

# **PART III**



## PART III

### MAJOR ADMINISTRATIVE MEASURES ADOPTED BY THE MONETARY BOARD IN 2014

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Circular No. : 01/2014

07 January 2014

To : CEOs of all Member Institutions of Sri Lanka Deposit Insurance and Liquidity Support Scheme

Dear Sir/Madam

**SRI LANKA DEPOSIT INSURANCE AND LIQUIDITY SUPPORT SCHEME OPERATING INSTRUCTIONS**

We write to inform you of the following:

1. In terms of the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 1 of 2013 dated 30.12.2013, the title of the "Sri Lanka Deposit Insurance Scheme" has been renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" and the title of the "Deposit Insurance Fund" has been renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Fund", with effect from 22.11.2013. A copy of the Regulation is attached.
2. Further, with the implementation of the new "General Ledger Accounting System" by the Central Bank of Sri Lanka, the account number "4681" of the Sri Lanka Deposit Insurance and Liquidity Support Fund has been changed as "54523", with effect from 01.01.2014.
3. Accordingly, all member institutions are requested to adhere to the following instructions with immediate effect:
  - (i) The premium on eligible deposits in terms of the Regulation No. 6 of the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 1 of 2010 dated 28.09.2010, as amended should be paid to "Sri Lanka Deposit Insurance and Liquidity Support Fund" through RTGS, specially mentioning the account name as "**Sri Lanka Deposit Insurance and Liquidity Support Fund - Account Number 54523**" or drawing a cheque in favor of the said account.
  - (ii) Make necessary amendments in order to rename the "Sri Lanka Deposit Insurance Scheme" as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" and the "Deposit Insurance Fund" as the "Sri Lanka Deposit Insurance and Liquidity Support Fund" in the correspondence with the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS).
  - (iii) Previous e-mail address, "[sldis@cbsl.lk](mailto:sldis@cbsl.lk)" of SLDILSS has been changed as "[sldilss@cbsl.lk](mailto:sldilss@cbsl.lk)" and therefore, forward e-mail correspondence to [sldilss@cbsl.lk](mailto:sldilss@cbsl.lk) with a copy to [dbsd@cbsl.lk](mailto:dbsd@cbsl.lk).

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

The Gazette of the Democratic Socialist Republic of Sri Lanka  
 EXTRAORDINARY

No.1843/8 – MONDAY, DECEMBER 30, 2013

(Published by Authority)

PART I : SECTION (I) – GENERAL  
 CENTRAL BANK OF SRI LANKA NOTICES  
 THE MONETARY LAW ACT

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

Nivard Ajith Leslie Cabraal  
 Chairman  
 Monetary Board

Central Bank of Sri Lanka,  
 Colombo,  
 23 December 2013

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

- |  |   |
|--|---|
| <b>1. Citation</b>                               | 1.1 These Regulations shall be cited as Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 1 of 2013.  |
| <b>2. Amendments to the principal regulation</b> | 2.1 Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010 published in Gazette Extraordinary No. 1673/11 of 28th September, 2010 is hereby amended as follows:- |

- 2.2 In regulation 3.1 thereof, by the substitution for the words "This Scheme shall be titled Sri Lanka Deposit Insurance Scheme" of the words "This Scheme shall be titled Sri Lanka Deposit Insurance and Liquidity Support Scheme (hereinafter referred to as "the Scheme")".
- 2.3 In regulation 7.1 thereof, by the substitution for the words "The Scheme shall have a fund titled "Deposit Insurance Fund" "of the words "The Scheme shall have a fund titled "Sri Lanka Deposit Insurance and Liquidity Support Fund"".
- 2.4 In regulation 9.7 thereof, by the substitution for the words "Deposit Insurance Fund", and wherever those words occur in these regulations, of the words "Sri Lanka Deposit Insurance and Liquidity Support Fund".
- 2.5 In regulation 10.5 thereof, by the substitution for the words "Sri Lanka Deposit Insurance Scheme", and wherever those words occur in these regulations, of the words "Sri Lanka Deposit Insurance and Liquidity Support Scheme".

**3. Effective date** 3.1 These amendments shall come into effect from 22nd November, 2013.

**Ref: 02/17/550/0016/001**

17 February 2014

To: The Chief Executive Officers of Licensed Commercial Banks

Dear Sir/Madam

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

In terms of section 21 (1) and the definition of "liquid assets" in paragraph (g) of section 86 of the Banking Act, No. 30 of 1988, as amended, the Monetary Board has determined that Standing Deposit Facility balances held by Licensed Commercial Banks with the Central Bank of Sri Lanka are liquid assets.

2. Licensed commercial banks shall report the eligible value of Standing Deposit Facility under code number 4.1.2.3.0.0 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 No. : 02/17/600/0029/001**

31 March 2014

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

Dear Sir/Madam

#### **IMPLEMENTATION OF THE STANDARDISED APPROACH ON COMPUTATION OF RISK-WEIGHTED AMOUNT FOR OPERATIONAL RISK UNDER BASEL II CAPITAL ADEQUACY FRAMEWORK**

We refer to our previous correspondence and discussions on the above and enclose the revised Guidelines and reporting format on computation of operational risk capital charges for licensed commercial banks (LCBs) and licensed specialised banks (LSBs).

Accordingly, with effect from 01.07.2014:

- a. Guideline No. 6.8 of Part V on the computation of Risk-Weighted Amount for Operational Risk referred to in Schedule I of the Banking Act Directions Nos. 9 and 10 of 2007 issued to LCBs and LSBs, respectively, are replaced with the revised Guidelines in Schedule I; and
- b. Existing reporting format of the computation of Risk-Weighted Amount for Operational Risk as referred to in Schedule II of the Banking Act Directions Nos. 9 and 10 of 2007 issued to LCBs and LSBs, respectively, are replaced with the new formats in Schedule II.

Yours faithfully

(Mrs.) T M J Y P Fernando

**Director of Bank Supervision**

## REVISED GUIDELINES ON COMPUTATION OF RISK-WEIGHTED AMOUNT FOR OPERATIONAL RISK

### 6.8. Part V – Computation of Risk-weighted Amount (RWA) for Operational Risk.

#### 6.8.1. Overview

##### 6.8.1.1. Definition of Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

##### 6.8.1.2. The Measurement Methodologies

The Basel II Framework presents three methods for calculating operational risk capital charges in a continuum of increasing sophistication and risk sensitivity: (i) the Basic Indicator Approach (**BIA**); (ii) the Standardised Approach (**TSA**); and (iii) Advanced Measurement Approaches (**AMA**). In comparison with BIA, other approaches are more advanced methods to determine the required capital for covering operational losses. Hence, the Banks shall with supervisory approval migrate from BIA to other advanced approaches subject to complying with qualifying criteria.

#### 6.8.2. Approaches for Calculating Operational Risk

6.8.2.1. A Bank shall use one of the following approaches to calculate its operational RWA:

- a) The BIA in accordance with item 6.8.3; or
- b) The TSA in accordance with item 6.8.4; or
- c) The ASA in accordance with item 6.8.5.

6.8.2.2. A Bank which has been allowed to use TSA or ASA shall not use a simpler approach without the prior written approval of the Director of Bank Supervision (DBS) of CBSL.

6.8.2.3. Once a Bank moves to a simpler approach, such Bank cannot use an advanced approach without the approval of DBS. DBS shall grant such approval subject to requiring the Bank to comply with other conditions prior to migrating to the respective advanced approach.

6.8.2.4. When DBS is not satisfied that a Bank which has adopted TSA or ASA complies with the specified requirements, DBS may require the Bank to use a simpler approach.

#### 6.8.3. The Basic Indicator Approach (BIA)

6.8.3.1. Bank shall calculate its operational risk capital requirement as follows:

$$K_{BIA} = [ \sum(GI_{1...n} \times \alpha) ] / n$$

Where;

- a)  $K_{BIA}$  = capital charge for operational risk under BIA
- b) GI = annual gross income, where positive, over the preceding three years as set out in items 6.8.3.2 to 6.8.3.4
- c) n = number of years in the preceding three years when annual gross income is positive
- d)  $\alpha$  = 15%, which is set by BCBS.

6.8.3.2. Bank shall calculate its gross income as the sum of its net interest income and non-interest income, taking into account the following adjustments:

- a) gross of any provisions/impairments (including unpaid interest);
- b) gross of operating expenses, including fees paid to outsourcing service providers, in contrast to fees paid for services that are outsourced, fees received by Banks that provide outsourcing services shall be included in the definition of gross income.

but excluding-

- a) any realized profits/losses arising from the sale of securities in the banking book. Securities in the banking book shall be the securities that are classified as “held to maturity” or “available for sale”, in accordance with Sri Lanka Accounting Standard - LKAS 39;
- b) any income or expenses not derived from the ordinary activities of the Bank and not expected to recur frequently or regularly, i.e., sale of fixed assets, income derived from insurance recoveries, etc.

6.8.3.3. If the annual gross income/capital charge for any given year is negative or zero, it should be excluded from both the numerator and denominator when calculating the average capital charge.

**6.8.3.4.** A Bank shall calculate its annual gross income for the most recent year by aggregating the gross income of the last four financial quarters and follow same to calculate annual gross income for each of the two years preceding the most recent year. Table 20 provides an illustration of the calculation of the annual gross income for the previous three years, for a Bank calculating its operational RWA as at end June 2014.

**Table 20**  
**Illustration of Calculation of Annual Gross Income**

	Third Year	Second Year	First Year
Gross Income for financial quarter ending	Jun'14 (GI <sub>3a</sub> )	Jun'13 (GI <sub>2a</sub> )	Jun'12 (GI <sub>1a</sub> )
	Mar'14 (GI <sub>3b</sub> )	Mar'13 (GI <sub>2b</sub> )	Mar'12 (GI <sub>1b</sub> )
	Dec'13 (GI <sub>3c</sub> )	Dec'12 (GI <sub>2c</sub> )	Dec'11 (GI <sub>1c</sub> )
	Sep'13 (GI <sub>3d</sub> )	Sep'12 (GI <sub>2d</sub> )	Sep'11 (GI <sub>1d</sub> )
Total	GI <sub>3</sub> = GI <sub>3a</sub> + GI <sub>3b</sub> + GI <sub>3c</sub> + GI <sub>3d</sub>	GI <sub>2</sub> = GI <sub>2a</sub> + GI <sub>2b</sub> + GI <sub>2c</sub> + GI <sub>2d</sub>	GI <sub>1</sub> = GI <sub>1a</sub> + GI <sub>1b</sub> + GI <sub>1c</sub> + GI <sub>1d</sub>

where GI = Gross Income

#### 6.8.4. The Standardised Approach (TSA)

**6.8.4.1.** Any Bank can use the Standardised Approach for computation of capital charge of operational risk with the prior approval of DBS subject to complying with qualifying criteria set out in item 6.8.4.4.

**6.8.4.2.** A Bank adopting TSA shall classify their business activities into eight business lines, namely, corporate finance, trading and sales, payment and settlement, agency services, asset management, retail brokerage, retail banking and commercial banking. The definition of these business lines are provided in detail in Table 21.

**Table 21**  
**Mapping of Business Lines**

	Level 1	Level 2	Activity Groups
1	Corporate Finance	Corporate Finance Government Finance Merchant Banking Advisory Services	Mergers and acquisitions, underwriting, privatisations, securitisation, research, debt (government, high yield), equity, syndications, Initial Public Offering, secondary private placements.
2	Trading & Sales	Sales Market Making Proprietary Positions Treasury	Fixed income, equity, foreign exchanges, credit products, funding, own position securities, lending and repos, brokerage, debt, prime brokerage and sale of Government bonds to retail investors.
3	Payment and Settlement	External Clients	Payments and collections, inter-bank Funds transfer (RTGS, EFT etc.), clearing and settlement.
4	Agency Services	Custody Corporate Agency Corporate Trust	Escrow, securities lending (customers) corporate actions, depository services. Issuer and paying agents. Debenture trustee.
5	Asset Management	Discretionary Fund Management Non-Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open, private equity. Pooled, segregated, retail, institutional, closed, open.
6	Retail Brokerage	Retail Brokerage	Execution and full service.
7	Retail Banking	Retail Banking Private Banking Card Services	Retail lending and deposits, banking services, trust and estates. Private lending (personal loans) and private (institutional) deposits, banking services, trust and estates, investment advice. Merchant/commercial/corporate cards, private labels and retail.
8	Commercial Banking	Commercial Banking	Lending including project finance, corporate loans, real estate, trade finance including export and import loans, letter of credit, bills. of exchange, leasing, factoring and guarantees. Deposits and other repayable funds

**6.8.4.3.** The Bank shall calculate its operational risk capital requirement by taking the three-year average of the simple summation of the operational risk capital requirements across each of the business lines in each year as follows:

$$K_{TSA} = \{\sum_{\text{years } 1-3} \max[\sum (G_{1-8} \times \beta_{1-8}), 0]\} / 3$$

Where:

- a)  $K_{TSA}$  = capital charge for operational risk under TSA
- b)  $G_{1-8}$  = annual gross income in a given year, calculated in accordance with item 6.8.3.2 and 6.8.3.4 under BIA, for each of the eight business lines set out in Table 21 above
- c)  $\beta_{1-8}$  = fixed beta factor (Table 22 below) as set out by BCBS, relating the level of required capital to the level of the gross income for each of the eight business lines.

**Table 22**  
**Beta ( $\beta$ ) factors for each business line**

No.	Business Line	$\beta$ Factors
1	Corporate finance ( $\beta_1$ )	18%
2	Trading and sales ( $\beta_2$ )	18%
3	Payment and settlement ( $\beta_3$ )	18%
4	Agency services ( $\beta_4$ )	15%
5	Asset management ( $\beta_5$ )	12%
6	Retail brokerage ( $\beta_6$ )	12%
7	Retail banking ( $\beta_7$ )	12%
8	Commercial banking ( $\beta_8$ )	15%

- d) In any given year, negative capital charges (resulting from negative gross income) in any business line may be set off against positive capital charges in other business lines. However, where the aggregate operational risk capital charges across all business lines within a given year is negative, then the operational risk capital charges for the Bank for that year is deemed to be zero (input to the numerator for that year will be zero).
- e) Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines.
- f) Each beta factor serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.
- g) Gross income should be measured for each business line and not for the whole institution, i.e., in commercial banking, the indicator is the gross income generated in the commercial banking business line. However, the sum of the gross income of the eight business lines should be equal to the gross income of the Bank.

#### **6.8.4.4. Qualifying criteria**

- 6.8.4.4.1.** The Board of Directors and senior management shall actively involve in the oversight of the operational risk management of the Bank.
- 6.8.4.4.2.** The Bank shall have an operational risk management system that is conceptually sound and is implemented with integrity, and with clear responsibilities assigned to an operational risk management function. A Bank shall ensure that operational risk management function:
  - i. develops strategies to identify, assess, monitor, control and mitigate operational risk;
  - ii. codifies bank-level policies and procedures concerning operational risk management and control; and
  - iii. designs and implements the operational risk assessment methodology and operational risk-reporting system of the Bank.
- 6.8.4.4.3.** The Bank shall have sufficient resources in the use of TSA in the major business lines as well as the control and audit area.
- 6.8.4.4.4.** The Bank shall have a system for regular reporting of operational exposures, including material operational losses to management of the business units, senior management and the Board of Directors.
- 6.8.4.4.5.** Operational risk management system of the Bank should be well documented. It must have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operational risk management system, which must include policies for the treatment of non-compliance issues.

- 6.8.4.4.6.** Operational risk management process and assessment system should be subject to the validation and regular independent review at least annually. These reviews must include both the activities of the business units and of the operational risk management function.
- 6.8.4.4.7.** A Bank shall develop specific policies and have a prudent documented procedure for mapping its current business activities to the appropriate business lines in accordance with items a), b), c) and Table 21 above.
- a) The senior management shall be responsible in developing the mapping policy, which shall be subject to the approval of the Board of Directors. These mapping policies should be reviewed and adjusted in line with new business activities as appropriate.
  - b) A Bank shall comply with the following principles when mapping its business activities to the appropriate business lines:
    - i. Subject to item ii below, each activity or business of a Bank shall be mapped into eight Level 1 business lines (refer Table 21) in a mutually exclusive and jointly exhaustive manner.
    - ii. Any banking or non-banking activity or product that cannot be readily mapped into any business line and which is ancillary to and supports a business line shall be allocated to the business line it supports. If the activity supports more than one business line, an objective criterion shall be used to allocate the annual gross income.
    - iii. Any activity which cannot be readily mapped into any business line shall be allocated to the business line with the highest beta factor, i.e., 18%.
    - iv. Banks may use internal pricing methods to allocate gross income between business lines provided that total gross income for the Bank (as would be recorded under BIA) still equals the sum of gross income for the eight business lines.
    - v. Once an activity has been mapped to a particular business line, the activity shall be mapped to the same business line consistently over time.
    - vi. The mapping of activities into business lines for operational risk capital purposes must be consistent with the definitions of business lines used for regulatory capital calculations in other risk categories, i.e. credit and market risk.
    - vii. Processes must be in place to define the mapping of any new activities or products.
    - viii. The mapping process shall be subject to regular independent reviews by the internal or external auditors of a Bank.
  - c) **Supplementary business line mapping guidelines:** There are a variety of valid approaches that Banks can use to map their activities to the eight business lines, provided the approach used meets the business line mapping principles. The following is a possible approach that could be used by a Bank to map its gross income:
    - i. Gross income for retail banking consists of net interest income on loans and advances to retail customers and SMEs treated as retail, plus fees related to traditional retail activities, net income from swaps and derivatives held to hedge the retail banking book, and income on purchased retail receivables. To calculate net interest income for retail banking, a Bank takes the interest earned on its loans and advances to retail customers less the weighted average cost of funding of the loans (from whatever source – retail or other deposits).
    - ii. Similarly, gross income from commercial banking consists of the net interest income on loans and advances to corporate (plus SMEs treated as corporate), interbank and sovereign customers and income on purchased corporate receivables, plus fees related to traditional commercial banking activities including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book, and profits/losses on swaps and derivatives held to hedge the commercial banking book. Again, the calculation on net interest income is based on interest earned on loans and advances to corporate, interbank and sovereign customers less the weighted average of funding for these loans (from whatever source).
    - iii. For trading and sales, gross income consists of profits/losses on instruments held in the trading book, net of funding cost, plus fees from wholesale broking.

- iv. For the other five business lines, gross income consists primarily of the net fees/commissions earned in each of these businesses. Payment and settlement consists of fees to cover provision of payment/settlement facilities for wholesale counterparties. Asset management is management of assets on behalf of others.

### 6.8.5. The Alternative Standardised Approach (ASA)

6.8.5.1. A Bank may, with the prior approval of DBS, use ASA to calculate its operational risk capital requirement. A Bank shall not use ASA to calculate its operational risk capital requirement unless it complies with all qualifying criteria set out in item 6.8.4.2 under TSA.

6.8.5.2. Under ASA, the operational risk capital requirement/methodology is the same as under TSA, except for two business lines, retail banking and commercial banking business lines. For these business lines, use outstanding amount of loans and advances after multiplying by a fixed factor 'm' (0.035) as the exposure indicator which replaces gross income.

6.8.5.3. A Bank which has adopted ASA shall not use TSA or BIA without the prior approval of DBS.

6.8.5.4. The Bank shall calculate operational risk capital requirement under ASA as follows:

$$K_{ASA} = \left\{ \sum_{\text{years } 1-3} \max[\sum(GI_{1-6} \times \beta_{1-6}), 0] \right\} / 3 + (\beta_7 \times m \times LA_r) + (\beta_8 \times m \times LA_c)$$

Where:

- $K_{ASA}$  = capital charge for operational risk under ASA
- $GI_{1-6}$  = annual gross income in a given year calculated in accordance with item 6.8.3.2 under BIA, for each of the eight business lines set out in Table 21, except for retail banking and commercial banking business lines
- $\beta_{1-8}$  = fixed beta factor as set out in Table 22
- $m$  = 0.035
- $LA_r$  = total outstanding loans and advances of the retail banking business line
- $LA_c$  = total outstanding loans and advances of the commercial banking business line.

6.8.5.5. For the purposes of the ASA, total outstanding loans and advances shall be as follows:

- Retail banking business line consists of the total on-balance sheet outstanding amount of the retail, SMEs treated as retail, residential mortgages and purchased retail receivables, credit portfolios.
- Commercial business line consists of the total on-balance sheet outstanding amount of the corporate, sovereign, bank, specialised lending, SMEs treated as corporate and purchased corporate receivables, credit portfolios and the book value of securities held in the held-to-maturity and available-for-sale categories.

6.8.5.6. For the purpose of determining  $LA_r$  and  $LA_c$ , a Bank shall take a simple average of the total outstanding loans and advances of the relevant business line over the 12 most recent financial quarters without gross of any provisions/impairment charges.

### 6.8.6. Specific Instruction for completion of Part V

#### 6.8.6.1. Part V(a): Computation of Risk-weighted Amount for Operational Risk

##### 6.8.6.1.1. Gross Income/ Loans and Advances

(WBRC 11.5.1.7.0.0)

**Gross income:** The value of gross income for each year in respect of **BIA** (WBRC 11.5.1.1.0.0), business lines of **TSA** (WBRC 11.5.1.2.1.0 to 11.5.1.2.8.0) and business lines of **ASA** (WBRC 11.5.1.3.1.1 to 11.5.1.3.1.6) is automatically shown based on the data provided in the Part V (b) as follows;

**Gross income** = Interest Income (WBRC 11.5.2.3.0.0) - Interest Expenses (WBRC 11.5.2.4.0.0) + Non Interest Income (WBRC 11.5.2.5.0.0) (+/-) Realised Profits/losses from the Sale of Securities in the Banking Book (WBRC 11.5.2.6.0.0) (+/-) Extraordinary/Irregular Item of Income (WBRC 11.5.2.7.0.0).

This is illustrated further by the example below (Table 23).

**Table 23**  
**Illustration of Calculation of Annual Gross Income**

Item	Amount-Rs' 000	Amount-Rs'000
Interest Income	200,000	200,000
Less: Interest Expense	(100,000)	(100,000)
<b>Net Interest Income</b>	<b>100,000</b>	<b>100,000</b>
<b>Non-interest Income</b>		
Fee and Commission Income	50,000	50,000
Dividend Income	30,000	30,000
Gain on sale of fixed assets	40,000	
Profit/loss from Trading	20,000	20,000
Realised gains/losses from sale of banking book securities	50,000	
Others	10,000	10,000
<b>Non-interest Income</b>	<b>200,000</b>	<b>110,000</b>
<b>Operating Income</b>	<b>300,000</b>	<b>210,000</b>
Less: Operating expenses	(100,000)	
Less: Allowances	(50,000)	
Less: Taxes	(30,000)	
<b>Profit/loss for the period</b>	<b>120,000</b>	
<b>Gross Income for the purpose of operational risk capital requirement</b>		<b>210,000</b>

**Loans and Advances:** The values of loans and advances in respect of retail banking (WBRC 11.5.1.3.2.1) and commercial banking (WBRC 11.5.1.3.2.2) should be filled in accordance with the item 6.8.5.6.

#### 6.8.6.1.2. Capital charges

##### (WBRC 11.5.1.8.0.0)

The value of capital charges for each year in respect of BIA, TSA and ASA is calculated as follows;

- (i) BIA: by multiplying the gross income for each year by  $\alpha$  (15%).
- (ii) TSA: by multiplying the gross income of individual business line for each year by  $\beta$  assigned to each business line.
- (iii) ASA: by multiplying the gross income of individual business line for each year by  $\beta$  assigned to each business line. In the case of retail banking business line and commercial banking business line, capital charge is calculated by multiplying the yearly average outstanding amount of loans and advances by a fixed factor 'm', i.e., 0.035 with the respective  $\beta$ , i.e., 12% and 15%, respectively.

#### 6.8.6.1.3. Capital Charges for Operational Risk

##### (WBRC 11.5.1.9.0.0)

The value of capital charges for operational risk in respect of BIA, TSA and ASA is automatically shown as follows;

- (i) Capital charges for operational risk in respect of each approach is calculated by aggregating the capital charges for the 3 years as reported under WBRC 11.5.1.8.0.0 and 11.5.1.1.0.0 of BIA, WBRC 11.5.1.8.0.0 and 11.5.1.2.0.0 of TSA and WBRC 11.5.1.8.0.0 and 11.5.1.3.0.0 of ASA by dividing that aggregate by 3 (number of years).
- (ii) Negative capital charge recorded in a given year/s of the these 3 years, shall be considered as a zero value and not used to offset the positive capital charge recorded in other year/s.
- (iii) In the case of BIA, number of years referred to in (i) above, may change in accordance with the item 6.8.3.3.

#### 6.8.6.1.4. Risk-weighted Amount for operational risk

##### (WBRC 11.5.1.10.0.0)

The value of risk-weighted amount for operational risk in respect of BIA (WBRC 11.5.1.10.1.0), TSA (WBRC 11.5.1.10.2.0), and ASA (WBRC 11.5.1.10.3.0) is automatically shown by multiplying the capital charge for operational risk under BIA (WBRC 11.5.1.9.1.0), TSA (WBRC 11.5.1.9.2.0), and ASA (WBRC 11.5.1.9.3.0) by 10, separately.

#### 6.8.6.2. Part V(b): Computation of Gross Income Under Operational Risk

**6.8.6.2.1.** The reporting of income and expenses items referred to in this Part should be in accordance with the item 6.8.3.4.

**6.8.6.2.2.** WBRC 11.5.2.1.0.0 is applicable only for BIA, six business lines under WBRC 11.5.2.2.1.0 to 11.5.2.2.6.0 are applicable for both TSA and ASA and two business lines under WBRC 11.5.2.2.7.0 and 11.5.2.2.8.0 are applicable only for TSA.

