

PART III

PART III**MAJOR ADMINISTRATIVE MEASURES ADOPTED BY
THE MONETARY BOARD IN 2008****OPERATING INSTRUCTIONS, CIRCULARS, DIRECTIONS AND NOTICES**

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Ref. No. : 02/17/402/0073/002Bank Supervision Department
01 January 2008*To : CEOs of Licensed Commercial Banks*

Dear Sir/Madam,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF BANKS

Further to our circular dated April 12, 2005 on the above, informing Licensed Commercial Banks (LCBs) of the decision of the Monetary Board of the Central Bank of Sri Lanka to increase the minimum capital requirement of LCBs to Rs.2,500 million.

We write to inform you that 'capital' for the purpose of meeting the minimum capital requirement shall mean the Core Capital as defined under item No. 6.2.2.2 in the Guidelines annexed as Schedule I of the Banking Act, Direction No. 9 of 2007 dated December 26, 2007 issued by the Monetary Board of the Central Bank of Sri Lanka.

Yours faithfully
B D W A Silva
Actg. Director of Bank Supervision

Ref. No. : 02/17/402/0073/002Bank Supervision Department
01 January 2008*To : CEOs of Licensed Specialised Banks*

Dear Sir/Madam,

ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT OF BANKS

Further to our circular dated April 12, 2005 on the above, informing Licensed Specialised Banks (LSBs) of the decision of the Monetary Board of the Central Bank of Sri Lanka to increase the minimum capital requirement of LSBs to Rs.1,500 million.

We write to inform you that 'capital' for the purpose of meeting the minimum capital requirement shall mean the Core Capital as defined under item No. 6.2.2.2 in the Guidelines annexed as Schedule I of the Banking Act, Direction No.10 of 2007 dated December 26, 2007 issued by the Monetary Board of the Central Bank of Sri Lanka.

Yours faithfully
B D W A Silva
Actg. Director of Bank Supervision

My No: 02/04/008/0002/001Bank Supervision Department
06 May 2008*To: All CEOs of Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir/Madam

ENHANCING LENDING TO AGRICULTURE SECTOR

As you are aware, international food prices have risen in an unprecedented manner in the recent past and these price escalations could have far reaching effects on Sri Lanka and indeed on almost every country in the world. As you also know, a significant portion of the current inflation in Sri Lanka is driven by these large increases in food prices. This clearly demonstrates the importance of enhancing food production and food security in the country.

Hence, as conveyed by the Governor at the Bank Managers' Meeting held on 24 April 2008, there is a need to sustain and expand lending to the Agriculture sector. While we note that some banks have already achieved the target set out in the Budget 2006, there are others who are yet below such level of lending to the sector. Hence, banks which are yet to expand their Agriculture lending to reach 10% of their lending portfolio, are requested to take steps to do so, and also to inform us of their plans to expand agricultural loans, in particular for cultivation of food crops.

In view of the present national requirement in expanding food production and increasing the agricultural productivity, your urgent attention and cooperation to channel lending to this sector is solicited.

Yours faithfully
B D W A Silva
Actg. Director of Bank Supervision

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

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

Colombo
May 8 2008

DIRECTIONS
BANKING ACT DIRECTION NO 3 OF 2008
CLASSIFICATION OF LOANS AND ADVANCES,
INCOME RECOGNITION AND PROVISIONING

In the exercise of the powers conferred by Sections 46(1) and 46A of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues Directions as follows:

- 1 (1) These Directions may be cited as the Banking Act Direction No. 3 of 2008. The Sections referred to in these Directions will be those of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006.
- 2 (1) In terms of Section 46 (1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to licensed commercial banks regarding the manner in which any aspect of the business of such banks is to be conducted.
- 2 (2) In terms of Section 46A of the Banking Act, the Monetary Board is empowered to require both general and specific provisions relating to bad and doubtful debts, to be made by licensed commercial banks.
- 3 (1) The following definitions shall be applicable for the purposes of these Directions.

