivery of cash services, the Central Bank will also have a regular public awareness programme on cash services available from the banks, the requirement to use currency notes in serviceable quality and identification of counterfeit currency notes.

Therefore, all banks are requested to ensure that cash services are made available to the public by 16.07.2012.

Yours faithfully,  
**Superintendent of Currency**

Copy to: Cash Managers

Currency Department  
10 July 2012

To: Chief Executive Officers of All Licensed Commercial Banks  
Dear Sir/ Madam,

### IMPROVING THE SYSTEM OF CASH SERVICES AND OPERATIONS

This is further to our letter dated 11th June 2012 on the above.

As per our request, we expect that the facilities for public to exchange their unfit notes, especially of low denomination, will be available at all your branches by the specified date of 15.07.2012.

Further we expect more unfit notes of low denominations to be deposited by Commercial Banks after 15.07.2012. Accordingly, banks will be required to deposit a minimum number of bundles of low denomination unfit notes during the quarter of July – September 2012.

The share of low denomination notes the Central Bank issues to Commercial Banks is above 25% of their total withdrawals. Hence, Commercial Banks are expected to deposit unfit low denomination notes within a quarter equivalent at least to 25% of their total withdrawals during the previous quarter.

Your cooperation in this national programme is much appreciated.

Thanking you  
Yours faithfully,  
**Superintendent of Currency**

Copy to: Cash Managers

**Ref: 12/05/029/0001/02**  
**Circular No: 03/2012**

Currency Department  
21 November 2012

To: CEOs of All Licensed Commercial Banks  
Dear Sir/Madam,

### GUIDELINES FOR DETECTION OF COUNTERFEIT CURRENCY NOTES

Further to our circular No.01/2009 dated 01.01.2009, No.01/2011 dated 07.03.2011 and No.02/2012 dated 15.05.2012.

All licensed commercial banks are requested to adhere to the following to facilitate an effective cash verification process and detection of counterfeit notes.

- 1) Counting/sorting machines with counterfeit detection facility should be available in all bank branches by 1st April, 2013.
- 2) Currency notes deposited by customers should not be reissued without verification of genuineness of such currency notes.
- 3) The banks which obtained the services of Cash in Transit (CIT) companies should ensure that CIT companies strictly adhere to the guidelines that have been issued by the Central Bank mentioned by the above circulars. The banks will be held responsible for any violations of such guidelines by CIT companies.
- 4) A compliance mechanism should be in place to ensure that all officers involved in cash operations of the banks strictly comply with the guidelines issued by the Central Bank and the respective banks.

Yours faithfully,  
**Superintendent of Currency**

Cc. Director/ Bank Supervision

**Ref: 12/05/029/0001/02**

Currency Department

**Circular No: 04/2012**

13 December 2012

To: All Chief Executive Officers of All Licensed Specialized Banks

Dear Sir/Madam,

**GUIDELINES FOR DETECTION OF COUNTERFEIT CURRENCY NOTES**

In the interest of maintaining the system of currency free from the risk of counterfeiting, all licensed specialized banks are hereby instructed to adhere to the following steps for implementation of an effective process of currency verification and detection of counterfeit notes.

- 1) Counting machines with counterfeit detection facility should be available in all bank branches by 1st April, 2013.
- 2) Currency notes deposited or exchanged by customers should not be reissued without verification of the genuineness of such currency notes.
- 3) A compliance mechanism should be in place to ensure that all officers involved in cash operations of the banks strictly comply with the guidelines issued by the Central Bank of Sri Lanka and by the respective banks themselves.
- 4) The banks should provide appropriate training to officers involved in cash operations on detection of counterfeit notes.

Yours faithfully,

**Superintendent of Currency****Ref: 12/05/029/0001/02**

Currency Department

**Circular No: 05/2012**

13 December 2012

To: Chief Executive Officers of All Registered Finance Companies

Dear Sir/Madam,

**GUIDELINES FOR DETECTION OF COUNTERFEIT CURRENCY NOTES**

In the interest of maintaining the system of currency free from the risk of counterfeiting, all finance companies are hereby instructed to adhere to the following steps for implementation of an effective process of currency verification and detection of counterfeit notes.

- 1) Counting machines with counterfeit detection facility should be available in all finance company branches by 1st July, 2013.
- 2) Currency notes deposited or exchanged by customers should not be reissued without verification of the genuineness of such currency notes.
- 3) A compliance mechanism should be in place to ensure that all officers involved in cash operations of finance companies strictly comply with the guidelines issued by the Central Bank of Sri Lanka and by the respective companies themselves.
- 4) The finance companies should provide appropriate training to officers involved in cash operations on detection of counterfeit notes.

Yours faithfully,

**Superintendent of Currency****Circular No: 35/01/005/0006/30**

14 March 2012

To: All Licensed Commercial Banks and Primary Dealers

**USE OF REPO STANDING FACILITY WHEN THE CENTRAL BANK OFFERS  
REVERSE REPO AUCTION**

All Licensed Commercial Banks and Primary Dealers are hereby informed that the Central Bank of Sri Lanka (CBSL) has decided to limit with effect from 15 March 2012, the Repo Standing Facility to Rs. 100.0 mn. per Participating Institution per day on the days when the CBSL offers Reverse Repo Auction.

R A A Jayalath

**Director/Domestic Operations**

Ref: 06/04/01/2012

1 March 2012

Directions To Authorized Dealers

Dear Sirs,

**FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE**

1. In view of the excessive volatility in foreign exchange market due to unhealthy and unnecessary speculation in foreign exchange transactions, Authorized Dealers are hereby directed that they should conform to the following prudential requirements in relation to forward contracts in foreign exchange that they enter into with their customers, with immediate effect.
  - (i) Forward contracts for the sale and/or purchase of foreign exchange shall be for a maximum period of 90 days only.
  - (ii) Forward contracts shall only be for the purpose of payments and receipts in foreign exchange in respect of established transactions in relation to trade in goods and services and permitted capital transactions.
  - (iii) An authorized dealer entering into a forward contract for the sale of foreign exchange should satisfy himself that the transaction relates to a genuine commercial contract involving trade in goods and services, or is a permitted capital transaction.
  - (iv) The date of performance of the forward contract shall not extend beyond the date of payment or receipt in foreign exchange, as the case may be, in terms of the relevant commercial contract underlying the forward contract.
  - (v) An authorized dealer shall recover any loss arising out of the cancellation of forward contract, from the customer.
  - (vi) An authorised dealer shall not renew a forward contract once it is matured or is cancelled.
  - (vii) Once a forward contract is entered into, the period of the contract shall not be extended.
2. Please note that these Operating Instructions will not apply to:
  - (i) inter-bank forward contracts (local and foreign);
  - (ii) forward contracts where a foreign currency is purchased with another foreign currency;
  - (iii) the purchase of foreign exchange in respect of share trading transactions specified in item 3 in the Operating Instructions No.06/02/10/2002 dated 8th May 2002;
  - (iv) investments in government securities.
3. Details relating to forward transactions in foreign exchange on any day should be reported, until further notice, at the end of the same day (not later than 6.00 p.m.) to the Controller of Exchange in the form set out in the Annex hereto.
4. Directions bearing No. 06/04/04/2003 and 06/04/02/2010 dated 21.01.2003 and 11.03.2010, respectively, issued by the Controller of Exchange are hereby rescinded.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

**Annex****Forward Transactions in Foreign Currency**

Name of the Authorised Dealer: .....

Date:.....

	Outstanding balances at the beginning of the day (US\$ equivalent in mn)	Total transactions during the day (US\$ equivalent in mn)	Outstanding position at the close of the day (US\$ equivalent in mn)
A. Total forward sales			
B. Total forward purchases			

I certify that information given above is correct.

Date: .....

.....  
Signature of the Authorised Officer

**Ref: 06/04/02/2012**

1 June 2012

Directions To All Authorized Dealers  
Dear Sirs,

### **PAYMENTS FOR FOREIGN EXCHANGE TRADING**

It has come to our notice that advertisements are being made in the print and electronic media and unsolicited e-mails are being sent by certain persons exhorting the public to engage in foreign exchange trading with assurance of high returns.

Authorized dealers are reminded that the provisions of the Exchange Control Act do not permit any person in or resident in Sri Lanka to engage in foreign exchange trading or making payments outside Sri Lanka for such purposes without the permission of the Central Bank of Sri Lanka (CBSL). It should be noted that no general or specific permission has been granted by the CBSL to any person other than the authorized dealers to engage in foreign exchange trading.

Authorized dealers are hereby informed that they should not permit payments for foreign exchange trading through electronic fund transfer cards or by any other mode of payments and they should exercise due diligence and be vigilant to prevent such payments.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

**Ref: 06/04/03/2012**

19 June 2012

Directions To All Authorized Dealers  
Dear Sirs,

### **LOANS IN RUPEES TO SRI LANKANS EMPLOYED ABROAD**

Authorized Dealers are hereby permitted to extend loans in Sri Lankan Rupees to Sri Lankans employed abroad to be utilized for any purpose in Sri Lanka, subject to the following terms and conditions.

1. Any loan under this direction should be extended only to Sri Lankans employed abroad who maintain Non Resident Foreign Currency (NRFC) accounts with the bank which extends such loans.
2. An assessment of the credit risk of the loan should be made before it is granted, particularly on the borrower's ability to repay the loan having regard to his/her employment abroad.
3. Adequate security should be obtained in the form of a mortgage of a property or in the form of a lien on deposits etc. to cover the credit risk.
4. The loans should be disbursed in accordance with procedures usually followed by banks. In the case of a loan for construction, it should be released on installment basis, depending upon the progress of construction, as is usually done by banks.
5. Bank should educate the customers prior to signing the loan agreement, that there is a possibility of obtaining a foreign currency denominated loan with a lower interest rate under the Circulars No. 06/02/12/2002 and 06/04/12/2003 dated 04.09.2002 and 10.12.2003, respectively, instead of a Rupee denominated loan which has a higher interest rate. Bank should keep evidence of obtaining the consent of the customer to obtain a Rupee denominated loan instead of a foreign currency denominated loan.
6. Loans extended under this direction should be serviced only out of the funds lying to the credit of NRFC account of the borrower as long as said borrower is employed outside the country. However, if said borrower returns to the country after ending the overseas employment contract, the loan may be serviced out of the Rupee funds of such borrower.
7. Authorized dealers are requested to report the details of loans granted under this direction on a quarterly basis to this department as per the annexed table.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

## Annex

## Quarterly Statement on Rupee Lending to Sri Lankans Employed Abroad

Name of the Bank:

Name of the borrower	Date of granting the accommodation	Type of accommodation	Tenor	Nature of security	Amount	Purpose

Ref: 06/04/04/2012

11 July 2012

Directions To Authorized Dealers

Dear Sirs,

**NON - RESIDENT FOREIGN CURRENCY (NRFC) AND  
RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS**

This Direction is issued further to Directions and Operating Instructions issued by the Exchange Control Department on Non-Resident Foreign Currency (NRFC) and Resident Foreign Currency (RFC) Accounts from time to time.

2. Permission is hereby granted to authorized dealers for following transactions in relation to NRFC and RFC accounts held in the same bank or different banks irrespective of the holder of account or currency type in which accounts are maintained:
  - i. Fund transfers between NRFC accounts.
  - ii. Fund transfers between RFC accounts.
  - iii. Fund transfers from NRFC accounts to RFC accounts.

However, proceeds realized from the sale of properties in Sri Lanka should not be credited to NRFC/RFC accounts.
3. Opening of NRFC/RFC accounts in favour of minors is permitted by crediting the inward remittances received from their guardians/parents who are non-residents or transferring funds from existing NRFC accounts of such guardians/parents.
4. Authorized dealers are permitted to debit the NRFC accounts for outward remittances irrespective of the underlying transactions if the account holder is resident outside Sri Lanka.
5. In respect of fund transfers between NRFC/RFC accounts, the bank which transfers funds should issue a confirmation to the receiving bank that the funds so transferred were originated from NRFC/RFC accounts.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

Ref: 06/04/05/2012

11 July 2012

Directions To Authorized Dealers

Dear Sirs,

**FOREIGN EXCHANGE EARNERS' ACCOUNTS (FEEA)**

As a measure of facilitating foreign exchange transactions of all residents who earn foreign exchange, it has been decided to introduce a new account named "**Foreign Exchange Earners' Accounts (FEEA)**". Accordingly, the exporters, indirect exporters, suppliers of inputs, professional services providers, foreign employment agencies, gem & jewellery dealers and all other service providers can undertake their transactions through this account.

2. Eligible Persons  
Following residents in Sri Lanka who earn foreign exchange:
  - i. Individuals;
  - ii. Companies incorporated in Sri Lanka;

- iii. Sole proprietorships and partnerships registered in Sri Lanka;
- iv. Companies incorporated outside Sri Lanka which are registered as overseas companies under the Companies Act No. 07 of 2007.

Documentary evidence should be obtained at the time of opening of FEEA to prove that the applicant is compliant with the rules and regulations issued by the relevant authorities and has foreign exchange earnings.

### 3. Types of Accounts

FEEA may be opened in the form of current, savings or term deposits in designated foreign currencies. However, cheque books shall not be issued against these accounts.

### 4. Permitted Credits

- i. Inward remittances received from abroad through banking system in respect of export of goods and services, entrepot trade and overseas projects undertaken by the account holder.
- ii. Foreign currency notes brought into the country by the account holder.
- iii. Foreign currency in the form of travelers' cheques, bank drafts or currency notes accepted by the account holder in terms of the permit issued by the Controller of Exchange for such acceptance.
- iv. Transfers from other FEEA and accounts maintained in Offshore Banking Unit (OBU) in respect of supply of goods and services.
- v. Proceeds of the foreign currency loans received from authorized dealers.
- vi. Proceeds of the foreign currency loans obtained from foreign lenders with the prior permission of the Controller of Exchange.
- vii. Transfer of funds from Outward Investment Accounts (OIA) of the account holder which consist of benefits of foreign investments.
- viii. Transfers from the foreign currency accounts maintained by shipping and airline agents on behalf of their foreign principals in respect of supply of fuel against the funds received from such principals.
- ix. Insurance premia received on foreign currency denominated policies issued to eligible customers and co-insurers and claims received from re-insurers and National Insurance Trust Fund (NITF) by insurance companies registered with Insurance Board of Sri Lanka (IBSL).
- x. Unutilized foreign currency withdrawn against the funds in the FEEA for the travel expenses and for the purposes specified under item 5 (xiii) below.
- xi. Interest accrued on the funds held in the account.

### 5. Permitted Debits

- i. Outward remittances in respect of current international transactions of the account holder.
- ii. Outward remittances with respect to entrepot trade.
- iii. Transfers to other FEEA and accounts maintained in OBU with respect to purchase of goods and obtaining of services.
- iv. Outward remittances in respect of claims, refunds and commissions related to export of goods and services.
- v. Transfers to OIA of the account holder.
- vi. Payment of freight charges to accounts maintained by shipping and airline agents on behalf of their principals.
- vii. Outward remittances from the FEEA maintained by travel agents in relation to travel packages offered to foreign tourists against the funds received from foreign travel agents.
- viii. Withdrawals in foreign currency for travel purposes subject to the stipulations made by the Controller of Exchange from time to time.
- ix. Outward remittances for purchase of goods and services relating to foreign projects undertaken by the account holder against funds received from the respective projects.
- x. Outward remittances in respect of repayment of foreign currency loans obtained from foreign lenders with the prior permission of the Controller of Exchange.
- xi. Repayment of foreign currency loans obtained from authorized dealers.
- xii. Payments of claims to eligible customers and co-insurers in respect of foreign currency denominated policies, premia to local/overseas re-insurers and NITF and brokerage by insurance companies registered with IBSL.
- xiii. Withdrawals in foreign currency notes not exceeding USD 50,000 at a time by Gem & Jewellery dealers for the purpose of purchasing cut and polished or rough gem stones and other raw materials abroad upon submission of confirmation obtained from the National Gem & Jewellery Authority.
- xiv. Withdrawals in Sri Lanka rupees, provided that such withdrawals shall not be converted into foreign currency and re-credited to the account.

6. Conditions
- i. FEEA should not be overdrawn under any circumstances.
  - ii. Transfers between the FEEA of the same account holder shall be permitted.
  - iii. Non-Governmental Organizations are not permitted to open and maintain FEEA.
  - iv. All the existing Exporters Foreign Currency Accounts (EFC), Foreign Currency Accounts for Suppliers of Inputs (FCASI), Indirect Exporters Foreign Currency Accounts (IEFCA), Foreign Currency Accounts for Professional Services Providers (FCAPS), Non-Resident Foreign Currency (NRFC) Accounts held by Foreign Employment Agencies, Foreign Currency Accounts for Gem & Jewellery dealers and temporary/special foreign currency accounts authorized by the Controller of Exchange shall be renamed as FEEA with effect from the date of this direction.
  - v. Operating Instructions/Directions bearing Nos.EC/22/90(D), 06/04/02/2005, 06/04/08/2006, 06/04/10/2006 and 06/04/13/2010, dated 1990.03.30, 2005.04.08, 2006.11.16, 2006.12.05 and 2010.11.22, respectively are hereby rescinded.
7. Reporting Requirement
- Authorized dealers are required to furnish a report on monthly basis as per the attached format to the Exchange Control Department on or before the 15th day of the following month.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

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

#### Monthly Statement of Foreign Exchange Earners' Accounts (FEEA)

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

Category of the Account	Total number of A/C at the end of the month	Opening Balance as at the beginning of the month	Total credits	Total debits	Total Interest credited	Closing balance as at the end of the month
Exporter Indirect Exporter Professional Service Provider Travel Agent Supplier of Material Inputs Gem & Jewellery Dealer Insurers Other (please specify the category)						

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

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

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

**Ref: 06/04/06/2012**

9 August 2012

Directions To Authorized Dealers  
Dear Sirs,

#### NON - RESIDENT FOREIGN CURRENCY (NRFC) AND RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS

The Direction bearing No 06/04/04/2012 of 11th July 2012 is hereby amended repealing paragraph 4 and substituting the following.

"4. Debits to NRFC accounts are freely allowed"

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

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

**EXTRAORDINARY**

No.1774/33 – FRIDAY, SEPTEMBER 07, 2012

**(Published by Authority)**

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

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

THE notice under the Exchange Control Act published in the Government Gazette (Extraordinary) No.1516/24 of 27th September 2007 is amended as follows:

1. Delete the value "Rs. 5,000" in item (a) of paragraph 1 and substitute "Rs.20,000" therefor
2. Delete the value "Rs.5,000" in item (b) of paragraph 1 and substitute "Rs.20,000" therefor

P. H.O. Chandrawansa  
**Controller of Exchange**

07<sup>th</sup> day of September, 2012,  
Colombo.

**Ref: 06/04/08/2012**

2 October 2012

Direction To All Authorized Dealers  
Dear Sirs,

**DAILY FOREIGN EXCHANGE RATES OFFERED TO AUTHORIZED MONEY CHANGERS**

You are hereby required to inform on a daily basis on each working day, the maximum foreign exchange rate offered to authorized money changers for each of the designated foreign currencies, when they deposited or sold such currencies to your bank on the previous day.