## Schedule II

## Part V(a): Computation of Risk-weighted Amount for Operational Risk

Code	Business Lines (11.5.1.4.0.0)	Capital Charge Factor ( $\alpha$ and $\beta$ ) (11.5.1.5.0.0)	Fixed Factor 'm' (11.5.1.6.0.0)	Gross Income/Loans & Advances (11.5.1.7.0.0)			Capital Charges (11.5.1.8.0.0)		
				First year	Second year	Third year	First year	Second year	Third year
11.5.1.1.0.0	<b>The Basic Indicator Approach (BIA)</b>	15%					0	0	0
11.5.1.2.0.0	<b>The Standardised Approach (TSA)</b>			0	0	0	0	0	0
11.5.1.2.1.0	Corporate Finance ( $\beta_1$ )	18%					0	0	0
11.5.1.2.2.0	Trading and Sales ( $\beta_2$ )	18%					0	0	0
11.5.1.2.3.0	Payment and Settlement ( $\beta_3$ )	18%					0	0	0
11.5.1.2.4.0	Agency Services ( $\beta_4$ )	15%					0	0	0
11.5.1.2.5.0	Asset Management ( $\beta_5$ )	12%					0	0	0
11.5.1.2.6.0	Retail Brokerage ( $\beta_6$ )	12%					0	0	0
11.5.1.2.7.0	Retail Banking ( $\beta_7$ )	12%					0	0	0
11.5.1.2.8.0	Commercial Banking ( $\beta_8$ )	15%					0	0	0
11.5.1.3.0.0	<b>The Alternative Standardized Approach (ASA)</b>						0	0	0
11.5.1.3.1.0	<b>Sub Total</b>			0	0	0	0	0	0
11.5.1.3.1.1	Corporate Finance ( $\beta_1$ )	18%					0	0	0
11.5.1.3.1.2	Trading and Sales ( $\beta_2$ )	18%					0	0	0
11.5.1.3.1.3	Payment and Settlement ( $\beta_3$ )	18%					0	0	0
11.5.1.3.1.4	Agency Services ( $\beta_4$ )	15%					0	0	0
11.5.1.3.1.5	Asset Management ( $\beta_5$ )	12%					0	0	0
11.5.1.3.1.6	Retail Brokerage ( $\beta_6$ )	12%					0	0	0
11.5.1.3.2.0	<b>Sub Total</b>			0	0	0	0	0	0
11.5.1.3.2.1	Retail Banking ( $\beta_7$ )	12%	0.035				0	0	0
11.5.1.3.2.2	Commercial Banking ( $\beta_8$ )	15%	0.035				0	0	0
11.5.1.9.0.0	<b>Capital Charges for Operational Risk</b>								
11.5.1.9.1.0	The Basic Indicator Approach								0
11.5.1.9.2.0	The Standardised Approach								0
11.5.1.9.3.0	The Alternative Standardised Approach								0
11.5.1.10.0.0	<b>Risk-weighted Amount for Operational Risk</b>								
11.5.1.10.1.0	The Basic Indicator Approach (11.5.1.9.1.0 *10)								0
11.5.1.10.2.0	The Standardised Approach (11.5.1.9.2.0 *10)								0
11.5.1.10.3.0	The Alternative Standardised Approach (11.5.1.9.3.0 *10)								0

## Capital Charge for Operational Risk under BIA

$$K_{BIA} = [\sum(GI_{1...n} \times \alpha)]/n$$

## Capital Charge for Operational Risk under TSA

$$K_{TSA} = \{\sum_{years 1-3} \max[\sum(GI_{1-8} \times \beta_{1-8}), 0]\}/3$$

## Capital Charge for Operational Risk under ASA

$$K_{ASA} = \{\sum_{years 1-3} \max[\sum(GI_{1-6} \times \beta_{1-6}), 0]\}/3 + (\beta_7 \times m \times LA_7) + (\beta_8 \times m \times LA_8)$$

**Part V(b): Computation of Gross Income under Operational Risk**

Code	Business Lines (11.5.2.3.0.0)	Interest Income (11.5.2.4.0.0)			Interest Expenses (11.5.2.5.0.0)			Non Interest Income (11.5.2.6.0.0)			Realised Profits from the Sale of Securities in the Banking Book (11.5.2.7.0.0)			Extraordinary/Irregular Item of Income (11.5.2.8.0.0)		
		1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
11.5.2.1.0.0	The Basic Indicator Approach															
11.5.2.2.0.0	The Standardised Approach/ The Alternative Standardised Approach	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.5.2.2.1.0	Corporate Finance															
11.5.2.2.2.0	Trading and Sales															
11.5.2.2.3.0	Payment and Settlement															
11.5.2.2.4.0	Agency Services															
11.5.2.2.5.0	Asset Management															
11.5.2.2.6.0	Retail Brokerage															
11.5.2.2.7.0	Retail Banking															
11.5.2.2.8.0	Commercial Banking															

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under 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  
05 June 2014

**BANKING ACT DIRECTIONS NO. 1 OF 2014 REGULATORY FRAMEWORK ON VALUATION OF  
IMMOVABLE PROPERTY OF LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

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 Act, No. 46 of 2006, the Monetary Board hereby issues Directions No. 1 of 2014 on the Regulatory Framework on Valuation of Immovable Property of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs).

1. **Empowerment under the Banking Act**
  - 1.1 In terms of sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such banks is to be conducted.
2. **Establishment and implementation of a policy on valuation of immovable property**
  - 2.1 Every LCB and LSB shall ensure that appropriate board approved prudent policies and procedures on valuation of immovable property are in place. In the case of banks incorporated outside Sri Lanka, the 'Board of Directors' shall mean the Head Office or the Regional Office that supervises the respective bank.
  - 2.2 In establishing policies and procedures on valuation of immovable property as referred to in Direction 2.1 above, every LCB and LSB shall consider the following minimum requirements and shall comply with all requirements set out by any other regulator or institution including the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.
    - a) Responsibility of the Board of Directors, senior management and other relevant committees, e.g., Credit Committee, on the formulation and periodical review of the policy.
    - b) Appointment of panels of valuers, both internal and external.
    - c) Procedures to identify and select qualified valuers for the appointment of panel(s) of valuers, subject to Direction 5 below.
    - d) Procedures to assess the reasonableness of the market value of an immovable property derived from the valuation model and, the reliability and the accuracy of data used for such valuation.

- e) Threshold for internal and external valuation reports obtained/to be obtained in respect of immovable property against all loans and advances, as the case may be, subject to Direction 6 below.
- f) Frequency of valuation, subject to Direction 7 below.
- g) Valuation criteria for internal valuations.
- h) Independence and Disclosure, subject to Direction 8 below.
- i) Notification to borrowers: The loan agreement shall include detailed specifications of the manner and frequency of revaluation together with a detailed description of the immovable property obtained as collateral.
- j) Procedure of payment and fee structure for external valuers.
- 3. Immovable Property**
- 3.1 For the purposes of these Directions, immovable property shall mean any land, land and building or any rights therein which are acquired or held for the purposes including the following:
- a) land, and land and building which are obtained as collateral against any accommodation extended by any bank including foreclosed properties.
- b) land, and land and building which are purchased or acquired for the purpose of conducting banking business by any bank which are measured and disclosed in accordance with Sri Lanka Accounting Standards (SLAS), e.g., LKAS 16: Property, Plant and Equipment.
- c) land, and land and building which are purchased or acquired as bank's investments, which are measured and disclosed in accordance with SLAS, e.g., LKAS 40: Investment Property.
- 4. Purposes**
- 4.1 Immovable property valuation shall be made for the following purposes.
- a) To meet the regulatory requirements imposed in terms of the Banking Act, No.30 of 1988.
- b) To value immovable property for financial reporting as required under SLAS.
- c) Other on-going business requirements of banks which necessitate valuation of immovable property.
- 5. Eligibility criteria for valuers**
- 5.1 Every bank shall ensure that:
- a) eligibility criteria for valuers are set out as follows.
- A. A corporate member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:
- I. A Fellow member; or
- II. A Graduate member with 5 years experience in such grade of membership; or
- III. A Graduate member who has been an Associate member at the time of his admission to the Graduate Membership, with number of years of experience equivalent to the period that the member would have taken to complete 10 years in the Associate Membership; or
- IV. An Associate Member with 10 years experience in such grade of membership.
- B. A Fellow member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS).
- C. Any other member of RICS with 3 years experience in such grade of membership.
- b) valuers eligible as per the qualifications set out in Direction 5.1 a) above acquire Continuous Professional Development as approved/recommended by the respective professional body; and
- c) 1 January 2015 onwards, internal valuation of immovable property is undertaken by valuers who satisfy the eligibility criteria in Directions 5.1 a) and b) above.
- 6. Threshold for internal and external valuation reports**
- 6.1 In respect of immovable property obtained/to be obtained as collaterals against all loans and advances, as the case may be excluding non-performing loans and advances, banks shall establish an appropriate threshold for internal and external valuation as per the bank's policy.
- 6.2 The threshold for internal valuation reports in respect of non-performing loans, shall be in accordance with the requirements of the Banking Act Directions Nos. 3 and 4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning, i.e., facility/ies where the capital outstanding amount is less than Rs. 5,000,000 or 0.1% of the bank's capital base, whichever is less.

- 7. Frequency of valuation** 7.1 The frequency of valuation as referred to in Direction 2.2 (f) above shall be as follows.
- a) Valuation of immovable property obtained as collateral against loans and advances which are non-performing shall be made at the frequency as required under the Banking Act Directions Nos. 3 and 4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning, i.e., in respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes: a report that is not more than four years old and all other credit facilities: a report that is not more than three years old.
  - b) Revaluation of immovable property as referred to in Directions 3.1 b) and c) above shall be made:
    - A. annually depending on any significant and volatile changes in fair value of such immovable property are experienced; or
    - B. at least once in every three years.
- 8. Independence and Disclosure** 8.1 Every bank shall ensure the independence of external valuers and that disclosures are made in the bank's Annual Report or in the Audited Financial Statements as set out below.
- a) An external valuer shall not be a related party in terms of the Direction 3(7) (i) of the Banking Act Direction Nos. 11 and 12 of 2007 on Corporate Governance for LCBs and LSBs in Sri Lanka, to avoid any conflict of interest that may arise from such engagement.
  - b) The Board of Directors/senior management shall ensure that disclosures are made in the bank's Annual Report or in the Audited Financial Statements on the valuation policy, measurement and recognition of immovable property, under disclosures to be made in terms of paragraph 1.3 of the Specified Format for the Preparation of Annual Financial Statements of Licensed Commercial Banks and Licensed Specialised Banks issued along with Circular dated 11.02.2013 under reference 02/17/900/0001/004.

Ref. : 02/17/600/0003/002

06 June 2014

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

Dear Sir/Madam

**COMPLIANCE WITH THE REQUIREMENTS IMPOSED UNDER THE BANKING ACT ON VALUATION OF IMMOVABLE PROPERTY**

We write to inform you that the requirements on assessing the present market value of immovable property and the eligibility criteria for valuers as specified in paragraphs (i) and (ii) below shall be complied in accordance with the requirements of the Banking Act Directions No. 1 of 2014 on Regulatory Framework on Valuation of Immovable Property of Licensed Commercial Banks and Licensed Specialised Banks dated 05 June 2014.

- (i) Item 6.2.2.4.1 – “Revaluation Reserves” and Item 6.4.3.1.9 – “Claims Secured by Residential Property” of the Schedule I of the Banking Act Directions Nos. 9 and 10 of 2007 on Maintenance of Capital Adequacy Ratio, as applicable.
  - (ii) Directions 7(1) (l) (iii) – “Current external professional valuation report” of the Banking Act Directions Nos. 3 and 4 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning, as applicable.
2. The Circular dated 19 April 1999 under reference BS/69/93 on “Criteria for selection of valuers undertaking the revaluation of fixed assets for the computation of the Capital Adequacy Ratio” is hereby revoked.

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

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

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

Colombo  
26 June 2014

**BANKING ACT DIRECTIONS NO. 2 OF 2014 AMENDMENT TO BANKING ACT DIRECTIONS NO. 7 OF 2007 ON MAXIMUM AMOUNT OF ACCOMMODATION**

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 following Directions amending Banking Act Directions No. 7 of 2007 dated 01 November 2007 issued by the Monetary Board of the Central Bank of Sri Lanka. These Directions may be cited as the Banking Act Directions No. 2 of 2014.

1. The following new Direction shall replace Direction 5 of the Banking Act Directions No. 7 of 2007 dated 01 November 2007.
  - 5 (1) In the case of accommodation granted as at any given date to any category of customers referred to in paragraphs 2(i) and 2(ii) above in excess of 15 per centum of the capital base of the licensed commercial bank, the sum total of the outstanding amount of accommodation granted to such customers shall not exceed 55 per centum of the total outstanding amount of accommodation granted by the licensed commercial bank to all customers as at the end of the immediately preceding month.
  - (2) The following accommodations shall be excluded from the computation of Direction 5(1) above.
    - (i) Accommodation granted to the Government of Sri Lanka (GOSL).
    - (ii) Accommodation granted in excess of the maximum limits specified under Directions 3 and 4 above with the approval of the Monetary Board in terms of Direction 6 below.
    - (iii) Accommodation granted under Direction 7 (iii) below.
2. The following new Directions shall be included immediately after Direction 7(ii) of the Banking Act Directions No. 7 of 2007 dated 01 November 2007.
  - (iii) Accommodation granted by a branch of a licensed commercial bank incorporated outside Sri Lanka if such accommodation is funded directly through funds raised from a its Head Office and/or branch of such bank operation outside Sri Lanka.

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

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

Colombo  
26 June 2014

**BANKING ACT DIRECTIONS NO.3 OF 2014 AMENDMENT TO BANKING ACT DIRECTIONS NO. 8 OF 2007 ON MAXIMUM AMOUNT OF ACCOMMODATION**

In the exercise of the powers conferred by Section 76J(1) of the Banking Act, No. 30 of 1988, last amended by the Banking Act, No. 46 of 2006, the Monetary Board hereby issues following Directions amending Banking Act Directions No. 8 of 2007 dated 01 November 2007 issued by the Monetary Board of the Central Bank of Sri Lanka. These Directions may be cited as the Banking Act Directions No. 3 of 2014.

1. The following new Direction shall replace Direction 5 of the Banking Act Directions No. 8 of 2007 dated 01 November 2007.
  - 5 (1) In the case of accommodation granted as at any given date to any category of customers referred to in paragraphs 2(i) and 2(ii) above in excess of 15 per centum of the capital base of the licensed bank, the sum total of the outstanding amount of accommodation granted to such customers shall not exceed 55 per centum of the total outstanding amount of accommodation granted by the licensed bank to all customers as at the end of the immediately preceding month.
  - (2) The following accommodations shall be excluded from the computation of Direction 5(1) above.
    - (i) Accommodation granted to the Government of Sri Lanka (GOSL).

- (ii) Accommodation granted in excess of the maximum limits specified under Directions 3 and 4 above with the approval of the Monetary Board in terms of Direction 6 below.

Directions issued by the Monetary Board of the Central Bank of Sri Lanka under Sections 46(1) and 76(J)(1) of the Banking Act, No 30 of 1988, as amended.

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

26 June 2014  
 Colombo

## **BANKING ACT DIRECTIONS NO.4 OF 2014 AMENDMENT TO DIRECTIONS ON INTEGRATED RISK MANAGEMENT FRAMEWORK FOR LICENSED BANKS**

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 Act, No. 46 of 2006, the Monetary Board hereby issues the following amendment to the Guidelines annexed to the Banking Act Direction No 7 of 2011 dated 05 October 2011 on Integrated Risk Management Framework for Licensed Banks to implement the Baseline Security Standard for Information Security Management.

1. The following paragraph shall be inserted immediately after paragraph 2.8 of Part D of the Guidelines annexed to the Banking Act Directions No. 7 of 2011 dated 05 October 2011 on Integrated Risk Management Framework for Licensed Banks.

### **"2.9 Information Security Management -**

- (a) With effect from 01 July 2015, all banks should implement the Baseline Security Standard for Information Security Management as per Attachment 4 hereto.
- (b) The Baseline Security Standard establishes minimum acceptable security standards for banks and standardizes the information security policies of such banks. However, each bank should ensure adoption of such standards relative to the size, nature of business activities and complexity of respective bank.
- (c) The BOD should ensure compliance with the Baseline Security Standard for Information Security Management."

**Attachment 4**

## **BASELINE SECURITY STANDARD FOR INFORMATION SECURITY MANAGEMENT ASSURANCE LEVEL 1 VERSION 1.0**

### **PART I : INTRODUCTION**

#### **Foreword**

Driven by business objectives, such as increasing revenue and customer base, many organisations are embracing ICT-enabled solutions to provide richer online services to their client base. These very services have driven many banks and other organisations to interconnect via common communications and information processing infrastructure.

In terms of security posture, organisations in Sri Lanka represent a spectrum of capabilities. However, just as the strength of a chain lies with its weakest link, so does the strength of information security in the financial services sector lie with its weakest member, which in turn poses a threat to all other members, which may potentially lead to financial fraud.

The Central Bank of Sri Lanka (CBSL), the Sri Lanka Computer Emergency Readiness Team | Co-ordination Center (Sri Lanka CERT/CC) and the Sri Lanka Banks' Association (SLBA) worked towards the establishment of the Baseline Security Standard for Information Security Management (BSS), based on the globally recognized ISO 27000 series of international Standards for information security. The implementation of the Standard will be supervised by CBSL and the subsequent revisions to the Standard will be proposed by Bank Computer Security Incident Response Team (Bank CSIRT) to CBSL for consideration.

#### **1. Fundamentals**

##### **1.1. Information Security Management**

The preservation of the Confidentiality, Integrity and Availability of information by the appropriate and systematic application of security controls to manage the risk of exposure to a threat, which arises due to the existence of vulnerabilities in information assets.

## 1.2. Information Security Risk Management

Information security risk management is the systematic approach to ascertaining the impact and likelihood of an information asset being exposed to a threat.

This Standard assumes the application of ISO 27005, to assign risk ratings to information assets which fall within the scope of the Information Security Management System of the Organization concerned.

## 1.3. Security Considerations

All organisations are required to derive their security requirements to conform to the laws in Sri Lanka including the regulatory requirements set by the respective regulators and the international best practices adopted globally. Additionally, security requirements are also governed by the business objectives set by the board of directors and the senior management of the organization. The BSS is developed taking into consideration the requirements set in these Standards, with a view towards increasing the level of conformance with such requirements. Significant changes to these requirements will be reflected in the revised versions of the BSS.

### 1.3.1. Legal Requirements

All organisations are liable to comply with the laws applicable in this regard including the Computer Crimes Act No. 24 of 2007, the Electronic Transactions Act No.19 of 2006, Payment Devices Frauds Act No. 30 of 2006, and Intellectual Property Act No. 36 of 2003 of which any violations amounts to an offence.

### 1.3.2. Regulatory Requirements

Local industry regulations/directives set forth by the CBSL and other regulatory bodies must be complied with.

### 1.3.3. International Standards

In order to be recognized as competent online/e-banking service providers, organizations need to comply with internationally recognized industry specific security standards, such as PCI-DSS.

### 1.3.4. Information Security Objectives

Information Security objectives must be identified supporting fulfillment of key business objectives within the framework of the information security policies, statutory requirements, other requirements and business processes.

## 2. Terms and Definitions

The following terms and definitions are applicable throughout this document.

### 2.1. Asset

Anything that has value to the organization.  
[ISO/IEC 13335-1:2004]

### 2.2. BSS

Baseline Security Standard on Information Security Management.

### 2.3. Control

Means managing risk through policies, procedures, guidelines, practices or organizational structures, which can be of an administrative, technical, management or legal nature.

### 2.4. Fraud

Wrongful or criminal deception intended to result in financial or personal gain.

### 2.5. Guideline

A description that clarifies what shall be done and how to achieve the objectives set out in policies.  
[ISO/IEC 13335-1:2004]

### 2.6. IEC

International Electrotechnical Commission.

### 2.7. ISO

International Organization for Standardization.

### 2.8. Information System

Any information processing system, service or infrastructure, or the physical locations housing them.

## 2.9. Information Security

Preservation of confidentiality, integrity and availability of information. Other attributes such as authenticity, accountability, non-repudiation and reliability can also be involved.

## 2.10. Information Security Event

An identified occurrence of a system, service or network state indicating a possible breach of information security policy or failure of safeguards, or a previously unknown situation that may be security relevant.

*[ISO/IEC Technical Report 18044:2004]*

## 2.11. Information Security Incident

A single or a series of unwanted or unexpected information security events that have a significant probability of compromising business operations and threatening information security.

*[ISO/IEC Technical Report 18044:2004]*

## 2.12. Malicious Codes

Programs that cause undesirable effects to the Information Systems. Examples of malicious codes include computer viruses, network worms, Trojan horses, logic bombs, spyware etc.

## 2.13. Organizations

Financial institutions who are members of Bank CSIRT.

## 2.14. Outsourcing

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.

*[Banking Act Directions No. 2 of 2012]*

## 2.15. Policy

Overall intention and direction as formally expressed by the Board/Senior management.

## 2.16. PCI-DSS

Payment Card Industry – Data Security Standard.

## 2.17. Risk

A combination of the likelihood of an event and its impact.

*[ISO/IEC Guide 73:2002]*

## 2.18. Risk analysis

Systematic use of information to identify sources of risk and to estimate the level of risk.

*[ISO/IEC Guide 73:2002]*

## 2.19. Risk assessment

Overall process of risk analysis and risk evaluation.

*[ISO/IEC Guide 73:2002]*

## 2.20. Risk Evaluation

Process of comparing the estimated risk against given risk criteria to determine the significance of the risk.

*[ISO/IEC Guide 73:2002]*

## 2.21. Risk Management

Coordinated activities to direct and control an organization with regard to risk.

*[ISO/IEC Guide 73:2002]*

## 2.22. Risk Treatment

Process of selection and implementation of measures to modify risk.

*[ISO/IEC Guide 73:2002]*

## 2.23. Service Provider

'Includes the Head Office, parent institution, another branch or related company of a Licensed Commercial Bank or Licensed Specialised Bank, or an unrelated institution, whether located in Sri Lanka or elsewhere.

*[Banking Act Directions No. 2 of 2012]*

#### 2.24. Third Party

A person or body corporate that is recognized as being independent of the parties involved, as concerns the issue in question.  
[ISO/IEC Guide 2:1996]

#### 2.25. Threat

A potential cause of an unwanted incident, which may result in harm, damage to a system or an organization.  
[ISO/IEC 13335-1:2004]

#### 2.26. Vulnerability

A weakness of an asset or a group of assets that can be exploited by one or more threats.  
[ISO/IEC 13335-1:2004]

### 3. Applicability of BSS

This section defines the applicability and preservation of this document.

#### 3.1. Scope

This Standard is applicable to all Information Security Management Systems used within organisations who are members of the Bank CSIRT, as well as personnel handling such information and information systems, both internal and third party.

#### 3.2. Structure

Part I of the Standard addresses the ownership and management of this document, its structure, scope of applicability and recommended risk management methodologies.

Part II of the Standard introduces fourteen (14) main security domains to be considered within the current version of this Standard.

#### 3.3. Maintenance

This document is to be reviewed in six (6) months from the time of introduction, and the result is to be published as Version 2 in case if changes are made, otherwise revision status remains unchanged with the date of reviewed. Bank CSIRT shall take responsibility for this task in consultation with the CBSL. Adoption of each subsequent version will provide improved information security management.

#### 3.4. Implementation

Expected implementation period for Version 1 is 12 months from the time of introduction of the standard.

### 4. Risk Management

Risk management is a fundamental component of any cost effective information security management system.

#### 4.1. Risk as a basis for Information Security Management

Assets contain vulnerabilities due to weak design, production, implementation, handling, management and a host of other activities. These vulnerabilities may be exploited to give rise to threats. The combination of the likelihood of a threat being realized and the impact of that exposure is called risk, and is an important measure of the relative urgency and need to impose control measures to mitigate that risk.

#### 4.2. Risk Treatment and Security Controls

Adoption of BSS and its successive revisions, will introduce security controls which would mitigate identified risks.

#### 4.3. Guidelines for Risk Management

Risk Management shall be done in accordance with ISO 27005:2011.

#### 4.4. Associated Documents and Activities

The establishment of Guidelines, policies, procedural manuals, schemes and templates by the respective organisations will aid the implementation of the BSS.

## PART II : SECURITY DOMAINS

### 1. Organization of Information Security Management

**Objective :** To introduce a structured approach to managing information security by defining security roles and assigning responsibilities and making available the necessary resources and authority to perform activities to enhance the Information Security Management System of the organization.

**Scope** : Applicable to all personnel handling information and information assets within the Information Security Management System of the organization.

1.1. Management Commitment to Information Security

1.2. Management shall establish a clear information security policy direction across the organization on par with its business strategies and objectives. Such policies shall be approved by the Board of Directors or senior management of the organization or the head/Regional Office, as the case may be. These management activities include regular review and amendments depending on the evolving ICT, security, legal, regulatory and audit environments. The management shall provide adequate resources and assign security roles and responsibilities to achieve the above.

1.3. Information Security Risk Assessment

Risk assessments shall identify, quantify and prioritize risks against criteria for risk acceptance and objectives relevant to the organization. Results of risk assessment should guide and determine the appropriate management action and priorities for managing information security risk and for implementing controls selected to protect against these risks. The information security risk assessments shall have a clearly defined scope and should be performed periodically to address changes in the security requirements.

1.4. Information Security Risk Treatment

Risk treatment decision shall be made after following the risk assessment.

1.5. Information Security Coordination

Information Security shall be coordinated by authorized representatives with required technical skills from different parts of the organization with relevant roles and responsibilities assigned to them. This function shall be executed in compliance with information security policy of the organization.

1.6. Allocation of Information Security (IS) Responsibilities

Allocation of IS responsibilities shall be clearly defined in accordance with the information security policy. These responsibilities shall adequately address the ways and means for identification of IS assets and delegation of responsibilities, level of protection required and necessary documentation.

Confidentiality or non-disclosure agreements shall reflect the institutional needs for information security and protection from unauthorized access using legally enforceable terms. Such agreements shall be included in employment and outsourcing arrangements.

1.7. Communication with Authorities

Organizations shall have procedures in place that define who and how to communicate with external authorities in reporting IS incidents and related events.

1.8. Communication with Special Interest Groups

Appropriate contacts with special interest groups, IS forums and professional bodies shall be maintained.

1.9. Independent Review of Information Security

Respective IS policies, procedures and control objectives shall be reviewed at planned intervals and as and when significant change of ICT infrastructure occurs within the organization.

## 2. Information Security (IS) Policy

**Objective** : To provide management direction and support for information security in accordance with business, legal and regulatory requirements. IS Policy Document.

The IS policy document shall state the management commitment and set out the approach for managing information security defining overall objectives, scope and the importance of security and commitment to comply with legal and regulatory requirements.

2.2. Review of the IS Policy Document

IS policy document shall be reviewed in planned regular intervals and when significant ICT infrastructure changes occur within the organization. All reviews shall be properly documented and retained.

2.3. Administration and implementation of the IS Policy Document

Policy administration shall be assigned to an appropriate division or department of the organization, with an appointment of an Information Security Officer to be responsible for the implementation with identified procedures and methodologies.

### 3. Third Parties

**Objective :** To maintain the security of the organization's information, information processing facilities and information assets that are accessed, processed, communicated to or managed by third parties.

#### 3.1. Identification of Risk Related to Third Parties

Risk to organization's information, information systems and assets from business processes involving third parties shall be identified and appropriate controls shall be implemented before granting access to such third parties.

#### 3.2. Addressing Security when Dealing with Customers

All identified security requirements shall be addressed before giving customers access to the organization's information and information assets.

#### 3.3. Addressing Security in Third Party Agreements

Respective agreements with third parties shall cover all relevant information security requirements and shall ensure that there is no misunderstanding between the respective third party and the organization.

#### 3.4. Service Delivery

Intended service delivery by third parties shall be covered with a Service Level Agreement (SLA) that includes and clearly describes the measures taken to ensure information security, the service to be provided, expected level of service, performance criteria, escalation procedures for problem resolution, respective liabilities of the third party and involvement of sub contractors by third parties and conditions for termination.

#### 3.5. Monitoring and Review of Third Party Services

Services rendered by the third party in accordance with the SLA shall be monitored closely and shall be reviewed in planned intervals by the appropriate internal division or department of the organisation. Third parties are required to adhere to the information security requirements of the organizations even after the expiry of their service contracts.

### 4. Information Asset Management

**Objective :** To achieve and maintain appropriate level of protection of organization's information assets.

#### 4.1. Inventory of Information Assets

All information assets shall be clearly identified and an inventory of all such information assets shall be recorded and maintained. This asset inventory shall include all information required for recovery from a disaster.

#### 4.2. Information Asset Classification

Information classification guidelines of the organization shall be published in the information security policy document to support the asset owner who shall classify the information to indicate the need, priorities, and expected level of protection when handling the information. Appropriate set of procedures for labeling information shall be developed and implemented in accordance with the classification guidelines of the organization (Refer Section 77 of the Banking Act, No 30. of 1988, as amended).

#### 4.3. Acceptable use of Information Assets

Rules for acceptable use of information and assets shall be identified, documented, implemented and reviewed periodically. These rules shall be followed by employees, contractors and third parties for the acceptable use.

### 5. Human Resource Security

**Objective :** To ensure that employees, contractors, service providers and third party users understand their roles and responsibilities to reduce the risk of theft, fraud and unauthorized use of facilities.

#### 5.1. Definition of Roles and Responsibilities

Organization's Information Security Policy shall clearly define the roles and responsibilities of every user or user group.

#### 5.2. Security Screening

Background screening checks for all candidates especially for sensitive job holders for employment, contractors, service providers and third party users shall be carried out.

#### 5.3. Terms and Conditions of Employment

As part of employment or service contract, all employees, contractors, service providers and third parties (users) shall agree and sign the terms and conditions of the employment contract. All contractual documents shall include reference and acceptance to the Information Security Policy.

#### 5.4. Management Responsibilities

Management shall require all users to apply security in accordance with established policies and procedures of the organization. They shall be properly briefed on their roles and responsibilities prior to granting access to information systems.

#### 5.5. Information Security Awareness, Education and Training

Regular updates to this policy and changes to ICT infrastructure shall be communicated to all users. Appropriate technical and user training to carry out their duties shall be provided to respective officers on regular basis.

#### 5.6. Breach of Security and Penalties

There shall be formal and defined disciplinary procedure/s for investigation of information security incidents or breaches.

#### 5.7. Termination Formalities

Responsibilities for performing employment termination or change of employment, including changes to user access rights shall be clearly defined and assigned. Such responsibilities and duties still valid after termination of employment shall be included into respective agreements.

#### 5.8. Return of Information Assets

All users shall return/declare organization's information assets including logical access information in their possession upon termination of their employment, contract or agreement.

#### 5.9. Revocation of Access Rights

Upon termination or changes of the employment status or third party contract, access to information, information systems and information processing facilities shall be removed or changed with immediate effect.

### 6. Operations Security

**Objective :** To protect from unauthorized access, damage and interference to organization's premises, information and operations.

#### 6.1. Information Processing Sites

Appropriate security perimeters shall be implemented and maintained in good order to protect areas, equipment, both on-site and off-site and network cabling that contain information and information processing facilities from natural or manmade disasters.

#### 6.2. Equipment Maintenance

Equipment shall be maintained in good working order to ensure its continued availability and integrity. Those deployed for critical operations shall be covered with annual maintenance and support agreements with the vendor.

#### 6.3. Documented Operating Procedures

Operating procedures shall be documented, maintained and made available for all users on need to know basis. If there is a significant change to the ICT infrastructure and systems, relevant documents must be updated to reflect such changes/modifications.

#### 6.4. Segregation of Duties

Duties and areas of responsibility shall be segregated to reduce unauthorized access, modification and misuse of organization's information and systems giving due consideration to specific job functions.

#### 6.5. Change Management

Changes to information systems and information processing facilities shall be attended in a controlled manner adhering to industry accepted good practices. Duties and areas of responsibility shall be segregated to reduce instances for unauthorized access, modifications and misuse of organization's information system assets.

#### 6.6. Separation of Development, Test and Operational Facilities

Development, test and production operations shall be separated to reduce the unauthorized access, misuse and changes to the operational systems.

#### 6.7. Capacity Management

Use of resources shall be monitored, tuned and projected to capture future growth and capacity requirements to ensure the required level of performance is maintained for continuity of operations.

#### 6.8. System Acceptance

Acceptance criteria for the implementation of in-house developed applications, acquisition of application software or major upgrades shall be in place and appropriate system tests shall be carried before moving for live operations.

- 6.9. Controls Against Malicious Codes  
Detection, prevention and recovery controls to protect against malicious codes shall be in place along with appropriate user awareness programmes.
- 6.10. Information Backup  
Appropriate backup policy shall be implemented to ensure the availability of critical, sensitive and other required information to be used in a contingency situation. These backup copies of information systems and procedures shall be tested regularly.
- 6.11. Information Handling Procedures  
Proper procedures shall be in place to prevent unauthorized disclosure, modification and removal/disposal of media used to store information of the organization.
- 6.12. Security of System Documentation  
System documentation shall be stored securely to protect against unauthorized access.
- 6.13. Information Exchange Policies and Procedures  
Proper procedures shall be designed and in place to protect information from interception, copying, modification, misuse, and destruction. Policies and procedures shall be designed and in place to protect information associated with the interconnection of business information systems giving due consideration to address known vulnerabilities in managing information sharing.
- 6.14. Audit Logging  
Audit logs that record user activities, exceptions and information security events shall be maintained with proper care for designated periods as per the audit and legal requirements.
- 6.15. Monitoring System Use and Protection of Log Information  
Systems shall be monitored to review administrator, operator and fault logs and information security events (if any) shall be recorded. These logs shall be used to ensure that information system problems are identified and addressed.
- 6.16. Clock Synchronization  
The system time stamps of all information systems shall be synchronized with an agreed, standard time source.

## 7. Communications Security

**Objective :** Prevention of unauthorized interception from accessing telecommunication networks in an intelligible form, while delivering content to the intended recipients. This shall cover crypto security, transmission security, emission security and physical security of information and its processing facilities and transmission mechanisms implemented in the organization.

- 7.1. Oversight of Critical Infrastructure by the Board or Delegated Authority  
Regular reviews of development and continued maintenance of security control infrastructure for the safeguard of electronic banking systems shall be conducted. This shall include the establishment of authorization privileges, logical and physical access controls to maintain appropriate boundaries and restrictions on both internal and external user activities.
- 7.2. Network Security Management  
To ensure the protection of information in networks and the protection of the supporting infrastructure.
- 7.3. Network Controls  
Capability of users connecting to the organization's local area or wide area network shall be restricted in accordance with the access control policy of the organization. Groups of network services, users and information systems shall be separately maintained in the network to access those resources in accordance with the Information Security Policy of the organisation.
- 7.4. Mobile Computing and Communications  
The Information Security Policy shall cover the appropriate security measures to protect against the risks of using mobile computing and communication facilities.
- 7.5. User Authentication for External Connections  
Appropriate authentication methods shall be used to control access by remote users. Physical and logical access to diagnostic and configuration ports shall be controlled.
- 7.6. Equipment Identification in Networks  
Automatic equipment creation and identification shall be considered as a means to authenticate connections from specific locations and equipment.

### 7.7. Network Connection Control

For shared networks that extend the boundaries of the organization, the capability of users to connect to the network shall be controlled in accordance with the access control policy of the organization.

### 7.8. Network Routing Protocol

Routing controls shall be in place for networks to ensure that network connections and information flows do not breach the access control policy of the organization.

## 8. Physical and Environmental Security

**Objective :** To prevent unauthorized physical access, damage, and interference to the organization's premises, information and information system assets.

### 8.1. Physical Security Perimeter

Appropriate security perimeters (barriers such as walls, card controlled entry points, manned information processing facilities) shall be implemented to protect areas that contain information systems and information processing facilities.

### 8.2. Physical Entry Controls

Only authorized personnel are allowed to enter into information processing facilities with proper access control mechanisms. A register shall be maintained to record access by visitors entering such areas and they shall be accompanied always by an authorized officer.

### 8.3. Securing Offices, Rooms and Facilities

Physical security for offices, sites, rooms and facilities shall be properly designed and implemented.

### 8.4. Protection from External and Environmental Threats

Physical protection against damage from natural or manmade disaster shall be designed and implemented.

### 8.5. Working in Secured Areas

Physical protection and guidelines for working in secured areas shall be designed, implemented and made available to respective officers on a regular basis.

### 8.6. Public Access, Delivery and Loading Areas

Access points such as delivery and loading bays where unauthorized personnel may enter the facilities shall be controlled and isolated from the information processing facilities where possible.

### 8.7. Utilities

All equipment shall be protected from failure of power and air conditioning, fire and other disruptions caused by failures in supporting utilities.

### 8.8. Cabling Security

Power and telecommunication cables carrying data and information services shall be protected from interception or damage.

## 9. Access Control

**Objective :** Access to information, information systems, facilities and business processes shall be on the basis of organisation's business and security requirements.

### 9.1. Access Control Policy

An access control policy shall be established, documented, and reviewed based on the business and security requirements.

### 9.2. User Access Management

Formal procedures shall be in place to provide access to authorized officers while denying access to unauthorized officers. Management shall review the user access rights in regular intervals using a formal procedure.

### 9.3. User Identification and Authentication

There shall be a formal user creation and deactivation procedure in place when granting and revoking access to information systems.

### 9.4. Password Management Systems

Allocation of passwords and password governing rules shall be established in the security policies of the organization. Users are required to follow good security practices in selection and use of passwords.

### 9.5. Session Timeout/Limitation of Connection Time

Termination of active sessions is required when the respective work is completed. Users shall ensure that unattended equipment has appropriate protection from unauthorized access.

## 10. Internet and E-mail Security

**Objective :** A secure and well structured framework shall be established to ensure the effective use of email and internet facilities.

### 10.1. Electronic Messaging and Internet

The corporate email and Internet connections are primarily for official use only. Procedures shall be in place to authenticate the identity and authorization of customers providing facilities for Internet banking.

### 10.2. Online Transactions

Procedures shall be in place to ensure the implementation of adequate segregation of duties within the organization for systems and databases that shall use transaction authentication methods to ensure non-repudiation and shall establish accountability for internet banking transactions. Organizations shall maintain comprehensive audit trails and logs and shall employ appropriate cryptographic techniques, specific protocols or other security controls to ensure the confidentiality of customer internet banking data.

### 10.3. Publicly Available Information

Organization shall ensure that they provide correct and appropriate level of information to its customers through different media, electronically as well as in printed form.

## 11. Information Systems Acceptable Use

**Objective :** Formal procedures shall be established to prevent unauthorized user access and compromise or theft of information, and information processing facilities.

### 11.1. Authorization Process for Information Systems

Allocation and revocation of access rights, to information systems and information services shall be handled using controlled and secure mechanisms. Management shall review user access rights in regular intervals using a formal procedure.

### 11.2. Media Handling

A secure framework has to be established by the management to ensure that electronic and printed media are used, managed and disposed by authorized officers as per the agreed policies of the organization.

### 11.3. Use of System Utilities

Use of system utilities shall be restricted to authorized officers and controlled to ensure that the intended service is delivered.

### 11.4. Clear Desk and Clear Screen Policy

A clear desk policy for printed and removable storage media and a clear screen policy for information processing facilities shall be adopted in accordance with the information classification guidelines of the organization.

## 12. Information Security Incident Management

**Objective :** Formal incident reporting and escalation procedures shall be in place. These procedures shall be made available to all relevant stake holders.

### 12.1. Reporting Information Security Incidents

Information security events shall be reported through appropriate management channels as quickly as possible. A formal reporting procedure shall be implemented together with an incident response and escalation procedure setting the action to be taken.

### 12.2. Reporting Security Weaknesses

All employees, contractors or third party users of information systems and services are required to note and report observed or suspected security weaknesses in the systems or service delivery.

### 12.3. Responsibilities and Procedures

Management responsibilities and procedures shall be established to ensure quick, effective and orderly response to information security incidents. These procedures shall cover analysis and identification of the incident, contents, planning and implementation of corrective measures to avoid future recurrence.

### 12.4. Learning from Information Security Incidents

There shall be mechanisms in place to enable types, volumes and costs of information security incidents to be quantified and monitored.

### 12.5. Collection of Evidence

Where a follow-up action against a person or organization after an information security incident involves legal action (either civil or criminal), evidence shall be collected, retained, and presented to conform to the requirements on evidence as set out in the relevant jurisdiction(s).

## 13. Acquisition, Development and Maintenance of Information Systems

**Objective :** To ensure that information security management is an integral part of information systems.

### 13.1. Information Security Requirements Analysis and Specification for Software and Hardware

Information security requirements shall be identified, justified, agreed and documented as part of the implementation and overall business case for an information system.

### 13.2. Correct Processing in Applications

To prevent errors, losses, unauthorized modifications or misuses of information, appropriate controls shall be implemented at data input, processing and output stages.

### 13.3. Message Integrity

Requirements for ensuring authenticity and protecting message integrity in applications shall be identified and implemented.

### 13.4. Control of Operational Software

Formal procedures for controlling operational software in production environments shall be in place to minimize the risk of corruptions. Use of pirated software shall be prohibited and compliance to the acts and laws pertaining to intellectual property in Sri Lanka must be maintained.

### 13.5. Protection of System Test Data

System testing shall be carried out in a separate test environment to avoid unauthorized access to production databases and these test results and test scripts shall be retained for control /audit purposes.

### 13.6. Access Control to Program Source Code

Access to source code shall be restricted. Source code of purchased software packages that are deployed for critical operations should be kept with an escrow agent based on the policy adopted by respective organisation.

### 13.7. Change Control Procedures

Formal change control procedures shall be in place to control the implementation of changes to information systems.

### 13.8. Technical Review of Applications After Operating System Changes

Review of application controls and integrity checks shall be conducted to ensure that the changed computing environment has not compromised the internal controls.

### 13.9. Restrictions on Changes to Software Packages

Modifications to software packages must be discouraged and shall be used without modification. If modifications are required, the risk of in-built controls and integrity processes shall be evaluated with the vendor's technical support.

### 13.10. Information Leakage

Possibilities for information leakages shall be prevented at all times.

### 13.11. Outsourced Software Development

When software development is outsourced, licensing arrangements shall be established respecting the intellectual property rights. Outsourced software development shall be monitored and supervised by the organization.

### 13.12. Technical Vulnerability Management

Timely information about technical vulnerabilities of information systems being used shall be obtained. The organization's exposure to such vulnerabilities evaluated, and appropriate measures taken to address the associated risk.

### 13.13. Control of Technical Vulnerabilities

Technical vulnerability controls shall be implemented through effective and systematic measurements to ensure the hardware and software are functioning as intended.

## 14. Business Continuity Management

**Objective :** To counteract with the interruption to business and to protect critical business processes from the effects of major failures of information systems and facilities or disasters and to ensure their timely resumption within tolerable time frames.

#### 14.1. Preparation and Approval for Business Continuity Plans (BCP)

A single framework of enterprise wide business continuity plan shall be maintained to ensure all plans are consistent, addressing information security requirements and identifying priorities for testing and maintenance. BCP shall be prepared on the basis of business impact analysis that is conducted giving due considerations to business operations of the organization. BCP shall be approved by the Board of Directors or Senior management of the organization or the Head/Regional office as the case may be.

#### 14.2. Business Continuity and Risk Assessment

Events that can cause interruptions to business processes and facilities shall be identified, along with the probability and impact of such interruptions and their consequences for information security.

#### 14.3. Including Information Security in the Business Continuity Management Process

A managed process shall be in place for business continuity throughout the organization that addresses the information security requirements needed for the entire organization's business continuity.

#### 14.4. Developing and Implementing BCP including Information Security

Plans shall be developed, documented, maintained and reviewed regularly to ensure the restoration of business operations.

#### 14.5. Testing, Maintenance and Revision of BCP

Business continuity plan shall be tested and updated regularly to ensure that they are up to date and effective. These tests should ensure that all members of the recovery, operational and other relevant teams are aware of the plan, their role for business continuity and information security.

End of BSS Version 1

**Ref. No. : 02/17/800/0014/02**

31 July 2014

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

### **INVESTMENT FUND ACCOUNT**

We refer to the Guidelines dated 29 April 2011 and 24 April 2013 issued on the above subject and write to inform you that operations of the Investment Fund Account (IFA) will cease with effect from 1 October 2014.

#### **2. Accordingly, following clarifications are made with respect to the Guidelines on the Operations of IFA.**

##### **(i) Guideline 2 – Credits to IFA**

- (a) The requirement to transfer an amount equal to 8 per cent of the profits calculated for the payment of Value Added Tax (VAT) on financial services to IFA expired on 31 December 2013. Accordingly, the last payment of VAT was due on 20 January 2014.
- (b) The requirement to transfer an amount equal to 5 per cent of the profit before tax calculated for income tax purposes on dates specified in Section 113 of the Inland Revenue Act to IFA in the year of assessment 2013/2014 expired on 31 March 2014. The final tax payment on income tax for the year of assessment 2013/2014 will be due on 30 September 2014.

##### **(ii) Guideline 4.3 - Disclosures and Reporting to Central Bank of Sri Lanka**

- (a) Disclosure requirements in financial statements and the requirement to furnish a return on the utilisation of IFA shall be applicable until 30 September 2014.

##### **(iii) Guideline 4.4 - Treatment of Taxation**

- (a) Any adjustments arising after 1 July 2014 due to finalising of tax payments of prior periods can be adjusted to IFA until 30 September 2014.
- (b) Interest income earned from any loans and advances granted from IFA will not be exempted from income tax after 1 July 2014 onwards.

#### **3. Other**

##### **(i) Capital Funds Recovered through Loan Repayments and Maturity Proceeds of Long-term Government Securities**

- (a) With effect from 1 July 2014, Guidelines on the operations of IFA shall not be applicable for the utilisation of capital funds recovered through loan repayments and maturity proceeds of long-term Government securities.
- (b) Accordingly, banks may reduce an amount equivalent to the capital funds recovered from sources mentioned in paragraph 3(i)(a) above from IFA.

**(ii) Cessation of the operations of IFA**

- (a) The operations of IFA will cease with effect from 1 October 2014. Accordingly, banks shall transfer the remaining balance in IFA to retained earnings through the Statement of Changes in Equity.

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

Ref. No. : 02/17/800/0014/02

26 September 2014

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

**INVESTMENT FUND ACCOUNT**

We refer to the Circular dated 31 July 2014 on the above subject and write to inform you that paragraph 2 (iii) (b) of the above Circular is hereby repealed.

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

Ref : 02/17/600/002/001

16 October 2014

To : Chief Executive Officers of Licensed Commercial Banks

Dear Sir/Madam,

**RECOVERY OF ACCOMMODATION TO EXPORTERS**

The Central Bank of Sri Lanka having considered the improvement in the country's external sector stability with increased earnings from exports and strengthened external reserves with the improvement in the Balance of Payment has decided to withdraw the Circulars dated 22 January 2001, 29 January 2001, 16 February 2001 and 30 March 2001 on Recovery of Accommodation to Exporters, with effect from 03 October 2014.

Accordingly, you are requested to take necessary measures to comply with the above.

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

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

No.1891/11 - TUESDAY, DECEMBER 02,2014

(Published by Authority)

**PART I : SECTION (I) – GENERAL  
CENTRAL BANK OF SRI LANKA NOTICES  
THE MONETARY LAW ACT**

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

Nivard Ajith Leslie Cabraal  
**Chairman  
Monetary Board**

Colombo,  
28 November 2014.

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

- 1. Citation** 1.1 These Regulations shall be cited as Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 1 of 2014.

- 2. Amendment to the principal regulation**
- 2.1 Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010 published in *Gazette Extraordinary* No. 1673/11 of 28 September, 2010 is hereby amended as follows:-
- 2.2 In regulation 9 thereof by the repeal of paragraph 9.6 of that regulation and the substitution of the following paragraph:  
 "9.6 The amount of compensation payable to a depositor shall be limited to the total insured deposits computed as above, subject to a maximum of Rs. 300,000 or its equivalent in the case of foreign currency deposits, if such amount exceeds Rs. 300,000."
- 3. Effective date**
- 3.1 This amendment shall come into effect from 01 January, 2015.

Determination made by the Monetary Board of the Central Bank of Sri Lanka under Sections 8 and 76D(6) of the Banking Act, No. 30 of 1988, as amended.

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

Colombo  
 18 December 2014

**BANKING ACT DETERMINATION NO. 1 OF 2014 ANNUAL LICENCE FEE OF LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

- Annual licence fee for the years 2015 and 2016**
1. In terms of Sections 8(1) and 76D(6) of the Banking Act, the Monetary Board has determined that the licence fee that shall be paid by Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) for the years 2015 and 2016 shall be based on the total assets as follows:

Total Assets as at the end of the previous year	Licence Fee
Above Rs. 750 bn	Rs. 30.0 Mn
Above Rs. 500 bn to Rs.750 bn	Rs. 25.0 Mn
Above Rs. 200 bn to Rs 500 bn	Rs. 22.0 Mn
Above Rs. 125 bn to Rs 200 bn	Rs. 16.5 Mn
Above Rs. 75 bn to Rs 125 bn	Rs. 11.0 Mn
Rs. 25 bn to Rs. 75 bn	Rs. 5.5 Mn
Less than Rs. 25 bn	Rs. 2.2 Mn

- Payment of licence fee**
2. Every LCB and LSB shall pay the licence fee to the Central Bank of Sri Lanka on or before 31<sup>st</sup> day of January of the respective year.
3. The licence fee shall be paid on calendar year basis.

Ref : 02/17/402/0073/002

23 December 2014

To : Chief Executive Officers of Licensed Commercial Banks

Dear Sir/Madam,

**ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF BANKS**

We refer to our Circular No. 02/17/402/0073/002 dated 29 July 2010 on the above subject and write to inform you that as announced in the Master Plan on Consolidation of the Financial Sector dated 17 January 2014, and in terms of Section 19(3) of the Banking Act, the Monetary Board of the Central Bank of Sri Lanka has decided to require all licensed commercial banks incorporated or established within Sri Lanka to increase their capital to Rs.10 Billion commencing 01 January 2016, in view of a strong and dynamic banking sector.

2. Capital for this purpose shall mean the Core Capital as defined in terms of item No. 6.2.2.2 in the Guidelines that were annexed as Schedule I to the Banking Act Direction No. 9 of 2007 dated 26 December 2007 on Maintenance of Capital Adequacy Ratio.
3. All banks are required to take appropriate action to comply with the above on a timely basis.

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

Ref : 02/17/402/0073/002

23 December 2014

To : Chief Executive Officers of Licensed Specialised Banks

Dear Sir/Madam,

**ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF BANKS**

We refer to our Circular No. 02/17/402/0073/002 dated 29 July 2010 on the above subject and write to inform you that as announced in the Master Plan on Consolidation of the Financial Sector dated 17 January 2014, and in terms of Section 76G of the Banking Act, the Monetary Board of the Central Bank of Sri Lanka has decided to require all licensed specialised banks to increase their capital to Rs. 5 Billion commencing 01 January 2016, in view of a strong and dynamic banking sector.

2. Capital for this purpose shall mean the Core Capital as defined in terms of item No. 6.2.2.2 in the Guidelines that were annexed as Schedule I to the Banking Act Direction No. 10 of 2007 dated 26 December 2007 on Maintenance of Capital Adequacy Ratio.
3. All banks are required to take appropriate action to comply with the above on a timely basis.

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

C J P Siriwardana  
Assistant Governor  
10 October 2014

To Chairmen and  
Chief Executive Officers of  
Licensed Commercial Banks  
Licensed Specialised Banks  
Licensed Finance Companies and  
Specialised Leasing Companies

Dear Sir/Madam,

**GUIDELINES PURSUANT TO THE AMENDMENTS INTRODUCED TO THE PROVISIONS OF  
THE INLAND REVENUE ACT NO 10 OF 2006 AND THE VALUE ADDED TAX ACT,  
NO 14 OF 2002 TO FACILITATE FINANCIAL SECTOR CONSOLIDATION**

We enclose the above Guidelines for your information and necessary action. In this regard, we wish to inform that the Ministry of Finance and Planning by their letter dated 9 October 2014 has informed the Central Bank of Sri Lanka the following:

1. Relevant amendments to the Inland Revenue Act and the Value Added Tax Act in respect of the consolidation of financial institutions will be made to extend the tax incentives to the leasing companies registered under the Finance Leasing Act effective from 01 April 2014.
2. The transfer of shares due to the acquisition/merger will be exempted from Stamp Duty by an Order published in the Gazette.
3. The entirety of cost of acquisition/merger ascertained as per the Guidelines issued by the Central Bank will be considered as a qualifying payment and could be deducted from the year of assessment of the acquisition/merger subject to a maximum limit of 1/3 of the assessable income and any amount remaining could be carried forward and set off against assessable income of subsequent years of assessments subject to the same limitation. However, if the assessable income of the acquiring financial institution is less than Rs. 300 mn the qualifying payment can be deducted up to the level of assessable income and any amount remaining could be carried forward and set off against the future assessable income.