The information required by this direction should be submitted in the attached format to the Controller of Exchange via email [ecd@cbsl.lk](mailto:ecd@cbsl.lk) and facsimile 0112477716 by 9.00 AM on each working day.

This direction is issued under the provisions of section 39 of the Exchange Control Act.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

**Format: 06/04/08/2012**

To: The Controller of Exchange  
From: (Name of the Authorized Dealer)  
Date: .....

**Daily Foreign Exchange Rates Offered to Authorized Money Changers**

The maximum foreign exchange rate offered to Authorized Money Changers when they deposited/sold designated foreign currencies on (date) are as follows:

Currency	Maximum Rate Offered

.....  
 Authorised Officer

Ref: 06/04/09/2012

29 November 2012

Direction To Authorized Dealers

Dear Sirs,

### ISSUANCE AND RENEWAL OF BANK GUARANTEES

As a further measure of liberalizing the Exchange Control regulations, the directions issued to authorized dealers on issuance and renewal of Bank Guarantees are amended as follows.

2. The types of Guarantees that shall be issued or renewed under this direction are the Bank Guarantees/Bonds and the Standby Letters of Credit. Depending on the nature of the guarantee, this direction cover, six different guarantee categories.

**Category 1:** A guarantee issued on behalf of a person resident in Sri Lanka in favour of a person resident outside Sri Lanka in respect of overseas contracts undertaken by the resident in Sri Lanka and discharge of which would involve a payment in foreign exchange remittable to the person resident outside Sri Lanka.

**Category 2:** A guarantee issued on behalf of a principal obligor who is a resident outside Sri Lanka in favour of a person resident in Sri Lanka in respect of a contract in Sri Lanka.

**Category 3:** In the event where the principal obligor is a person resident outside Sri Lanka and a guarantee is to be given by his agent in Sri Lanka in favour of a person resident in Sri Lanka in respect of a contract in Sri Lanka.

**Category 4:** In the event where a company incorporated in Sri Lanka (investor) is required to provide a bank guarantee to enable a company incorporated outside Sri Lanka (investee) in which the said investor is a share holder to raise facilities from financial institutions in the country where the investee is incorporated.

**Category 5:** In the event where a company incorporated in Sri Lanka (investor) is required to provide a bank guarantee to enable a branch established outside Sri Lanka by the said investor to raise facilities from financial institutions in the country where the branch is established.

**Category 6:** In the event where a person resident outside Sri Lanka undertakes a project in Sri Lanka as a contractor and a person resident in Sri Lanka is required to issue a guarantee in favour of the said contractor in the capacity of a sub-contractor.

### 3. Terms and Conditions

#### 3.1 General Terms and Conditions

- i. Authorized dealers shall obtain evidence in proof of the underlying transaction, which shall be a transaction permitted in terms of general or special permission granted under the provisions of the Exchange Control Act.
- ii. The maximum amount of the claim under a guarantee shall be limited to the proportion of the outstanding obligations of the underlying contract.

#### 3.2 Conditions for Category 1:

- i. Authorized dealers may without prior approval of the Controller of Exchange issue following types of guarantees without a maximum limit.
  - A. Bid Bonds in respect of a contract undertaken outside Sri Lanka subject to the conditions stipulated in the tender or quotation.
  - B. Performance Bonds in respect of a contract undertaken outside Sri Lanka subject to proof of award of the contract and conditions stipulated in the contract.
  - C. Advance payment guarantees required by a resident outside Sri Lanka from a person resident in Sri Lanka in connection with a contract assigned to such person resident in Sri Lanka, subject to fulfillment of the following conditions:

- a. The guarantee value shall be less than or equal to the value of the advance payment received by the resident in Sri Lanka from the person resident outside Sri Lanka.
  - b. The guarantee shall include a condition that it will be valid only after the receipt of the advance payment from the resident outside Sri Lanka to the accounts in Sri Lanka of the person resident in Sri Lanka.
- ii. Authorized dealers may issue a guarantee for purposes other than those referred to in items A, B and C above up to a value of USD 1 mn per contract.

### 3.3 Conditions for Category 2:

A guarantee may be issued without a limit subject to obtaining a counter guarantee on identical terms from the principal obligor who is a resident outside Sri Lanka issued by a reputed international bank outside Sri Lanka with a rating acceptable to the authorized dealer.

### 3.4 Conditions for Category 3:

A guarantee may be issued without a limit at the request of the agent in Sri Lanka subject to obtaining a counter guarantee on identical terms from the principal obligor resident outside Sri Lanka issued by a reputed international bank outside Sri Lanka with a rating acceptable to the authorized dealer.

### 3.5 Conditions for Category 4:

A guarantee not exceeding USD 250,000 per investee may be issued on behalf of the investor subject to following conditions:

- (i) The share investment by the investor in investee has been made under the general permission granted by the Hon. Minister of Finance under the Gazette Notification No. 1686/50 dated 01st January 2011 or a special permission granted by the Hon. Minister of Finance.
- (ii) The guarantee value shall be proportionate to the percentage of shareholding of the investor in the said investee at any given time.
- (iii) In the event of a claim, the maximum amount of the claim shall be proportionate or lower to the percentage of;
  - a. shareholding of the investor in the investee;
  - b. outstanding facility amount at the time of the claim.
- (iv) Authorized dealer shall obtain an affidavit from the investor to the effect that no guarantee has been obtained from any other authorized dealer towards the same investee.

### 3.6 Conditions for Category 5:

A guarantee up to USD 100,000 may be issued per branch established outside Sri Lanka by the investor subject to the following conditions:

- (i) The investment by the said investor in the said branch has been made under the following permissions:
  - a. General permission granted by the Controller of Exchange under the Gazette Notification No. 1686/52 dated 01st January 2011 or;
  - b. Special permission granted by the Controller of Exchange.
- (ii) Authorized dealer shall obtain an affidavit from the investor to the effect that no guarantee has been obtained from any other authorized dealer towards the same branch.

### 3.7 Conditions for Category 6:

- (i) Authorized dealers may without prior approval of the Controller of Exchange issue the following types of guarantees without a maximum limit.
  - A. Bid Bonds in respect of a contract in Sri Lanka subject to the conditions stipulated in the tender or quotation.
  - B. Performance bond in respect of a contract in Sri Lanka subject to proof of award of the contract and conditions stipulated in the contract.
  - C. Advance payment guarantee may be issued provided that the guarantee value shall be less than or equal to the amount of advance payment received in foreign currency by the sub-contractor in Sri Lanka and be valid only after the receipt of the advance payment from the contractor resident outside Sri Lanka to the accounts in Sri Lanka of the sub-contractor.
- (ii) Any guarantee other than those referred to in A, B and C in paragraph 3.7 (i) above shall not exceed USD 500,000 per contract.

4. Authorized dealers are also permitted to make outward remittances arising from valid claims in respect of the guarantees referred to above without reference to the Controller of Exchange.
5. **Reporting Requirements:** A monthly report on guarantees issued by the authorized dealer under this direction shall be forwarded to the Controller of Exchange as per the attached format on or before the 15th day of the following month.
6. Operating instructions No. 06/04/05/2003 dated 21st January 2003 are hereby rescinded.

Yours faithfully,  
P. H. O. Chandrawansa  
**Controller of Exchange**

**Annex**

### Report on Guarantees

Name of the Authorized Dealer: .....

Month & Year: .....

#### 1. Details of the Guarantees

Category	No. of Guarantees issued	No. of Guarantees retired	Outstanding Value
1			
2			
3			

#### 2. Details of the outward remittances made under the claims, if any :

- a. Name of the company:
- b. Date and Amount of remittance:
- c. Nature of the claim:
- d. Category of the guarantee:

I certify that the information given above is true and accurate.

.....  
Date

.....  
Signature of the Authorised Officer

**Ref: 06/04/10/2012**

31 December 2012

Directions To Authorized Dealers

Dear Sirs,

### INWARD REMITTANCES DISTRIBUTION ACCOUNT (IRDA)

As a measure of conveniently and economically providing for the remittance of earnings of groups of persons employed abroad, it has been decided to introduce a new account named as "Inward Remittances Distribution Account (IRDA)" which can be used as a clearing account to disburse earnings of persons who are providing services abroad in seagoing vessels/ships, commercial aircrafts as well as those who are providing construction, janitorial, health, security, accounting, legal and other services in foreign countries. This account will be subject to following terms and conditions.

#### 2. Persons Eligible to open IRDAs

IRDAs may be opened by companies incorporated in Sri Lanka who have arrangements for disbursements of wages and/or earnings of Sri Lankans who are rendering services outside Sri Lanka.

#### 3. Permitted Credits to IRDAs

- i. Inward remittances received through banking channels abroad from the overseas employers with whom the company has an arrangement for the disbursement of wages and/or earnings of Sri Lankans who are rendering the services to such overseas employer(s).
- ii. Transfer of funds from an account maintained by the overseas employer(s) at an Off-shore Banking Unit (OBU) of a licensed commercial bank in Sri Lanka.

**4. Permitted Debits to IRDAs**

- i. Transfer of funds to Non-Resident Foreign Currency (NRFC) or Resident Foreign Currency (RFC) accounts or Sri Lanka Rupee accounts of employees employed by the overseas employer(s), under arrangements as referred to above.
- ii. Transfer of funds to a Foreign Exchange Earners' Account (FEEA) or a Rupee account maintained by the account holder in respect of commission or service fees charged to the relevant overseas employer(s).
- iii. Withdrawal in Sri Lanka rupees, provided that no re-converting and crediting to the IRDA shall be allowed.

5. This account shall not be overdrawn under any circumstances.

**6. Reporting**

A statement setting out in aggregate, the total credits and debits made to the IRDAs shall be furnished to the Exchange Control Department by the Authorized Dealer, on a quarterly basis, within two weeks of the end of each quarter.

Yours faithfully,  
R. R. Jayarathne  
**Additional Controller of Exchange**

Ref: 06/04/11/2012

31 December 2012

Directions To Authorized Dealers  
Dear Sirs,

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

The following shall be permitted as a credit into an NRFC account, further to the credits specified under paragraph 2.2 of Operating Instructions No. EC/08/88(D) as amended from time to time.

- “(d) Transfer of funds from an Inward Remittances Distribution Account (IRDA) in terms of the Direction on Inward Remittances Distribution Account No. 06/04/10/2012”

Yours faithfully,  
R. R. Jayarathne  
**Additional Controller of Exchange**

Ref: 06/04/12/2012

31 December 2012

Directions To Authorized Dealers  
Dear Sirs,

**RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS**

Further to the permitted credits into RFC accounts, transfer of funds from an Inward Remittances Distribution Account (IRDA) into an RFC account is permitted.

Yours faithfully,  
R. R. Jayarathne  
**Additional Controller of Exchange**

Ref: 06/04/13/2012

31 December 2012

Directions To Authorized Dealers  
Dear Sirs,

**FOREIGN EXCHANGE EARNERS' ACCOUNT (FEEA)**

Further to the permitted credits into a FEEA, transfer of funds from an Inward Remittances Distribution Account (IRDA) into a FEEA of the same IRDA holder is hereby permitted.

Yours faithfully,  
R. R. Jayarathne  
**Additional Controller of Exchange**

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

**EXTRAORDINARY**

No. 1789/34 – THURSDAY, DECEMBER 20, 2012

**(Published by Authority)**

**PART I : SECTION (I) – 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 8 of the Exchange Control Act (Chapter 423 of the CLE)**

1. PERMISSION is hereby granted for the purposes of Sections 7 and 8 of the Exchange Control Act (Chapter 423 of the CLE) for a person to make payments in foreign exchange to a person resident outside Sri Lanka using an Electronic Fund Transfer Card (EFTC) subject to the following terms and conditions.
2. A payment on an EFTC to a person resident outside Sri Lanka by a resident in Sri Lanka may be made only for the following purposes:
  - (i) Payment to be made abroad by a card holder for services of a personal nature including travel, accommodation, medical, living and educational expenses;
  - (ii) Payment for purchase of goods for personal use abroad;
  - (iii) Payment for import of goods into Sri Lanka for personal use subject to the terms, conditions and limitations stipulated in the regulations issued under the Import and Export (Control) Act, No. 01 of 1969;
  - (iv) Payment of registration fees, tuition fees, examination fees and annual subscription fees of a personal nature payable to a foreign professional body or an educational institution;
  - (v) Payment to be made in respect of insurance premium only for travel and health insurance of personal nature;
  - (vi) Payment to be made in respect of overseas travel and accommodation of personal nature while in Sri Lanka.
3. An EFTC issued to a resident in Sri Lanka shall be surrendered to the card issuing bank if the card holder migrates or leaves Sri Lanka for employment abroad.
4.
  - (i) Any payment to a resident outside Sri Lanka by a resident in Sri Lanka through an EFTC for any transaction which falls outside the purview of paragraph 2 shall require the prior written permission of the Controller of Exchange unless such payment is in respect of a permitted transaction made out of the funds lying to the credit of a Resident Foreign Currency (RFC) account, a Resident Non National Foreign Currency (RNNFC) account or an account in an off shore unit of a licensed commercial bank.
  - (ii) Any payment to a resident outside Sri Lanka in respect of any transaction through an EFTC issued against a Non-Resident Foreign Currency (NRFC) account is freely permitted.
5. For the purposes of this notice, unless the context otherwise requires-  
**'Electronic Fund Transfer Card (EFTC)'** means, a card or device that enables the user to transfer value in credit, debit or any other form and includes credit cards, debit cards and stored value cards.  
**'Personal'** means, for the use of the holder of the card, his spouse, children and parents and does not include use for any commercial purpose.

The notice published in *Gazette Extraordinary*, No. 1411/5 dated September 19, 2005 is hereby rescinded.

P. H. O. Chandrawansa  
**Controller of Exchange**

Colombo,  
20<sup>th</sup> December, 2012

**Ref: 37/04/001/0004/012**

**Circular – 01/12**  
28 February 2012

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

Dear Sir/Madam,

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

As you may aware, the Financial Action Task Force (FATF), the global policy setter on money laundering and terrorist

financing has revised the existing 40+9 Recommendations at its Plenary held on 16th February 2012.

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

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

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

Yours faithfully,  
Sigd.  
Director

**Financial Intelligence Unit**

Cc: Compliance Officers

**Ref: 37/04/001/0004/012**

**Circular – 02/12**  
1 March 2012

To : Compliance Officers of Licensed Banks  
Dear Sir/Madam,

#### **NOTIFICATION FROM THE FIU OF THE ST. VINCENT AND THE GRENADINES (SVG)**

The Financial Intelligence Unit (FIU) of the St. Vincent and the Grenadines (SVG) has informed that, the Overseas First Federal Bank in Arizona is fraudulently advertising itself as operating within the jurisdiction of St. Vincent and the Grenadines (SVG). The IPA address stated as ([http://www.overseasfirstfederal.com/en/investment\\_account.htm](http://www.overseasfirstfederal.com/en/investment_account.htm)).

The Overseas First Federal Website shows its contact details as Sutherland's Building, Murray Road, Kingstown, St. Vincent, where the FIU of SVG confirms that no bank conducts business at the said address/location.

Further, the FIU of SVG confirm that the entity is not licensed under the International Banks Act of St. Vincent & the Grenadines and has not been granted a license to operate as an offshore bank in SVG by the International Financial Services Authority (IFSA).

Yours faithfully,  
Sigd.  
Director

**Financial Intelligence Unit**

Cc: Secretary General, Sri Lanka Banks' Association

**Ref: 37/04/001/0004/012**

**Circular – 03/12**  
22 March 2012

To : CEOs of Licensed Banks, Licensed Finance Companies, Insurance Companies  
Stock Brokering Companies  
Dear Sir/Madam,

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

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

#### **STR Reporting Obligation;**

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

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

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

#### **Internal procedure on Identification and Reporting of STRs;**

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

#### **Protection of Persons Reporting STRs;**

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

#### **Submission of STRs;**

Every Institution must submit the report on suspicious transaction to the **Director, Financial Intelligence Unit through the Compliance Officer** of the reporting Institution designated under the FTRA. As instructed in the Circulars dated 23rd June and 17th December 2009, 06th and 15th April 2010 on "Web based information reporting system in submitting regular reports to the Financial Intelligence Unit", all STRs have to be submitted electronically using the web based interface (<https://lankafin.cbsl.lk>) and certified copies of the reports should be submitted subsequently.

**Any contravention or non-compliance on the above will be liable to penalties under the FTRA.**

Yours faithfully,  
Sigd.  
Director

**Financial Intelligence Unit**

Cc: Compliance Officer  
Director – Bank Supervision Department  
Director/ Department of Supervision of Non Bank Financial Institutions  
Director Legal /Insurance Board of Sri Lanka  
Director/Investigations/ Securities and Exchange Commission of Sri Lanka

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

#### **EXTRAORDINARY**

No. 1756/27 — FRIDAY, MAY 04, 2012

**(Published by Authority)**

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

L. D. B. 3/2006.

### **FINANCIAL TRANSACTIONS REPORTING ACT, No. 6 OF 2006**

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

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

Colombo.  
4<sup>th</sup> May, 2012.

## RULES

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

- (1) by the repeal of rule 8 of Part I thereof and the substitution therefor of the following :-  
 "8. Every Financial Institution shall with regard to one-off or occasional transactions where the amount of the transaction or series of linked transactions exceed rupees two hundred thousand, obtain the minimum information specified in rule 4 of these rules :

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

- (2) in rule 34 of Part II thereof under the heading "Maintenance of Accounts" :-  
 (a) by the repeal of paragraph 6 thereof and the substitution therefor of the following :-  
 "6. Every Financial Institution shall verify whether the name of any prospective customer appears on any known or suspected terrorist list or alert list, issued from time to time by the relevant authorities" ; and  
 (b) in paragraph 13 thereof by the substitution for the words and figures "13. All cash deposits made into savings and/or current accounts by third parties" of the words and figures "13. All cash deposits exceeding rupees two hundred thousand made into savings or current accounts by third parties".

13 January 2012

**Ref : 34/07/029/0001/002**  
**Circular No. : RTGS/01/2012**

To: All Participants of the LankaSettle System

### LIVE OPERATIONS OF LANKASETTLE SYSTEM FROM ITS BACKUP SITE ON FRIDAY, JANUARY 20, 2012

This is to inform you that the Central Bank of Sri Lanka will conduct operations of the LankaSettle (RTGS System and LankaSecure System) and other related systems from its Disaster Recovery Site (DRS) on **Friday, January 20, 2012** for the purpose of testing the business continuity arrangements.

The PCs that have been connected to the CBSLNet in your institution have already been configured to access the DR site. However you are requested to contact the IT Department of CBSL and test these connectivity before January 20, 2012. You may contact the following officers of the IT Department for the required assistance.