Yours faithfully,  
**Head of Financial Sector Consolidation Unit**

Guidelines issued by the Monetary Board in terms of Section 34 of the Inland Revenue Act, No 10 of 2006 as amended by the Inland Revenue (Amendment) Act, No. 8 of 2014 and Section 22 of the Value Added Tax Act, No. 14 of 2002 as amended by the Value Added Tax (Amendment) Act, No. 7 of 2014.

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

Colombo  
10 October 2014

## **GUIDELINES ON THE ASCERTAINMENT OF COST OF ACQUISITION/MERGER OF FINANCIAL INSTITUTIONS, AND THE CLAIMABILITY OF UNABSORBED INPUT VAT AND MATTERS CONNECTED THEREWITH**

### **1. Preamble**

The Central Bank of Sri Lanka, under its mandate to secure financial system stability as contained in the provisions of section 5 of the Monetary Law Act, No. 58 of 1949, is pursuing to make financial institutions strong and dynamic whilst strengthening the resilience of these institutions. For this purpose, the Central Bank announced a Master Plan for licensed banks, licensed finance companies and specialized leasing companies to consolidate by way of merger or acquisition or absorption of business.

- The Central Bank hereby issues the following Guidelines pursuant to the amendments introduced to the provisions of the Inland Revenue Act, No. 10 of 2006 and the Value Added Tax Act, No. 14 of 2002, respectively:

**Part I** : Ascertainment of **cost of acquisition/merger** in terms of Section 34 of the Inland Revenue Act, No 10 of 2006 as amended by the Inland Revenue (Amendment) Act, No. 8 of 2014.

**Part II** : Claimability of any **unabsorbed input credit** of any bank or finance entity to be deducted in terms of Section 22 of the Value Added Tax Act, No. 14 of 2002 as amended by the Value Added Tax (Amendment) Act, No. 7 of 2014.

- These Guidelines are applicable to licensed commercial banks and licensed specialised banks licensed under the Banking Act No. 30 of 1988, licensed finance companies licensed under the Finance Business Act No. 42 of 2011 and leasing companies registered under the Finance Leasing Act No. 56 of 2000, hereinafter referred to as Financial Institutions.
- Guidelines in relations to the ascertainment of “the cost of acquisition or merger” upon the acquisition/merger of Financial Institutions, are applicable subject to the provisions of paragraphs (d), (e), (f) and (g) of section 245 of the Companies Act, No. 7 of 2007.
- Regulations prescribed under the provisions of section 212 of Inland Revenue Act will be issued for the purpose of carrying out or giving effect for the provisions which will be incorporated on tax adjustments arising on acquisition/merger, in addition to the treatment of cost of acquisition/merger as a qualifying payment, subject to the relevant amendments to Inland Revenue Act, Value Added Tax Act and Economic Service Charge Act.
- The entirety of the cost of acquisition or cost of merger ascertained in terms of these Guidelines shall be treated as cost of acquisition or merger for purposes of deduction for tax purposes as a qualifying payment, and the other tax treatments as prescribed (and Published in the Gazette) under aforesaid section 212 of Inland Revenue Act are applicable together with the relevant amendments referred to in item 5 above.
- These Guidelines are effective from 01 April 2014.

### **Part I**

- The Guidelines to ascertain the cost of acquisition or cost of merger in terms of and for the purpose of Section 34(2)(x) of the Inland Revenue Act, in relation to respective options, are as set out below:

- Cost of acquisition of a business as a going concern/cost of acquisition of shares
- Cost of merger

8.1 These costs will not include any expenditure deductible under Section 25 of the Inland Revenue Act or any other provisions of the Inland Revenue Act or any consideration for notional tax credit, withholding tax, refunds or any other credit available such as unabsorbed balance of Value Added Tax (VAT), Economic Service Charge (ESC) carried forward, loss carried forward which will be allowed to be continued in the acquired company.

8.2 If the tax position is finalized with the Department of Inland Revenue prior to the acquisition/merger or amalgamation the tax paid (by the acquired company) shall be treated as part of the cost of acquisition. If the tax is not paid the cost of acquisition shall be adjusted accordingly.

### **9. Cost of acquisition of a business as a going concern or cost of acquisition of shares**

The following costs will be treated as cost of acquisition:

- Purchase consideration paid, being sum arrived at after including all relevant sums receivable/payable as per the statement of financial position as at the date of acquisition, carried forward loss adjusted for tax purposes, and expenditure incurred including relevant taxes paid upon acquisition;
- All professional and consultancy fees including legal and valuation fees paid;
- Documentation fees paid;
- Fees paid to relevant authorities for transfer of motor vehicles and reassigning absolute ownership of motor vehicles;

- (v) Stamp duty paid, in relation to, transfer or assignment of properties, in terms of the Stamp Duty (Special Provisions) Act No.12 of 2006 and to Provincial Council under the respective financial statutes, shares in the investment portfolio of the acquiree, any other instruments to be effected to complete the acquisition or assignments of leasehold rights, etc.
- (vi) Expenditure incurred on IT systems;
- (vii) Human Resource related costs including training and development cost for training the staff of the acquiree entity;
- (viii) Brand/marketing/advertising related costs;
- (ix) Any amount incurred with the approval of Central Bank to increase the capital of the acquiree entity at the time of acquisition and other expenditure of both capital and revenue nature which has to be incurred specifically due to the acquisition of the financial institution(s);
- (x) By invoking Section 16 (5) of the Value Added Tax Act (VAT deregistration of the acquiree entity, if the same taxable activity is carried out by the acquirer after the acquisition), acquisition could be carried out without liable to VAT, however, if any VAT is payable, which cannot be claimed against the output tax, such VAT.

## 10. Cost of merger

The following costs will be treated as cost of merger:

- (i) Expenditure incurred including relevant taxes paid, if any;
- (ii) All professional and consultancy fees including legal and valuation fees paid;
- (iii) Documentation fees paid;
- (iv) Fees paid to relevant authorities for transfer of motor vehicles and reassigning absolute ownership of motor vehicles;
- (v) Stamp Duty paid, if any, in terms of the Stamp Duty (Special Provisions) Act No. 12 of 2006 and to a Provincial Council under the respective financial statutes in order to give effect to the merger;
- (vi) By invoking Section 16(5) of the Value Added Tax Act (VAT deregistration of the merging entities prior to merger), merger could be carried out without liable to VAT, however, if any VAT is payable, which cannot be claimed against the output tax, such VAT;
- (vii) Expenditure incurred on IT systems;
- (viii) Human Resource related costs including training and development cost to train the staff of the merged entity;
- (ix) Brand/Marketing/Advertising related costs;
- (x) Any amount incurred with the approval of Central Bank to increase the capital of the merged entity at the time of merger.

## Part II

## 11. Acquisition of a business as a going concern or acquisition of shares

- 11.1 Unabsorbed input credit includes any input VAT (reflected in the Balance Sheet) on:
  - (i) Tax invoices & customs declarations that have not been claimed in the VAT returns but legitimately available to be claimed had the acquisition not taken place. i.e. not time barred, subject to the provisions of the Value Added Tax Act.
  - (ii) Tax invoices or customs declarations issued by the suppliers or by the Director General of Customs in the name of acquiree entity after the date of acquisition would be deemed to form part of the unabsorbed input credit.
- 11.2 Tax invoices and customs declarations referred to in 11.1 would be considered to have been issued in the name of the acquirer entity notwithstanding aforesaid invoices and customs declaration bear the name and the VAT registration number of the acquiree entity.
- 11.3 The aforementioned unabsorbed input VAT of the acquiree companies would be deemed to be unabsorbed input VAT of the acquirer entity for the purpose of Section 22 of the Value Added Tax Act.

## 12. Merger

- 12.1 Unabsorbed input credit includes any input VAT (reflected in the Balance Sheet ) on:
  - (i) Tax invoices and customs declarations that have not been recorded in the VAT return, but legitimately available to be claimed had the merger not taken place (i.e. not time barred).
  - (ii) Tax invoices or customs declarations issued after the date of merger by the suppliers or by the Director General of Customs in the name of merging entity would be deemed to form part of the unabsorbed input credit.
- 12.2 Tax invoices and customs declarations referable to the aforesaid unabsorbed input credit referred to in 12.1 would be treated to have been issued in the name of the merged entity notwithstanding aforesaid invoices and customs declarations bear the name and the VAT registration of the merging entity.
- 12.3 The aforementioned unabsorbed input VAT of the merging companies would be deemed to be unabsorbed input VAT of the amalgamated entity for the purposes of application of all rules laid out in Section 22 of the Value Added Tax Act.

12/02/001/0036/002

12 May 2014

To : CEOs of All Commercial Banks

Dear Sir/Madam

### **CASH WITHDRAWALS FROM ATMs**

We refer to the Circular No.2007-1 dated 12th March 2007, regarding the "Guidelines on Cash Transactions with the Central Bank of Sri Lanka" and "Improving the System of Cash Services and Operations" issued on 11.06.2012.

The Central Bank of Sri Lanka (CBSL) has received several complaints from the public that they are greatly inconvenienced when they withdraw cash from ATMs of certain bank branches as these machines dispense only Rs.5000 currency notes. This prevents the public from having currency notes of lower denominations for their daily cash transactions.

In order to avoid such inconvenience to the public, banks are instructed to facilitate the public by dispensing currency notes in multiple denominations of Rs.100, Rs.500 and Rs.1000 instead of only Rs.5000 notes through their ATM machines. Further banks using Cash-in-Transit companies to load ATMs are requested to ensure that these companies comply with the above instructions of the CBSL.

Yours faithfully,  
**Superintendent of Currency**

Ref : 12/02/008/0007/001

21 July 2014

**Circular No. 2014 -2**

Dear Sir/Madam,

### **GUIDELINES ON CASH TRANSACTIONS WITH THE CENTRAL BANK OF SRI LANKA**

This refers to our Circular No. 2007 -1 dated 15th March 2007, on the above subject with special reference to Section 1.5 on Accepting Cash Deposits by Central Bank a copy of which is attached for easy reference.

1. It has been the practice by bank officers/representatives (CIT companies) to rearrange cash bundles and verify cash total with the Paying Slip and Guarantee Letter issued by the bank at the premises of Currency Department (CRD) of the Central Bank of Sri Lanka (CBSL). In case of any discrepancy with the Guarantee Letter and actual cash deposit, CRD allowed the respective bank to make good the discrepancy at the time of deposit with the CRD.

However, this practice causes undue delays in cash operations at the CBSL and gives rise to certain risks associated with cash in transit. Therefore, the CBSL has decided to discontinue this practice.

2. Accordingly, all Licensed Commercial Banks (LCB) are hereby informed to adhere to the following instructions with respect to deposit of guarantee cash boxes with CBSL with effect from 1st August 2014.

#### **2.1 Accepting Cash Deposits by CBSL**

- 2.1.1 Guarantee Letter issued by the LCB is treated as the conclusive document relating to cash deposit of respective LCB on any particular day and therefore, alteration or rearrangements of cash bundles in boxes at the premises of CRD will not be permitted.
- 2.1.2 All LCBs are required to paste a label on the top of the cash box indicating accurately the total value and details of cash bundles inside the box. A copy of the same document (label) should be kept inside the cash box on top of the cash bundles. The specimen label is at Annex 1.
- 2.1.3 At the time of accepting the deposit the Staff Officer of the CRD will open the cash box in the presence of bank officers/ representatives and verify whether the total value and denominations of currency notes stated in the guarantee letter, tallies with the label pasted on the box and the label kept inside the box.
- 2.1.4 In case of any discrepancy in the labels (within and outside the box) with the Guarantee Letter, the value and the denominations stated in the Guarantee Letter will be treated as the conclusive values. Therefore, CRD will allow the LCB to prepare two new labels that tally with the Guarantee Letter to be pasted on top of the box and to keep inside the box with authorised signatures of bank officers/ representatives.
- 2.1.5 The depositing bank will receive a receipt for the value and the number of bundles deposited in accordance with the Guarantee letter of the LCB.

#### **2.2 Verification of Cash Deposits**

- 2.2.1 At the time of the verification of currency in boxes (same day or later) the bank officers/ representatives of the respective LCB will be required to open boxes in the presence of officers of CRD.

- 2.2.2 As per Circular No. 1 - 2012 dated 21st February 2007 on "Discrepancies in Currency Deposits with Central Bank of Sri Lanka", the penalty for the shortage of currency notes in Guarantee Boxes will prevail and any excess in currency notes will not be returned.
- 2.2.3 Service charges will prevail for Processing Serviceable (fit) Currency Notes at the time of accepting Guarantee Boxes as per 2.1 above. However, in case of any change of category of currency bundles, applicable service charges will be levied at the time of the verification of deposits.

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

Deputy Superintendent 0112477028 or 0112477362

Senior Asst. superintendent 0112477372

Yours faithfully,  
Superintendent of Currency

Annex I

**GUARANTEE DEPOSIT**

BOX NO:

DATE:

BANK:

DENOMINATION	SERVICEABLE (BUNDLES)	UNSERVICEABLE (BUNDLES)	DAMAGED (BUNDLES)	UNSORTED (BUNDLES)	TOTAL (VALUE)
5000/-					
2000/-					
1000/-					
500/-					
200/-					
100/-					
50/-					
20/-					
10/-					
TOTAL					

.....  
Authorised Signature 1

.....  
Authorised Signature 2

**Circular No. 35/01/005/0010/18**

02 January 2014

To: All Licensed Commercial Banks

**MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT FOR IMPORTATION OF MOTOR VEHICLES**

This refers to the Circular No. 35/01/005/0010/15 dated 30 August 2013 on the above subject and the subsequent circulars no. 35/01/005/0010/16 and 35/01/005/0010/17 dated 24 September 2013 and 21 October 2013 respectively.

All licensed commercial banks are hereby informed that the 100 per cent cash margin requirement at the time of opening LCs for the importation of items specified in the Schedule A referred to in our circular No. 35/01/005/0010/15, is withdrawn with effect from today (02.01.2014)

Sgd./R A A Jayalath  
**Director/Domestic Operations**  
For and on behalf of the Monetary Board  
of the Central Bank of Sri Lanka.

**Circular No. 35/01/005/0006/33**

02 January 2014

To: All Licensed Commercial Banks and Primary Dealers

**OPERATING INSTRUCTIONS ON OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA**

- i. This has reference to our Circular No. 35/01/005/0006/04 dated 27 January 2004 as amended by Circular No. 35/01/005/0006/08 dated 3 May 2004 on the subject "Operating Instructions on Open Market Operations of the Central Bank of Sri Lanka in Scrip-less Government Securities".

- ii. The participating institutes (PIs) are hereby informed that the Standing Repurchase (Repo) Facility and the Standing Reverse Repurchase (Rev.Repo) Facility referred to in the Section C of the said circulars shall be replaced by the Standing Deposit Facility and Standing Lending Facility respectively. The applicable rates shall be renamed as Standing Deposit Facility Rate (counterpart of the former Repo Rate) and the Standing Lending Facility Rate (counterpart of the former Rev.Repo Rate). The Standing Deposit Facility shall be a clean deposit with no allocation of collateral. The Standing Lending Facility shall, as far as the procedures are concerned, not be different from the Standing Reverse Repurchase Facility.
- iii. Accordingly, Section C (a.) [Standing Repurchase Facility (RP)] of the said circular (as amended) is hereby revoked and replaced as follows with effect from 01 February 2014;

**“(C.) Standing Facility**

**(a.) Standing Deposit Facility (SDF)**

- 1) The SDF shall be available on an overnight basis.
- 2) The PIs who wish to use the SDF are required to inform the OMO Division of the Domestic Operations Department (DOD) by telephone or fax, the amount they wish to deposit and confirm the deal electronically by submitting the same through the facility available in the Online Electronic Bidding System not later than 1500 hours, on the same day.
- 3) Payment and Settlement Department (PSD) of the CBSL will directly debit the PI’s settlement account (RTGS account) for the value they wish to place at the SDF not later than 1600 hours on the same day. The PI is not required to submit any settlement instruction in this regard to the system.
- 4) PIs shall ensure that sufficient funds are available in its settlement account to enable the PSD to debit the amount in full. If a PI fails to maintain sufficient funds to settle a transaction in full, such PI shall be liable to pay damages to the CBSL in a sum equivalent to the interest component of the respective transaction. Such damages shall be debited to the PI’s settlement account with the CBSL on the next business day.
- 5) A confirmation of SDF deal will be issued by the PSD to the PI electronically through the Online Electronic Bidding System not later than 1600 hours on the same day. The PIs are advised to promptly view such confirmation and retain a hard copy of the confirmation for their records. In the event a PI is unable to view or print the confirmation due to a technical failure in accessing the bidding system, PSD will fax a copy of the confirmation to the PI on request.
- 6) On the maturity date, PSD will credit the PI’s settlement account with the original deposit value plus the interest component, not later than 0830 hrs.

The interest component of the deposit shall be calculated at the Standing Deposit Facility Rate (SDFR) of the CBSL for the duration of the respective deposit. ”

- iv. Section C (b.) [Standing Reverse Repurchase Facility (RRP)] of the said circular (as amended) is hereby amended by substitution of the terms “Standing Lending Facility” and “SLF” for the terms “Reverse Repurchase Facility” and “RRP”, respectively.

Sgd./R A A Jayalath

**Director/Domestic Operations**

**Circular No. 35/01/005/0006/34**

23 September 2014

To: All Licensed Commercial Banks and Primary Dealers

**OPERATING INSTRUCTIONS ON OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA**

The Monetary Board has observed that in recent times the Standing Deposit Facility (SDF) window of the Central Bank of Sri Lanka (CBSL) which should essentially be used at infrequent intervals to absorb excess liquidity which are of a temporary nature has been accessed as a permanent facility by certain commercial banks. The Monetary Board is of the view that a continuation of such trend is not conducive both to the growth prospects and the stability of the financial system. Accordingly, the Monetary Board at its meeting held on 22 September 2014 has decided that:

- a. The availability of SDF to a particular Participating Institution (PI) will be limited to a maximum of three (3) times per calendar month at the prevailing CBSL SDF Rate. Any deposits more than three (3) times (two (2) times during the balance period of September 2014) by a particular PI during a calendar month will be accepted at the rate of 5 per cent per annum.
- b. The above amendment to take effect from 23 September, 2014 and to continue until further notice.

The PIs are also informed that the above amendments are to the Operating Instructions on Open Market Operations of the CBSL in Scripless Government Securities (Circular No. 35/01/005/0006/04 dated 27 January 2004 as amended by Circular No. 35/01/005/0006/33 dated 02 January 2014).

Sgd./R A A Jayalath

**Director/Domestic Operations**

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

NO. 1854/3 – MONDAY, MARCH 17, 2014  
(Published by Authority)

**PART I : SECTION (I) – GENERAL  
Government Notifications  
EXCHANGE CONTROL ACT (CHAPTER 423)  
Order under section 17**

BY virtue of the powers vested in me under Section 17 of the Exchange Control Act (Chapter 423), read with paragraph (2) of Article 44 of the Constitution of the Democratic Socialist Republic of Sri Lanka, I, Mahinda Rajapaksa, President, do by this Order grant permission to Licensed Commercial Banks appointed as Authorized Dealers to acquire, hold and transfer International Sovereign Bonds issued outside Sri Lanka by the Government of Sri Lanka in year 2010,2011 and 2012, from the secondary market, subject to the orders issued by me from time to time.

Mahinda Rajapaksa,  
**President**

Ministry of Finance and Planning,  
Colombo.  
17 March 2014

**Ref : 06/04/01/2014**

28 May 2014

Directions To Authorized Dealers

Dear Sirs,

**FOREIGN TRAVEL CARDS (FTCs)**

Authorized dealers are hereby permitted to issue Foreign Travel Cards (FTCs) for the purpose of issuing foreign currency to persons eligible to obtain travel allowances when leaving Sri Lanka, having exercised due diligence and judgment, subject to the following terms and conditions:

1. The travel allowance that may be issued to persons travelling abroad,
  - i. shall be subject to Operating Instructions and Directions issued under the Exchange Control Act in respect of issuance of foreign exchange for travel purposes to persons resident in Sri Lanka and limitations as may be contained therein, and
  - ii. may be issued by way of foreign currency notes, travellers' cheques and/or FTCs.
2. If a card holder (hereinafter referred to as the "holder") is a citizen of Sri Lanka holding a passport issued by the Controller General of Immigration and Emigration of Sri Lanka, an appropriate endorsement shall be made on the passport of the holder in respect of the travel allowance issued in terms of paragraph 1 above.
3. An FTC shall not be reloaded if the holder is abroad.
4. A declaration shall be obtained from the applicant at the time of issuing an FTC as per the specimen declaration at Annex I.
5. An FTC may be issued by debiting any account where permission has been granted to issue foreign currency for travel purposes.
6. At the request of the holder or upon the lapse of 90 days from the date of return of the holder to Sri Lanka, whichever date that comes first, the unutilized value remaining in the FTC:
  - i. may be credited to a foreign currency account maintained by the holder, if the FTC had been loaded by debiting such an account, up to the amount that had been debited; or
  - ii. may be withdrawn in rupees by the holder or credited to an account maintained by the holder in Sri Lanka rupees.
7. Authorized dealers shall report to the Controller of Exchange the details of foreign exchange sales and purchases carried out in terms of these Directions on Form 1 and Form 2, respectively, as stipulated in the Operating Instructions issued by the Controller of Exchange.
8. Authorized dealers are required to furnish details of FTCs, on a quarterly basis, to the Controller of Exchange before the 15th day of the following quarter as per Annex II.

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

## Annex I

**CENTRAL BANK OF SRI LANKA**  
**DECLARATION BY THE APPLICANT FOR A FOREIGN TRAVEL CARD (FTC)**

To : < Name of the Authorized Dealer >

I ..... (name of the FTC applicant) bearing passport No.....hereby authorize .....(name of the authorized dealer) to credit the unutilized foreign currency remaining in the FTC to my foreign currency account .....(A/C No) / convert in to Sri Lanka rupees and credit to my LKR account.....(A/C No) upon 90 days of my return (delete which is inapplicable).

I..... (name of the FTC applicant) declare that the above information is true and correct.

.....  
 DD/MM/YY

.....  
 Signature of the FTC applicant

## Annex II

**FOREIGN TRAVEL CARDS (FTC)**

Name of the authorized dealer :.....

Quarterly Statement as at :.....

No. of FTCs issued	Amount of foreign exchange issued (in USD)	Amount Re-converted as per Annex I

I hereby confirm that the above details are true and accurate.

.....  
 Date

.....  
 Name, designation and the signature of the  
 Authorized Officer on an official stamp

**Ref : 06/04/02/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

**SPECIAL FOREIGN INVESTMENT DEPOSIT ACCOUNTS (SFIDA)**

The Directions bearing Ref. No. 06/04/05/2008 dated 02nd June, 2008 on SFIDA is hereby amended as follows:

1. by the deletion of condition v).
2. by renumbering conditions vi), vii) and viii) as conditions v), vi) and vii) respectively, thereof.

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

**Ref: 06/04/03/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

**REMITTANCE OF FUNDS IN ADVANCE TO OBTAIN STUDENT VISA**

1. It has been observed that some Governments of foreign States have imposed a requirement on students residing in Sri Lanka applying for student visa, to transfer funds in advance to meet their living expenses. In order to facilitate same, permission is hereby granted to authorized dealers to make outward remittances in relation to such transfers subject to obtaining the following documentary evidence:

- i. The offer/placement letter issued by the foreign university/ educational institute.
- ii. The letter issued by the immigration authority of the relevant country indicating that the student's visa is approved in principle and stating the amount of living expenses that is required to be transferred.
- iii. A copy of the student's passport.
- iv. A letter issued by a foreign bank, specifying the details of the account opened abroad in the name of the student in terms of the permission granted by the Notice published in the Government Gazette (Extraordinary) No. 1864/38 dated 28th May, 2014.

2. After transferring funds, authorized dealers shall endorse the passport of the student specifying the details of the remittance, including the amount and the purpose for which the remittance was made.
3. The funds may be transferred by converting Sri Lanka rupees or by debiting a Non- Resident Foreign Currency (NRFC) Account.
4. Further, the following foreign currency accounts maintained by the student and/or the parents/guardians/spouse/sponsor may also be debited to make the above transfer:
  - i. Resident Foreign Currency (RFC) Accounts;
  - ii. Foreign Exchange Earners' Accounts (FEEA); and
  - iii. Foreign Currency Accounts for International Services Providers and their Employees (FCAISPE).
5. A Resident Non National Foreign Currency (RNNFC) account may also be debited to make the transfers in terms of these Directions. In the event such a transfer is made on behalf of a foreign student, it is not required to endorse the passport of the student with the details of the remittance as specified in paragraph 2 above.

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

**Ref : 06/04/04/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

### **RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS**

Further to the Operating Instructions bearing Ref. No. EC/52/91(D) dated 01st August 1991, as amended, permission is hereby granted to transfer funds from an RFC account to meet living expenses in relation to applying for student visa in terms of the Directions bearing Ref. No. 06/04/03/2014 dated 28th May, 2014.

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

**Ref : 06/04/05/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

### **RESIDENT NON NATIONAL FOREIGN CURRENCY (RNNFC) ACCOUNTS**

Further to the Operating Instructions bearing Ref. No. EC/19/80(D) dated 14th May 1980, as amended, the following shall be incorporated as item (c) to the debits listed under paragraph (v) thereof:

“(c) Transfer of funds to meet living expenses in relation to applying for student visa in terms of the Directions bearing Ref. No. 06/04/03/2014 dated 28th May, 2014.”

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

**Ref: 06/04/06/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

### **FOREIGN CURRENCY ACCOUNTS FOR INTERNATIONAL SERVICES PROVIDERS AND THEIR EMPLOYEES (FCAISPE)**

1. Further to the Directions bearing Ref. No. 06/04/05/2010 dated 07th May 2010, the following credit is incorporated as item iv of the paragraph 4 thereof:

“iv. Repatriation of funds from an account opened and maintained outside Sri Lanka as permitted by the Notice published in the Government Gazette (Extraordinary) No. 1864/38 dated 28th May, 2014 and the Directions bearing Ref. No. 06/04/03/2014 dated 28th May 2014, subject to the maximum amount that has been debited from the account.”

2. The following debit is incorporated as item iv of paragraph 5 thereof:

“iv. Transfer of funds to meet living expenses in relation to applying for student visa as permitted by the Notice published in the Government Gazette (Extraordinary) No. 1864/38 dated 28th May, 2014 and the Directions bearing Ref. No. 06/04/03/2014 dated 28th May, 2014.”

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

**Ref : 06/04/07/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

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

As a measure of further facilitating foreign exchange transactions of persons resident in Sri Lanka earning foreign exchange, it has been decided to review and reissue the Directions on **“Foreign Exchange Earners' Accounts (FEEA)”**.

#### **2. Eligible Persons**

- i. The following persons resident in Sri Lanka who earn foreign exchange:
  - a. An individual;
  - b. A sole proprietorship and partnership registered in Sri Lanka;
  - c. A company incorporated in Sri Lanka;
  - d. A company incorporated outside Sri Lanka which is registered as an overseas company under the Companies Act No.07 of 2007.
- ii. An eligible borrower that has borrowed under the External Commercial Borrowing Scheme (ECBS) implemented in terms of the Notice published in the Gazette (Extraordinary) No. 1791/15 dated 01st January 2013.
- iii. Any other person eligible to borrow in foreign currency, from a person resident in or outside Sri Lanka, under a permission granted by the Controller of Exchange.

#### **3. Types of Accounts**

A FEEA may be opened in the form of current, savings or a term deposit in any foreign currency. However, a cheque book shall not be issued against a current account.

#### **4. Permitted Credits**

- i. Inward remittances received from abroad through the banking system and foreign currency drafts issued by banks outside Sri Lanka in respect of export of goods and services, entrepot trade, overseas projects undertaken by the account holder and goods supplied locally to a person resident outside Sri Lanka.
- ii. Foreign currency notes brought into the country by the account holder on declaration to Sri Lanka Customs, as applicable.
- iii. Foreign currency in the form of travelers' cheques, bank drafts or currency notes accepted by the account holder in terms of a permission granted by the Controller of Exchange for such acceptance.
- iv. Payments received in respect of goods sold and services rendered by the account holder to a person resident outside Sri Lanka where payments for such goods and services have been made through an electronic data capture terminal or internet payment gateway (EDC/IPG), by using an Electronic Fund Transfer Card (EFTC) issued outside Sri Lanka, provided however that the authorized dealer shall credit such payment into a FEEA only upon written confirmation by the EDC/IPG provider stating that it contains payments made using an EFTC issued outside Sri Lanka.
- v. Transfers from other FEEA and accounts maintained in the Offshore Banking Unit (OBU) in respect of supply of goods and services.
- vi. Proceeds of foreign currency loans received from authorized dealers.
- vii. Proceeds of foreign currency loans obtained from foreign lenders with the prior permission of the Controller of Exchange.
- viii. Transfer of funds from Outward Investment Accounts (OIA) of the account holder which consist of benefits of foreign investments.
- ix. Transfers from the Foreign Currency Account for Agents of Foreign Shipping Line/Airline (FCAASA) in respect of supply of fuel by a Bunker Operator licensed by the Ministry in charge of the subject of Petroleum Industry.
- x. Transfers from FCAASA in respect of port terminal charges by a Port Terminal Operator as per Schedule 1 of the Directions bearing Ref. No. 06/04/25/01/2013 dated 21st October 2013.
- xi. Transfers from FCAASA, against inward remittances received from the foreign principal, in respect of provision of goods and services directly to the foreign principal.
- xii. Transfer of funds from an Inward Remittances Distribution Account (IRDA) of the account holder.

- xiii. Insurance premia received by the account holder 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 the Insurance Board of Sri Lanka (IBSL).
- xiv. Unutilized foreign currency obtained by the account holder debiting the FEEA for travel purposes in terms of item (viii) of paragraph 5 herein and for the purposes specified under item (xiii) of paragraph 5 herein.
- xv. Transfer of funds from a bank account abroad maintained in terms of the Notice published in the Government Gazette (Extraordinary) No. 1864/38 dated 28th May 2014 and the Directions bearing Ref. No. 06/04/03/2014 dated 28th May 2014, where the original outward remittance had been made under item (xiv) of paragraph 5 herein, up to the maximum amount so debited.

## 5. Permitted Debits

- i. Outward remittances in respect of current international transactions of the account holder.
- ii. Outward remittances with respect to payments on entrepot trade in terms of the Directions bearing Ref. No. 06/04/14/2013 dated 29th April 2013.
- iii. Transfers to other FEEA and accounts maintained in the OBU with respect to purchase of goods and obtaining services by the account holder.
- iv. Outward remittances in respect of claims, refunds and commissions related to export of goods and services by the account holder.
- v. Transfers to an OIA of an account holder.
- vi. Payments of freight charges to the credit of an FCAASA.
- 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. Withdrawal in foreign currency for travel purposes subject to the Directions issued by the Controller of Exchange from time to time.
- ix. Outward remittances for purchase of goods and services relating to overseas projects undertaken by the account holder.
- 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 by the account holder from authorized dealers.
- xii. Payments of claims to eligible customers and co-insurers in respect of foreign currency denominated policies, premia to local or overseas re-insurers and NITF and brokerage by insurance companies registered with the IBSL.
- xiii. Withdrawal 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. Transfer of funds to the credit of any bank account abroad maintained in terms of the Notice published in the Government Gazette (Extraordinary) No. 1864/38 dated 28th May 2014 and the Directions bearing Ref. No. 06/04/03/2014 dated 28th May 2014, being an advance remittance for living expenses.
- xv. Withdrawal in Sri Lanka rupees, provided however that under no circumstances Sri Lanka rupees shall be converted into foreign currency and be credited into a FEEA.

## 6. Conditions

- i. Documentary evidence shall be obtained at the time of opening a FEEA to determine the applicant's eligibility to open and maintain FEEA and the authorization by the relevant authority(ies), if any, to carry out the business of such applicant if applicable.
- ii. A FEEA shall not be overdrawn under any circumstances except by way of an overdraft facility granted in terms of the Directions bearing Ref. No. 06/04/21/2013 dated 12th June 2013, as amended.
- iii. Transfers between FEEA of the same account holder shall be permitted.
- iv. A Non-Governmental Organization shall not be permitted to open and maintain a FEEA.

## 7. Reporting Requirement

Authorized dealers are required to furnish a report on monthly basis as per the attached format to the Controller of Exchange on or before the 15th Day of the following month.

- 8. Directions bearing Ref. No. 06/04/05/2012 dated 11th July 2012, Ref. No. 06/04/13/2012 dated 31st December 2012, Ref. No. 06/04/03/2013 dated 01st January 2013, Ref. No. 06/04/10/2013 dated 24th January 2013 and Ref. No. 06/04/13/2013 dated 21st February 2013 are hereby rescinded

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 .....

Reporting Month : .....

Category of the Account	Currency	Balance as at beginning of the month	Credits			Debits		Balance as at end of the month	Total Number of A/Cs as at end of the month
			Inward Remittances	Total Interest Credited	Other Credits	Outward Remittances	Other Debits		
Exporters									
Indirect Exporters									
Professional Services Providers									
Travel Agents									
Suppliers of Material Inputs									
Gem & Jewellery Dealers									
Insurers									
Foreign Employment Agencies									
Account holders under the general permission in Gazette No. 1791/16 dated 01.01.2013									
Special / Temporary Foreign Currency Accounts									
Borrowers under the External Commercial Borrowing Scheme in terms of Gazette No. 1791/15 dated 01.01.2013									
Other (Please specify the category)									

**Note: Please provide information on different types of currencies in all accounts (EUR, USD, GBP, Other (pls specify) )**

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. 06/04/09/2014**

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

#### CREDIT FACILITIES TO IMPORTERS RESIDENT IN SRI LANKA BY SUPPLIERS RESIDENT OUTSIDE SRI LANKA

In order to further facilitate international trade, authorized dealers are hereby permitted to make outward remittances in respect of payment of interest for the credit facilities offered to an importer of goods being a resident in Sri Lanka (hereinafter referred to as "the importer") by the supplier of such goods (hereinafter referred to as "the supplier").

This permission is applicable where the consignment of goods is imported into Sri Lanka in terms of the provisions of the Import and Export (Control) Act, No. 01 of 1969 or any regulation issued there under, subject to following terms and conditions:

- This shall only be applicable for payment terms that involve a credit facility offered to the importer in respect of such consignment of goods imported into Sri Lanka.
- Interest shall not be paid beyond the credit period offered or beyond the actual settlement date, whichever comes first, provided however that such date or period shall not exceed any restriction stipulated by any law or regulation.
- In case where the importation is made under a payment term where the original shipping documents are not required to be routed through a bank in Sri Lanka, the bank shall verify the details of the consignment as detailed in the documents submitted to Sri Lanka Customs including the customer declaration, invoice and details uploaded by Sri Lanka Customs on its website.
- No interest shall be paid to the supplier on such credits extended at a rate higher than the prevailing international rate of interest for the currency in which the credit is provided.

Operating Instructions bearing Ref. No. EC/18/92(B) dated 24th February, 1992 and Ref. No.06/05/02/2003 dated 21st January, 2003 are hereby rescinded.

Yours faithfully,  
P H O Chandrawansa  
Controller of Exchange

Ref: 06/04/10/2014

28 May 2014

Directions to Authorized Dealers

Dear Sirs,

**LETTERS OF CREDIT (LCs)**

In order to further facilitate international trade transactions, authorized dealers are hereby permitted to issue, extend the validity period and amend clauses of an LC without referring to the Controller of Exchange, when such LCs are established under the provisions of the Uniform Custom Practice for Documentary Credits of International Chamber of Commerce (hereinafter referred to as "UCP") which shall be expressly indicated in the text of the LC, subject to following terms and conditions : -

- (a) When any article of UCP or a part thereof is inconsistent with any laws, regulations, instructions, directions or operating instructions prevailing in Sri Lanka which are applicable to and binding on the authorized dealer, such laws, regulations, instructions, directions or operating instructions of Sri Lanka shall prevail to the extent of such inconsistency.
- (b) Notwithstanding the requirement of complying with UCP, an authorized dealer may impose additional conditions or exclude any article or part of it, with the view to minimize risks or to safeguard interest of the applicant.
- (c) In instances as stated in items (a) and (b) above, the authorized dealer is required to notify relevant parties of the LC, where applicable, about the details of such deviation.

2. Operating Instructions issued under the Exchange Control Act specifying requirements relating to Letters of Credit, as given in Annex 1, are hereby rescinded.

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

**Annex 1**

**List of Operating Instructions that are rescinded in terms of paragraph 2 of the Direction bearing Ref. No. 06/04/10/2014 dated 28th May, 2014 on Letters of Credit is as follows:**

- |  |  |
|--|--|
| 1) Ref. EC/17/77 (G) dated 25.05.1977    | 16) Ref. EC/33/91 (B) dated 23.05.1991     |
| 2) Ref. EC/53/77 (B) dated 07.12.1977    | 17) Ref. EC/112/91 (B) dated 11.12.1991    |
| 3) Ref. EC/11/78 (B) dated 17.05.1978    | 18) Ref. EC/116/91 (B) dated 17.12.1991    |
| 4) Ref. EC/17/78 (G) dated 14.07.1978    | 19) Ref. EC/05/92 (B) dated 09.01.1992     |
| 5) Ref. EC/08/79 (B) dated 15.02.1979    | 20) Ref. EC/18/92 (B) dated 24.02.1992     |
| 6) Ref. EC/58/79 (B) dated 30.11.1979    | 21) Ref. EC/25/92 (B) dated 06.03.1992     |
| 7) Ref. EC/49/81 (B) dated 09.12.1981    | 22) Ref. EC/39/92 (H) dated 14.05.1992     |
| 8) Ref. EC/12/82 (B) dated 23.02.1982    | 23) Ref. EC/83/92 (B) dated 13.08.1992     |
| 9) Ref. EC/51/84 (B) dated 21.11.1984    | 24) Ref. EC/90/92 (H) dated 01.09.1992     |
| 10) Ref. EC/04/85 (B) dated 22.01.1985   | 25) Ref. EC/SAA/01/92 (H) dated 01.09.1992 |
| 11) Ref. EC/09/87 (B) dated 23.02.1987   | 26) Ref. EC/40/93 (B) dated 17.03.1993     |
| 12) Ref. EC/19/90 (B) dated 13.03.1990   | 27) Ref. EC/62/93 (B) dated 10.08.1993     |
| 13) Ref. EC/25/90 (BPC) dated 17.04.1990 | 28) Ref. EC/25/93 (B) dated 26.02.1993     |
| 14) Ref. EC/68/90 (B) dated 01.11.1990   | 29) Ref. EC/18/94 (B) dated 18.11.1994     |
| 15) Ref. EC/79/90(B) dated 27.12.1990    | 30) Ref. EC/02/99 (B) dated 24.02.1999     |

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

NO. 1864/38 – WEDNESDAY, MAY 28, 2014

(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 for Opening and Maintaining Accounts with Banks outside Sri Lanka**

IN the exercise of powers conferred by Section 6AA and sub-section (1) of Section 8 read with Section 48 of the Exchange Control Act, general permission is hereby granted to a person in, or resident in Sri Lanka and companies or firms registered in Sri Lanka to open, maintain and operate accounts with a bank outside Sri Lanka and close such accounts as specified below:

2. The permission granted herein shall be applicable to the following persons:
  - (i) A person resident in Sri Lanka who has proceeded outside Sri Lanka temporarily for business, studies or for medical purposes;
  - (ii) An individual who provides, or a company or a firm registered in Sri Lanka which provides, professional or vocational services outside Sri Lanka;
  - (iii) An individual who has been permitted, or a company or a firm registered in Sri Lanka which has been permitted, by the Minister of Finance to invest outside Sri Lanka;
  - (iv) An exporter of merchandise goods;
  - (v) A person who has obtained a valid permanent residency permit from another country;
  - (vi) A dual citizen; and
  - (vii) A person resident in Sri Lanka who intends to proceed outside Sri Lanka for studies in a country where such person is required by the visa granting authority to open and maintain an account with a bank in such country as a condition to grant student visa.
3. These accounts may be credited with foreign currency received or acquired legally outside Sri Lanka or obtained from an authorized dealer or a permitted person in Sri Lanka for a permissible foreign exchange transaction of the account holder, in terms of the provisions of the Exchange Control Act.
4. Funds in these accounts may be utilized towards any foreign exchange transaction of the account holder permissible for a person resident in Sri Lanka in terms of the provisions of the Exchange Control Act.
5. Subject to the conditions stipulated in paragraph 6 below, where an account opened and maintained with a foreign bank in accordance with the permission granted hereunder is closed, the balance in the account shall be repatriated to Sri Lanka through banking channels, within a month of such closure of the account.
6. Where a person permitted to open and maintain an account outside Sri Lanka in terms of item (vii) of paragraph 2 hereof is refused student visa by such country or decides not to embark on studies after obtaining student visa, such person shall repatriate all monies lying to the credit of the account opened by such person outside Sri Lanka under this permission within one month from the date of such decision.
7. In this notice, unless the context otherwise requires —
  - (i) An “authorized dealer” shall have the same meaning as given in the Exchange Control Act;
  - (ii) A “permitted person” shall mean, any person for the time being permitted by the Central Bank of Sri Lanka under Section 5 of the Exchange Control Act ;
  - (iii) “Foreign currency” shall have the same meaning as given in the Exchange Control Act ;
  - (iv) “A person resident in Sri Lanka” or a “person resident outside Sri Lanka” shall have the same meaning as given in the Direction issued by the Minister of Finance under Section 37(1) of the Exchange Control Act and published in the Government Gazette, No. 15007 dated 21st April, 1972.
8. Notices published in terms of the Exchange Control Act, under Section 6AA and sub-Section (1) of Section 8 read with Section 48 of the said Act in the Government Gazette (Extraordinary) No. 1644/26 dated 11th March 2010 and No. 1814/40 dated 12th June 2013 are hereby rescinded

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

Colombo,  
28th day of May, 2014

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

NO. 1864/39 – WEDNESDAY, MAY 28, 2014

(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 for issue and transfer of debentures of companies incorporated in Sri Lanka to persons  
resident outside Sri Lanka**

Permission is hereby granted in terms of Sections 10, 11, 15 and Sub-section 5 of Section 30 as applicable of the Exchange Control Act, for the issue and transfer of debentures denominated in Sri Lanka rupees in a company incorporated in Sri Lanka, to Foreign Institutional Investors (FII) including country funds, regional funds or mutual funds, corporate bodies incorporated outside Sri Lanka, citizens of foreign states whether resident in Sri Lanka or outside Sri Lanka and Sri Lankans resident outside Sri Lanka (hereinafter referred to as the “eligible investors”), subject to the following terms and conditions :

**1. Terms and Conditions applicable to Debentures:**

- 1.1 All debentures issued under this Notice may be non-listed or be listed in the Colombo Stock Exchange;
- 1.2 Redemption of capital shall commence only after the expiry of one year from the date of issue of the Debenture and capital payments to be made on a debenture shall be made proportionate to the tenor of the debenture;
- 1.3 In the case of convertible debentures, the conversion into ordinary shares shall be subject to the exclusions and limitations stipulated in the notice published in the Government Gazette (Extraordinary) No. 1232/14 dated 19th April 2002 as amended.

**2. Terms and Conditions applicable to the company issuing Debentures:**

- 2.1 Funds for the investment in debentures and the payments for debentures by an eligible investor shall be made only out of the monies available to the credit of a Securities Investment Account (SIA) of such investor, opened and maintained in a licensed commercial bank in Sri Lanka in accordance with the Directions given by the Controller of Exchange to authorized dealers;
- 2.2 An authorized dealer or any other person entrusted with the payment of the capital amount, interest and commissions in respect of any transaction permitted hereunder, shall make such payments only into or out of the SIA referred to in paragraph 2.1 above ;
- 2.3 The company issuing debentures shall furnish a report to the Controller of Exchange within 30 days of receipt of remittances for investment in debentures providing the following details :-
  - (a) The total amount received through SIAs;
  - (b) The names and addresses of the authorized dealers through which the remittances were received;
  - (c) The maturity structure of the relevant debentures.
3. Permission is hereby granted under Section 7 of the Exchange Control Act to a company issuing debentures under this permission for making any payment to the credit of an SIA opened and maintained by an eligible investor in respect of the transactions permitted hereunder.
4. Permission is hereby granted under Section 22 of the Exchange Control Act to a company issuing debentures under this permission for the export of debenture certificates (if applicable) to a person resident outside Sri Lanka in respect of transactions permitted hereunder.
5. Nothing contained in this Notice shall be construed as affecting or having a bearing on:-
  - (a) An enterprise that has been granted exemptions from the provisions of the Exchange Control Act in terms of an agreement entered into between such enterprise and the Board of Investment (BOI) of Sri Lanka under the BOI Law No. 4 of 1978;
  - (b) The provisions of any other law.
6. Authorized Dealers shall have the same meaning as given in the Exchange Control Act.
7. The notices published in Gazette (Extraordinary) No. 1681/11 of 22.11.2010 and Gazette (Extraordinary) No. 1733/19 of 22.11.2011 granting permission for purposes of Sections 10, 11, 15 and sub-Section 5 of Section 30 of the Exchange Control Act are hereby rescinded.

P H O Chandrawansa  
**Controller of Exchange**

Colombo,  
28th day of May 2014

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

NO. 1864/40 – WEDNESDAY, MAY 28, 2014

(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)**

THE notice under the Exchange Control Act published in the Government Gazette (Extraordinary) No. 1789/34 of 20th December 2012 is amended ;

**1. By inserting the following new paragraph immediately after paragraph 2 :**

“2A. The following persons are eligible to apply and obtain a debit card from an authorized dealer, provided such eligible persons are individuals.

- (a) A citizen of Sri Lanka who has proceeded outside Sri Lanka for employment or setting up in business or profession, during the pendency of such employment, business or profession ;
- (b) A citizen of Sri Lanka who has made his or her permanent place of abode outside Sri Lanka and has opened a Non-Resident Blocked Account (NRBA) or a Migrant Blocked Account (MBA) ;
- (c) A holder of a Diplomatic Foreign Currency Account (DFA) or a Diplomatic Rupee Account (DRA) ;
- (d) A holder of a Non-Resident Non-National Foreign Currency Account (NRNNFA) ;
- (e) A holder of a Resident Guest Rupee Current Account (RGRCA) ;
- (f) A holder of a Senior Foreign Nationals’ Rupee Account (SFNRA) ;
- (g) A holder of a Securities Investment Account (SIA) ;
- (h) A holder of a Special Foreign Investment Deposit Account (SFIDA) ;
- (i) A holder of a Foreign Currency Account for International Services Providers and their Employees (FCAISPE) in the capacity of an employee ;
- (j) A holder of a Foreign Exchange Earners’ Account (FEEA) .”

**2. By inserting the following new paragraph immediately after paragraph 2A :**

“2AA. When a debit card is issued to an individual listed under item (b) to (j) of paragraph 2A, the debit card shall be issued against the monies lying to the credit of such account.”

**3. By inserting the following new paragraph immediately after paragraph 2AA :**

“2AB. A debit card issued to individuals listed in paragraph 2A shall be used subject to the following terms and conditions :

- (a) Payments in Sri Lanka Rupees, in Sri Lanka is permitted ;
- (b) A payment to a person resident outside Sri Lanka is permitted to be made for any purpose, only where such debit card is issued to ;
  - (i) A holder of a Diplomatic Foreign Currency Account (DFA) ;
  - (ii) A holder of a Non-Resident Non-National Foreign Currency Account (NRNNFA) ;
  - (iii) A holder of a Securities Investment Account (SIA) ;
  - (iv) A holder of a Special Foreign Investment Deposit Account (SFIDA).
- (c) Where a debit card is issued to following persons, a payment to a person resident outside Sri Lanka for a current international transaction is permitted :
  - (i) A holder of a Foreign Currency Account for International Services Providers and their Employees (FCAISPE) in the capacity of an employee ;
  - (ii) A holder of a Foreign Exchange Earners’ Account (FEEA) ;
  - (iii) A citizen of Sri Lanka who has proceeded outside Sri Lanka for employment or setting up in business or profession, during the pendency of such employment, business or profession.”

**4. By repealing paragraph 3 and replacing with the following paragraph :**

“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, except in the event that card is issued under item (a) of paragraph 2A.”

**5. By inserting the following paragraph, immediately after paragraph 3 :**

“3A. In the event of withdrawal of foreign currencies using a debit card or obtaining a cash advance through a credit card, card holder shall keep evidence that such currencies have been utilized for the transactions permitted under paragraphs 2 and item (c) of 2AB of this permission.”

**6. By repealing paragraph 5 and replacing with the following paragraph :**

“5. For the purposes of this notice, unless the context otherwise requires ;

- (i) **“Authorized Dealer”** shall have the same meaning as given in the Exchange Control Act ;
- (ii) **“Electronic Fund Transfer Card (EFTC)”** shall mean, a card or a 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 where transaction details could be identified by the Authorized Dealers for the purposes of being compliant with the provisions of the Exchange Control Act;
- (iii) **“Debit Card”** shall mean, a payment card that may be used to withdraw cash and/or execute payments for purchase of goods and services, by directly debiting from the credit balance of the card holder’s account;
- (iv) **“Credit Card”** shall mean a payment card which involves a line of credit granted by the issuer to the card holder, where the credit utilized can be settled in full or in part on or before a specified date. The issuer may charge interest or other charges on any amount not settled on the specified date ;
- (v) **“Personal”** shall mean, for the use of the holder of the card, his/her spouse, children and parents and does not include use for any commercial purpose.

P H O Chandrawansa  
**Controller of Exchange**

Colombo,  
28 May 2014

**Ref: 06/04/11/2014**

01 July 2014

Directions to Authorized Dealers

Dear Sirs,

**AMENDMENT TO THE OUTWARD INVESTMENT ACCOUNT (OIA)**

The Annex I to the Directions bearing Ref. No. 06/04/02/2011 dated 21st January 2011 on the OIA is repealed and replaced with the Annex I hereto.

Yours faithfully,  
D M Rupasinghe  
**Controller of Exchange**

**Annex I**

1. Documents Required from all Resident Investors:

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

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

**Category 1: Companies incorporated under the Companies Act, No 07 of 2007**

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

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

- (i) Certified copy of the partnership agreement
- (ii) Tax clearances to cover the amount of investment by each partner, if required under the circulars issued by the Commissioner General of Inland Revenue.

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

Tax Clearance to cover the investment amount, if required under the circulars issued by the Commissioner General of Inland Revenue.

Ref: 06/04/12/2014

29 September 2014

Directions to Authorized Dealers

Dear Sirs,

**LOANS TO FOREIGN EXCHANGE EARNERS' ACCOUNTS (FEEA) HOLDERS**

The authorized dealers are hereby permitted to grant loans in foreign currency from their Domestic Banking Units to FEEA holders for any purpose as may be decided by the authorized dealers as part of their business decisions in the course of normal banking business, subject to following terms and conditions: -

- (1) Grant of loans shall be based on the specific assessment by authorized dealers of the ability of the FEEA holders to service the loan out of their foreign exchange cash flows which are evaluated for a reasonable period of the past and planned future.
- (2) Recoveries of loans in Sri Lanka Rupees shall be carried out only at a stage of loans being non-performing classified as sub-standard, doubtful or loss in terms of the Banking Act Direction, No.3 of 2008 (as amended).
- (3) Authorized dealers shall furnish quarterly statements on loans granted under this Direction to the Controller of Exchange on or before the 15th day of the month following the end of each quarter as per Annex I.
- (4) Directions No. 06/04/21/2013 dated 12th June 2013 and No. 06/04/08/2014 dated 28th May 2014 are hereby rescinded and therefore, the terms and conditions and the recovery of loans that have been granted under such Directions shall be effected in terms of this Direction.