- Mr. Lasith Fernando – 2477124 (lasith@cbsl.lk)
- Mr. Rusiru Boralugoda – 2398617(rusiru@cbsl.lk)

N W G R D Nanayakkara  
**Superintendent of Public Debt**

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

27 January 2012

**Ref: 34/07/029/0001/002**  
**Circular No. : RTGS/02/2012**

To: All Participants of the LankaSettle System

### RESTRICTION OF BUSINESS HOURS OF THE LANKASETTLE SYSTEM ON FEBRUARY 03, 2012

The Central Bank of Sri Lanka, having considered the restricted business hours of participating institutions of the LankaSettle System on February 03, 2012, (a declared half-holiday in lieu of the National Day falling on Saturday), has decided to restrict business hours of the LankaSettle System on February 03, 2012 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 February 03, 2012 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.

N W G R D Nanayakkara  
**Superintendent of Public Debt**

Ranjani Weerasinghe  
**Director, Payments and Settlements**

14 February 2012

**Ref: 34/07/029/0001/001**  
**Circular No.: RTGS/03/2012**

To: All Participants of the LankaSettle System

**OPENING OF THE LANKASETTLE SYSTEM TO CONDUCT A LIVE TRIAL  
ON 18<sup>TH</sup> FEBRUARY, 2012**

This is to inform you that the LankaSettle system (RTGS and SSSS) will be opened on **Saturday, the 18<sup>th</sup> February 2012** for the limited purpose of testing the new version of application software in a live environment. However, any related interface applications (OMO etc.) of the LankaSettle system will not be available on the aforementioned day for settlement of any transactions.

Accordingly, the LankaSettle system will be opened on the aforementioned day only for the test transactions specified by the Information Technology Department of the Central Bank of Sri Lanka (ITD, CBSL) for testing the new version of the application software.

You are therefore kindly requested:

- (1) Not to send any forward dated SWIFT messages, having a value date later than 16<sup>th</sup> February 2012, until the new version is available for live operations on 21<sup>st</sup> February 2012. (Please note that SWIFT messages relating to normal transactions on 17<sup>th</sup> February 2012 can be sent on that day as usual.)
- (2) To cancel any forward dated transactions that you may have already sent (warehoused) with the value date specified as a date later than 16<sup>th</sup> February 2012.
- (3) Not to send any forward dated transactions on 18<sup>th</sup> February 2012 (live trial day), as such entries will be deleted from the system at the end of the live trial on 18<sup>th</sup> February 2012.
- (4) To disregard all inbound SWIFT messages generated on 18<sup>th</sup> February 2012 by CBCELKLAXXX, CBCELKLSXXX and CBCELKLXXXX.

The live trial will be conducted from **9:00am to 11:30am on Saturday 18<sup>th</sup> February, 2012 with the LankaSettle Participants.**

The required test plan will be directly emailed to each participant by ITD, on or before 17<sup>th</sup> February 2012.

N W G R D Nanayakkara  
**Superintendent of Public Debt**

Ranjani Weerasinghe  
**Director, Payments and Settlements**

21 March 2012

Ref: 34/07/029/ 0001/002  
Circular No.: RTGS/04/2012

To: All Participants of the LankaSettle System

### CHANGE OF IDENTIFICATION DETAILS OF DFCC VARDHANA BANK LIMITED IN THE LANKASETTLE SYSTEM

You are hereby informed that the identification details of the above mentioned bank will be changed in the LankaSettle System, as indicated below w. e. f. **09<sup>th</sup> April 2012**.

i. Name of the Participating Institution	: DFCC Vardhana Bank PLC.
ii. SWIFT Bank Identifier Code (BIC)	: DFCCCLKXXXX
iii. Settlement Account No. in the RTGS System	: DFCCCLKXXXX010004423

You are also informed that during the above identification detail change process in the LankaSettle System:

- (i) The new Settlement Account No. DFCCCLKXXXX010004423 of the DFCC Vardhana Bank PLC will be introduced to the LankaSettle System on 27<sup>th</sup> March, 2012 and will be kept on status '**Suspended**' until 05<sup>th</sup> April, 2012. This period has been provided for DFCC Vardhana Bank PLC to carry out the necessary activities to facilitate the BIC code change. The new Settlement Account No. DFCCCLKXXXX010004423 will be operative in the LankaSettle System w. e. f. 09<sup>th</sup> April 2012 (06<sup>th</sup> – 08<sup>th</sup> April 2012 are holidays);
- (ii) DFCC Vardhana Bank PLC will be provided two business days (i. e. 09<sup>th</sup> and 10<sup>th</sup> April, 2012) to transfer their account balances, and securities holdings in the LankaSettle System to new accounts. During this period, both settlement Account Nos. NMNJLKLXXXX010004423 and DFCCCLKXXXX010004423 will be active in the LankaSettle System;
- (iii) The existing Settlement Account No. NMNJLKLXXXX010004423 of the said bank will have the status of '**Suspended**' from 11<sup>th</sup> April 2012 onwards as the said account will be inoperative w. e. f. 11<sup>th</sup> April 2012; and
- (iv) Relevant SWIFT messages will be relayed to all participants to indicate the above status changes.

**Payment /securities settlement instructions should not be directed to the existing BIC: NMNJLKLXXXX of DFCC Vardhana Bank Limited after 05<sup>th</sup> April, 2012. All payment/securities settlement instructions should be directed to the new BIC: DFCCCLKXXXX of DFCC Vardhana Bank PLC, w. e. f. 09<sup>th</sup> April 2012.**

N W G R D Nanayakkara  
Superintendent of Public Debt

Ranjani Weerasinghe  
Director, Payments and Settlements

28 March 2012

Ref: 34/07/029/ 0001/002  
Circular No.: RTGS/05/2012

To: All Participants of the LankaSettle System

### CHANGE OF IDENTIFICATION DETAILS OF DFCC VARDHANA BANK LIMITED IN THE LANKASETTLE SYSTEM

Reference our circular No. RTGS/04/2012 dated 21<sup>st</sup> March 2012 on the above subject.

DFCC Vardhna Bank PLC informed us on 23<sup>rd</sup> March 2012 that the date of changing its BIC has been postponed. Accordingly, the proposed arrangements explained in the above circular will not be implemented and therefore, we request you to disregard the contents in the said circular.

The new date and other details on activation of the new BIC of DFCC Vardhana Bank PLC will be informed in due course.

N W G R D Nanayakkara  
Superintendent of Public Debt

Ranjani Weerasinghe  
Director, Payments and Settlements

19 April 2012

Ref: 34/07/029/ 0001/002  
Circular No.: RTGS/06/2012

To: All Participants of the LankaSettle System

**CHANGE OF IDENTIFICATION DETAILS OF DFCC VARDHANA BANK LIMITED  
IN THE LANKASETTLE SYSTEM**

Further to Our Circular No. RTGS/05/2012 dated 28 March 2012 on the above subject.

Accordingly, you are hereby informed that the identification details of the above mentioned bank will be changed in the LankaSettle System, as indicated below w. e. f. **08 May 2012**.

<b>i. Name of the Participating Institution</b>	: DFCC Vardhana Bank PLC.
<b>ii. SWIFT Bank Identifier Code (BIC)</b>	: DFCCCLKXXXX
<b>iii. Settlement Account No. in the RTGS System</b>	: DFCCCLKXXXX010004429

You are also informed that during the above identification detail change process in the LankaSettle System would involve the following.

- (i) The new Settlement Account No. DFCCCLKXXXX010004429 of the DFCC Vardhana Bank PLC will be introduced to the LankaSettle System on 20 April 2012 and will be kept on status '**Suspended**' until 04 May 2012. This period has been provided for DFCC Vardhana Bank PLC to carry out the necessary activities to facilitate the BIC code change. The new Settlement Account No. DFCCCLKXXXX010004429 will be operative in the LankaSettle System w. e. f. 08 May 2012 (05 – 07 May 2012 are holidays);
- (ii) DFCC Vardhana Bank PLC will be provided two business days (i. e. 08 and 09 May 2012) to transfer their account balances and securities holdings in the LankaSettle System to new accounts. During this period, both settlement Account Nos. NMNJLKLXXXX010004423 and DFCCCLKXXXX010004429 will be active in the LankaSettle System;
- (iii) The existing Settlement Account No. NMNJLKLXXXX010004423 of the said bank will have the status of '**Suspended**' from 10 May 2012 onwards as the said account will be inoperative w. e. f. 10 May 2012; and
- (iv) Relevant SWIFT messages will be relayed to all participants to indicate the above status changes.

**Payment/Securities settlement instructions should not be directed to the existing BIC: NMNJLKLXXXX of DFCC Vardhana Bank Limited after 04 May 2012. All payment/securities settlement instructions should be directed to the new BIC: DFCCCLKXXXX of DFCC Vardhana Bank PLC, with effect from 08 May 2012.**

N W G R D Nanayakkara  
Superintendent of Public Debt

A J Luxman Peiris  
Addl. Director,  
Payments and Settlements

26 April 2012

Ref: 34/07/029/0001/002  
Circular No.: RTGS/07/2012

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 in terms of the Rule 8 of Volume 4 of the LankaSettle System Rules – Ver. 2.0 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 450/- to LKR 600/- with effect from 01 June, 2012.

U L Muthugala  
Actg. Superintendent of Public Debt

Ranjani Weerasinghe  
Director, Payments & Settlements

**ATTACHMENT B (Amended on 26 April 2012)  
SCHEDULE OF LANKASETTLE FEES AND CHARGES**

The Central Bank of Sri Lanka will charge all LankaSettle participants all inclusive per transaction fee of LKR 600/- with effect from 1<sup>st</sup> June 2012.

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.

16 July 2012

**Ref: 34/07/029/0001/002**

**Circular No.: RTGS/08/2012**

To: All Participants of the LankaSettle System

**LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM ITS BACK-UP SITE  
ON FRIDAY, 20 JULY 2012**

This is to inform you that the Central Bank of Sri Lanka (CBSL) will conduct operations of the LankaSettle System (RTGS System and LankaSecure System) and other related systems from its Disaster Recovery Site (DRS) on **Friday, 20 July 2012** for the purpose of testing the business continuity arrangements.

The PCs that have been connected to the CBSLNet in your institution have already been configured to access the DR site. However, you are requested to contact the IT Department of CBSL and test these connectivity before 20 July 2012. You may contact the following officers of the IT Department for the required assistance.

- Mr. Lasith Fernando – 2477124 (lasith@cbsl.lk)
- Mr. Rusiru Boralugoda – 2398617 (rusiru@cbsl.lk)

Ranjani Weerasinghe

**Director, Payments and Settlements**

U L Muthugala

**Actg. Superintendent of Public Debt**

22 October 2012

**Ref: 34/07/029/0001/002**

**Circular No.: RTGS/09/2012**

To: All Participants of the LankaSettle System

**OPERATIONS OF THE LANKASETTLE SYSTEM ON 26 OCTOBER 2012**

The Hadji Festival which was due to be celebrated on Friday, 26 October 2012 has now fallen on Saturday, 27 October 2012. Accordingly, the Government has declared that Saturday, 27 October 2012 a Public Holiday and a Special Bank Holiday and that Friday, 26 October 2012 is not a Public and Bank Holiday.

Therefore, the LankaSettle System and related sub-systems will be kept open for business on Friday, 26 October 2012 as per the usual daily operational schedule stated in the System Rules of the LankaSettle System.

A J Luxman Peiris

**Addl. Director,**

**Payments and Settlements**

N W G R D Nanayakkara

**Superintendent of Public Debt**

Copy to;

1. Secretary, Sri Lanka Banks' Association (Guarantee) Ltd.
2. President, Association of Primary Dealers
3. General Manager, LankaClear (Pvt.) Ltd.

26 December 2012

Ref: 34/07/029/0001/001

Circular No.: RTGS/10/2012

To: All Participants of the LankaSettle System

**STANDARDIZATION OF INVESTOR INFORMATION REGISTRATION  
IN THE CENTRAL DEPOSITORY SYSTEM OF LANKASECURE**

1. As per LankaSettle System Rules, Dealer Direct Participants (DDP), who act as custodians for their Customers in the LankaSecure System, are required to promptly and accurately record the Name, Address and National Identification Number (NIC)/Company Registration Number (CRN)/ or the number of any other identification document approved by CBSL, of their Customer in the Central Depository System (CDS) of the LankaSecure System when the Customer obtains legal ownership of Government securities.
2. Accordingly, all LankaSettle DDPs are requested to strictly adhere to the following requirements when registering Investors in CDS with effect from 01.01.2013:
  - (a) Only to treat the NIC, in the case of an individual, or the CRN, in the case of an entity, as the primary beneficial owner code when opening new accounts in the CDS.
  - (b) The Name of the Investors should be recorded as appearing in the National Identity Card/ Company Registration Certificate or any other identification document approved by CBSL. The Address should be the current one and complete, in order to facilitate timely delivery of Statements to Investors;
  - (c) Categorize investor/s according to the classification given in Annex I, when opening new accounts in the CDS.
3. The existing accounts in the CDS should be amended to include NICs/CRNs as the primary beneficial owner code and also to reflect the investor category by 30.06.2013.

N W G R D Nanayakkara  
Superintendent of Public Debt

A J L Peiris  
Addl. Director, Payments and Settlements

**Annex I**

<b>Owner Type Description</b>		
Central Bank	Govt Pension Fund	Mutual Fund
Emp Provident Fund	Gratuity Fund	Other*
Emp Trust Fund	Individual	Primary Dealer
Finance Company	Insurance Company	Pvt Pension Fund
Forces	Leasing Company	Pvt Provident Fund
Govt Authority	Lic Commercial Bank	Public Srv Prov Fund
Govt Board	Lic Specialised Bank	Savings Institution
Govt Corporation	Market Intmdry	Stockbroker
Govt Department	Ministry	Unit Trust
Govt Fund	Money Broker	

\* Please contact CBSL before assigning this category

**Operating Instructions No.: RDD/2012/01**

Regional Development Department  
Central Bank of Sri Lanka  
P.O. Box 590  
No.30, Janadhipathi Mawatha  
Colombo 1.  
02.01.2012

Tel: 2477447/2477528/2477452/2477473  
Fax: 2477733/2477734

To: Bank of Ceylon, People's Bank, Hatton National Bank, Commercial Bank, Seylan Bank, SANASA Development Bank, Sampath Bank, DFCC Bank, Union Bank, National Development Bank, Pan Asia Bank

Dear Sir/Madam,

### **The Awakening North Loan Scheme Revolving Fund – Phase II (ANLS-RF-Ph II)**

#### 1. Introduction

The above loan scheme has been introduced by the Central Bank of Sri Lanka (CBSL) for the purpose of providing credit facilities for resumption of economic activities in agriculture, livestock, fisheries, micro and small enterprises in the Northern Province of Sri Lanka. Credit under the scheme will be provided to eligible sub-borrowers through Participatory Financial Institutions (PFIs) i.e. Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) selected for the implementation of the scheme.

#### 2. Overall Management of the Project

The Regional Development Department (RDD) of the CBSL will be responsible for implementation of the loan scheme.

#### 3. Loan Scheme

- |     |                                |   |  |
|-----|--------------------------------|---|--|
| 3.1 | Total fund allocated           | : | Recoveries collected from the "Awakening North" Special Loan Scheme Revolving Fund.  |
| 3.2 | Loan                           | : | 90 percent of the estimated cost of the project subject to a maximum limit of Rs.200,000/=                                     |
| 3.3 | Refinance                      | : | The CBSL will refinance loans up to 90 percent of the amount disbursed by PFIs.  |
| 3.4 | Rate of interest on refinance  | : | 4 percent per annum loans to PFIs  |
| 3.5 | Rate of interest for sub-loans | : | 9 percent per annum  |
| 3.6 | Grace period                   | : | Maximum of 6 months commencing from the date of disbursement of the first instalment subject to the nature of the sub-project. |
| 3.7 | Repayment period of sub-loans  | : | Maximum of 5 year period depending on the nature of the sub-project.   |
| 3.8 | Date of implementation         | : | The scheme will be effective from 2 <sup>nd</sup> January 2012.  |
| 3.9 | Areas of operation             | : | All districts in the Northern Province.  |

#### 4. Eligible Projects

Any legally accepted income generating activity coming under the following sectors are eligible for consideration of finance under this Loan Scheme:

- (a) Agriculture and related activities
- (b) Livestock development
- (c) Fisheries and related activities
- (d) Micro and small enterprises
- (e) Trade and other self employment projects.

#### 5. General Eligibility Conditions for Sub-borrowers

The Eligible Sub-borrower should -

- 5.1 be a permanent resident living in the Northern Province;
- 5.2 be able to provide equity contribution not less than 10 percent of the estimated cost of the project towards starting/restarting the project. The equity can be in the form of cash or kind such as labour and managerial skill etc.;
- 5.3 be able to satisfy the PFI that the proposed project has a sound cash flow and a good repayment capacity;
- 5.4 be able to provide collateral if any, as determined by the PFI.

#### 6. Participating Financial Institutions

The following LCBs and LSBs, which are operating their branches in the Northern Province, have been selected as Participating Financial Institutions (PFIs):

- |                        |                             |
|------------------------|-----------------------------|
| • Bank of Ceylon       | • SANASA Development Bank   |
| • People's Bank        | • Sampath Bank              |
| • Hatton National Bank | • Union Bank                |
| • Commercial Bank      | • National Development Bank |
| • Seylan Bank          | • Pan Asia Bank             |

Any new PFI selected for implementation of the Scheme will be notified by the CBSL from time to time.

7. Registration of Sub-borrowers
  - 7.1 The branch manager should prepare a complete registration form in respect of each loan applicant as described in Annex I.
  - 7.2 The original copy of this registration form should be sent to the following address for registration of the loan applicant.