Yours faithfully,  
D M Rupasinghe  
**Controller of Exchange**

**Annex I**

To: Controller of Exchange

**QUARTERLY REPORT ON LOANS TO FOREIGN EXCHANGE EARNERS' ACCOUNTS (FEEA) HOLDERS**

Name of the Authorized Dealer : .....

Reporting period: Quarter ending .....

Item	No. of Loans	Value (in USD terms)
Loans extended during the quarter		
Total loans outstanding as at the end of the quarter		
Loans in the non-performing category as at the end of the quarter		
Non-performing loans recovered in Rupees during the quarter		

I hereby confirm that the above details are true and accurate.

Date: .....

.....  
Signature of the Authorized Officer

.....  
Designation of the Authorized Officer

Submission Requirement:

1. Within 15 days from the end of each quarter
2. To : Controller of Exchange  
Exchange Control Department  
Central Bank of Sri Lanka  
Colombo 1  
Fax : 011 2477716

**Ref: 06/04/13/2014**

27 October 2014

Directions to Authorized Dealers

Dear Sirs,

**OPENING AND MAINTAINING ACCOUNTS IN CHINESE RENMINBI (RMB)**

Further to the Direction under reference 06/04/04/2011 dated 5th July 2011, Authorized Dealers are hereby informed that the Chinese Renminbi (RMB) could be used in opening and maintaining foreign currency accounts.

Yours faithfully,  
D M Rupasinghe  
**Controller of Exchange**

**Ref: 06/04/15/2014**

31 December 2014

Directions to Authorized Dealers

Dear Sirs,

**ISSUANCE OF FOREIGN CURRENCY NOTES FOR TRAVEL PURPOSES**

1. Authorized Dealers are hereby permitted to issue foreign currency notes as a part of the travel allowance for persons resident in Sri Lanka who are travelling abroad, up to USD 10,000 or its equivalent in any other convertible foreign currency. Authorized Dealers are instructed to exercise due diligence and assess bona fide of individual requests when issuing currencies.
2. If the person resident in Sri Lanka referred to above is a citizen of Sri Lanka holding a passport issued by the Controller General of Immigration and Emigration of Sri Lanka, an appropriate endorsement shall be made on the passport of the holder in respect of the travel allowance issued to such person.
3. Directions bearing Ref. No. 06/04/19/2013 dated June 12, 2013 on the above subject is hereby rescinded.

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

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

NO. 1895/15 – WEDNESDAY, DECEMBER 31, 2014  
(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 published in Gazette (Extraordinary) No. 641/15 dated December 20, 1990, under the Section 29B read with Section 3 of the Exchange Control Act (Chapter 423), imposing conditions and requirements on persons in or resident in Sri Lanka performing the service of Freight Forwarding is hereby rescinded.

R R Jayarathne  
**Additional Controller of Exchange**

Colombo,  
31st day of December 2014

**Circular 01/14**

30 January 2014

To : All Authorized Money Changers

Dear Sir/Madam,

**PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING  
OBLIGATION OF REPORTING INSTITUTIONS**

The attention of all Authorized Money Changers is drawn to Extraordinary Gazette Notification No.1760/40 dated 31 May 2012 issued by the Minister of External Affairs.

Accordingly, all Authorized Money Changers are advised to follow below mentioned criteria with respect to dealing with their customers.

1. As and when amendments to the list of designated individuals and entities (referred to as consolidated lists in the said Gazette) are published by the United Nations Security Council (UNSC), the Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) will circulate such amendments to all Authorized Money Changers via E-mails. Further, Authorized Money Changers are advised to refer the updated list of such individuals/entities in the United Nations Security Council website at <http://www.un.org/sc/committees/1267/consolist.shtml> and <http://www.un.org/sc/committees/1988/list.shtml>.
2. Maintain a database of names and particulars of individuals/entities in the designated lists.
3. Ensure that the information contained in the database is updated and relevant, and made easily accessible to its employees.
4. Prior to conducting transactions with customers, check whether particulars of the customers match with details in the above mentioned list of designated individuals and entities.
5. In case, the match of any of the customers with the particulars of designated individuals/entities,
  - a. Shall not conduct any transactions with or for the benefit of such designated persons as per paragraphs 5 and 6 of United Nations Regulation No 2 of 2012.
  - b. Shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars to the FIU at Fax No.011 - 2477692 or 011 - 2477722 and also convey over telephone on 011 - 2477125. The particulars apart from being sent by post/fax should necessarily be conveyed on e-mail to [fiu@cbsl.lk](mailto:fiu@cbsl.lk).
  - c. Shall also send by post a copy of the communication mentioned in (5.b) above to the Competent Authority (Chief of National Intelligence, Office of the Competent Authority, Ministry of Defence & Urban Development, No. 15/5 Baladaksha Mawatha, Colombo -03). The particulars apart from being sent by post should necessarily be conveyed on e-mail to [cniofficemod@gmail.com](mailto:cniofficemod@gmail.com).

Authorized Money Changers are advised to bring the provisions of this circular and the United Nations Regulation No 2 of 2012 to the notice of the staff concerned and ensure strict compliance.

Yours faithfully,  
**Director**  
**Financial Intelligence Unit**

cc. Controller of Exchange

**Circular No. 02/14**

25 June 2014

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

Dear Sir/Madam,

### **PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING OBLIGATIONS OF REPORTING INSTITUTIONS**

The attention of all Licensed Banks/Licensed Finance Companies is drawn to the revised Financial Action Task Force (FATF) Recommendation No.6, Extraordinary Gazette Notification No.1758/19 dated 15 May 2012 issued by the Minister of External Affairs and Extraordinary Gazette Notifications No. 1854/41 dated 21 March 2014 and No. 1863/25 dated 22 May 2014 issued by the Secretary to the Ministry of Defence and Urban Development (the Competent Authority for UNSCR 1373).

- 1) Accordingly, Sri Lanka is required to implement targeted financial sanctions prescribed in the Gazette Notification No. 1758/19 to comply with the United Nations Security Council Resolution (UNSCR) 1373 (2001) and its subsequent resolutions which require countries to freeze funds, financial assets or economic resources of designated individuals and entities, and to ensure that no such funds, financial assets or economic resources are made available to or for the benefit of such designated persons or entities or their beneficiaries. Accordingly, every Licensed Bank/Licensed Finance Company is obliged to have measures in place to immediately freeze funds, financial assets or economic resources of such designated persons and entities who have been initially listed in the Extraordinary Gazette Notification No. 1854/41 and may be amended by any future Gazette notifications by the Competent Authority.
- 2) By way of an Order published in the Extraordinary Gazette Notification No. 1863/25 dated 22 May 2014, the Competent Authority has frozen all funds, other financial assets and economic resources belonging to or owned or held by any natural or legal person, group or entity designated and published in the Gazette Extraordinary No. 1854/41 of March 21, 2014. The funds, other financial assets and economic resources shall remain frozen as long as such person, group or entity remains designated.

- 3) Please refer to FIU/UNSCR-1373/Directives No.01 attached for the details on obligations of Licensed Bank or Licensed Finance Company in complying with targeted financial sanctions relating to terrorism and terrorist financing. These Directives shall be construed as a part of the existing Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance framework of the Licensed Banks and Licensed Finance Companies.

Yours faithfully,  
**Director**  
**Financial Intelligence Unit**

- cc. Compliance Officers of all Licensed Banks and Licensed Finance Companies  
 Director, Bank Supervision  
 Director, Supervision of Non-Bank Financial Institutions

#### FIU/UNSCR-1373/Directives No. 01

### PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING OBLIGATION OF REPORTING INSTITUTIONS

Further to United Nations (UN) Regulation No 1 of 2012 which was published in Extraordinary Gazette Notification No. 1758/19 dated 15 May 2012 in order to facilitate the implementation of obligations more specifically of paragraphs (c) and (d) of Article 1 of United Nations Security Council Resolution (UNSCR) 1373 (2001) within Sri Lanka and to comply with the aforesaid obligations.

1. Licensed Banks / Licensed Finance Companies shall strictly follow the procedure laid down in the UN Regulation No 1 of 2012 (copy enclosed) and ensure strict compliance.
2. The list of designated individuals and entities (referred to as List in section 4(2) of the said Regulation) has been published in Extraordinary Gazette Notification No. 1854/41 dated 21 March 2014. The Licensed Banks / Licensed Finance Companies shall maintain a database of names and particulars of individuals/entities in the List to ensure efficient detection of suspected financing of terrorism.
3. Licensed Banks/ Licensed Finance Companies shall ensure that the information contained in the database is updated and relevant, and made easily accessible to its employees at the head office, branch or subsidiary for the purpose of identifying all funds, other financial assets and economic resources which belong to designated individuals and entities.
4. As and when amendments to the List are published in gazette by the Competent Authority, the FIU will notify all compliance officers of Licensed Banks/Licensed Finance Companies via E-mails.
5. Licensed Banks/ Licensed Finance Companies shall update the database of designated individuals/entities which is maintained by them in terms of the above paragraph 2, on receipt of the notifications from the FIU.
6. Licensed Banks/ Licensed Finance Companies shall ensure that the name(s) of the prospective customers do(es) not appear in the List before entering into any new business relationships. Further, Banks/Finance Companies shall scan all existing business relationships to ensure that no business relationship is held by or linked to any of the entities or individuals included in the List.
7. In case, the match of any of the customers with the particulars of designated individuals/entities, the Licensed Banks/ Licensed Finance Companies shall prevent designated persons from conducting any transactions and freeze all funds, other financial assets and economic resources without delay as per paragraphs 5 of United Nations Regulation No 1 of 2012 and the Order published in the Extraordinary Gazette Notification No. 1863/25 dated 22 May 2014 by the Competent Authority
8. Once a name of person or an entity is removed from the List, the Licensed Banks/ Licensed Finance Companies shall lift the freeze which was enforced in terms of paragraph 7 and allow the delisted person to carry out usual transactions.
9. Upon freezing or lifting of such freezing of funds, other financial assets and economic resources of designated individuals and entities, or upon the occurrence of an attempted transaction by or for designated individuals or entities, Licensed Banks/ Licensed Finance Companies shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, other financial assets and economic resources, held by such customer on their books to the FIU at Fax No. 011- 2477692 or 011- 2477722 and also convey over telephone on 011- 2477125. The particulars apart from being sent by post/fax shall be conveyed on e-mail to [fiu@cbsl.lk](mailto:fiu@cbsl.lk) .
10. Licensed Banks / Licensed Finance Companies shall also send by post a copy of the communication mentioned in above paragraph to the Competent Authority (Office of the Competent Authority, Ministry of Defence & Urban Development, No. 15/5 Baladaksha Mawatha, Colombo-03). The particulars apart from being sent by post shall be conveyed on e-mail to [camod@defence.lk](mailto:camod@defence.lk).

11. Licensed Banks/ Licensed Finance Companies shall bring the provisions of the United Nations Regulation No 1 of 2012 to the notice of the staff concerned and ensure strict compliance. The Compliance Officers are responsible for the establishment and maintenance of written internal procedures and systems to implement UNSCR 1373 (2001) and all current and future subsequent resolutions to UNSCR 1373 (2001).

**Circular No. 03/14**

07 July 2014

To : Chief Executive Officers of Insurance Companies

Dear Sir/Madam,

**PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING  
OBLIGATIONS OF INSURANCE COMPANIES**

The attention of all Insurance Companies is drawn to the revised Financial Action Task Force (FATF) Recommendation No.6, Extraordinary Gazette Notification No.1758/19 dated 15 May 2012 issued by the Minister of External Affairs and Extraordinary Gazette Notifications No. 1854/41 dated 21 March 2014 and No. 1863/25 dated 22 May 2014 issued by the Secretary to the Ministry of Defence and Urban Development (the Competent Authority for UNSCR 1373).

- 1) Accordingly, Sri Lanka is required to implement targeted financial sanctions prescribed in the Gazette Notification No. 1758/19 to comply with the United Nations Security Council Resolution (UNSCR) 1373 (2001) and its subsequent resolutions which require countries to freeze funds, financial assets or economic resources of designated individuals and entities, and to ensure that no such funds, financial assets or economic resources are made available to or for the benefit of such designated persons or entities or their beneficiaries. Accordingly, every Insurance Company is obliged to have measures in place to immediately freeze funds, financial assets or economic resources of such designated persons and entities who have been initially listed in the Extraordinary Gazette Notification No. 1854/41 and may be amended by any future Gazette notifications by the Competent Authority.
- 2) By way of an Order published in the Extraordinary Gazette Notification No. 1863/25 dated 22 May 2014, the Competent Authority has frozen all funds, other financial assets and economic resources belonging to or owned or held by any natural or legal person, group or entity designated and published in the Gazette Extraordinary No. 1854/41 of March 21, 2014. The funds, other financial assets and economic resources shall remain frozen as long as such person, group or entity remains designated.
- 3) Please refer to FIU/UNSCR-1373/Directives No.02 attached for the details on obligations of Insurance Companies in complying with targeted financial sanctions relating to terrorism and terrorist financing. These Directives shall be construed as a part of the existing Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance framework of the Insurance Companies.

Yours faithfully,  
**Director**  
**Financial Intelligence Unit**

cc. Compliance Officers of all Insurance Companies  
Director General / Insurance Board of Sri Lanka

**FIU/UNSCR-1373/Directives No. 02**

**PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING  
OBLIGATIONS OF INSURANCE COMPANIES**

Further to United Nations (UN) Regulation No 1 of 2012 which was published in Extraordinary Gazette Notification No. 1758/19 dated 15 May 2012 in order to facilitate the implementation of obligations more specifically of paragraphs (c) and (d) of Article I of United Nations Security Council Resolution (UNSCR) 1373 (2001) within Sri Lanka and to comply with the aforesaid obligations.

1. Insurance Companies shall strictly follow the procedure laid down in the UN Regulation No 1 of 2012 (copy enclosed) and ensure strict compliance.
2. The list of designated individuals and entities (referred to as List in section 4(2) of the said Regulation) has been published in Extraordinary Gazette Notification No. 1854/41 dated 21 March 2014. The Insurance Companies shall maintain a database of names and particulars of individuals/entities in the List to ensure efficient detection of suspected financing of terrorism.
3. Insurance Companies shall ensure that the information contained in the database is updated and relevant, and made easily accessible to its employees at the head office, branch or subsidiary for the purpose of identifying all funds, other financial assets and economic resources which belong to designated individuals and entities.
4. As and when amendments to the List are published in gazette by the Competent Authority, the FIU will notify all compliance officers of Insurance Companies via E-mails.

5. Insurance Companies shall update the database of designated individuals/entities which is maintained by them in terms of the above paragraph 2, on receipt of the notifications from the FIU.
6. Insurance Companies shall ensure that the name(s) of the prospective customers do(es) not appear in the List before entering into any new business relationships. Further, Insurance Companies shall scan all existing business relationships to ensure that no business relationship is held by or linked to any of the entities or individuals included in the List.
7. In case, the match of any of the customers with the particulars of designated individuals/entities, the Insurance Companies shall prevent designated persons from conducting any transactions and freeze all funds, other financial assets and economic resources without delay as per paragraphs 5 of United Nations Regulation No 1 of 2012 and the Order published in the Extraordinary Gazette Notification No. 1863/25 dated 22 May 2014 by the Competent Authority
8. Once a name of person or an entity is removed from the List, the Insurance Companies shall lift the freeze which was enforced in terms of paragraph 7 and allow the delisted person to carry out usual transactions.
9. Upon freezing or lifting of such freezing of funds, other financial assets and economic resources of designated individuals and entities, or upon the occurrence of an attempted transaction by or for designated individuals or entities, Insurance Companies shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, other financial assets and economic resources, held by such customer on their books to the FIU at Fax No. 011 - 2477692 or 011 - 2477722 and also convey over telephone on 011 - 2477125. The particulars apart from being sent by post/fax shall be conveyed on e-mail to [fiu@cbsl.lk](mailto:fiu@cbsl.lk).
10. Insurance Companies shall also send by post a copy of the communication mentioned in above paragraph to the Competent Authority (Office of the Competent Authority, Ministry of Defence & Urban Development, No. 15/5 Baladaksha Mawatha, Colombo-03). The particulars apart from being sent by post shall be conveyed on e-mail to [camod@defence.lk](mailto:camod@defence.lk).
11. Insurance Companies shall bring the provisions of the United Nations Regulation No 1 of 2012 to the notice of the staff concerned and ensure strict compliance. The Compliance Officers are responsible for the establishment and maintenance of written internal procedures and systems to implement UNSCR 1373 (2001) and all current and future subsequent resolutions to UNSCR 1373 (2001).

**Circular No. 04/14**

07 July 2014

To : Chief Executive Officers of Stock Brokers

Dear Sir/Madam,

**PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING  
OBLIGATIONS OF STOCK BROKERS**

The attention of all Stock Brokers is drawn to the revised Financial Action Task Force (FATF) Recommendation No.6, Extraordinary Gazette Notification No.1758/19 dated 15 May 2012 issued by the Minister of External Affairs and Extraordinary Gazette Notifications No. 1854/41 dated 21 March 2014 and No. 1863/25 dated 22 May 2014 issued by the Secretary to the Ministry of Defence and Urban Development (the Competent Authority for UNSCR 1373).

- 1) Accordingly, Sri Lanka is required to implement targeted financial sanctions prescribed in the Gazette Notification No. 1758/19 to comply with the United Nations Security Council Resolution (UNSCR) 1373 (2001) and its subsequent resolutions which require countries to freeze funds, financial assets or economic resources of designated individuals and entities, and to ensure that no such funds, financial assets or economic resources are made available to or for the benefit of such designated persons or entities or their beneficiaries. Accordingly, every Stock Broker is obliged to have measures in place to immediately freeze funds, financial assets or economic resources of such designated persons and entities who have been initially listed in the Extraordinary Gazette Notification No. 1854/41 and may be amended by any future Gazette notifications by the Competent Authority.
- 2) By way of an Order published in the Extraordinary Gazette Notification No. 1863/25 dated 22 May 2014, the Competent Authority has frozen all funds, other financial assets and economic resources belonging to or owned or held by any natural or legal person, group or entity designated and published in the Gazette Extraordinary No. 1854/41 of March 21, 2014. The funds, other financial assets and economic resources shall remain frozen as long as such person, group or entity remains designated.
- 3) Please refer to FIU/UNSCR-1373/Directives No.03 attached for the details on obligations of Stock Brokers in complying with targeted financial sanctions relating to terrorism and terrorist financing. These Directives shall be construed as a part of the existing Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance framework of the Stock Brokers.

Yours faithfully,

**Director**

**Financial Intelligence Unit**

cc. Compliance Officers of all Stock Brokers

Director General / Securities and Exchange Commission of Sri Lanka

Director General / Colombo Stock Exchange

**FIU/UNSCR-1373/Directives No. 03****PREVENTION AND SUPPRESSION OF TERRORISM AND TERRORIST FINANCING  
OBLIGATIONS OF STOCK BROKERS**

Further to United Nations (UN) Regulation No 1 of 2012 which was published in Extraordinary Gazette Notification No. 1758/19 dated 15 May 2012 in order to facilitate the implementation of obligations more specifically of paragraphs (c) and (d) of Article I of United Nations Security Council Resolution (UNSCR) 1373 (2001) within Sri Lanka and to comply with the aforesaid obligations.

1. Stock Brokers shall strictly follow the procedure laid down in the UN Regulation No 1 of 2012 (copy enclosed) and ensure strict compliance.
2. The list of designated individuals and entities (referred to as List in section 4(2) of the said Regulation) has been published in Extraordinary Gazette Notification No. 1854/41 dated 21 March 2014. The Stock Brokers shall maintain a database of names and particulars of individuals/entities in the List to ensure efficient detection of suspected financing of terrorism.
3. Stock Brokers shall ensure that the information contained in the database is updated and relevant, and made easily accessible to its employees at the head office, branch or subsidiary for the purpose of identifying all funds, other financial assets and economic resources which belong to designated individuals and entities.
4. As and when amendments to the List are published in gazette by the Competent Authority, the FIU will notify all compliance officers of Stock Brokers via E-mails.
5. Stock Brokers shall update the database of designated individuals/entities which is maintained by them in terms of the above paragraph 2, on receipt of the notifications from the FIU.
6. Stock Brokers shall ensure that the name(s) of the prospective customers do(es) not appear in the List before entering into any new business relationships. Further, Stock Brokers shall scan all existing business relationships to ensure that no business relationship is held by or linked to any of the entities or individuals included in the List.
7. In case, the match of any of the customers with the particulars of designated individuals/entities, the Stock Brokers shall prevent designated persons from conducting any transactions and freeze all funds, other financial assets and economic resources without delay as per paragraphs 5 of United Nations Regulation No 1 of 2012 and the Order published in the Extraordinary Gazette Notification No. 1863/25 dated 22 May 2014 by the Competent Authority
8. Once a name of person or an entity is removed from the List, the Stock Brokers shall lift the freeze which was enforced in terms of paragraph 7 and allow the delisted person to carry out usual transactions.
9. Upon freezing or lifting of such freezing of funds, other financial assets and economic resources of designated individuals and entities, or upon the occurrence of an attempted transaction by or for designated individuals or entities, Stock Brokers shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, other financial assets and economic resources, held by such customer on their books to the FIU at Fax No. 011- 2477692 or 011- 2477722 and also convey over telephone on 011- 2477125. The particulars apart from being sent by post/fax shall be conveyed on e-mail to [fiu@cbsl.lk](mailto:fiu@cbsl.lk).
10. Stock Brokers shall also send by post a copy of the communication mentioned in above paragraph to the Competent Authority (Office of the Competent Authority, Ministry of Defence & Urban Development, No. 15/5 Baladaksha Mawatha, Colombo-03). The particulars apart from being sent by post shall be conveyed on e-mail to [camod@defence.lk](mailto:camod@defence.lk).
11. Stock Brokers shall bring the provisions of the United Nations Regulation No 1 of 2012 to the notice of the staff concerned and ensure strict compliance. The Compliance Officers are responsible for the establishment and maintenance of written internal procedures and systems to implement UNSCR 1373 (2001) and all current and future subsequent resolutions to UNSCR 1373 (2001).

**Circular – 05/14**

27 November 2014

To: CEOs of All Licensed Banks,

Dear Sir/Madam,

**REPORTING OF FOREIGN INWARD REMITTANCES**

In terms of Section 15 of the Financial Transactions Reporting Act No 6 of 2006, you are hereby directed to report all foreign inward remittances exceeding or equivalent to USD 25,000 or equivalent in any other foreign currency (per transaction or accumulation of transactions within a week) received by individuals and Non-Governmental Organizations to the Financial Intelligence Unit with effect from November 24, 2014. The report should contain following minimum details and upload to the LankaFIN online system as per the instructions in the annex I.

1. Date of Transaction
2. Amount in Foreign Currency

3. County of Sending
4. Sender Details
5. Beneficiary Details

The above weekly report relating to a particular week should be submitted to the Financial Intelligence Unit on the following Monday and first of such report should be submitted on December 01, 2014.

Yours faithfully,  
**Additional Director**  
**Financial Intelligence Unit**

cc. Compliance Officers

#### Annex I

### INSTRUCTIONS ON SUBMITTING EFT INCOMING REPORT FOR FOREIGN INWARD REMITTANCES

- **Foreign inward remittance** transactions equivalent or exceeding **USD 25000** equivalent in any other foreign currency should be reported through Lanka FIN as a separate EFT Incoming Report in the below format.
  - Reporting Criterion – EFT IN (Only Foreign Inward Remittances)
  - Reporting Frequency – Weekly (following Monday)
  - LankaFIN File Submission Number – 10
  - File Type – Xml (Adhere to the same file conversion format)

Ref. No. : 34/07/029/ 0001/001

03 February 2014

Circular No.: RTGS/01/2014

To : All Participants of the LankaSettle System

#### APPOINTMENT OF PERPETUAL TREASURIES LIMITED AS A PARTICIPANT IN THE LANKASETTLE SYSTEM

**Perpetual Treasuries Limited** (PTL) of No.10, Alfred House Gardens, Colombo 3, has been appointed as a Primary Dealer in Government Securities in terms of the Local Treasury Bills Ordinance, No.08 of 1923 and the Registered Stock and Securities Ordinance, No.07 of 1937. It has also been appointed as a participant of the Real Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System with effect from 05 February 2014.

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

SWIFT User Id Code (BIC)	:	PPTLLKXXXX
RTGS Settlement Account	:	PPTLLKXXXX0100053010
<b>Contact Details</b>	:	
Chief Executive Officer	:	Mr. Arjun Aloysius
Telephone	:	+94-11-4523600
Fax	:	+94-11-4523620
E-mail	:	arjun@perpetualtreasuries.com

Perpetual Treasuries Limited will participate in the LankaSettle System with effect from 05 February 2014 using its Primary Participant External Id. PPTLLKXXXX.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

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

Ref. No. : 34/07/029/0001/001

18 February 2014

Circular No.: RTGS/02/2014

To : All Participants of the LankaSettle System

#### OPENING OF THE LANKASETTLE SYSTEM TO CONDUCT A LIVE TRIAL ON 23 FEBRUARY 2014

This is to inform you that the LankaSettle System (RTGS and SSSS) will be opened on **23 February 2014 (Sunday)** 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, requested:

- (1) Not to send any forward dated SWIFT messages, having a value date later than 21 February 2014, until the new version is available for live operations on 24 February 2014.
- (2) To cancel any forward dated transactions that you may have already sent (warehoused) with the value date specified as a date later than 21 February 2014.
- (3) Not to send any forward dated transactions on 23 February 2014 (live trial day), as such entries will be deleted from the system at the end of the live trial.
- (4) To disregard all inbound SWIFT messages generated on 23 February 2014 by CBCELKLAXXX, CBCELKLSXXX and CBCELKLXXXX.