The Director  
Regional Development Department  
Level 07 , Tower 04  
The Central Bank of Sri Lanka  
No: 30, Janadhipathi Mawatha, Colombo 01.
  - 7.3 Every registered loan applicant with the Central Bank will be allocated a designated Enquiry Number by the Central Bank. The Enquiry Numbers relevant to registered loan applicants will be notified to the Head Office of relevant PFI by the Central Bank.
8. Release of Loan
  - 8.1 Release of sub-loan could be made in stages on the basis of an agreed disbursement schedule and subject to actual progress of the project for which the sub-loan is sanctioned. The manager of the PFI branch is required to carry out an inspection of the sub-project after the release of each instalment of sub-loan.
  - 8.2 Sub-loans for financing the purchase of equipment, tools, machinery and raw materials should be released direct to the suppliers.
9. Application for Sub-loans
  - 9.1 Eligible sub-borrowers should apply for sub-loans on application forms designed by respective PFIs.
  - 9.2 Sub-loan application should be submitted to the branch of the PFI closest to the applicant or location of the project.
  - 9.3 The maximum amount of sub-loan shall be 90 percent of total estimated cost of the sub-project as specified in paragraph 3.2.
  - 9.4 The sub loans may be secured with any collateral acceptable to the PFIs.
10. Applications for Refinance
  - 10.1 Applications for refinance should be submitted by the Head Office of the PFI to the RDD of the Central Bank of Sri Lanka. The refinance application should be accompanied by the following documents.
    - (i) Application for Refinance (Appendix I)
    - (ii) Statement of Loan Disbursements (Appendix II)
    - (iii) Demand Promissory Note (Appendix III)(with relevant stamp duty)
    - (iv) Delivery Letter (Appendix IV)
    - (v) Credit Institution's Assignment (Appendix V)
    - (vi) Disbursement Letter (Appendix VI)
  - 10.2 Applications for refinance of subsequent disbursements of sub-loan installments should also be accompanied by all the above mentioned documents.
11. Disbursement of Refinance
  - 11.1 Subsequent to issuance of Enquiry Number in respect of each loan applicant, as described in paragraph 7.3, the PFIs are allowed to grant loans to the respective applicants and shall forward a refinance application with necessary documents as described in paragraph 10.1 quoting the respective Enquiry Number relevant to each borrower. It is important that all correspondence with RDD relevant to refinance carry the Enquiry Number wherever applicable. Branches of PFIs are advised to use this number on their ledger sheets for the purpose of identification of the sub-loan.
  - 11.2. Upon approval of the refinance application, the RDD will release refinance on first come first served basis and will inform the particulars of the release of refinance to respective Head Office of the PFI.
    - (a) Refinance claims should be submitted to RDD within 60 days of the disbursement of Sub-loans.
    - (b) RDD undertakes to ensure that refinance loan is granted within 30 days of the receipt of the duly completed refinance application.
12. Post Credit Supervision
  - 12.1 The bank should undertake periodic inspections of the investments financed by the PFI branches to ascertain that the borrowers are engaged in the activities identified under the project.
  - 12.2 In respect of acquisition of assets such as equipment, machinery, tools, raw materials and agricultural inputs

for sub-loans, the field officer of the branch should verify the supply of same to the borrower by the supplier to whom payment was made direct on behalf of the borrower soon after the loan was released and obtain an acknowledgement from the borrower for the file.

- 12.3 A letter of guarantee issued by the supplier for due performance of the machinery and implements and equipment supplied to the borrower should be held by the branch during the warranty periods. The borrower should be required to bring to the notice of the lending branch the manufacturing defects during the warranty period so that the branch could take up the matter with the supplier immediately for any corrective action, if necessary.
- 12.4 The field officer of the branch is required to carry out an inspection after release of every instalment to verify the utilization of the sub-loan for the intended purpose. A utilization verification report should be submitted by the field officer in respect of each instalment released. The second and subsequent instalments should be released upon submission of utilization verification reports.
- 12.5 The field officer of the branch should visit the sub-projects regularly with a view to maintaining close contact with the sub-borrowers for recovery of sub-loans. These visits are intended to verify the progress of investments and whether the borrowers continue to be in possession of items financed by the PFI and the investment yields the income as envisaged at the time of application.

### 13. Recovery Action

- 13.1 The borrowers, who have the capacity and are willing to pay during the grace period may be permitted to do so.
- 13.2 In case of slippage in projects or defaults in the service of sub-loans arising from reasons which are clearly justifiable in the opinion of the PFI, the PFI may grant a reasonable extension period not exceeding 2 years with appropriate adjustments in the repayment programme with the prior approval of the CBSL. In such cases, the RDD of the CBSL may grant PFIs the same extension period on the corresponding refinance loan upon receipt of new repayment programme from the PFI.

### 14. Repayment to the CBSL

- 14.1 Capital and interest payments on refinance loan will be payable half yearly by the PFIs to the CBSL on 30th June and 31st December of each year commencing from the end of the grace period and as per the interest rates mentioned in the paragraph 3.4.
- 14.2 If any interest payable during the grace period is not paid on its due date, such interest may at the option of the PFI concerned be capitalized until payment thereof is made.

### 15. Role of the PFIs

Each PFI shall designate a full time senior officer as the administrator of the loan scheme at its Head Office who will be responsible for co-ordinating and supervising the PFIs' sub-loan operations. The functions allocated to each PFI are as follows:

- 15.1 Designate the appropriate branches for the grant of sub-loans, in consultation with the CBSL. These branches will be assigned code numbers by the CBSL to facilitate the administration of the loan scheme.
- 15.2 Prepare detailed guidelines for branch managers on sub-loan processing and take action to recover sub-loans.
- 15.3 Maintain a separate ledger by each branch of PFI in respect of loans granted under the scheme.
- 15.4 Ensure regular spot inspections of the enterprises to review the physical progress of sub-projects before disbursement of instalments.
- 15.5 Ensure the availability of adequate field officers for the designated branches for supervision of the progress on the utilisation of the loan and recovery of sub-loans.
- 15.6 Ensure that the branches implementing the scheme submit regular progress reports in respect of implementation, recovery of loans, etc. to the Head Office of the PFI.
- 15.7 Submit progress reports on the loan scheme to the RDD of the CBSL quarterly by the Head Office of the PFI.

### 16. Role of the CBSL

The CBSL will establish a system for –

- 16.1 continuous monitoring of the progress of sub-loan processing and provision of necessary assistance to PFIs in implementing the loan scheme and supervising credit;
- 16.2 monitoring and evaluation of benefits accruing to sub-borrowers with a view to observing the impact of the loan scheme in relation to its planned objectives and if necessary, adopting measures to improve benefits to be received by sub-borrowers.
- 16.3 monitoring and evaluating the performance of the PFIs in the project area; and
- 16.4 organizing training programmes to educate the staff of branches designated by the PFI.

## 17. Other Matters

17.1 The CBSL has the right to revise the terms and conditions in respect of refinance scheme as and when necessary.

Yours faithfully,  
M.J.S. Abeyisnghe  
**Director**  
**Regional Development Department**

**Operating Instructions No.: RDD/RF/2012/02**

Regional Development Department  
Central Bank of Sri Lanka  
P.O. Box 590  
No.30, Janadhipathi Mawatha  
Colombo 1.  
02.01.2012.

Tel: 2477447/2477528/2477452/2477473  
Fax: 2477733/2477734

To: Bank of Ceylon, People's Bank, Hatton National Bank, Commercial Bank, Seylan Bank, SANASA Development Bank, Union Bank, Pan Asia Bank, DFCC Bank, National Development Bank, Pradeshiya Sanwardena Bank, Sampath Bank

Dear Sir/Madam,

**Resumption of Economic Activities in the Eastern Province Revolving Fund – Phase II (REAEP-RF-Ph II)**

## 1. Introduction

The above loan scheme has been introduced by the Central Bank of Sri Lanka (CBSL) for the purpose of resumption of economic activities in perennial crop cultivation, livestock, fisheries, trade, tourism and other self employment projects in the Eastern Province of Sri Lanka. Credit under the scheme will be provided to eligible sub-borrowers through Participatory Financial Institutions (PFIs) i.e. Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) selected for the implementation of the scheme.

## 2. Overall Management of the Project

The Regional Development Department (RDD) of the CBSL will be responsible for implementation of the loan scheme.

## 3. Loan Scheme

- |     |                                |  |
|-----|--------------------------------|--|
| 3.1 | Total fund allocated           | : Recoveries collected from the loan scheme for Resumption of Economic Activities in the Eastern Province – Revolving Fund       |
| 3.2 | Loan                           | : 90 percent of the estimated cost of the project subject to a maximum limit of Rs. 250,000/=                                    |
| 3.3 | Refinance                      | : The CBSL will refinance the loan amount disbursed by PFIs.   |
| 3.4 | Rate of interest on refinance  | : 4 percent per annum loans to PFIs  |
| 3.5 | Rate of interest for sub-loans | : 9 percent per annum  |
| 3.6 | Grace period                   | : Maximum of 6 months commencing from the date of disbursement of the first instalment subject to the nature of the sub-project. |
| 3.7 | Repayment period of sub-loans  | : Maximum of 5 year period depending on the nature of the sub project.   |
| 3.8 | Date of implementation         | : The scheme will be effective from 2 <sup>nd</sup> January 2012   |
| 3.9 | Areas of operation             | : All districts in the Eastern Province.   |

## 4. Eligible Projects

Any legally accepted income generating activity coming under the following sectors are eligible for consideration of finance under this Loan Scheme:

- Perennial crop cultivation
- Livestock development
- Fisheries and related activities
- Trade, tourism and other self employment projects.

## 5. General Eligibility Conditions for Sub-borrowers

The Eligible Sub-borrower should -

- 5.1 be a permanent resident living in the Eastern Province;
- 5.2 be able to provide equity contribution not less than 10 percent of the estimated cost of the project towards starting/restarting the project. The equity can be in the form of cash or kind such as labour and managerial skill etc.;
- 5.3 be able to satisfy the PFI that the proposed project has a sound cash flow and a good repayment capacity;
- 5.4 be able to provide collateral if any, as determined by the PFI.

## 6. Participating Financial Institutions

The following LCBs and LSBs, which are operating their branches in the Eastern Province, have been selected as Participating Financial Institutions (PFIs):

- |                           |                              |
|---------------------------|------------------------------|
| • Bank of Ceylon          | • Sampath Bank               |
| • People's Bank           | • DFCC Bank                  |
| • Hatton National Bank    | • Union Bank                 |
| • Commercial Bank         | • National Development Bank  |
| • Seylan Bank             | • Pradeshiya Sanwardena Bank |
| • SANASA Development Bank | • Pan Asia Bank              |

Any new PFI selected for implementation of the Scheme will be notified by the CBSL from time to time.

## 7. Registration of Sub-borrowers

- 7.1 The branch manager should prepare a complete registration form in respect of each loan applicant as described in Annex I.
- 7.2 The original copy of this registration form should be sent to the following address for registration of the loan applicant.
 

The Director  
Regional Development Department  
Level 07 , Tower 04  
The Central Bank of Sri Lanka  
No: 30, Janadhipathi Mawatha, Colombo 01.
- 7.3 Every registered loan applicant with the Central Bank will be allocated a designated Enquiry Number by the Central Bank. The Enquiry Numbers relevant to registered loan applicants will be notified to the Head Office of relevant PFI by the Central Bank.

## 8. Release of Loan

- 8.1 Release of sub-loan could be made in stages on the basis of an agreed disbursement schedule and subject to actual progress of the project for which the sub-loan is sanctioned. The manager of the PFI branch is required to carry out an inspection of the sub-project after the release of each instalment of sub-loan.
- 8.2 Sub-loans for financing the purchase of equipment, tools, machinery and raw materials should be released direct to the suppliers.

## 9. Application for Sub-loans

- 9.1 Eligible sub-borrowers should apply for sub-loans on application forms designed by respective PFIs.
- 9.2 Sub-loan application should be submitted to the branch of the PFI closest to the applicant or location of the project.
- 9.3 The maximum amount of sub-loan shall be 90 percent of total estimated cost of the sub-project as specified in paragraph 3.2.
- 9.4 The sub loans may be secured with any collateral acceptable to the PFIs.

## 10. Applications for Refinance

- 10.1 Applications for refinance should be submitted by the Head Office of the PFI to the RDD of the Central Bank of Sri Lanka. The refinance application should be accompanied by the following documents.
  - (i) Application for Refinance (Appendix I)
  - (ii) Statement of Loan Disbursements (Appendix II)
  - (iii) Demand Promissory Note (Appendix III)(with relevant stamp duty)
  - (iv) Delivery Letter (Appendix IV)
  - (v) Credit Institution's Assignment (Appendix V)
  - (vi) Disbursement Letter (Appendix VI)

- 10.2 Applications for refinance of subsequent disbursements of sub-loan installments should also be accompanied by all the above mentioned documents.
11. Disbursement of Refinance
- 11.1 Subsequent to issuance of Enquiry Number in respect of each loan applicant, as described in paragraph 7.3, the PFIs are allowed to grant loans to the respective applicants and shall forward a refinance application with necessary documents as described in paragraph 10.1 quoting the respective Enquiry Number relevant to each borrower. It is important that all correspondence with RDD relevant to refinance carry the Enquiry Number wherever applicable. Branches of PFIs are advised to use this number on their ledger sheets for the purpose of identification of the sub-loan.
- 11.2 Upon approval of the refinance application, the RDD will release refinance on first come first served basis and will inform the particulars of the release of refinance to respective Head Office of the PFI.
- (a) Refinance claims should be submitted to RDD within 60 days of the disbursement of Sub-loans.
- (b) RDD undertakes to ensure that refinance loan is granted within 30 days of the receipt of the duly completed refinance application.
12. Post Credit Supervision
- 12.1 The bank should undertake periodic inspections of the investments financed by the PFI branches to ascertain that the borrowers are engaged in the activities identified under the project.
- 12.2 In respect of acquisition of assets such as equipment, machinery, tools, raw materials and agricultural inputs for sub-loans, the field officer of the branch should verify the supply of same to the borrower by the supplier to whom payment was made direct on behalf of the borrower soon after the loan was released and obtain an acknowledgement from the borrower for the file.
- 12.3 A letter of guarantee issued by the supplier for due performance of the machinery and implements and equipment supplied to the borrower should be held by the branch during the warranty periods. The borrower should be required to bring to the notice of the lending branch the manufacturing defects during the warranty period so that the branch could take up the matter with the supplier immediately for any corrective action, if necessary.
- 12.4 The field officer of the branch is required to carry out an inspection after release of every instalment to verify the utilization of the sub-loan for the intended purpose. A utilization verification report should be submitted by the field officer in respect of each instalment released. The second and subsequent instalments should be released upon submission of utilization verification reports.
- 12.5 The field officer of the branch should visit the sub-projects regularly with a view to maintaining close contact with the sub-borrowers for recovery of sub-loans. These visits are intended to verify the progress of investments and whether the borrowers continue to be in possession of items financed by the PFI and the investment yields the income as envisaged at the time of application.
13. Recovery Action
- 13.1 The borrowers, who have the capacity and are willing to pay during the grace period may be permitted to do so.
- 13.2 In case of slippage in projects or defaults in the service of sub-loans arising from reasons which are clearly justifiable in the opinion of the PFI, the PFI may grant a reasonable extension period not exceeding 2 years with appropriate adjustments in the repayment programme with the prior approval of the CBSL. In such cases, the RDD of the CBSL may grant PFIs the same extension period on the corresponding refinance loan upon receipt of new repayment programme from the PFI.
14. Repayment to the CBSL
- 14.1 Capital and interest payments on refinance loan will be payable half yearly by the PFIs to the CBSL on 30<sup>th</sup> June and 31<sup>st</sup> December of each year commencing from the end of the grace period and as per the interest rates mentioned in the paragraph 3.4.
- 14.2 If any interest payable during the grace period is not paid on its due date, such interest may at the option of the PFI concerned be capitalized until payment thereof is made.
15. Role of the PFIs
- Each PFI shall designate a full time senior officer as the administrator of the loan scheme at its Head Office who will be responsible for co-ordinating and supervising the PFIs' sub-loan operations. The functions allocated to each PFI are as follows:
- 15.1 Designate the appropriate branches for the grant of sub-loans, in consultation with the CBSL. These branches will

be assigned code numbers by the CBSL to facilitate the administration of the loan scheme.

- 15.2 Prepare detailed guidelines for branch managers on sub-loan processing and take action to recover sub-loans.
  - 15.3 Maintain a separate ledger by each branch of PFI in respect of loans granted under the scheme.
  - 15.4 Ensure regular spot inspections of the enterprises to review the physical progress of sub-projects before disbursement of instalments.
  - 15.5 Ensure the availability of adequate field officers for the designated branches for supervision of the progress on the utilisation of the loan and recovery of sub-loans.
  - 15.6 Ensure that the branches implementing the scheme submit regular progress reports in respect of implementation, recovery of loans, etc. to the Head Office of the PFI.
  - 15.7 Submit progress reports on the loan scheme to the RDD of the CBSL quarterly by the Head Office of the PFI.
16. Role of the CBSL  
The CBSL will establish a system for –
- 16.1 continuous monitoring of the progress of sub-loan processing and provision of necessary assistance to PFIs in implementing the loan scheme and supervising credit;
  - 16.2 monitoring and evaluation of benefits accruing to sub-borrowers with a view to observing the impact of the loan scheme in relation to its planned objectives and if necessary, adopting measures to improve benefits to be received by sub-borrowers.
  - 16.3 monitoring and evaluating the performance of the PFIs in the project area; and
  - 16.4 organizing training programmes to educate the staff of branches designated by the PFI.
17. Other Matters
- 17.1 The CBSL has the right to revise the terms and conditions in respect of refinance scheme as and when necessary.

Yours faithfully,  
M.J.S. Abeysinghe  
**Director**  
**Regional Development Department**

#### 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.  
06 February 2012.

Tel: 2477447/ 2477472/ 2477448  
Fax: 2477733/ 2477734

To: All PFIs

Dear Sir/Madam,

#### **Inclusion of Construction Sector under Saubagya Loan Scheme**

This is to inform you that Section 3, 4, 5, 7 and 15 of the Operating Instructions No. RDD/PR/2010/03 dated 22 March 2010 and amendment on 01 April 2011, have been amended as follows.

#### Section 3

- 3.2 Loan Limits : Construction sector sub projects are eligible under the scheme to purchase machinery and equipments up to a maximum of Rs.5million.

#### Section 4

4. Eligible Sub Projects : ii. Construction sector sub projects for small and medium grade (C5 to C11) constructors for purchasing machinery and equipments

#### Section 5

The eligible sub borrower should -

- 5.4 be a member of a National Construction Association of Sri Lanka (NCASL)
- 5.5 be a member of a Institute for Construction Training And Development (ICTAD)
- 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.
- 15. Registration of Sub borrowers
  - 15.8 Confirm that the applicant/businesses are members of the NCASL and ICTAD prior to 31st December 2011.
  - 15.9 Verify the ranking of the business by the ICTAD.

PFI Head Offices are requested to forward duly certified copies of loan registration application, quotations relevant to purchasing machinery and equipments and letters obtain from NCASL and ICTAD by confirming their membership. All other terms and conditions of the Saubagya Loan Scheme will remain unchanged. This amended Operating Instructions will be effective from 01 January 2012.

Yours faithfully,  
M. J. S Abeyasinghe  
**Director/Regional Development**

**Amended Annex I**

REGISTRATION NO.....

### Saubagya Loan Scheme

#### LOAN REGISTRATION APPLICATION FOR CONSTRUCTION SECTOR

- 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			
iii			

- 7) District : .....
- 8) Type of sub-project:
  - 1. Small Enterprises
  - 2. Medium Enterprises
- 9) Brief description of the machinery and equipments to be financed under Saubagya Loan Scheme (Purpose of the loan):  
.....  
.....
- 10) a) Applicant's ICTAD registration number : .....
- b) Applicant's ICTAD ranking number : .....
- c) Applicant's NCASL registration/membership number : .....
- 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

### FINANCE BUSINESS ACT, NO. 42 OF 2011

The Rule made by the Monetary Board of the Central Bank of Sri Lanka under section 16 of the Finance Business Act No 42 of 2011.

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

Colombo  
 27 February, 2012

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

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

SNBFI/LFC/A

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

**For office use**

Applicant : .....  
 Date of receipt of Application : .....  
 Evaluation fee : .....  
 Remarks : .....