The live trial will be conducted from **9:00am to 11:30am on 23 February 2014.**

The required test plan will be directly emailed to authorized officers of each participant by ITD, CBSL on or before 21 February 2014.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

U L Muthugala  
**Addl. Superintendent of Public Debt**

**GENERAL DIRECTION NO. 01 OF 2014 – FEES CHARGEABLE ON THE TRANSACTIONS EFFECTED  
 THROUGH THE COMMON ATM SWITCH  
 PAYMENT AND SETTLEMENT SYSTEMS ACT, NO. 28 OF 2005**

General Direction made by the Monetary Board of the Central Bank of Sri Lanka under section 44 of the Payment and Settlement Systems Act, No. 28 of 2005.

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

Colombo  
 25 February 2014

**GENERAL DIRECTION ON FEES CHARGEABLE ON THE TRANSACTIONS  
 EFFECTED THROUGH THE COMMON ATM SWITCH**

This Direction may be cited as the General Direction No. 01 of 2014 on Fees Chargeable on the Transactions effected through the Common ATM Switch (CAS) and shall replace the General Direction No. 02 of 2013 on Fees Chargeable on the Transactions effected through the Common ATM Switch. This Direction shall apply to the members of CAS and shall come into operation with effect from 25 February 2014.

2. Every member of CAS shall adhere to the following limits in charging fees on the transactions effected through CAS.
  - 2.1 Fees to be charged from the customer by the card issuer:
    - 2.1.1 The fees to be charged by the card issuer from the customer when using another bank's ATM for withdrawal of funds shall not exceed Rs. 30.00 (including taxes) per withdrawal.
    - 2.1.2 The fees to be charged by the card issuer from the customer when executing a balance inquiry from another bank's ATM shall not exceed Rs. 7.50 (including taxes).
  - 2.2 Interchange fees to be charged from the card issuer by the financial acquirer:
    - 2.2.1 The interchange fee to be charged by the financial acquirer from the card issuer for withdrawal of funds by a customer of such issuer shall not exceed Rs. 35.00 (including taxes) per withdrawal.
    - 2.2.2 The interchange fee to be charged by the financial acquirer from the card issuer for a balance inquiry by a customer of such issuer shall not exceed Rs. 10.00 (including taxes).

Ref. No.: 34/07/029/0001/002

11 March 2014

Circular No.: RTGS/03/2014

To: All Participants of the LankaSettle System

**LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM ITS BACK-UP SITE  
ON 14 MARCH 2014 (FRIDAY)**

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 **14 March 2014 (Friday)** for the purpose of testing the business continuity arrangements.

The PCs of your institution that have been connected to the CBSLNet have already been configured to access the CBSL DR site. However, you are requested to contact IT Department of CBSL and test the connectivity before 14 March 2014 to ensure the readiness. The contact details of CBSL IT officials are given below.

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

Ranjani Weerasinghe  
**Director, Payments and Settlements**

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

Ref. No. : 34/01/002/0044/001

02 April 2014

Circular No.: RTGS/04/2014

To: All Participants of the LankaSettle System

**APPOINTMENT OF CARGILLS BANK LIMITED AS A PARTICIPANT IN THE LANKASETTLE SYSTEM**

**Cargills Bank Limited** of No.696, Galle Road, Colombo 3 has been licensed under the Banking Act, No.30 of 1988 to carry on banking business. It has also been appointed as a direct participant and a dealer direct participant under the Registered Stock and Securities Ordinance No.7 of 1937 and the Local Treasury Bills Ordinance No. 8 of 1923.

Accordingly, Cargills Bank Limited has been appointed as a participant of the Real Time Gross Settlement (RTGS) System, Scripless Securities Settlement (SSS) System and Scripless Securities Depository (SSD) System of the LankaSettle System.

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

SWIFT User Id Code (BIC)	: CGRBLKXXXX
RTGS Settlement Account	: CGRBLKXXXX0100052026
<b>Contact Details</b>	:
Chief Executive Officer	: Mr. G.L.H.Premaratne
Telephone	: +94-11-3288116
Fax	: +94-11-2055575
E-mail	: harris.p@cargillsceylon.com

Cargills Bank Limited will participate in the LankaSettle System with effect from 07 April 2014 using its Primary Participant External Id. CGRBLKXXXX.

Ranjani Weerasinghe  
**Director, Payments and Settlements**

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

**GENERAL DIRECTION NO.02 OF 2014 - OPERATIONS OF THE COMMON ELECTRONIC FUND  
TRANSFER SWITCH**

**PAYMENT AND SETTLEMENT SYSTEMS ACT, NO. 28 OF 2005**

General Direction made by the Monetary Board of the Central Bank of Sri Lanka under section 44 of the Payment and Settlement Systems Act, No. 28 of 2005.

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

Colombo

1 September 2014

## GENERAL DIRECTION NO. 02 OF 2014 - OPERATIONS OF THE COMMON ELECTRONIC FUND TRANSFER SWITCH

This Direction may be cited as the General Direction No. 02 of 2014 - Operations of the Common Electronic Fund Transfer Switch and shall apply to LankaClear (Pvt.) Ltd. (LCPL) and Members of the Common Electronic Fund Transfer Switch (CEFTS) and shall come into operation on 01 September 2014.

### 2. Definitions

In this Direction, unless the context otherwise requires:

- 2.1 "Common Electronic Fund Transfer Switch" or "CEFTS" means an electronic system operated by LCPL, which facilitates domestic interbank real-time fund transfers and shall include systems, processes, and procedures for switching and clearing of fund transfers between CEFTS members.
- 2.2 "CEFTS Member" means a Primary Member and a Secondary Member of CEFTS.
- 2.3 "CEFTS System" means systems and processes operated and maintained by LCPL for CEFTS including without any limitation, systems for dispatching, receiving, processing and archival of CEFTS data.
- 2.4 "Clearing Cycle" means the time period from 14:00:01 to 07:00:00 of the following day (Clearing Cycle 1) or the time period from 07:00:01 to 14:00:00 of the same day (Clearing Cycle 2).
- 2.5 "Customer" means any legal or natural person, who issues or directs a payment order and authorizes the CEFTS member to debit the respective account or tenders monetary value to the extent of the value of the payment order to the respective CEFTS member.
- 2.6 "Operational Procedure Manual" means the document prepared by LCPL containing the procedures laid down for the guidance of CEFTS Members as regards to the operations of CEFTS.
- 2.7 "Primary Member" means any licensed commercial bank which is a participant in the RTGS System and approved by the Central Bank of Sri Lanka (CBSL) and LCPL to be a CEFTS Member.
- 2.8 "RTGS System" means the Real Time Gross Settlement System, which is a fully automated payment system owned and operated by CBSL.
- 2.9 "Secondary Member" means any legal entity approved by CBSL and LCPL to be a CEFTS Member and which has made arrangements with a Primary Member to settle net balances through the RTGS account of such Primary Member.
- 2.10 "Member Agreement" means an agreement entered into by a CEFTS Member with LCPL relating to CEFTS.

### 3. Responsibilities of LCPL and a CEFTS Member:

- 3.1 Every CEFTS Member and LCPL shall enter into a Member Agreement relating to participation in and operations of CEFTS.
- 3.2 Every CEFTS Member and LCPL shall adhere to the arrangements between them in respect of operations of CEFTS, including those in the form of rules, procedures and such other arrangements prescribed by LCPL from time to time.
- 3.3 Every CEFTS Member and LCPL shall agree to follow the stipulations and guidelines of the Operational Procedure Manual.
- 3.4 Every CEFTS Member and LCPL shall comply with the limits imposed by CBSL, if any, on fees chargeable in respect of CEFTS transactions.

### 4. Responsibilities of LCPL

- 4.1 LCPL shall be the sole operator of CEFTS.
- 4.2 LCPL shall be responsible for;
  - 4.2.1 operating CEFTS on *around the clock* basis every day;
  - 4.2.2 granting Primary and Secondary Memberships in CEFTS to eligible entities with the approval of the Director, Payments and Settlements (D/PSD) of CBSL;
  - 4.2.3 setting out clear and comprehensive System Rules with the approval of D/PSD of CBSL. The System Rules issued by LCPL shall stipulate, among other things, powers, rights, duties and obligations of LCPL and CEFTS Members, conditions for participation including joining, withdrawal, termination and suspension, operational requirements, dispute resolution mechanisms and conditions for maintaining confidentiality of information. LCPL shall amend System Rules as and when necessary with the concurrence of D/PSD of CBSL;
  - 4.2.4 defining the specifications, standards, security features and audit compliances which are applicable to the operations of CEFTS;

- 4.2.5 making available to CBSL, CEFTS multilateral net settlement batch files setting out the net position of every CEFTS Member on or before the cut-off times set out by CBSL;
- 4.2.6 entering into agreements and contracts properly with any service provider relating to the operations of CEFTS;
- 4.2.7 adopting a uniform fees and penalties structure which may be amended by LCPL from time to time subject to the clause 3.4 hereof;

4.3 LCPL shall comply with reporting requirements of CBSL in respect of the operations of CEFTS and related matters;

4.4 LCPL shall conduct training, awareness and education programmes on CEFTS, as and when necessary, to CEFTS Members and the general public.

## 5. Responsibilities of CEFTS Members

5.1 A CEFTS Member shall not engage in any national level interbank clearing and settlement system, other than the clearing systems operated by LCPL.

5.2 Every CEFTS Member shall;

- 5.2.1 adhere to the System Rules of CEFTS set out by LCPL;
- 5.2.2 adhere to technical, administrative and other requirements for the smooth operations of CEFTS specified by LCPL from time to time;
- 5.2.3 establish a procedure and/or mechanism to acknowledge the completion or non completion of the transaction through CEFTS to the customer in real time;
- 5.2.4 ensure that adequate funds are available in its RTGS settlement account to settle CEFTS multilateral net settlement batch in the RTGS System at the cut-off times specified by CBSL;
- 5.2.5 be responsible for making regular backups of databases relating to the operations of CEFTS and establishing and maintaining recovery procedures in the event of system failure or data corruption or loss at the primary site;
- 5.2.6 reconcile the daily transaction reports and inform LCPL in writing of any discrepancy within 24 hours of receipt of the settlement report;
- 5.2.7 adhere to transaction limits specified by LCPL with the approval of CBSL with regard to CEFTS;
- 5.2.8 comply with reporting requirements of CBSL in respect of the operations of CEFTS and related matters;
- 5.2.9 report transactions effected through CEFTS to the Financial Intelligence Unit (FIU) of CBSL as per the regulations issued in terms of the Financial Transaction Reporting Act, No. 06 of 2006 and act according to the instructions of FIU.

## 6. Business Continuity Planning

6.1 LCPL and CEFTS Members shall have a well defined business continuity plan for the operations of CEFTS approved by the respective Boards of Directors to ensure availability of CEFTS service at all times.

6.2 LCPL and CEFTS Members shall have a fully equipped Disaster Recovery Site (DRS) and well trained disaster management and business recovery teams to ensure uninterrupted operations.

6.3 LCPL shall have a skilled and trained backup staff in respect of core functionalities of CEFTS to be deployed in contingency situations in order to ensure carrying out operations without any interruption.

6.4 If LCPL experiences any technical or operational problem that prevents from performing its functions of CEFTS, such problem shall be conveyed to CBSL immediately after becoming aware of such problem. In the event of an unrecoverable failure at the primary site, LCPL shall immediately inform CBSL and commence operations at DRS and submit the CEFTS multilateral net settlement batch file to CBSL from DRS. In the event of a prolonged unrecoverable failure at both primary site and DRS, LCPL shall inform CBSL immediately and shall adopt alternative methods to derive the CEFTS multilateral net settlement for the time period from the end of the last settled Clearing Cycle to the time of the failure of the system and shall make available the same to CBSL.

## 7. Confidentiality

LCPL and every CEFTS Member shall maintain confidentiality in respect of all data, information and records and shall ensure that its officers, employees, agents and/or any person employed in any capacity maintain confidentiality, at all times.

## 8. General

8.1 In furtherance of and without prejudice to the foregoing, CBSL may from time to time and at any time require LCPL and CEFTS Members to provide such information in respect of the operations of CEFTS and LCPL and CEFTS Members shall provide such information to CBSL.

8.2 This Direction is in addition to and not in derogation of any other written law, and rules, regulations, directions, terms and conditions to which LCPL and CEFTS Members are subject to and/or may be subject to from time to time.

8.3 Without prejudice to the generality of the above paragraph, this Direction shall not be construed to limit any obligation or responsibility imposed on the CEFTS Members by the Payment and Settlement Systems Act, No. 28 of 2005 or any rule, regulation, instruction, directive or order issued or given thereunder or any other written law.

Ref. No. : 34/07/029/ 0001/002

02 October 2014

Circular No.: RTGS/05/2014

To : All Participants of the LankaSettle System

#### DECLARATION OF 06 OCTOBER 2014 AS A PUBLIC & SPECIAL BANK HOLIDAY

This is to inform that the LankaSettle System will not be open for business on 06 October 2014 (Monday) as the Government has declared the day as a public and special bank holiday in lieu of the Hadji Festival Day (Id-UL-Alha) which falls on Sunday, 05 October 2014. All participants are hereby informed not to enter any transaction to the system with the value date of 06 October 2014. If you have already entered transactions with the value date of 06 October 2014, such transactions should be re-entered with the value date of 07 October 2014.

Ranjani Weerasinghe  
Director, Payments and Settlements

U L Muthugala  
Actg. Superintendent of Public Debt

Ref. No.: 34/07/029/ 0001/002

13 October 2014

Circular No.: RTGS/06/2014

To: All Participants of the LankaSettle System

#### CHANGE OF NAME OF AMANA BANK LIMITED

In terms of the provisions of the Companies Act, No. 07 of 2007, Amana Bank Limited has been registered as a public limited company under the name of Amana Bank PLC.

The static data of the LankaSettle System will be changed accordingly and the change will be effective from 14 October 2014 as indicated below.

**Participant Organization Name** : Amana Bank PLC

The account name and SWIFT BIC of the Amana Bank PLC will remain unchanged.

Ranjani Weerasinghe  
Director, Payments and Settlements

N W G R D Nanayakkara  
Superintendent of Public Debt

Ref. No. : 34/07/029/0001/002

29 October 2014

Circular No. : RTGS/07/2014

To: All Participants of the LankaSettle System

#### LIVE OPERATIONS OF THE LANKASETTLE SYSTEM FROM THE DISASTER RECOVERY SITE ON 07 NOVEMBER 2014 (FRIDAY)

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 (DR) site on **07 November 2014 (Friday)** for the purpose of testing the business continuity arrangements.

The PCs of your institution that have been connected to the CBSLNet have already been configured to access the CBSL DR site. However, you are requested to contact IT Department of CBSL and test the connectivity before **07 November 2014** to ensure the readiness. The contact details of CBSL IT officials are given below.

- Mr. Lasith Fernando – 011 2477 124 (e-mail: lasith@cbsl.lk)
- Mr. Rusiru Boralugoda – 011 2398 617 (e-mail: rusiru@cbsl.lk)

Ranjani Weerasinghe  
Director, Payments and Settlements

U L Muthugala  
Actg. Superintendent of Public Debt

**OPERATING INSTRUCTIONS NO. RDD/SEPI/2009/07/ (A-02)**

Regional Development Department  
Central Bank of Sri Lanka  
No. 30, Janadhipathi Mawatha  
Colombo 01.  
10 April 2014

To : All Participating Financial Institutions

Dear Sir/Madam

**AMENDMENTS TO THE OPERATING INSTRUCTIONS OF THE SELF-EMPLOYMENT PROMOTION  
INITIATIVE LOAN SCHEME (SEPI)**

The Operating Instructions No. RDD/SEPI/2009/07 dated 15 September 2009 issued to implement the Self Employment Promotion Initiative Loan Scheme (SEPI) is hereby amended as follows;

**1.2 The Credit Component**

The section 1.2.2 is hereby repealed and substituted with the words "The RDD will utilize the GOSL funds amounting to Rupees Two Hundred Fifty Million for Provision of refinance to short, medium and long-term sub projects of the sub-borrowers identified by the MYASD and financed by the Participating Financial Institutions, i.e. Bank of Ceylon (BOC), People's Bank (PB), Regional Development Bank (RDB), Sampath Bank, Hatton National Bank (HNB), Commercial Bank, Seylan Bank, National Development Bank (NDB) and DFCC Bank".

**10 Loan Conditions**

- **Rate of interest for sub-loans :**

Rate of interest for sub-loans from PFIs to sub-borrowers has been reduced from 10 percent per annum (10%) to 9 percent per annum (9%).

- **Loans limit to sub-borrowers :**

The maximum individual sub-loan size has been increased from Rs. 250,000 to Rs. 500,000.

All other terms and conditions of the Self Employment Promotion Initiative Loan Scheme will remain unchanged and the amendments stated above are effective from 10.04.2014.

Yours Sincerely,  
A.M.R.K. Attanayake  
**Acting Director/Regional Development Department  
Central Bank of Sri Lanka**

06 June 2014

Bank of Ceylon  
People's Bank  
Commercial Bank  
Hatton National Bank  
Seylan Bank  
Sampath Bank  
DFCC Bank  
Union Bank  
Pradeshya Sanwardhana Bank  
National Development Bank  
Sanasa Development Bank  
Lankaputra Development Bank

**REVISION OF SCALE OF FINANCE, RATES OF INTEREST AND THE RATE OF GOVERNMENT INTEREST  
SUBSIDY APPLICABLE FOR THE NEW COMPREHENSIVE RURAL CREDIT SCHEME (NCRCS)**

Ministry of Finance and Planning has revised the scale of finance, Rates of the Interest and the rate of Government Interest Subsidy applicable to NCRCS. The revisions are as follows;

**1. Scale of Finance**

Revised scale of finance is annexed. The Annex II of the Operating Instructions No.RDD/NCRCS/2011 dated 23rd September 2011 is replaced by the Revised Scale of Finance.

## 2. Rates of Interest

Subsidy Paid by GOSL	Interest Rate to the Borrower	Effective Interest Rate to Participating Financial Institutions (PFIs)
5% p. a.	7% p. a.	12% p. a.

The PFIs are hereby informed to apply the above mentioned revisions for the loans granted under NCRCS with effect from 01st June 2014.

Yours Faithfully  
Director/ Regional Development

Annex II

**NEW COMPREHENSIVE RURAL CREDIT SCHEME – NCRCS**  
**Revised Scale of Finance for Eligible Crops**

	Crop	Land Preparation	Seed Nursery and Planting	Fertilizer	Chemical (Pest/Weed/fungus)	Others	Total Cost	Maximum Loan Amount per Acre	Extent of Land Units (Acres)		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Min.	Max.	
1	Paddy	Irrigated	12,274	4,796	1,870	3,677	17,348	39,965	30,000	0.25	10.0
		Rainfed	13,241	6,844	2,336	5,290	15,066	42,777	32,000	0.25	
2	Chillies		24,002	17,959	17,468	31,832	25,680	116,941	88,000	0.125	2.0
3	Onion		14,089	74,589	34,727	15,895	48,010	187,310	140,000	0.125	2.0
4	Pulses	Cowpea	4,147	4,838	-	8,262	11,215	28,462	21,000	0.125	5.0
		Green Gram	10,108	4,269	-	6,715	14,726	35,818	27,000	0.125	
		Black Gram	12,509	2,830	-	1,645	11,317	28,301	21,000	0.125	
		Soya beans	5,612	3,904	4,963	6,710	8,113	29,302	22,000	0.125	
		Kurakkan	11,367	5,969	-	-	7,537	24,873	19,000	0.125	
		Maize	13,617	9,572	7,268	7,704	7,421	45,582	34,000	0.125	
5	Oil Seeds	Ground Nut	5,085	16,077	-	8,897	11,799	41,858	31,000	0.125	5.0
		Gingelly	9,329	4,979	-	-	10,694	25,002	19,000	0.125	
		Sun Flower	5,160	3,870	3,225	1,290	5,160	18,705	14,000	0.125	
6	Root & Tuber	Potato	31,291	176,812	70,804	29,640	27,069	335,616	252,000	0.125	2.0
		Sweet Potato	10,449	5,515	7,013	6,192	16,254	45,423	34,000	0.125	5.0
		Manioc	3,225	7,869	8,483	8,514	14,964	43,055	32,000	0.125	
		Kiri Ala	25,800	15,480	6,450	-	10,320	58,050	44,000	0.125	
7	Vegetable	Brinjal	7,920	6,336	14,494	27,324	24,288	80,362	60,000	0.125	2.0
		Ladies fingers	5,720	7,260	9,479	7,480	11,220	41,159	31,000	0.125	
		Beet Root	32,844	21,349	11,885	10,532	16,065	92,674	70,000	0.125	
		Beans	12,180	33,640	17,400	15,776	12,760	91,756	69,000	0.125	
		Cabbage	37,513	30,246	29,389	30,236	31,492	158,876	119,000	0.125	
		Carrot	36,740	16,636	34,618	27,052	27,858	142,904	107,000	0.125	
		Capsicum	27,086	18,503	23,108	43,305	37,888	149,890	112,000	0.125	
		Tomato	23,457	9,343	22,050	42,430	55,234	152,514	114,000	0.125	
		Leeks	34,748	19,100	15,148	13,328	28,917	111,240	83,000	0.125	
		Radish	18,088	9,282	5,614	5,593	10,829	49,406	37,000	0.125	
		Knob Khol	18,088	14,923	5,614	6,188	9,996	54,809	41,000	0.125	
		Luffa	6,050	11,220	8,847	12,100	33,220	71,437	54,000	0.125	
		Bitter Gourd	6,380	14,410	8,472	10,450	35,970	75,682	57,000	0.125	
		Snake Gourd	6,050	12,760	9,750	11,770	34,210	74,540	56,000	0.125	
Pumpkin	19,986	8,313	7,498	8,686	6,256	50,739	38,000	0.125			
8	Other										
	Ginger		4,640	75,400	6,960	-	5,800	92,800	70,000	0.250	2.0

9 Maximum amount for nurseries is Rs. 500,000/-

Note : The PFIs are authorized to release cultivation loans according to the requirements of the borrower subject to a maximum of 60% limit of the total loan amount for the first instalment for land preparation, seeds, plants, fertilizer, fungicide, insecticide etc. and the balance could be released in one or two instalments for purchasing fertilizer or harvesting as recommended by the field officer. The Branch Managers are requested to release only the amount required by each farmer considering his capacity to meet above cost components given in the above table by his own means.

The Branch Managers are entitled to decide loan amounts to be granted to each farmer according to the cultivation pattern, irrigated or rainfed the cultivation season - Yala or Maha, the crop mixture and the farmers' repaying capacity etc. within the above maximum loan amounts per acre.

**Operating Instructions No. RDD/CGSPA/14/1**

Regional Development Department  
 Central Bank of Sri Lanka  
 No. 30, Janadhipathi Mawatha  
 Colombo 01  
 Tel: 2477447/2477528  
 Fax: 2477734/2477733  
 17 June 2014

To: All PFIs

Dear Sir/Madam,

## **CENTRAL BANK OF SRI LANKA CREDIT GUARANTEE SCHEME FOR PAWNING ADVANCES**

### **1. Introduction**

The Monetary Board of the Central Bank of Sri Lanka (CBSL) at its meeting held on 19.05.2014 approved the implementation of a Credit Guarantee Scheme on behalf of the Government for pawning advances granted by Licensed Banks (LBs). The scheme will be operated by the Regional Development Department (RDD) of the CBSL. The scheme will commence on 17th June 2014.

### **2. Objectives of the Scheme**

Pawning advances play a major role in the economy. Farmers, small business owners and small and medium entrepreneurs use pawning advances for their economic and business activities. In addition, certain fraction of pawning advances are used for consumption purposes also. Therefore, the volume of credit disbursed through pawning advances plays a vital role in the economy.

With the decline of gold prices in the international market, the volume of pawning advances also has declined significantly. As the major LBs, on average, lend at 65% of Loan to Value (LTV) ratio, the decline of volume of credit has been significant. In addition, the rates of interest charged by the LBs range from 16% to 20% per annum. The high rates also discourage obtaining pawning advances.

Currently, most of the LBs are offering pawning advances at LTV ratio of 65%. This indicates that the risk appetite of LBs towards lending on gold articles have declined to a value of 65%. In other words, LBs are willing to accept any loss arising out of default of pawning advances due to decline in gold prices below 65% plus accrued interest.

In order to increase the volume of credit through pawning advances, this scheme suggests to increase the LTV ratio by 15% from the existing ratio of a particular LB. Since the LBs' risk appetite is indicated by the LTV ratio plus accrued interest, increasing LTV ratio increases the risk of default if gold prices are declining and this scheme provides cover to the lending LBs to the amount of increased LTV ratio through credit guarantees.

### **3. Operation of the Scheme**

This scheme provides credit guarantees to LBs who claim losses due to default of pawning advances arising from decline in gold prices.

The scheme will consider the existing gold price and the volume of pawning advances granted by a LB at LTV ratio of 15% above the current level plus the relevant interest (at a rate not exceeding 15% per annum), to provide a credit guarantee cover. If that particular LB wishes to be benefitted by this credit guarantee scheme in case of a loss on its pawning advances due to default which triggers by the decline in gold prices, that LB can obtain a cover under this Credit Guarantee Scheme by paying a credit guarantee premium of 1% per annum of their pawning advances.

For any pawning advance granted for a period of one year, the default will be considered after 15 months from the date of the pawning advance. At the end of 15 months the LB will take into account the gold price published in the CBSL website and determine whether it is reasonable to attribute the reason of default to the decline in gold prices. If the LB so decides, then the LB will calculate the eligible amount of credit guarantee claim and make a claim submission to the CBSL. Such claims would be honoured by CBSL subject to a maximum limit of 17.81% of the value of the gold article at the time of pawning as described in Table 1 and Annex 1.

### **4. Eligibility Requirements**

4.1 For the purposes of these instructions, "Pawning" shall mean the lending of money on the security of personal articles made of gold, and accepted by the LB as a pledge for a loan to be granted by the LB to the owner of the gold articles for a period not exceeding 12 months.