**Important**

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

**Instructions**

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

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

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

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

.....  
 (Name of the Company)

of.....  
 (Address)

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

**Part 1**

1. General Information of the Company

1.1 Date of incorporation as a company: -

1.2 Date of commencement of business:-

1.3 Address of:

1.3.1 Registered Office :

1.3.2 Head/Administrative Office :

1.3.3 Branch Office(s) :

Location	District	Province	Contact Details

1.4 Financial year of the company:-

1.5 Description of the main lines of business:-

1.6 Listing with the Colombo Stock Exchange

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

1.6.2 If not listed, expected date of listing.

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

1.7.1 Total number of shares :

1.7.2 Number of shareholders

1.7.3 Names of the ten major shareholders :

Name of Shareholder	No. of Shares	% of Issued Share Capital
1.		
2.		

1.8 Names and addresses of the company's bankers:

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

1.10 Auditors (External)

1.10.1 Name of the Auditor, Address and Contact Details:

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

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

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

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

1.11 Auditors (Internal)

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

1.11.2 State whether the internal audit function is outsourced.

1.11.3 State the following details:

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

1.11.3.2 Qualifications and experience

1.11.3.3 Number of years of service in the company.

1.11.4 Total staff available to the internal auditor and their qualifications

Name	Qualifications	No. of years in service
1.		
2.		

2. Core Capital<sup>1</sup> confirmed by the company's external auditor

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

(In Rupees '000)

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

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

Type of Asset	Location	Cost	Date of revaluation	Surplus/Deficit

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

2.7.1 Certified copy of each Valuation Report of revalued properties.

3. Board of Directors

Full Name of Director (Please begin with the name of the Chairman)	Residential Address	Date of Birth	NIC No.	Passport No.	Date of appointment to the applicant company	Number of years he/she has been a Director in the applicant company	For office use
1.							
2.							

### Part II

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

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

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

5. Please provide the details of the related parties<sup>2</sup> as per the following format.

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

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

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

### Part III

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

6.1. Lending to related parties<sup>3</sup>

Item	No. of A/Cs	Granted Value (Rs. '000)	Interest & Other Charges Accrued (Rs. '000)	Interest & Other Charges held in Suspense as at end of last financial year (Rs. '000)
i Loans to the holding company				

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

<sup>3</sup> As defined in section 5 above.

ii	Loans to subsidiary and associate companies				
iii	Loans and advances to Directors of the company and their relatives <sup>4</sup>				
iv	Loans or any other financial accommodation given to individuals on the guarantee or indemnity of a Director, a relative of a director of the Company or any employee of the company				
v	Unsecured loans (promissory note and commercial papers are not considered as security)				
vi	Loans and advances to purchase its own shares				
vii	Loans and advances granted on the security of its own shares or on the security of the shares of any of its subsidiary company				

6.2. Accommodation by the company to related parties. Please provide the following details for each entity separately.

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

6.3. Asset Quality

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

<sup>4</sup> Relative shall mean the spouse and dependent child of such individual

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

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

## 8. Borrowings by the company as at the date of application. (Please provide details of individual borrowings as per below categories.)

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

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

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

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

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

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

For and on behalf of .....  
(Applicant Company)

Names of Directors

Date: .....

Signatures

(Common seal of the company)

### Schedule I

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

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

### Schedule II

#### The following documents should be submitted along with the application form

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

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

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

#### SNBFI/LFC/P

#### Form on Promoting Company's Details

1. General Information of the Promoting Company
  - 1.1 Date of incorporation as a company:
  - 1.2 Date of commencement of business:

- 1.3 Address of:
- 1.3.1 Registered Office :
- 1.3.2 Head/Administrative Office :
- 1.3.3 Branch Office(s) :
- 1.4 Description of the main lines of business:
- 1.5 Shareholding Structure of the Promoting Company
- 1.5.1 Names of the ten major shareholders :

Name of Shareholder	No. of Shares	% of Issued Share Capital
1.		
2.		
3.		

2. Board of Directors

Full Name and Address of Director (Please begin with the name of the Chairman)	Date of Birth	Qualifications	Experience	NIC No.	Passport No.

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

For and on behalf of .....  
(Promoting Company)

Names of Directors  
Date: .....

Signatures  
(Common seal of the company)

**SNBFI/LFC/HC**

**Form on Holding Company's Details**

1. General Information of the Holding Company
- 1.1 Date of incorporation as a company:
- 1.2 Date of commencement of business:
- 1.3 Address of:
- 1.3.1 Registered Office :
- 1.3.2 Head/Administrative Office :
- 1.3.3 Branch Office(s) :
- 1.4 Description of the main lines of business:
- 1.5 Shareholding Structure of the Holding Company
- 1.5.1 Names of the ten major shareholders :

Name of Shareholder	No. of Shares	% of Issued Share Capital
1.		
2.		
3.		

2. Board of Directors

Full Name and Address of Director (Please begin with the name of the Chairman)	Date of Birth	Qualifications	Experience	NIC No.	Passport No.

**Form SNBFI/A1**

**Name of the Applicant Company:**

**Affidavit to be submitted by directors in the Applicant Company**

**Affidavit**

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

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

The averments contained herein were read over to the affirmant/deponent who having understood the contents hereof and 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

**Annex I**

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

1. A person shall be disqualified from being appointed or elected, as a director of a finance company if such person-
  - (a) does not possess academic or professional qualifications or effective experience in banking, finance, business or administration or of any other relevant discipline;

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

- (b) (i) is being subjected to any investigation or inquiry in respect of a fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body, established by law, in Sri Lanka or abroad;
  - (ii) has been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, at any time during the period of fifteen years immediately prior to being so appointed or elected;
  - (iii) has been found by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, that such person has committed or has been connected with the commission of any act which involves fraud, deceit, dishonesty, improper conduct or non-compliance with any Statute or rules, regulations, directions or determinations issued thereunder.
  - (c) has failed to satisfy any judgment or order of any court or to repay a debt;
  - (d) has been convicted in any court in Sri Lanka or abroad for an offence involving moral turpitude;
  - (e) has been convicted by any court for any offence under the Finance Business Act No.42 of 2011 or the Companies Act, No.07 of 2007;
  - (f) is a person against whom action has been taken by the Board under section 51 of the Finance Business Act No.42 of 2011;
  - (g) (i) is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;
  - (ii) has been convicted by any court for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity at any time during the period of fifteen years immediately prior to being so appointed or elected;
  - (h) has been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive or other officer in any bank, finance company or corporate body in Sri Lanka or abroad;
  - (i) has been determined by the Board –
    - (i) as having carried on finance business -
      - (a) in contravention of subsection (1) of section 2 of the Finance Business Act; or
      - (b) in contravention of subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal); or
    - (ii) as having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act; or
  - (i) has been a director, chief executive or held any other position of authority in any body corporate or unincorporate body which the Board has determined as having carried on finance business in contravention of subsection (1) of section 2 of this Act or subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal) or having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act.
  - (k) has been declared an undischarged insolvent or a bankrupt, by any court in Sri Lanka or abroad;
  - (l) has been declared by a court of competent jurisdiction to be of unsound mind;
2. If the Monetary Board so determines, any person who has been a director, chief executive officer or held any other position of authority in any bank, finance company or financial institution whose licence or registration has been cancelled, shall be disqualified from being appointed or elected as the case may be, as a director, chief executive officer, secretary or key management personnel/officer performing executive functions of a finance company or from holding such post.
  3. Any person, who acts as a director, chief executive officer, secretary or key management personnel of a finance company while being under any disqualification set out in subsection (1) of Section 21 of the Finance Business Act, shall be guilty of an offence under the said Act.
  4. In addition to the above, criteria set out in Section 5 of the Directions No.3 of 2008 on Corporate Governance for Finance Companies shall also be applicable to a director of a finance company.

**Form SNBFI/A2****Name of the Applicant Company:****Affidavit to be submitted by directors selected for appointment in a Applicant Company****Affidavit**

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

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

The averments contained herein were read over to the affirmant/deponent who having understood the contents hereof and 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 OATH

**Annex I**

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

1. A person shall be disqualified from being appointed or elected, as a director of a finance company if such person-
  - (a) does not possess academic or professional qualifications or effective experience in banking, finance, business or administration or of any other relevant discipline;
  - (b)
    - (i) is being subjected to any investigation or inquiry in respect of a fraud, deceit, dishonesty or other similar criminal activity, conducted by the police, any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body, established by law, in Sri Lanka or abroad;
    - (ii) has been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, at any time during the period of fifteen years immediately prior to being so appointed or elected;
    - (iii) has been found by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, that such person has committed or has been connected with the commission of any act which involves fraud, deceit,

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

dishonesty, improper conduct or non-compliance with any Statute or rules, regulations, directions or determinations issued thereunder.

- (c) has failed to satisfy any judgment or order of any court or to repay a debt;
  - (d) has been convicted in any court in Sri Lanka or abroad for an offence involving moral turpitude;
  - (e) has been convicted by any court for any offence under the Finance Business Act No.42 of 2011 or the Companies Act, No.07 of 2007;
  - (f) is a person against whom action has been taken by the Board under section 51 of the Finance Business Act No.42 of 2011;
  - (g)
    - (i) is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;
    - (ii) has been convicted by any court for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity at any time during the period of fifteen years immediately prior to being so appointed or elected;
  - (h) has been removed or suspended by a regulatory or supervisory authority from serving as a director, chief executive or other officer in any bank, finance company or corporate body in Sri Lanka or abroad;
  - (i) has been determined by the Board –
    - (i) as having carried on finance business -
      - (a) in contravention of subsection (1) of section 2 of the Finance Business Act; or
      - (b) in contravention of subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal); or
    - (ii) as having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act; or
  - (j) has been a director, chief executive or held any other position of authority in any body corporate or unincorporate body which the Board has determined as having carried on finance business in contravention of subsection (1) of section 2 of this Act or subsection (1) of section 2 of the Finance Companies Act, No.78 of 1988 (prior to its repeal) or having accepted deposits in contravention of subsection (2) of section 2 of the Finance Business Act.
  - (k) has been declared an undischarged insolvent or a bankrupt, by any court in Sri Lanka or abroad;
  - (l) has been declared by a court of competent jurisdiction to be of unsound mind;
2. If the Monetary Board so determines, any person who has been a director, chief executive officer or held any other position of authority in any bank, finance company or financial institution whose licence or registration has been cancelled, shall be disqualified from being appointed or elected as the case may be, as a director, chief executive officer, secretary or key management personnel/officer performing executive functions of a finance company or from holding such post.
  3. Any person, who acts as a director, chief executive officer, secretary or key management personnel of a finance company while being under any disqualification set out in subsection (1) of Section 21 of the Finance Business Act, shall be guilty of an offence under the said Act.
  4. In addition to the above, criteria set out in Section 5 of the Directions No.3 of 2008 on Corporate Governance for Finance Companies shall also be applicable to a director of a finance company.

#### Form SNBFI/D1

#### Name of the Applicant Company:

#### Declaration to be submitted by directors in the Applicant Company<sup>1</sup>

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

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

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

3. Personal Details of Relatives

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

	Full name	NIC	Passport number
3.2.1			
3.2.2			

4. Background and Experience

- 4.1 Name of companies/societies/body corporates in which the director presently is a director or is employed as an officer performing executive functions<sup>2</sup>:

Name of the Institution	Designation

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

Name of the institution	Period of office	Designation

5. Shareholdings in Licensed Finance Companies and their Related Companies

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

Name of the institution	No. of shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

6. Business Transactions<sup>3</sup>

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

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

<sup>2</sup> See definition of the end

<sup>3</sup> Business transaction<sup>3</sup> shall mean any accommodations, investments and deposits.

## Investments (Promissory Notes/ Commercial Paper etc) made

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

## Deposits

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

7. Appointment, Shareholdings and Business Transactions of Relatives<sup>4</sup>

## 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 applicant company if any, presently held by any relative of the director/ an officer performing executive functions.

Full name of the relative	No. of Shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

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

Full name of the relative	Nature of business transaction	Date of transaction	Limit as at ..... (Rs. '000)	Out-standing as at ..... (Rs. '000)	Type and value of collateral (Rs. '000)	% of Applicant 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 a director in a licensed finance company.

**DECLARATION:**

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

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

Date:

**Signature of Director/  
Chairman in the Applicant Company**

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

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

Date:

**Signature of Chairman of the Board of Directors  
and the Official Stamp**

<sup>4</sup> See definition of the end

## Definitions

1. Officers performing executive functions in a finance company are as follows:
  - I. Chief executive Officer/general manager
  - II. Additional General Manager
  - III. Senior Deputy general manager
  - IV. Deputy General manager
  - V. Assistant General Manager
  - VI. Chief Operating Officer
  - VII. Chief Risk Officer
  - VIII. Chief Accountant
  - IX. Chief Financial Officer
  - X. Chief Internal Auditor
  - XI. Compliance Officer
  - XII. Head of Treasury
  - XIII. Head of Legal
  - XIV. Head of Information Technology
  - XV. Company Secretary
  - XVI. Officers serving as consultants or advisors to the board of directors of the finance companies
  - XVII. Officers involving authorizing credit, decisions on assets and marketing of products of the respective finance company
2. Relative shall mean the spouse or dependent child of such individual.

## Form SNBFI/D2

### Name of the Applicant Company:

#### Declaration to be submitted by directors selected for appointment in the Applicant Company<sup>1</sup>

1. Personal Details
  - 1.1 Full name:
  - 1.2 National Identity Card number:
  - 1.3 Passport number:
  - 1.4 Local or Expatriate:
  - 1.5 Date of birth:
  - 1.6 Permanent address:
  - 1.7 Present address:
2. Appointment to the Applicant Company
  - 2.1 Proposed date of appointment as a Director:
  - 2.2 Proposed Designation:
  - 2.3 Annual remuneration to be paid (with details):
  - 2.4 Annual value of benefits that would be derived by the director, selected for appointment, and/or his/her family from company assets. (Example by use of company land, building, vehicles, etc).
  - 2.4.1 Annual value of expenses offered to be borne by the company on account of maintenance of assets referred to in 2.4 or for reimbursement of any expenses (credit card bills, utility bills etc.)
  - 2.4.2 Purchased value and book value of assets referred to in 2.4 and the location of immovable assets.
3. Personal Details of Relatives
  - 3.1 Full name of spouse:
    - 3.1.1 National Identity Card No:
    - 3.1.2 Passport Number:

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

## 3.2 Details of dependent children:

	Full name	NIC	Passport number
3.2.1			
3.2.2			

## 4. Background and Experience

4.1 Name of companies/societies/body corporates in which the director selected for appointment presently is a director or is employed as an officer performing executive functions<sup>2</sup> :

Name of the Institution	Designation

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

Name of the institution	Period of office	Designation

## 5. Shareholdings in Licensed Finance Companies and their Related Companies

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

Name of the institution	No. of shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

6. Business Transactions<sup>3</sup>

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

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

## Investments (Promissory Notes/ Commercial Paper etc) made

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

## Deposits

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

<sup>2</sup> See definition of the end

<sup>3</sup> Business transaction" shall mean any accommodations, investments and deposits.

7. Appointment, Shareholdings and Business Transactions of Relatives<sup>4</sup>

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

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

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

Full name of the relative	No. of Shares		Percentage holding	
	Direct	Indirect	Direct	Indirect

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

Full name of the relative	Nature of business transaction	Date of transaction	Limit as at ..... (Rs. '000)	Out-standing as at ..... (Rs. '000)	Type and value of collateral (Rs. '000)	% of applicant 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 a director, selected for appointment, in a licensed finance company.

**DECLARATION:**

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

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

Date:

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

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

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

Date:

**Signature of the Chairman of the Board of Directors**

**Definitions**

1. Officers performing executive functions in a finance company are as follows:

- I. Chief executive Officer/general manager
- II. Additional General Manager
- III. Senior Deputy general manager
- IV. Deputy General manager
- V. Assistant General Manager
- VI. Chief Operating Officer
- VII. Chief Risk Officer

<sup>4</sup> See definition of the end

- VIII. Chief Accountant
  - IX. Chief Financial Officer
  - X. Chief Internal Auditor
  - XI. Compliance Officer
  - XII. Head of Treasury
  - XIII. Head of Legal
  - XIV. Head of Information Technology
  - XV. Company Secretary
  - XVI. Officers serving as consultants or advisors to the board of directors of the finance companies
  - XVII. Officers involving authorizing credit, decisions on assets and marketing of products of the respective finance company
2. Relative shall mean the spouse or dependent child of such individual.

FORM B 1

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

Name of Finance Company	Registered Address	Date of Licence under the Finance Business Act	Licence No	Remarks	Signature of the Secretary to the Monetary Board

**FINANCE BUSINESS ACT, NO. 42 OF 2011**

The Rule made by the Monetary Board of the Central Bank of Sri Lanka under section 16 of the Finance Business Act No 42 of 2011.

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

Colombo  
27 February, 2012

**FINANCE COMPANIES (ANNUAL LICENCE FEES)**  
**RULE NO. 2 OF 2012**

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

(Rs.)

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

**FINANCE BUSINESS ACT, NO. 42 OF 2011**

The direction made by the Monetary Board of the Central Bank of Sri Lanka under section 12 of the Finance Business Act, No 42. of 2011.

Nivard Ajith Leslie Cabraal

**Chairman, Monetary Board of the Central Bank of Sri Lanka**

Colombo

29 February 2012

**FINANCE COMPANIES (INTEREST RATES)  
DIRECTION NO. 1 OF 2012**

<b>Citation</b>	1. This direction may be cited as the Finance Companies (Interest Rates) Direction No.1 of 2012 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011.
<b>Maximum interest rate</b>	<p>2. The maximum annual rate of interest which may be paid by a finance company on a time deposit accepted or renewed after 1st March 2012, shall not exceed :-</p> <p>2.1. The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st December 2011 (thereafter quarterly weighted average yield rates as announced by Director) plus 5.5 percentage points, if such deposit carries a maturity period of 12 months or less;</p> <p>2.2. The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st December 2011 (thereafter quarterly weighted average yield rates as announced by Director) plus 6.5 percentage points, if such deposit carries a maturity period of more than 12 months.</p> <p>2.3. In the case where a time deposit is accepted from or renewed by a person who is over fifty five (55) years of age at the time of making such deposit or renewal of such deposit (hereinafter referred to as a "Senior Citizen"), a finance company may pay an additional interest not exceeding one percentage point above the rates of interest as per paragraph (2.1) or (2.2).</p> <p>3. The maximum rate of discount which may be allowed by a finance company on the issue of a certificate of deposit after 1st March 2012, of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed :-</p> <p>3.1. The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st December 2011 (thereafter quarterly weighted average yield rates as announced by Director) plus 5.5 percentage points if such certificate of deposit carries a period of maturity of 12 months or less;</p> <p>3.2. The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st December 2011 (thereafter quarterly weighted average yield rates as announced by Director) plus 6.5 percentage points if such certificate of deposit carries a maturity period of more than 12 months.</p> <p>4. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit, shall not exceed the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 31st December 2011 (thereafter quarterly weighted average yield rates as announced by Director).</p> <p>5. Provided however, that in the case where a savings deposit is maintained by a Senior Citizen, a finance company may pay an additional interest not exceeding one percentage point above the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 31st December 2011 (thereafter quarterly weighted average yield rates as announced by Director).</p>
<b>Reporting</b>	6. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid and discounts applied for certificates of deposit by such finance company in each month, on or before the 7th day of the following month.