- 4.2 Participating Financial Institutions (PFIs) under this scheme are defined as Licensed Banks (i.e Licensed Commercial Banks and Licensed Specialised Banks).
- 4.3 Pawning advances granted by PFIs from the date of these instructions until 31st December 2014, or such other date as may be extended by the Monetary Board, will be eligible to benefit by this Credit Guarantee Scheme, provided the following terms and conditions are fulfilled:
- (a) LTV ratio shall be 15% above the current level of a particular PFI and shall not exceed 80%. The total exposure is calculated as follows:

Example:

Computation of Liability					
Description	Market value of the underlying article at the time of pawning Rs.	Pawning advance Rs.	Interest at 15% p.a. Rs.	PFIs' total exposure after 12 months of pawning Rs.	PFIs' total exposure after 15 months of pawning Rs.
LTV ratio of 80%	100.0	80.0	12.0	92.0	95.0

- (b) Interest rate charged on the pawning advance shall not exceed 15% per annum which includes all fees and charges;
- (c) A credit guarantee premium of 1% on the pawning advances shall be paid by the PFI to be eligible for this scheme;
- (d) Maximum loan limit is set at Rs. 500,000 per person;

4.4 Pawning advances should be granted only on gold value of articles of a personal nature and not in commercial scale.

## 5. Method of Valuation of the Gold Article

5.1 The valuation of the pawned article will be carried out as follows:

- (a) The standard measurement for the determination of the quality of a gold article shall be the "carat";
- (b) The standard measurement for the determination of the weight of a gold article shall be the "gram";
- (c) An article carrying a quality less than 9 carats shall not be accepted as a pledge;
- (d) In valuing an article, the PFI shall have regard only to the value of gold in the article;
- (e) No PFI can value any gold article more than the price published by the CBSL.

5.2 In determining the value of a gold article, the PFI will be guided by:

- (a) The exchange rate and gold price published in the CBSL website;
- (b) The price of gold for the purpose of such valuation will be calculated as in the following example.

**Example :**

Calculation of Gold Price in LKR		
Gold price as at 23.05.2014	USD	LKR
Gold Troy Ounce (31.1034768 grams)	1,294.00	168,676.14
Gold price per sovereign (8 grams)	332.82	43,384.51

Note : US dollar/LKR exchange rate as at 23.05.2014 – Rs. 130.3525

Source : Prices as per the CBSL website: <http://www.cbsl.gov.lk/>

- (c) For the purposes of this scheme, all values shall be stated in Sri Lanka rupees (LKR).

## 6. Application for Credit Guarantee

6.1 An application to participate in this Credit Guarantee Scheme shall be made on the prescribed form RDD/CGSPA(1) (Annex 2), and forwarded to the Director, Regional Development Department, Central Bank of Sri Lanka, No. 30, Janadhipathi Mawatha, Colombo 01. The prescribed form shall be prepared by the branch and submitted electronically through the head office of the relevant PFI.

6.2 RDD/CGSPA(1) form signed by the authorized officers shall be forwarded before the 15th of the current month for the advances given during the previous month (1st day of the month to the last day of the month).

## 7. Guarantee Cover Note

Once the application of credit guarantee is formally accepted, the CBSL will issue to the PFI a Guarantee Cover Note (Annex 3) to cover the pawning advances for their duration.

**8. Payment of Premium**

- 8.1 Credit guarantee premium shall be paid along with the submission of form RDD/CGSPA(1) (Annex 2).
- 8.2 Premium remittance shall be made by account payee cheque, drawn in favour of Pawning Advances Credit Guarantee Scheme Account (A/C No. 54526) and send to the Director, Regional Development Department, Central Bank of Sri Lanka, No. 30, Janadhipathi Mawatha, Colombo 01 or RTGS or SLIPs to the same account.

**9. Claims**

- 9.1 The claims made under this scheme will be honoured based on the gold price. Even if a pawning advance is in default, if the prevailing gold price covers the value of the pawning advance and accrued interest at the end of 15 months of granting the advance, no credit guarantee payment will be made under this scheme.
- 9.2 PFIs are eligible to apply for a credit guarantee claim as and when a pawning advance is in default provided that such advance is eligible under the scheme to claim credit guarantee and the PFI is making a loss due to this default.
- 9.3 Pawning advance is said to be in default for the purposes of this scheme when the credit facilities repayable in one installment at the end of a specified period or on a due date (bullet payment), is not paid within 90 days from the end of the agreed period or the due date.
- 9.4 For the purpose of loss calculation the relevant gold price will be the gold price on the date of default (i.e. after 15 months from the date of a pawning advance). Relevant losses to the PFIs due to decline in gold prices as a percentage are illustrated in Table 2.
- 9.5 Any loss arising out of defaults of pawning advances will be covered under this scheme limited to the amount specified in section 9.6 below.
- 9.6 The maximum extent of the guarantee will be limited to the difference between advance calculated by the PFI at LTV ratio of 15% above the current level offered by a PFI plus the relevant interest and LTV ratio offered by the PFI plus the relevant interest.
- 9.7 Where any amount, as defined for the purpose of this credit guarantee, is in loss, the PFI shall submit a claim within 30 days of default to the Director/RDD of CBSL, on the form RDD/CGSPA(2) (Annex 4). The RDD/CGSPA(3) form shall be submitted electronically through the head office of the relevant PFI.

**10. Inspection**

The CBSL shall, as may be necessary for the purposes of this scheme reserve the right to inspect books of accounts and other records of the PFI pertaining to any loan guaranteed under this scheme.

**11. Furnishing of Information**

The PFI shall furnish such information as the CBSL may require in connection with any pawning advance guaranteed under this scheme.

**12. Modification and Supplementary Provisions**

- 12.1 The CBSL reserves the right to modify or withdraw this scheme without affecting the rights or obligations arising out of any guarantees issued under this scheme prior to the date of such modification or withdrawal.
- 12.2 In respect of any matter not specifically provided in the scheme, the CBSL would make such supplementary or additional provisions as may be necessary for the purposes of this scheme.

**13. Interpretation**

In the event the PFIs are not certain of any provision contained in this operating instructions or anything incidental or ancillary thereto, they shall seek clarifications from the Director/RDD of CBSL, whose decision thereon shall be final and conclusive.

Director  
Regional Development Department

Annex 1

**The example illustrated in the Table 1, can be described as follows:**

On 1st January 2014 it is assumed a gold article is valued at 1,000 US Dollars and the exchange rate at Rs. 130/= per US Dollar, the value of this gold article will be Rs. 130,000/=. Then the amount of pawning advance granted at LTV ratio of 80% will be Rs. 104,000/=. If this pawning advance is in default at the end of 15 months, then the interest accrued on this advance at an interest rate of 15% per annum will be Rs. 19,500/=. Therefore, the total due amount to the PFI on this pawning advance will be Rs. 123,500/=. Similarly, at LTV ratio of 65%, the total due amount to the PFI will be Rs. 100,344/=. Accordingly, the maximum payment of credit guarantee claim by the CBSL will be capped at Rs. 23,156/= (The difference between Rs. 123,500 and Rs. 100,344).

Now consider gold price at the end of 15 months from the original date of pawning advance. Suppose, a series of gold price declines by 1% as illustrated in Table 1. If gold price decline is only by 1% then the value of gold article in consideration will be Rs. 128,700/=. Although the pawning advance is in default, the PFI is not making any loss. Instead the PFI is making a profit of Rs. 5,200/=. If the gold price declines by 5% then the value of the article at the end of 15 months is Rs. 123,500/= and at this point the PFI is at its breakeven. If the gold price declines beyond 5% as illustrated in the Table 1 the PFI is at a loss. For example, if the gold price declines by 6%, the loss to the PFI is Rs. 1,300/= and the PFI is entitled to claim this loss under the Credit Guarantee Scheme provided all the other conditions have been met.

As illustrated in the Table 1, if the price decreased by 22.812% the price of the article will be Rs. 100,344/= and the loss to the PFI is Rs. 23,156/=. This is the PFI's risk appetite at LTV ratio of 65% and at a rate of interest of 15% per annum. Therefore, the CBSL guarantee will be limited to Rs. 23,156/= and the PFI will have to bear any loss beyond this level of price decreases. For example, if the price decreased by 25%, the price of the gold article will be Rs. 97,500/=. The corresponding loss would be Rs. 26,000/=. Accordingly, the PFI can claim a maximum amount of Rs. 23,156/= from the CBSL under the credit guarantee cover. The balance Rs. 2,844/= would be the loss the PFI will have to bear.

**Table 1**  
**A Numerical Illustration**

	Market value of the underlying article at the time of pawning Rs.	Pawning advance Rs.	Interest at 15% p.a. for 15 months Rs.	Total exposure after 15 months of pawning Rs.
At a LTV Ratio of 80%	130,000	104,000	19,500	123,500
At a LTV Ratio of 65%	130,000	84,500	15,844	100,344
Maximum payment of credit guarantee claim				23,156
Maximum liability as a percentage of the gold value of the article				17.81
Maximum liability as a percentage of the total exposure at LTV at 80%				18.75

Date of Pawning	Value of Gold Article USD	USD/LKR Exchange Rate	Value of Gold Article Rs.	Date of Default	Fall in Value of Gold at 31.03.2015		Total Profit/ (Loss) at LTV of 80% Rs.	CG Claim to be paid by CBSL Rs.	Loss to PFI Rs.							
					%	Rs.										
01.01.2014	1,000.00	130	130,000	31.03.2015	Assume decline in gold prices by	1	128,700	5,200								
						2	127,400	3,900								
						3	126,100	2,600								
						4	124,800	1,300								
						5	123,500	-								
						6	122,200	(1,300)	1,300							
						7	120,900	(2,600)	2,600							
						10	117,000	(6,500)	6,500							
						15	110,500	(13,000)	13,000							
						20	104,000	(19,500)	19,500							
						21	102,700	(20,800)	20,800							
						22	101,400	(22,100)	22,100							
						22.812	100,344	(23,156)	23,156							
												25	97,500	(26,000)	23,156	2,844
												30	91,000	(32,500)	23,156	9,344
35	84,500	(39,000)	23,156	15,844												
40	78,000	(45,500)	23,156	22,344												
45	71,500	(52,000)	23,156	28,844												
					50	65,000	(58,500)	23,156	35,344							

## Annex 2

## Form: RDD/CGSPA(1)

The Director  
Regional Development Department  
Central Bank of Sri Lanka  
30, Janadhipathi Mawatha  
Colombo 01.

## Application under Credit Guarantee Scheme for Pawning Advances

Month of Disbursements: .....

Year : .....

Date	Interest Rate p.a	Total Value of the Pawned Articles Rs.	Total Amount Disbursed Rs.	Total Premium Payable Rs.
	15%			
	14%			
	13%			
	12%			
	11%			
	<b>Grand Total</b>			

Name of PFI: .....	Signature of the authorized Officer in Head Office : .....	Date : .....
Branch : .....		
Branch Manager's Signature : .....		Date : .....
Official Seal:		Official Seal:

## Annex 3

## CREDIT GUARANTEE SCHEME FOR PAWNING ADVANCES

CENTRAL BANK OF SRI LANKA

## CREDIT GUARANTEE COVER NOTE

Ref No .....

This guarantee cover note is issued to certify that the pawning advance of  
Rupees ..... (amount in words)  
(Rs .....) (amount in numbers)  
granted by ..... (name of the PFI) ..... (name of branch)

has been guaranteed under the Credit Guarantee Scheme for Pawning Advances as per the terms and conditions of Operating Instructions No RDD/CGSPA/14/1 dated 17 June 2014

The maximum credit guarantee liability of the Central Bank will be 17.81 per cent of the gold value of the pawned article at the date of granting the advance.

.....  
Date

.....  
**Director**  
Regional Development Department

**Table 2**  
**Percentage Value Table (Ready Reckoner) for 80% LTV**

	Market value of the underlying article at the time of pawning Rs.	Pawning advance Rs.	Interest at 15% p.a. for 15 months Rs.	Total exposure after 15 months of pawning Rs.
At a LTV Ratio of 80%	100.00	80.00	15.00	95.00
At a LTV Ratio of 65%	100.00	65.00	12.19	77.19
Maximum payment of credit guarantee claim				17.81
Maximum liability as a percentage of the gold value of the article				17.81
Maximum liability as a percentage of the total exposure at LTV at 80%				18.75

Date of Pawning	Value of Gold Article USD	USD/LKR Exchange Rate	Value of Gold Article Rs.	Date of Default	Fall in Value of Gold at 31.03.2015		Total Profit/ (Loss) at LTV of 80% Rs.	CG Claim to be paid by CBSL Rs.	Loss to PFI Rs.
					%	Rs.			
01.01.2014	0.77	130	100	31.03.2015 Assume decline in gold prices by					
					1	99.00	4.00		
					2	98.00	3.00		
					3	97.00	2.00		
					4	96.00	1.00		
					5	95.00	0.00	0.00	
					6	94.00	(1.00)	1.00	
					10	90.00	(5.00)	5.00	
					15	85.00	(10.00)	10.00	
					20	80.00	(15.00)	15.00	
					21	79.00	(16.00)	16.00	
					22	78.00	(17.00)	17.00	
					22.81	77.19	(17.81)	17.81	0.00
					23	77.00	(18.00)	17.81	0.19
					25	75.00	(20.00)	17.81	2.19
					30	70.00	(25.00)	17.81	7.19
					35	65.00	(30.00)	17.81	12.19
					40	60.00	(35.00)	17.81	17.19
					45	55.00	(40.00)	17.81	22.19
					50	50.00	(45.00)	17.81	27.19

## Annex 4

## Form: RDD/CGSPA(2)

The Director  
Regional Development Department  
Central Bank of Sri Lanka  
30, Janadhipathi Mawatha  
Colombo 01.

## Claim Form under Credit Guarantee Scheme for Pawning Advances

Credit Guarantee Cover Ref. No. ....

We hereby declare that following pawning advances are in default for the month of ..... in 20..... These advances are covered under the Guarantee Cover Notes of Credit Guarantee Scheme for Pawning Advances, the particulars of which are given below:

At a rate of .....%

Disbursement		Amount in Default			Total Claim Amount Rs.
Date	Amount Rs.	Date	Capital Rs.	Interest Rs.	
Name of PFI: .....			Signature of the authorized Officer in Head		Date : .....
Branch : .....			Office : .....		
Branch Manager's					
Signature : .....			Date : .....		
Official Seal:			Official Seal:		

## OPERATING INSTRUCTIONS No: RDD/CSDDL/2013/01 (A-01)

Regional Development Department  
Central Bank of Sri Lanka  
No.30, Janadipathi Mawatha  
Colombo 1.  
Tel: 2477447, 2477472, 2398748  
Fax: 2477734, 2477724  
17 July 2014

All PFIs

### AMENDMENTS TO THE OPERATING INSTRUCTIONS OF COMMERCIAL SCALE DAIRY DEVELOPMENT LOAN SCHEME (CSDDL)

Section 5 of the Operating Instructions No. RDD/CSDDL/2013/01 dated 10 May 2013 issued for the implementation of the Commercial Scale Dairy Development Loan Scheme (CSDDL) is hereby amended to be read as follows:

**5. Minimum Activity:** A dairy farm with at least 7 cows

All other terms and conditions of the operating instructions of CSDDLs will remain unchanged and the amendment stated above is effective from 17 July 2014.

M J S Abeysinghe  
**Director**  
**Regional Development Department**

**OPERATING INSTRUCTIONS NO. RDD/CGSPA/14/1 (A-01)**

Regional Development Department  
 Central Bank of Sri Lanka  
 No.30, Janadhipathi Mawatha  
 Colombo 01.  
 09 October 2014

To: All PFIs  
 Dear Sir/Madam

**AMENDMENT TO THE OPERATING INSTRUCTIONS NO. RDD/CGSPA/14/1 OF THE CREDIT GUARANTEE SCHEME FOR PAWNING ADVANCES**

This is to inform you that Section 4.3 (b) of the Operating Instructions No. RDD/CGSPA/14/1 dated 17 June 2014 has been amended as follows, with effect from 09 October 2014

**4.3 (b)** Interest rate charged on the pawning advance shall not exceed 12% per annum, which includes all fees and charges.

All other terms and conditions of the Credit Guarantee Scheme for Pawning Advances remain unchanged.

Yours faithfully  
**Director**  
**Regional Development Department**

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

Regional Development Department  
 Central Bank of Sri Lanka  
 P.O. Box 590  
 No. 30, Janadhipathi Mawatha  
 Colombo 01.  
 05 November 2014

Tel : 2477447/2477437/2477472/2477448  
 Fax : 2477733/2477734

To : All PFIs  
 Dear Sir/Madam

**THE PROSPERITY LOAN SCHEME (SAUBAGYA) – AMENDMENTS TO THE RATE OF INTEREST**

This is to inform you that the section 3.6 and 3.7 of the Operating Instructions No. RDD/PR/2010/03 dated 22 March 2010 as amended by the Operating Instructions No. RDD/PR/2010/03 (Amendment) dated 01 April 2011 of the above loan scheme is amended as stated below, with effect from 05 November 2014.

3.6 Rate of interest on refinance loans to PFIs : 3 per cent per annum  
 3.7 Rate of interest for sub – loans : 8 per cent per annum

Yours faithfully  
 M J S Abeysinghe  
**Director/Regional Development**

**OPERATING INSTRUCTIONS No: RDD/CSDDL/2013/01 (A-02)**

Regional Development Department  
 Central Bank of Sri Lanka  
 No.30, Janadhipathi Mawatha  
 Colombo 1.  
 Tel : 2477447, 2477472, 2398748  
 Fax: 2477734, 2477724  
 03 December 2014

To: All PFIs

**AMENDMENTS TO THE OPERATING INSTRUCTIONS OF COMMERCIAL SCALE DAIRY DEVELOPMENT  
 LOAN SCHEME (CSDDL)**

Section 7.2 of the Operating Instructions No. RDD/CSDDL/2013/01 dated 10 May 2013 issued for the implementation of the Commercial Scale Dairy Development Loan Scheme (CSDDL) is hereby amended to be read as follows:

**7.2 Interest Rate to the borrower:** Interest rates on the loans to borrowers will be 6 per cent per annum.

All other terms and conditions of the operating instructions of CSDDL will remain unchanged and the amendment stated above is effective from 03 December 2014.

M J S Abeysinghe  
**Director**  
 Regional Development Department

Copies to:

1. Chief Accountant/CBSL
2. Director/Internal Audit Department, CBSL
3. Provincial Managers/ Provincial Officers of CBSL
4. Auditor General
5. Secretary/ Ministry of Livestock and Rural Community Development
6. Secretary/ Ministry of Economic Development
7. Secretary/ Ministry of Finance and Planning

**OPERATING INSTRUCTIONS NO. RDD/CGSPA/14/1 (A-02)**

Regional Development Department  
 Central Bank of Sri Lanka  
 No.30, Janadhipathi Mawatha  
 Colombo 01.  
 30 December 2014

To : All PFIs

Dear Sir/Madam

**AMENDMENT TO THE OPERATING INSTRUCTIONS NO. RDD/CGSPA/14/1 OF THE CREDIT GUARANTEE  
 SCHEME FOR PAWNING ADVANCES**

This is to inform you that the following amendments have been made to the above Operating Instructions of Credit Guarantee Scheme for Pawning Advances (CGSPA).

1. The definition of the PFIs has been changed with effect from 01 January 2015. Accordingly, the Section 4.2 of the Operating Instructions RDD/CGSPA/14/1 has been amended as follows.  
 "4.2 Participating Financial Institutions (PFIs) under this scheme are defined as Licensed Banks (i.e. Licensed Commercial Banks and Licensed Specialised Banks) and Licensed Finance Companies (LFCs)."
2. Further, the operations of CGSPA have been extended up to 30 June 2015. Accordingly, the Section 4.3 is amended as follows.  
 "4.3 Pawning advances granted by PFIs from the date of these instructions until 30 June 2015, or such other date as may be extended by the Monetary Board, will be eligible to benefit by this Credit Guarantee Scheme, provided the following terms and conditions are fulfilled:
  - (a) LTV ratio shall be 15% above the current level of a particular PFI and shall not exceed 80%. The total exposure is calculated as follows:

Example:

**Computation of Liability**

Description	Market value of the underlying article at the time of pawning Rs.	Pawning advance Rs.	Interest at 12% p.a. Rs.	PFI's total exposure after 12 months of pawning Rs.	PFI's total exposure after 15 months of pawning Rs.
LTV ratio of 80%	100.00	80.00	9.60	89.60	92.00

- (b) Interest rate charged on the pawning advance shall not exceed 12% per annum which includes all fees and charges;  
(c) A credit guarantee premium of 1% on the pawning advances shall be paid by the PFI to be eligible for this scheme;  
(d) Maximum loan limit is set at Rs. 500,000 per person;”

3. All other terms and conditions of the Credit Guarantee Scheme for Pawning Advances remain unchanged.

Yours faithfully

**Director**

**Regional Development Department**

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

REGULATIONS made by the President and Minister-in-Charge of the Subject of Finance and Planning, under Section 35 read with Sections 4(1) and 6 of the Finance Leasing Act, No.56 of 2000.

Mahinda Rajapakse

**President and Minister of Finance and Planning**

**Colombo**

On this 11th day of February 2014

**FINANCE LEASING (REGISTRATION AND ANNUAL LICENCE FEES) REGULATIONS NO.1 OF 2014**

Citation 1. These Regulations may be cited as the Finance Leasing (Registration and Annual Licence fees) Regulations No.1 of 2014 and shall come into operation with immediate effect.

Minimum issued and paid up capital of a public company applying for a licence 2. For the purpose of Section 3(c) of the Finance leasing Act No.56 of 2000 (the Act) the minimum issued and paid-up capital of a public company applying for licence under the Act shall be as follows.

Minimum issued and paid up capital Rs. Million.	Effective Date
250	From 01/01/2014
300	From 01/01/2015

Provided however, issued ordinary shares and issued non-cumulative, non-redeemable preference shares shall be considered as paid up only if they are issued for cash consideration.

Application Fee for registration 3. For the purpose of Section 4(1) (e) of the Act, the application fee for registration shall be Rs. 100,000.

Registration fee 4. The registration fee applicable for obtaining registration under Section 3 of the Act is Rs. 500,000 (for the calendar year of registration) which shall be paid to the Central Bank of Sri Lanka on or before the date of registration.

Annual licence fee 5. For the purpose of Section 6 of the Act every finance leasing establishment registered under the Section 3 of the Act shall pay an annual licence fee applicable for the year 2014 and every subsequent year to the Central Bank of Sri Lanka, as set out below based on the total assets;

Total Assets of the Establishment as at end of the previous calendar year	Annual licence Fee (Rs.)
Rs. 1 billion or below	250,000
Above Rs. 1 billion but less or equal to Rs. 10 billion	500,000
Over Rs. 10 billion	1,000,000

- Revocation 6. Finance Leasing (registration and Annual Licence Fees) Regulation No.1 of 2010 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  
 31 March 2014

### FINANCE COMPANIES (INTEREST RATES) DIRECTION NO. 1 OF 2014

- Citation 1. 1.1 This direction may be cited as the Finance Companies (Interest Rates) Direction No. 1 of 2014 and shall apply to every finance company licensed in terms of the Finance Business Act, No.42 of 2011.
- 1.2 The provisions of this direction shall be applicable for any time deposit, non-transferable certificate of deposit and debt instrument accepted or renewed and issued from the date of this direction.
- 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 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 rates of 364 day Treasury Bills announced by Director to the finance company at the preceding quarter prior to mobilize deposits	plus 3.00 percentage points
Over one year – 3 years		plus 4.00 percentage points
Over 3 years		plus 5.50 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 interest rate for a saving deposit 3. 3.1 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 announced by Director to the finance company at the preceding quarter prior to mobilize saving deposit.
- 3.2 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 (3.1).

- Maximum rate of discount for a non-transferable certificate of deposit 4. The rate of discount which may be allowed by a finance company on the issue of a non-transferable certificate of deposit 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 upper limit of yield rates	
One year or less	The quarterly weighted average yield rates of 364 day Treasury Bills announced by Director to the finance company at the preceding quarter prior to mobilize deposits	plus 3.00 percentage points
Over one year – 3 years		plus 4.00 percentage points
Over 3 years		plus 5.50 percentage points

Maximum annual rate of interest/discount/coupon for a debt instrument

5. 5.1 The maximum annual rate of interest/discount/coupon which may be paid by a finance company on a debt instrument shall not exceed the maximum upper limit of interest rates/coupon rates for maturity periods set out below :-

Debt instruments maturity period	Maximum annual rate of interest/discount/coupon	
One year or less	The quarterly weighted average yield rate of 364-day Treasury Bills announced by Director to the finance company at the preceding quarter	plus 3.00 percentage points
Over one year – 3 years		plus 4.00 percentage points
Over 3 years		plus 6.50 percentage points

5.2 In the case where the annual rate of interest/discount/coupon which may be paid by a finance company on a debt instrument is floating basis, the maximum annual rate of interest/discount/coupon shall be based on the quarterly weighted average yield rate of 364-day Treasury Bills announced by Director to the finance company at the preceding quarter, prior to the commencement of each interest/coupon period.

5.3 In the case where the annual rate of interest/discount/coupon which may be paid by a finance company on a debt instrument is fixed basis, the maximum annual rate of interest/discount/coupon shall be based on the quarterly weighted average yield rate of 364-day Treasury Bills announced by Director to the finance company at the preceding quarter, prior to the announcement date of the debt instrument to the public or discount date.

Quarterly weighted average yield rate

6. 6.1 Director shall announce the quarterly weighted average yield rates of 91 day and 364-day Treasury Bills applicable for each quarter ending 31st March, 30th June, 30th September and 31st December.

6.2 The quarterly weighted average yield rates applicable to such interest/discount/coupon payment periods shall be notified by the finance company to the Colombo Stock Exchange and the Trustee prior to the commencement of each coupon payment period.

Reporting

7. Every finance company shall furnish details of the interest rates paid/discounts/coupon rates applied for time deposits, saving deposits, non-transferable certificates of deposit and debt instruments by such finance company in each month, on or before the 7th day of the following month as per the instructions given by the Director.

Definition

8. In this Direction,

8.1 "Time deposit" means any deposit accepted by a finance company with an agreement to repay after a specified period of time; and

8.2 "Debt instrument" mean, a bond, debenture, commercial paper, promissory note or any other debt instrument as may be determined by the Director.

8.3 "Director" means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

Revocation

9. The Finance Companies (Interest Rates) Direction, No.05 of 2013 is hereby revoked.