<b>Definition</b>	7. In this Direction,
	7.1. "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and
	7.2. "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
	7.3. Quarterly weighted average yield rates of 91 day and 364 day Treasury Bills will be issued by the Director for each quarter ending 31st March, 30th June, 30th September and 31st December.
<b>Revocation</b>	8. The Finance Companies (Interest) Direction, No.1 of 2010 is hereby revoked

#### **FINANCE BUSINESS ACT, NO. 42 OF 2011**

The direction made by the Monetary Board of the Central Bank of Sri Lanka under section 12 of the Finance Business Act, No 42. of 2011.

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

Colombo  
29 May, 2012

#### **FINANCE COMPANIES (INTEREST RATES) DIRECTION NO. 2 OF 2012**

<b>Citation</b>	1. This direction may be cited as the Finance Companies (Interest Rates) Direction No.2 of 2012 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011.
<b>Maximum interest rate</b>	2. The maximum annual rate of interest which may be paid by a finance company on a time deposit accepted or renewed after 1st June 2012, shall not exceed :-
	2.1 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st March 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 4.75 percentage points, if such deposit carries a maturity period of 12 months or less;
	2.2 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st March 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 5.75 percentage points, if such deposit carries a maturity period of more than 12 months.
	2.3 In the case where a time deposit is accepted from or renewed by a person who is over fifty five (55) years of age at the time of making such deposit or renewal of such deposit (hereinafter referred to as a "Senior Citizen"), a finance company may pay an additional interest not exceeding one percentage point above the rates of interest as per paragraph (2.1) or (2.2).
	3. The maximum rate of discount which may be allowed by a finance company on the issue of a certificate of deposit after 1st June 2012, of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed :-
	3.1 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st March 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 4.75 percentage points if such certificate of deposit carries a period of maturity of 12 months or less;
	3.2 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 31st March 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 5.75 percentage points if such certificate of deposit carries a maturity period of more than 12 months.

4. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit, shall not exceed the weighted average yield applicable on 91-day Treasury Bills issued the quarter ended 31st March 2012 (thereafter quarterly weighted average yield rates as announced by Director).
5. Provided however, that in the case where a savings deposit is maintained by a Senior Citizen, a finance company may pay an additional interest not exceeding one percentage point above the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 31st March 2012 (thereafter quarterly weighted average yield rates as announced by Director).
- Reporting** 6. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid and discounts applied for certificates of deposit by such finance company in each month, on or before the 7th day of the following month.
- Definition** 7. In this Direction,  
 7.1 "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and  
 7.2 "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.  
 7.3 Quarterly weighted average yield rates of 91 day and 364 day Treasury Bills will be issued by the Director for each quarter ending 31st March, 30th June, 30th September and 31st December.
- Revocation** 8. The Finance Companies (Interest) Direction, No.1 of 2012 dated 29. 02. 2012 is hereby revoked.

### **FINANCE BUSINESS ACT, NO. 42 OF 2011**

The direction made by the Monetary Board of the Central Bank of Sri Lanka under section 12 of the Finance Business Act, No 42. of 2011.

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

Colombo  
 29 June 2012

### **FINANCE COMPANIES (INTEREST RATES) DIRECTION NO. 3 OF 2012**

- Citation** 1. This direction may be cited as the Finance Companies (Interest Rates) Direction No. 3 of 2012 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011.
- Maximum interest rate** 2. The maximum annual rate of interest which may be paid by a finance company on a time deposit accepted or renewed after 1st July 2012, shall not exceed:-  
 2.1 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th June 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 3.00 percentage points, if such deposit carries a maturity period of 12 months or less;  
 2.2 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th June 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 4.00 percentage points, if such deposit carries a maturity period of more than 12 months.  
 2.3 In the case where a time deposit is accepted from or renewed by a person who is over fifty five (55) years of age at the time of making such deposit or renewal of such deposit (hereinafter referred to as a "Senior Citizen"), a finance company may pay an additional interest not exceeding one percentage point above the rates of interest as per paragraph (2.1) or (2.2).

3. The maximum rate of discount which may be allowed by a finance company on the issue of a non-transferable certificate of deposit after 1st July 2012, of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed :-
    - 3.1 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th June 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 3.00 percentage points if such non-transferable certificate of deposit carries a period of maturity of 12 months or less;
    - 3.2 The weighted average yield applicable to 364-day Treasury Bills issued during the quarter ended 30th June 2012 (thereafter quarterly weighted average yield rates as announced by Director) plus 4.00 percentage points if such non-transferable certificate of deposit carries a maturity period of more than 12 months.
  4. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit, shall not exceed the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 30th June 2012 (thereafter quarterly weighted average yield rates as announced by Director).
  5. Provided however, that in the case where a savings deposit is maintained by a Senior Citizen, a finance company may pay an additional interest not exceeding one percentage point above the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 30th June 2012 (thereafter quarterly weighted average yield rates as announced by Director).
- Reporting**
6. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid and discounts applied for non-transferable certificates of deposit by such finance company in each month, on or before the 7th day of the following month.
- Definition**
7. In this Direction,
    - 7.1 "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and
    - 7.2 "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
    - 7.3 Quarterly weighted average yield rates of 91 day and 364 day Treasury Bills will be issued by the Director for each quarter ending 31st March, 30th June, 30th September and 31st December.
- Revocation**
8. The Finance Companies (Interest Rates) Direction, No.2 of 2012 dated 29. 05. 2012 is hereby revoked

### **FINANCE BUSINESS ACT, NO. 42 OF 2011**

**Direction issued by the Monetary Board under Section 12 of the Finance Business Act, No. 42 of 2011.**

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

Colombo.  
 6 September, 2012

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

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

Information systems have become significantly important for the strategic operations and risk management of licensed finance companies. Therefore, in the exercise of the powers conferred by Section 12 of the Finance Business Act, the

Monetary Board hereby issues Finance Companies (Information Systems Security Policy) Direction No.4 of 2012 for licensed finance companies to be effective nine months from the date of this direction.

1. **Information Systems Security Policy** Every finance company shall maintain an Information Systems Security Policy (ISSP) in line with at least the minimum requirements stipulated in this direction.
2. **Information Systems Security Policy Requirements** Every finance company shall compile and maintain a periodically reviewed, well documented ISSP, which shall be:
  - (a) Approved by the Board of Directors and communicated to all relevant users in the company within nine months from the date of this direction.
  - (b) Actively supported by the Management to ensure that information security is ensured within the organization through clear direction, commitment, explicit job assignment and effective monitoring.
3. **Information Security** Every finance company shall classify all information and data within the finance company to reflect its level of confidentiality or importance to the organization and implement security measures according to the level of confidentiality needed.
4. **Information Systems Security Awareness, Training and Education** Every finance company shall create awareness among the staff with adequate training and awareness programmes on aspects such as information systems security, access controls, procurement and maintenance procedures, network management, business continuity plan, information system audits and software licensing.
5. **Access Controls** Every finance company shall clearly identify and list the assets associated with processing and communication of information (i.e. hardware, software and communication equipment), and assign the responsibility of securing all information system assets to an individual who has been authorized by the management as follows:
  - (a) Implement different levels of access controls, based on authority levels to ensure confidentiality of information and security of systems on which information is stored or filed with such controls covering areas such as managing user access, securing unattended workstations, managing passwords and procedures to be implemented when authorized personnel leave the company.
  - (b) Protect all important servers and power and telecommunication cables carrying data from power failures.
  - (c) Ensure that all sensitive data and/or licensed software have been removed from all items of equipment prior to disposal.
  - (d) Secure the premises where IT systems/ data centers are located by limiting physical access to authorized personnel and maintain a record of entry and exit for data centers, with proper identification established and recorded prior to any entry to the data center.
6. **Procurement and Maintenance** Every finance company shall have procedures for purchasing and maintaining commercial software. These procedures shall include the following:
  - (a) Purchasing and installing software, software maintenance and upgrading of software.
  - (b) Securing hardware, peripherals and other equipment.
  - (c) Developing, testing and maintenance of in-house developed software.
7. **Network Management** Every finance company shall have a security policy for network management. This security policy shall include procedures on:
  - (a) Combating cybercrime.
  - (b) E-commerce and intranet information security.
  - (c) Security of any other networks within the organization such as Automated Teller Machines.
8. **Business Continuity Plan** Every finance company shall have a Business Continuity Plan (BCP) covering disaster management and risk analysis, which shall be implemented after testing and acceptance, including the following:
  - (a) Assign the maintenance of the BCP to an authorized officer(s).
  - (b) Prepare a backup policy based on the importance of the relevant system, with the necessary backups being tested periodically.
  - (c) Implement procedures to detect and respond to information security incidents, which shall include procedures for reporting of information security incidents, investigating of such incidents and taking of corrective measures.

- |                                     |   |
|-------------------------------------|---|
| <b>9. Information System Audits</b> | Every finance company shall conduct periodic information system audits, where the responsibilities of the audits are assigned to a separate unit or external personnel, independent of the IT department. |
| <b>10. Software Licensing</b>       | Every finance company shall comply with legal and policy requirements relating to software licensing, which shall include complying with copyright and software licensing legislation.                    |

### **FINANCE BUSINESS ACT, NO. 42 OF 2011**

The direction made by the Monetary Board of the Central Bank of Sri Lanka under section 12 of the Finance Business Act, No 42. of 2011.

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

Colombo  
 28 September 2012

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

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

- point above the weighted average yield applicable on 91-day Treasury Bills issued during the quarter ended 30th September 2012 (thereafter quarterly weighted average yield rates as announced by Director).
- Reporting** 6. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid and discounts applied for non-transferable certificates of deposit by such finance company in each month, on or before the 7th day of the following month.
- Definition** 7. In this Direction,  
7.1 "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and  
7.2 "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.  
7.3 Quarterly weighted average yield rates of 91 day and 364 day Treasury Bills will be issued by the Director for each quarter ending 31st March, 30th June, 30th September and 31st December.
- Revocation** 8. The Finance Companies (Interest Rates) Direction, No.3 of 2012 dated 29. 06. 2012 is hereby revoked.

### FINANCE BUSINESS ACT, NO. 42 OF 2011

Direction issued by the Monetary Board of the Central Bank of Sri Lanka under section 12 of the Finance Business Act, No. 42 of 2011.

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

Colombo  
 28 December 2012

### FINANCE COMPANIES (INTEREST RATES) DIRECTION NO. 6 OF 2012

- Citation** 1. This direction may be cited as the Finance Companies (Interest Rates) Direction No. 6 of 2012 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011.
- Maximum interest rate for a time deposit** 2. 2.1 The annual rate of interest which may be paid by a finance company on a time deposit accepted or renewed after 1st January 2013, shall not exceed the maximum upper limit of interest rates set out below :-

Time deposit maturity period	Maximum upper limit of interest rates	
One year or less	The quarterly weighted average yield rate of 364-day Treasury Bills issued during the quarter ended 31 <sup>st</sup> December 2012 (thereafter quarterly weighted average yield rates as announced by Director).	plus 2.00 percentage points
Over one year – 3 years		plus 2.50 percentage points
Over 3 years – 5 years		plus 3.00 percentage points

- 2.2 In the case where a time deposit is accepted from or renewed by a person who is over fifty five (55) years of age at the time of making such deposit or renewal of such deposit (hereinafter referred to as a "Senior Citizen"), a finance company may pay an additional interest not exceeding one percentage point above the maximum upper limit of interest rates as per paragraph (2.1).
- Maximum rate of discount for a non-transferable certificate of deposit** 3. The rate of discount which may be allowed by a finance company on the issue of a non-transferable certificate of deposit after 1st January 2013, of which the price is less than the redeemable value at maturity shall not exceed the maximum annual yield on the instrument set out below :-

Non-transferable certificate of deposit maturity period	Maximum annual yield	
One year or less	The quarterly weighted average yield rate of 364-day Treasury Bills issued during the quarter ended 31 <sup>st</sup> December 2012 (thereafter quarterly weighted average yield rates as announced by Director).	plus 2.00 percentage points
Over one year – 3 years		plus 2.50 percentage points
Over 3 years – 5 years		plus 3.00 percentage points

- Maximum interest rate for a saving deposit** 4. 4.1 The maximum annual interest rates, which may be paid by a finance company on any savings deposit, shall not exceed the weighted average yield rate of 91- day Treasury Bills issued during the quarter ended 31<sup>st</sup> December 2012 (thereafter quarterly weighted average yield rates as announced by Director).  
4.2 In the case where a savings deposit is maintained by a Senior Citizen, a finance company may pay an additional interest not exceeding one percentage point above the maximum upper limit of interest rates as per paragraph (4.1).
- Quarterly weighted average yield rate** 5. Director shall announce the quarterly weighted average yield rates of 91 day and 364-day Treasury Bills applicable for each quarter ending 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September and 31<sup>st</sup> December.
- Reporting** 6. Every finance company shall furnish details of the rates of interest paid and discounts applied for non-transferable certificates of deposit by such finance company in each month, on or before the 7<sup>th</sup> day of the following month.
- Definition** 7. In this Direction,  
7.1 "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and  
7.2 " Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- Revocation** 8. The Finance Companies (Interest Rates) Direction, No.5 of 2012 dated 28.09.2012 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**

On this 29<sup>th</sup> day of March, 2012

### FINANCE LEASING (MINIMUM CORE CAPITAL) DIRECTION NO. 1 OF 2012

In terms of Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non- Bank Financial Institutions (hereinafter referred as "Director") is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act No. 56 of 2000 (hereinafter referred to as "specialised leasing companies") for the purpose of ensuring that specialised leasing companies maintain efficient standards in carrying out their business operations.

Capital is a key aspect of the business of specialised leasing company 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 34 of the Finance Leasing Act, No. 56 of 2000, the Director hereby issues the Finance Leasing (Minimum Core Capital) Direction No.1 of 2012 and shall apply to specialised leasing companies from the date of this direction.

- Minimum Core Capital** 1. Every specialised leasing company shall at all times maintain an unimpaired core capital not less than Rs 100 million (Rupees Hundred million) until end December 2012. Thereafter, every specialised leasing company shall at all times maintain an unimpaired core capital not less than the amounts as set out below;

Minimum Core Capital Requirement (Rs mn)	Effective Date
150	From 01.01.2013
200	From 01.01.2014
250	From 01.01.2015
300	From 01.01.2016

### Definition of Core Capital

2. "Core capital" shall mean the aggregate of the following-
- (a) **Issued and Paid – up Ordinary Shares or Common Stocks**  
Issued and fully paid ordinary shares or common stock and in the case of partly paid shares or stock the paid up amount. Any shares issued against reserves, surpluses, retained profits are not eligible to be included.
  - (b) **Issued and fully paid up Non-Cumulative, Non-Redeemable Preference Shares**  
Issued and fully paid non-cumulative, non-redeemable preference shares where the payment of dividends could be reduced or waived off permanently in the event of profits being inadequate to support such payment in part or full.
  - (c) **Statutory Reserve Fund**  
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.
  - (d) **General or other Free Reserves**  
Disclosed reserves in the form of general or other free reserves created or increased by appropriation of retained earnings, share premium or other realised surpluses as per last audited statement of accounts.
  - (e) **Published Retained Profits/(Accumulated Losses)**  
Accumulated profit or loss as shown in the last audited statement of accounts. Retained profits arising from the revaluation of investment property should not be included.
  - (f) **Surplus/loss after tax, arising from the sale of Fixed and Long Term Investments**  
Any profit earned or loss incurred since the closing date of the last audited accounts including any surplus or loss after tax, arising from the sale of fixed and long term investments.
  - (g) **Unpublished Current Year's Profits/Losses**  
Current year's profits/losses (excluding any surplus/loss after tax, arising from the sale of fixed and long term investments) earned/incurred since the closing date of the last audited accounts and subject to certification by the specialised leasing company's external auditor.

### Revocation of the Direction No 1 of 2010

3. Finance Leasing (Minimum Core Capital) Direction No.1 of 2010 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

On this 29<sup>th</sup> day of March, 2012

## FINANCE LEASING (GEARING RATIO) DIRECTION NO. 2 OF 2012

In terms of Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non- Bank Financial Institutions (hereinafter referred as "Director") is empowered to issue general Directions to

registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act No. 56 of 2000 (hereinafter referred to as “specialised leasing companies”) for the purpose of ensuring that specialised leasing companies maintain efficient standards in carrying out their business operations.

Gearing is a measure of financial leverage demonstrating the degree to which the companies’ operations are funded by owners’ funds and various creditors’ funds. While a highly leveraged company is considered risky, equity is considered as a cushion against risk and a measure of financial strength. Therefore, in the exercise of the powers conferred by Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director hereby issues the Finance Leasing (Gearing Ratio) Direction No.2 of 2012 and shall apply to specialised leasing companies from the date of this direction.

- Gearing Ratio** 1. The maximum outstanding amount of borrowings of a specialised leasing company shall not exceed at any time, seven (7) times the amount equal to the core capital less equity investments in subsidiary companies and associate companies of such specialised leasing company.
- Reporting** 2. Specialised leasing company shall submit the information on borrowings to the Central Bank of Sri Lanka on a monthly basis, in accordance with reporting formats at Schedule I and II and instructions at Schedule III attached hereto. The returns for a given period should be submitted to the Central Bank on or before the 15th day of the month following the month to which the information relates.
- Revocation of direction** 3. The Finance Leasing (Gearing Ratio) Direction No.4 of 2006 is hereby revoked
- Definitions** 4. The following definitions shall be applicable for the purposes of this Direction;  
 4(I) ‘borrowings’ shall mean funds obtained by way of loans/overdrafts, amounts due to related companies, or issuance of redeemable and cumulative preference shares, securitizations, bonds, debentures, promissory notes, commercial paper, any other dues and any other form of borrowings as may be determined by the Director.  
 4(II) “Core Capital” shall mean same as defined in the section 2 of the Finance Leasing (Minimum Core Capital) Direction No 1 of 2012.

### Schedule 1

#### NBL-MF-01-SB 1 - STATEMENT OF BORROWINGS

Name of Specialised Leasing Company  
DD/MM/YY

Amount in Rs. ‘000

Web Based Return Code	Types of borrowing	Amount borrowed	Effective rate of interest (range)	Outstanding			Total value of security offered under each category
				Interest	Capital	Total	
<b>1.1.1.0.0.0</b>	<b>Bank borrowings</b>						
1.1.1.1.0.0	Bank overdrafts						
1.1.1.2.0.0	Short term loans (1 year and less than 1 year)						
1.1.1.3.0.0	Long term (Over 1 year) asset backed Bank loans						
1.1.1.4.0.0	Long term Bank loans which are not asset backed						
<b>1.1.2.0.0.0</b>	<b>Other Borrowings from other institutions other than banks</b>						
1.1.2.1.0.0	Short term loans						
1.1.2.2.0.0	Long term asset backed loans						
1.1.2.3.0.0	Long term loans which are not asset backed						
<b>1.1.3.0.0.0</b>	<b>Foreign Borrowings (including foreign banks)</b>						

1.1.3.1.0.0	Short term loans						
1.1.3.2.0.0	Long term Asset backed loan						
1.1.3.3.0.0	Long term loans which are not assets backed						
<b>1.1.4.0.0.0</b>	<b>Other Borrowings /Instruments</b>						
1.1.4.1.0.0	Redeemable & cumulative preference shares						
1.1.4.2.0.0	Bonds						
1.1.4.3.0.0	Unlisted Debentures						
1.1.4.4.0.0	Listed Debentures						
1.1.4.5.0.0	Promissory Notes						
1.1.4.6.0.0	Commercial Paper						
1.1.4.7.0.0	Securitized						
1.1.4.8.0.0	Leases / hire purchase						
1.1.4.9.0.0	Related party credits (Shall not net off with debit balances)						
1.1.4.10.0.0	Others						
<b>1.1.0.0.0.0</b>	<b>Total Borrowings</b>						

## Schedule II

## NBL-MF-01-SB 2 - CALCULATION OF GEARING RATIO

Name of Specialised Leasing Company

DD/MM/YY

Web Based Return Code	Item	Amount/Ratio
1.2.1.0.0.0	Total Borrowings (Rs. '000)	
1.2.2.0.0.0	Core Capital (Rs. '000)	
1.2.3.0.0.0	Equity Investments in subsidiary companies and associate companies (Rs. '000)	
1.2.4.0.0.0	Core Capital for the Calculation (Rs. '000)	
1.2.5.0.0.0	Gearing Ratio (times)	

## Schedule III

## Instructions for the Statement of Borrowings (NBL-MF-01-SB 1)

Item	Description
Types of Borrowings	All bank borrowings, borrowings through other institutions and foreign borrowings shall be reported as short term, long term asset backed, long term borrowings and borrowings which are not asset backed under each category. Other borrowings through instruments shall be reported separately.
Amount borrowed	The principal amount borrowed/financed/granted during the month
Effective rate of interest (range)	During the month, the range of rate of interest
Interest	Amount of interest in arrears as at the date of the statement in respect of each category of borrowing
Outstanding Capital	The amount of capital outstanding as at the date of the statement
Total value of security offered under each category	The security offered by the company. The type and the value of the security

**Instructions for the Computation of Gearing Ratio (NBL-MF-01-SB 2)**

Web Based Return Code	Item	Description
1.2.1.0.0.0	Total Borrowings	The total outstanding borrowings must agree with the item 3.2.4.0.0.0 of NBL-MF-03-BS. Total borrowings amount is uploaded automatically.
1.2.2.0.0.0	Core Capital	Core capital must agree with item 17.2.2.0.0.0 of NBL-MF-17-C2 (Tier I Capital)
1.2.3.0.0.0	Equity Investments in subsidiary companies and associate companies	Total equity investments in subsidiary companies and associate companies of specialised leasing company. This item must agree with the totals of items from 3.1.3.1.0.0 to 3.1.3.6.0.0 of NBL-MF-03- BS
1.2.4.0.0.0	Core Capital for the Gearing Ratio Calculation	Item 1.2.2.0.0.0 less item 1.2.3.0.0.0
1.2.5.0.0.0	Gearing Ratio (times)	Gearing ratio is calculated automatically (item 1.2.1.0.0.0 / 1.2.4.0.0.0)

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

**Direction issued under section 34 of the Finance Leasing Act, No. 56 of 2000.**

H M Ekanayake

**Director**

**Department of Supervision of Non- Bank Financial Institutions**

On this 11<sup>th</sup> day of July 2012  
Colombo

**FINANCE LEASING (ASSESSMENT OF FITNESS AND PROPRIETY OF ALL DIRECTORS ON THE BOARD AND OFFICERS PERFORMING EXECUTIVE FUNCTIONS) DIRECTION, NO. 3 OF 2012**

In terms of Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non- Bank Financial Institutions (hereinafter referred to as "Director") is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act, No. 56 of 2000 (hereinafter referred to as 'specialised leasing companies') for the purpose of ensuring that such specialised leasing companies maintain efficient standards in carrying out their business operations. Fitness and Propriety of all directors on the board and officers performing executive functions is a key requirement to ensure good governance and effective risk management in the specialised leasing companies and thereby to promote stability in the financial system. Therefore, in the exercise of the powers conferred by Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director hereby issues the Finance Leasing (Assessment of Fitness and Propriety of all Directors on the Board and Officers performing executive functions) Direction, No. 3 of 2012 and shall apply to every specialised leasing company from the date of this direction.

**Disqualifications for appointment as a director or an officer performing executive functions**

1. No person shall be appointed as a director of a specialised leasing company, or as an officer performing executive functions (hereinafter referred to as "officer") in such company unless such person is a fit and proper person to hold office as a director or an officer in terms of the provisions of this Direction.

**Criteria for assessment of fitness and propriety**

- 2.1 In assessing the fitness and propriety of a person for the purpose of section 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, administration or of any other relevant discipline;
  - (b) that such person is not being subjected to any 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 has not been found guilty in respect of an act of fraud, deceit, dishonesty or other similar criminal activity, 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, at any time during the period of fifteen years immediately prior to being so appointed or elected;
  - (d) that such person has not been found by any regulatory or supervisory authority, professional association, commission of inquiry, tribunal, or any other body established by law, in Sri Lanka or abroad, that such person has committed or has been connected with the commission of any act which involves fraud, deceit, dishonesty, improper conduct or non-compliance with provisions of any Statute or rules, regulations, directions or determinations issued thereunder;
  - (e) that such person has been convicted in any court in Sri Lanka or abroad for an offence involving moral turpitude
  - (f)
    - (i) that such person is being subject to court proceedings for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity;
    - (ii) that such person has been convicted by any court for an offence involving an act of fraud, deceit, dishonesty or other similar criminal activity at any time during the period of fifteen years immediately prior to being so appointed or elected;
  - (g) that such person has not been declared insolvent or declared bankrupt in Sri Lanka or abroad;
  - (h) 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;
  - (i) that such person has not been declared by a court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;
  - (j) that such person has not been convicted by any court for any offence under the Finance Business Act No.42 of 2011 or the Companies Act, No.07 of 2007 or Banking Act, No 30 of 1988
  - (k)
    - (i) that such person is not a person against whom action has been taken by the Monetary Board of the Central Bank of Sri Lanka under section 51 of the Finance Business Act, No.42 of 2011;
    - (ii) that such person has not been determined by the Monetary Board as having carried on finance business or accepted deposits in contravention of section 2 of the Finance Business Act, No 42 of 2011 or has been a director, chief executive officer or held any other position of authority in any body corporate or unincorporated body which the Monetary Board has determined as having carried on finance business or accepted deposits in contravention of section 2 of the Finance Business Act, No 42 of 2011
  - (l) 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, specialised leasing company or a corporate body in Sri Lanka or abroad;
  - (m) that such person has not been a Director, chief executive officer or held any other position of authority in any bank, finance company, specialised leasing company or financial institution:
    - (i) whose licence 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 Direction, No. 4 of 2009 on Corporate Governance for Specialised Leasing Companies shall also be applicable for all directors on the board.

- Procedure to be followed in assessing the fitness and propriety**
- 3.1 Every specialised leasing company shall obtain from respective directors or officers selected for appointment an affidavit and declaration as in Annex I and II and submit to the Director, seeking approval for appointment.
  - 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 Director.
  - 3.3 With respect to existing Directors and officers, specialised leasing companies shall obtain affidavits and declarations as in Annex I and II respectively, and submit to the Director within thirty days of this Direction.
  - 3.4 In respect of every continuing Director, a specialised leasing company shall obtain and submit affidavits and declarations to Director annually before the Annual General Meeting of the respective specialised leasing 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 section 2 of this Direction, approve or refuse to approve the appointment or continuation as the case may be as a director or an officer of a specialised leasing company
  - 4.2 The Director shall notify the specialised leasing company of such approval or refusal giving reasons therefor and it shall be the duty of the specialised leasing 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 section 2 of this Direction, 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 specialised leasing company and the section 4.2 above shall be applicable thereafter.
- Subsequent ineligibility to be notified**
- 6.1 Every specialised leasing 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 specialised leasing 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 sections 4.1 or 5 of this Direction may within fourteen days of receipt of the communication sent by the specialised leasing company make an appeal giving reasons in writing in justifiable manner to the Monetary Board of the Central Bank of Sri Lanka.
  - 7.2 The Monetary Board may, after considering reasons given by the Director and the appeal of the aggrieved party, decide either to confirm or over-rule the refusal/decision made by the Director.
- Interpretation**
8. In this Direction, unless the context otherwise requires :-
    - (a) "Act" shall mean the Finance Leasing Act, No. 56 of 2000.
    - (b) "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 the 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.
    - (c) "Officers performing executive functions" in a specialised leasing 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). Head of Marketing
- (xvi). Company Secretary
- (xvii). Officers serving as consultants or advisors to the board of Directors of the specialised leasing company.
- (xviii). Any other officer within the meaning of "key management personnel" as stated in the Finance Leasing (Corporate Governance) Direction No 4 of 2009

**Annex I**

**Name of Specialised Leasing Company:**

**Affidavit**

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

1. I am the (affirmant/deponent) above named and (I am/I have been selected for appointment as)..... (designation) of .....(name of the specialised leasing company):
2. I [affirm/state] that I possess the following academic and/or professional qualification/s in banking, finance, business, administration or of any other relevant discipline:
3. I [affirm/state] that the effective experience that I possess in banking, finance, business, administration or of any other relevant discipline is as follows:
4. I [affirm/state] that I am not subjected to any disqualifications given under section 2.1 and 2.2<sup>b</sup> of the Finance Leasing (Assessment of Fitness and Propriety of all Directors on the Board and Officers Performing Executive Functions) Direction, No 3 of 2012.

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 OATH

<sup>a</sup> Delete the inapplicable words - Buddhist, Hindu, Muslims and any persons who is not a Christian or a Catholic should solemnly sincerely and truly declare and affirm. Christians and Catholic should make oath and state  
<sup>b</sup> Section 2.2 of the Direction shall be applicable only for all directors on the Board/ Directors selected for appointment to the Board.

## Annex II

## Name of Specialised Leasing Company:

## Declaration

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 Specialised Leasing 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<sup>c</sup>
  - 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 specialised leasing company/ies , licensed 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. Shareholdings in Specialised Leasing Companies and their Related Companies  
Share ownerships in specialised leasing companies, their subsidiaries and associates if any, presently held:

Name of the institution	No. of shares	Percentage holding

6. Business Transactions<sup>d</sup>  
Any business transaction the Director or officer performing executive functions presently has with the specialised leasing company, its subsidiaries or associates if any.

<sup>c</sup> Relative - in relation to a director means spouse or dependent child of such director

<sup>d</sup> "Business transactions" shall mean any accommodations, investments in debt instruments and deposits.

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

## 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 specialised leasing company.

Name of the specialised leasing company	Full name of the relative	Relationship	Position held

7.2 Direct or indirect share ownership in the specialised leasing 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 specialised leasing company if any.

Full name of the relative	Nature of business transaction	Date of transaction	Limit as at .....	Out-standing as at .....	Type and value of collateral (Rs. mn)	% of specialised leasing company's paid up capital
			(Rs. mn)	(Rs. mn)		

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 specialised leasing 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 specialised leasing 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 Specialised Leasing Company/Director or Officer performing executive function selected for appointment**

**TO BE COMPLETED BY THE CHIEF EXECUTIVE OFFICER WITH REFERENCE TO OFFICERS PERFORMING EXECUTIVE FUNCTIONS/PERSONS SELECTED FOR APPOINTMENT**

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 specialised leasing company.

Date:

**Signature of Chief Executive Officer and the Official Stamp**

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

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

Date:

**Signature of 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.**

H M Ekanayake

**Director**

**Department of Supervision of Non-Bank Financial Institutions**

On this 11<sup>th</sup> day of July, 2012

**FINANCE LEASING (LIQUID ASSETS)  
DIRECTION NO 4 OF 2012**

In terms of Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred as "Director") is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act No. 56 of 2000 (hereinafter referred to as "specialised leasing companies") for the purpose of ensuring that specialised leasing companies maintain efficient standards in carrying out their business operations. Therefore, in the exercise of the powers conferred by Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director hereby issues the Finance Leasing (Liquid Assets) Direction No.4 of 2012 and shall apply to specialised leasing companies from the date of this direction.

- |   |  |
|---|--|
| <b>Minimum holding of liquid assets</b> | 1. 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 excluding liabilities to the shareholders, securitizations and asset backed long term (over one year) borrowings with effect from 01.09.2012 and not less than 10 per cent with effect from 01.07.2013. |
|---|--|

- Definition of liquid assets**
2. Liquid assets shall include:
- Cash ;
  - Balances with licensed commercial banks;
  - Balances with licensed specialised bank which has a credit rating of A- or above;
  - Balances with licensed finance company which has a credit rating of A- or above;
  - Treasury Bills and Securities issued by the Government of Sri Lanka which have a maturity not exceeding one year;
  - Treasury bonds issued under the Registered Stock and Securities Ordinance;
  - Central Bank of Sri Lanka securities maturing within one year; and
  - Such any other asset as may be determined by the Director.
- Force of the Direction**
3. This Direction shall come into force with effect from 01.09.2012.
- Charges to be paid**
4. Any specialised leasing company which fails to comply with the provisions of section (1) shall pay to the Central Bank one tenth of one per centum per day on the amount of the deficiency.
- Reporting Format**
5. Every specialised leasing company shall use the format at Schedule I attached hereto for the reporting of liquid assets and shall forward same to the Director through the Web Base Reporting System before the 15th day of the month following the month to which the statement relates.
- Revocation of the Direction No 4 of 2011**
6. Finance Leasing (Liquid Assets) Direction No.4 of 2011 is hereby revoked

**Schedule 1****NBL-MF- 16 –LA (LIQUID ASSETS)**

Name of Specialised Leasing Company:

As At.....

Rs. '000

Code	Web-Based Return Code	Item	Amount/ %
<b>1.</b>	<b>16.1.1.0.0.0</b>	<b>Total Amount for the required liquid assets calculation (Item 1.1 plus items 1.2 and less sum of the items from 1.3 to 1.5)</b>	
1.1	16.1.1.1.0.0	Total Liabilities as at first working day of the month preceding the maintenance period (base date)	
1.2	16.1.1.2.0.0	Off- balance sheet items as at first working day of the month preceding the maintenance period (base date)	
1.3	16.1.1.3.0.0	Liabilities to the shareholders as at first working day of the month preceding the maintenance period (base date)	
1.4	16.1.1.4.0.0	Securitized items as at first working day of the month preceding the maintenance period (base date)	
1.5	16.1.1.5.0.0	Assets backed long term borrowings as at first working day of the month preceding the maintenance period (base date)	
<b>2.</b>	<b>16.1.2.0.0.0</b>	<b>Available Liquid Assets (Daily Average liquid assets for the month of ..... (maintenance period) (sum of item 2.1 to item 2.8)</b>	
2.1	16.1.2.1.0.0	Cash	
2.2	16.1.2.2.0.0	Balances with licensed commercial banks	
2.3	16.1.2.3.0.0	Balances with licensed specialised banks (credit rating A- or above)	
2.4	16.1.2.4.0.0	Balances with licensed finance companies (credit rating A- or above)	

2.5	16.1.2.5.0.0	Treasury Bills and Securities issued by the Government of Sri Lanka	
2.6	16.1.2.6.0.0	Treasury bonds issued under the Registered Stock and Securities Ordinance	
2.7	16.1.2.7.0.0	Central Bank of Sri Lanka securities	
2.8	16.1.2.8.0.0	Such any other asset as may be determined by the Director	
3.	16.1.3.0.0.0	<b>Required Liquid Assets</b>	
3.1	16.1.3.1.0.0	5% of 16.1.1.0.0.0	
3.2	16.1.3.2.0.0	10% of 16.1.1.0.0.0 (with effect from 01.07.2013)	
4.	16.1.4.0.0.0	<b>Liquid Assets Ratio (16.1.2.0.0.0 as a % of 16.1.1.0.0.0)</b>	
5.	16.1.5.0.0.0	<b>Deficit Liquid Assets (16.1.2.0.0.0 less 16.1.3.0.0.0)</b>	
6	16.1.6.0.0.0	<b>Charge to be paid to the Central Bank (16.1.5.0.0.0/1000)</b>	

Date : .....

.....  
Authorized Official Signature

Note: The base date is the first working day of the month proceeding the maintenance period

e.g:- Liquid assets for January will be based on total liabilities excluding liabilities to the shareholders, securitisation, and asset backed long term borrowings on the preceding December 1<sup>st</sup>.

The required liquid assets should be maintained for a period (maintenance period) commencing on the first working day and ending on the last working day of the calendar month following the month in which the base date occurs.

**Instructions for the Schedule 1**

Web-Based Return Code	Line Item	Instructions
16.1.1.0.0.0	Total Amount for the required liquid assets calculation	Item 16.1.1.1.0.0 plus item 16.1.1.2.0.0 less sum of the items from 16.1.1.3.0.0 to 16.1.1.5.0.0
16.1.1.1.0.0	Total Liabilities	Total Liabilities net of with provision for bad and doubtful accommodations and interest in suspense as at first working day of the month preceding the maintenance period.
16.1.1.2.0.0	Off- balance sheet items	Off- balance sheet items as at first working day of the month preceding the maintenance period (base date)
16.1.1.3.0.0	Liabilities to the shareholders	Liabilities to the shareholders reported under the item 3.2.1.0.0.0 plus any other liabilities to the shareholders reported in NBL-MF-03-BS as at first working day of the month preceding the maintenance period
16.1.1.4.0.0	Securitized assets	Total outstanding value of securitizations reported under the items 3.2.4.8.0.0 and 3.2.4.9.0.0 of NBL-MF-03-BS as at first working day of the month preceding the maintenance period
16.1.1.5.0.0	Asset backed long term borrowings	Long term (over 1 year) borrowings which are backed by asset securities/ cash securities from banks (local/foreign) or any other institutions as at first working day of the month preceding the maintenance period
16.1.2.0.0.0	Available Liquid Assets (Daily average of liquid assets)	To calculate daily average of liquid assets: take the daily sums of liquid assets as mentioned in code 16.1.2.1.0.0 to 16.1.2.8.0.0 throughout the month and divide the total by the number of days of that month.
16.1.2.1.0.0	Cash	Local and foreign currency notes and coins held by cashiers and in vault.
16.1.2.2.0.0	Balances with licensed commercial banks (LCBs)	Favourable balances of current accounts maintained with LCBs in Sri Lanka and Fixed deposits maintained with LCBs maturing within one year and free from any bankers lien or charge

16.1.2.3.0.0	Balances with licensed specialised banks (LSBs)	Fixed deposits maintained with LSBs (with a credit rating A- or above) maturing within one year and free from any lien or charge.
16.1.2.4.0.0	Balances with licensed finance companies (LFCs)	Fixed deposits maintained with LFCs (with a credit rating A- or above) maturing within one year and free from any lien or charge.
16.1.2.5.0.0	Treasury Bills and Securities issued by the Government of Sri Lanka	Total value of investments in bills and securities issued by the government of Sri Lanka which have a maturity not exceeding 1 year. Bills assigned for borrowings should not be included. Investments in Bills which are maintained for the utilization purpose of Investment Fund Accounts shall be considered.
16.1.2.6.0.0	Treasury bonds issued under the Registered Stock and Securities Ordinance	Total value of investments in Treasury Bonds. Bonds assigned for borrowings should not be included. Investments in Bonds which are maintained for the purpose of Investment Fund Accounts shall be considered.
16.1.2.7.0.0	Central Bank of Sri Lanka securities	Total value of investments in securities issued by the Central Bank of Sri Lanka which have a maturity not exceeding 1 year. Bills assigned for borrowings should not be included.
16.1.2.8.0.0	Such other assets as may be determined by the Director	The Director may determine any other liquid assets from time to time
16.1.3.0.0.0	Required Liquid Assets	Required Liquid Assets is calculated automatically – 5% of 16.1.1.0.0.0 with effect from 01.09.2012 and 10% of 16.1.1.0.0.0 with effect from 01.07.2013
16.1.4.0.0.0	Liquid Assets Ratio	Liquid Assets Ratio is calculated automatically - 16.1.2.0.0.0 as a % of 16.1.1.0.0.0
16.1.5.0.0.0	Deficit Liquid Assets	Deficit Liquid Assets is calculated automatically - 16.1.2.0.0.0 less 16.1.3.0.0.0
16.1.6.0.0.0	Charge to be paid to the Central Bank	Charge to be paid to the Central Bank is calculated automatically - 16.1.5.0.0.0/1000

Note: Every specialised leasing company shall use the format at Schedule I to maintain daily liquidity assets.

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

Direction issued under section 34 of the Finance Leasing Act, No. 56 of 2000.

H M Ekanayake

**Director**

**Department of Supervision of Non- Bank Financial Institutions**

On this 23<sup>rd</sup> day of October, 2012

### FINANCE LEASING (PANEL OF EXTERNAL AUDITORS) DIRECTION, NO 5 OF 2012

In terms of Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred as "Director") is empowered to issue general Directions to registered finance leasing establishments which are public companies referred to in paragraph (c) of section 3 of the Finance Leasing Act, No. 56 of 2000 (hereinafter referred to as "specialised leasing companies") for the purpose of ensuring that competent and qualified auditors conduct external audits as part of measures to maintain efficient standards in carrying out duties of specialised leasing companies. Therefore, in the exercise of the powers conferred by Section 34 of the Finance Leasing Act, No. 56 of 2000, the Director hereby issues the Finance Leasing (Panel of External Auditors) Direction, No.5 of 2012.

**Panel of external auditors**

1. Every specialised leasing company shall select an external auditor to audit its financial statements from the following panel of auditors.

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

- Force of the Direction** 2. Every specialised leasing company shall select an audit firm from the above panel to audit the financial statements commencing next financial year.

Ref: 24/04/015/0005/008

23<sup>rd</sup> October 2012

Chairman

All Licensed Finance Companies

Dear Sir/Madam,

#### PANEL OF EXTERNAL AUDITORS FOR LICENSED FINANCE COMPANIES

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

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

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

Panel of external auditors	Head office address
1. BDO Partners	'Charter House' 65/2 Sir Chittampalam A Gardiner Mawatha Colombo 02
2. B.R.De Silva & Company	22/4, Vijaya Kumaratunga Mawatha Colombo 05
3. B. V. Fernando & Company	70/B/8/SP, Old Y.M.B.A. Building Colombo 08
4. Ernst & Young	201, De Saram Place Colombo 10

5. HLB Edirisinghe & Company	45, Braybrooke Street Colombo 02
6. KPMG Ford Rhodes Thornton & Company	32/A, Sir Mohamed Macan Markar Mawatha Colombo 03
7. Kreston MNS & Company	50/2, Sir James Peiris Mawatha Colombo 02
8. SJMS Associates	2, Castle Lane Colombo 04
9. PricewaterhouseCoopers	100, Braybrooke Place Colombo 02

Yours faithfully,  
Director

Cc: CEOs  
Company secretaries

**Annex I**

### **Guidelines for the panel of external auditors of Licensed Finance Companies**

The Central Bank of Sri Lanka, as the supervisory authority of Licensed Finance Companies (here after referred to as non-bank financial institutions in this guideline) in Sri Lanka, is vested with the responsibility of ensuring that the external audits are conducted satisfactorily to ensure efficient standards in the conduct of operations of non-bank financial institutions. Accordingly, external auditors of non-bank financial institutions in Sri Lanka are informed of the following guidelines which have been formulated in recognition of the fact that external auditors are responsible to express an opinion on the financial statements based on conclusions drawn from the audit evidence obtained. The Central Bank of Sri Lanka is of the view that these guidelines would require the external auditors to expand the scope of their audit work. Detailed operational guidelines to the external auditors are as follows and all aspects should be adequately covered in the audit.

#### **1. Audit objective**

The overall audit objective should always ensure that the financial statements give a true and fair view of the state of the non-bank financial institution's affairs at a given date and of the financial performance for the year ended, and comply with statutory and other relevant requirements in relation to presentation and disclosures of financial statements.

#### **2. Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and guidelines issued by Securities and Exchange Commission of Sri Lanka**

These guidelines are supplementary to and should be read in conjunction with the currently applicable Sri Lanka Accounting Standards and guidelines for appointment of the external auditors of listed companies issued by Securities and Exchange Commission of Sri Lanka, in preparing their report on the financial statements.

#### **3. Regular communication with the Central Bank**

External auditors shall meet the Central Bank of Sri Lanka to clarify their audit opinion if requested in an event where the regulator needs further clarifications on the audit opinion, audit findings or audit scope.

#### **4. Audit partner duration and re-appointment**

As per the Finance Companies (Corporate Governance) Direction No.3 of 2008, the engagement of an audit partner with a non-bank financial institution shall not exceed five years, and the particular audit partner is not re-engaged for the audit before expiry of three years from the date of the completion of the previous term.

#### **5. Resources and proficiency of the external auditors**

It is paramount that the external auditors of non-bank financial institutions undertake an audit engagement only after considering their own competences and the adequacy of their resources (including relevant experience) to carry out their duties. In assessing their competences and resources, the external auditors should be aware of the type and range of the non-bank financial institutional activities and the nature of its systems.

#### **6. Scope of audit**

The external auditors are required to ensure that the accounting and other records of non-bank financial institution meet the Sri Lanka Auditing Standards and the functions of the company are conducted in accordance with

regulatory requirements issued by the Central Bank of Sri Lanka.

## 7. Planning the audit

At the planning stage, the external auditors should establish an overall strategy for the audit, develop an audit plan and reduce audit risk to an acceptably low level. Accordingly, the external auditors are required to consider the following during the planning stage;

- a. Nature of the business and what it does
- b. Information system used in the business
- c. The legal framework in which the company operates
- d. The audit risk
- e. Identification of key audit areas, where there is a high risk
- f. The adequacy and scope of the internal audit function
- g. Timing and nature of the audit work
- h. The staff allocation and experience
- i. The Central Bank directions/guidelines/determinations/rules and their levels of compliance
- j. Any formal correspondence including letters, on-site examination reports and circulars between the Central Bank of Sri Lanka and the non-bank financial institutions

## 8. Compliance/accuracy with all the regulatory requirements issued by the Central Bank of Sri Lanka

The external auditors, in performing their statutory duties under the Finance Business Act, No.42 of 2011, in recognizing the dependence of the Central Bank on prudential returns and other information submitted by the non-bank financial institutions, shall ensure that non-bank financial institutions conduct its functions in accordance with all the rules and directions issued by the Central Bank of Sri Lanka and accuracy of such information.

## 9. Internal control systems

A system of internal controls in a non-bank financial institution is defined as; 'the whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.'

In evaluating the adequacy of internal control systems in a non-bank financial institution, the external auditors are required to assess the internal control systems only to the extent that they wish to place reliance on those systems in arriving at their opinion as to whether the financial statements give a true and fair view. A careful evaluation of the systems, which include computer based accounting systems, information systems and their relationship with the risk of material misstatement in the financial statements, will be essential.

## 10. Review of the financial statements

- a. When reviewing the financial statements of the non-bank financial institution, the external auditors should carry out such a review of the financial statement in conjunction with the conclusions drawn from the audit evidences obtained, in order to express a reasonable basis for an opinion on the financial statements.
- b. The external auditors should consider whether the financial statements comply with relevant statutory requirements in relation to presentation and disclosure of financial statements and whether the accounting policies adopted will enable them to express an unqualified opinion on the financial statements.

## 11. Branch audits

The external auditors approach to branch audits will principally be determined by the degree of Head Office control over the business and accounting functions at each branch and by the scope and effectiveness of the non-bank financial institution's inspection and/or internal audit visits. The following need to be considered during branch audits;

- a. The extent and impact of visits of the regulator
- b. Materiality and risks associated with the branch operation
- c. Obtain reasonable assurance that the systems of control over branches are operating satisfactorily when the branch accounting records are centralized

## 12. Auditor Independence

The audit partners, senior management of the audit firm or their immediate family members and financial dependents should take all possible measures to ensure independency and should not have any conflict of interest with the non-bank financial institution, the parent of the non-bank financial institution, the subsidiaries, the

associates of the non-bank financial institution and shareholders.

For the purpose of this section,

- “Senior management of the audit firm” means partners, managers and consultants in charge of audits
- “Immediate family” means parents, spouse and dependent children.

### 13. Non-audit services

External auditors shall not undertake any consultancy or other non-audit services with a non-bank financial institution during the same financial year in which the audit is carried out. The restricted non-audit services are:

- a. Book keeping or other services related to the accounting records or financial statements of the audit client
- b. Financial information systems design and implementation
- c. Appraisal or valuation services, fairness opinion, or contribution in-kind reports
- d. Actuarial services
- e. Internal audit outsourcing services
- f. Management functions, human resources and payroll services
- g. Broker or dealer, investment adviser, or investment services: and
- h. Legal Services and expert services related to the audit

This restriction also applies to non-audit services provided by audit firms where a partner of such audit firm is a director or has an equity stake in the non-bank financial institution during the same financial year in which the audit is carried out.

### 14. Management letter

The external auditors are requested to submit the finalized management letter agreed with the management of the non-bank financial institution to the Central Bank within six months of the end of the financial year. If the external auditors are unable to finalize the management letter, they should submit an interim report with their major findings/concerns within the said period.

### 15. Delisting of the audit firm from the panel of external auditors

- a. The Institute of Chartered Accountants of Sri Lanka should inform the Director of the Department of Supervision of Non-Bank Financial Institutions in the event an appointed external auditor breaches any of the following fundamental principles as defined in the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.
  - i Integrity
  - ii Objectivity
  - iii Professional competence and due care
  - iv Confidentiality
  - v Professional behavior
- b. In an event where the external auditors are found to have failed to perform their duties to the satisfaction of the Director of Department of Supervision of Non-Bank Financial Institutions in terms of expressing their independent opinion on a timely manner and reflecting the true and fair view of the overall financial condition of non-bank financial institutions, the matter will be referred to the Institute of Chartered Accountants of Sri Lanka to assess the extent of non-compliance with the Sri Lanka Auditing Standards and a report will be issued by the Council of the Institute of Chartered Accountants of Sri Lanka by conducting a rigorous review on the matter. Based on the report, if non-compliances have been identified the practitioner may be removed from the panel of external auditors of the non-bank financial institutions, after obtaining approval of the Monetary Board.

## Annex II

### Guidelines for the panel of external auditors of Specialised Leasing Companies

The Central Bank of Sri Lanka, as the supervisory authority of Specialised Leasing Companies (here after referred to as non-bank financial institutions in this guideline) in Sri Lanka, is vested with the responsibility of ensuring that the external audits are conducted satisfactorily to ensure efficient standards in the conduct of operations of non-bank financial institutions. Accordingly, external auditors of non-bank financial institutions in Sri Lanka are informed of the following guidelines which have been formulated in recognition of the fact that external auditors are responsible to express an opinion on the financial statements based on conclusions drawn from the audit evidence obtained. The Central Bank of Sri Lanka is of the view that these guidelines would require the external auditors to expand the scope of their audit work. Detailed

operational guidelines to the external auditors are as follows and all aspects should be adequately covered in the audit.

**1. Audit objective**

The overall audit objective should always ensure that the financial statements give a true and fair view of the state of the non-bank financial institution's affairs at a given date and of the financial performance for the year ended, and comply with statutory and other relevant requirements in relation to presentation and disclosures of financial statements.

**2. Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and guidelines issued by Securities and Exchange Commission of Sri Lanka**

These guidelines are supplementary to and should be read in conjunction with the currently applicable Sri Lanka Accounting Standards and guidelines for appointment of the external auditors of listed companies issued by Securities and Exchange Commission of Sri Lanka, in preparing their report on the financial statements.

**3. Regular communication with the Central Bank**

External auditors shall meet the Central Bank of Sri Lanka to clarify their audit opinion if requested in an event where the regulator needs further clarifications on the audit opinion, audit findings or audit scope.

**4. Audit partner duration and re-appointment**

As per the Finance Leasing (Corporate Governance) Direction No.4 of 2009, the engagement of an audit partner with a non-bank financial institution shall not exceed five years, and the particular audit partner is not re-engaged for the audit before expiry of three years from the date of the completion of the previous term.

**5. Resources and proficiency of the external auditors**

It is paramount that the external auditors of non-bank financial institutions undertake an audit engagement only after considering their own competences and the adequacy of their resources (including relevant experience) to carry out their duties. In assessing their competences and resources, the external auditors should be aware of the type and range of the non-bank financial institutional activities and the nature of its systems.

**6. Scope of audit**

The external auditors are required to ensure that the accounting and other records of non-bank financial institution meet the Sri Lanka Auditing Standards and the functions of the company are conducted in accordance with regulatory requirements issued by the Central Bank of Sri Lanka.

**7. Planning the audit**

At the planning stage, the external auditors should establish an overall strategy for the audit, develop an audit plan and reduce audit risk to an acceptably low level. Accordingly, the external auditors are required to consider the following during the planning stage;

- a. Nature of the business and what it does
- b. Information system used in the business
- c. The legal framework in which the company operates
- d. The audit risk
- e. Identification of key audit areas, where there is a high risk
- f. The adequacy and scope of the internal audit function
- g. Timing and nature of the audit work
- h. The staff allocation and experience
- i. The Central Bank directions/guidelines/determinations/rules and their levels of compliance
- j. Any formal correspondence including letters, on-site examination reports and circulars between the Central Bank of Sri Lanka and the non-bank financial institutions

**8. Compliance/accuracy with all the regulatory requirements issued by the Central Bank of Sri Lanka**

The external auditors, in performing their statutory duties under the Finance Leasing Act, No.56 of 2000, in recognizing the dependence of the Central Bank on prudential returns and other information submitted by the non-bank financial institutions, shall ensure that non-bank financial institutions conduct its functions in accordance with all the rules and directions issued by the Central Bank of Sri Lanka and accuracy of such information.

**9. Internal control systems**

A system of internal controls in a non-bank financial institution is defined as; 'the whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far

as possible the completeness and accuracy of the records.’

In evaluating the adequacy of internal control systems in a non-bank financial institution, the external auditors are required to assess the internal control systems only to the extent that they wish to place reliance on those systems in arriving at their opinion as to whether the financial statements give a true and fair view. A careful evaluation of the systems, which include computer based accounting systems, information systems and their relationship with the risk of material misstatement in the financial statements, will be essential.

#### **10. Review of the financial statements**

- a. When reviewing the financial statements of the non-bank financial institution, the external auditors should carry out such a review of the financial statement in conjunction with the conclusions drawn from the audit evidences obtained, in order to express a reasonable basis for an opinion on the financial statements.
- b. The external auditors should consider whether the financial statements comply with relevant statutory requirements in relation to presentation and disclosure of financial statements and whether the accounting policies adopted will enable them to express an unqualified opinion on the financial statements.

#### **11. Branch audits**

The external auditors approach to branch audits will principally be determined by the degree of Head Office control over the business and accounting functions at each branch and by the scope and effectiveness of the non-bank financial institution’s inspection and/or internal audit visits. The following need to be considered during branch audits;

- a. The extent and impact of visits of the regulator
- b. Materiality and risks associated with the branch operation
- c. Obtain reasonable assurance that the systems of control over branches are operating satisfactorily when the branch accounting records are centralized

#### **12. Auditor Independence**

The audit partners, senior management of the audit firm or their immediate family members and financial dependents should take all possible measures to ensure independency and should not have any conflict of interest with the non-bank financial institution, the parent of the non-bank financial institution, the subsidiaries, the associates of the non-bank financial institution and shareholders.

For the purpose of this section,

- “Senior management of the audit firm” means partners, managers and consultants in charge of audits
- “Immediate family” means parents, spouse and dependent children.

#### **13. Non-audit services**

External auditors shall not undertake any consultancy or other non-audit services with a non-bank financial institution during the same financial year in which the audit is carried out. The restricted non-audit services are:

- a. Book keeping or other services related to the accounting records or financial statements of the audit client
- b. Financial information systems design and implementation
- c. Appraisal or valuation services, fairness opinion, or contribution in-kind reports
- d. Actuarial services
- e. Internal audit outsourcing services
- f. Management functions, human resources and payroll services
- g. Broker or dealer, investment adviser, or investment services: and
- h. Legal Services and expert services related to the audit

This restriction also applies to non-audit services provided by audit firms where a partner of such audit firm is a director or has an equity stake in the non-bank financial institution during the same financial year in which the audit is carried out.

#### **14. Management letter**

The external auditors are requested to submit the finalized management letter agreed with the management of the non-bank financial institution to the Central Bank within six months of the end of the financial year. If the external auditors are unable to finalize the management letter, they should submit an interim report with their major findings/concerns within the said period.

#### **15. Delisting of the audit firm from the panel of external auditors**

- a. The Institute of Chartered Accountants of Sri Lanka should inform the Director of the Department of

Supervision of Non-Bank Financial Institutions in the event an appointed external auditor breaches any of the following fundamental principles as defined in the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

- i Integrity
  - ii Objectivity
  - iii Professional competence and due care
  - iv Confidentiality
  - v Professional behavior
- b. In an event where the external auditors are found to have failed to perform their duties to the satisfaction of the Director of Department of Supervision of Non-Bank Financial Institutions in terms of expressing their independent opinion on a timely manner and reflecting the true and fair view of the overall financial condition of non-bank financial institutions, the matter will be referred to the Institute of Chartered Accountants of Sri Lanka to assess the extent of non-compliance with the Sri Lanka Auditing Standards and a report will be issued by the Council of the Institute of Chartered Accountants of Sri Lanka by conducting a rigorous review on the matter. Based on the report, if non-compliances have been identified the practitioner may be removed from the panel of external auditors of the non-bank financial institutions, after obtaining approval of the Monetary Board.