- 3 (2) Total credit facilities shall mean on-balance sheet credit facilities and off-balance sheet credit facilities as specified below:
- 3 (2)(I) On-balance sheet credit facilities:
- On-balance sheet credit facilities shall mean Overdrafts, Term loans, Block loans, Packing credits, Pledge loans, Revolving loans, Bills financed, Discounting facilities, Hire purchase loans, Leasing facilities, Trust receipts, Pawning advances, Credit card facilities, Reverse repurchase facilities, Lending for debt instruments under stand by credit lines and other instruments of a similar nature.
- 3 (2)(II) Off-balance sheet credit facilities:
- Off-balance sheet credit facilities shall mean a commitment to accept contingent liabilities, and include guarantees, bonds, warranties, letters of credit and acceptances.
- 3 (3) Borrower shall mean individuals, single companies, the Government of Sri Lanka, public corporations, statutory bodies, firms, associations of persons and any other institutions.
- 3 (4) Performing loans and advances (PLA) shall mean all credit facilities other than non-performing loans and advances (NPL) classified in terms of Direction 3 (5).
- 3 (5) NPL shall mean bad and doubtful debts as referred to in Section 46A of the Banking Act. For this purpose, all credit facilities, excluding exempted credit facilities referred to in Direction 4(2), are classified as non-performing on the following basis:
- 3 (5)(I) Based on period
- (i) Overdrafts:
 - (a) If the outstanding balance has remained in excess of the sanctioned limit continuously for a period of 90 days or more; or
 - (b) In cases where a borrower has several current accounts with overdraft limits with the bank, the daily outstanding aggregate balance on all such accounts shall be considered as the outstanding balance for the purposes of Direction 3(5)(I)(i)(a) above.
 - (ii) Credit facilities repayable in monthly installments: when 3 consecutive installments, principal and/or interest, have not been paid.
 - (iii) Credit facilities repayable in quarterly/half yearly installments: when an installment is not paid within 90 days from the due date.
 - (iv) Credit facilities repayable in one installment at the end of a specified period or on a due date (bullet payments): when the payment is not made within 90 days from the end of the agreed period or the due date.
 - (v) Credit cards: when the minimum payment is in arrears for 90 days from the due date.
- 3 (5)(II) Based on potential risk
- In addition to the classification requirements for NPL as set out in Direction 3(5)(I), banks shall classify PLA as NPL where full recoverability in accordance with the agreed terms is in doubt due to circumstances affecting the repayment capacity.
- 3 (6) New credit facility shall mean any credit facility granted to borrowers with the involvement of cash/ fund movements. A facility granted for the capitalisation of accrued and unpaid interest or to convert an overdraft to a term loan shall not be considered as a new credit facility.
- 4 (1) Classification of performing and non-performing credit facilities:
- Banks shall classify all credit facilities granted to a borrower, for monitoring and risk mitigation purposes, into the two categories of (a) performing loans and advances and (b) non-performing loans and advances, as specified in Directions 3 (4) and 3 (5) above.
- 4 (2) Exempted credit facilities:
- When classifying credit facilities as NPL under Direction 4(1) above, credit facilities secured on cash deposits shall be exempted. Banks shall, for this purpose, meet the following conditions to be eligible for the exception:

- (i) Banks shall have the right to take legal possession of such cash deposit, in the event of default, or insolvency or bankruptcy of borrower.
 - (ii) All documentation used in cash collateralised transactions shall be binding on all parties and legally enforceable in all relevant jurisdictions. A duly signed lien in the bank's favour and a letter of set-off shall be available.
 - (iii) Such cash deposit shall be set-off against the credit facilities within 3 months from the date on which the credit facilities would have otherwise been classified as non-performing.
 - (iv) During the period referred to in Direction 4(2)(iii) above, if the outstanding exceeds the deposit, such excess shall be classified as non-performing.
- 4 (3) The availability of security or net worth of the borrower/guarantor shall not be considered in the application of Direction 3 (5) except as permitted by Direction 4 (2) above.
- 4 (4) Classification of rescheduled credit facilities:
When rescheduling occurs before a credit facility is classified as NPL, the rescheduled credit facility shall be classified as non-performing when, in aggregate, the period of time the credit facility was in arrears before rescheduling and after rescheduling exceeds the time period specified in the Direction 3 (5) in respective credit facilities. In the case of capitalisation of accrued and unpaid interest, banks shall classify a credit facility created by way of capitalisation of accrued and unpaid interest as NPL in terms of Directions 3 (5) and 4(5) and categorise as required by Direction 4(6).
- 4 (5) Classification of multiple credit facilities granted to a single borrower:
- (i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/have been classified as NPL in terms of Direction 3 (5) and if the aggregate amount outstanding of such NPL exceeds 30% of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing January 1, 2009.
 - (ii) In the computation of the percentage threshold as specified in Direction 4(5)(i) above, banks shall exclude all accrued interest credited to an interest in suspense account from both numerator and denominator.
- 4 (6) Categorisation of non-performing credit facilities:
Banks shall categorise NPL, which are classified in terms of Directions 3(5) and 4(5) above, into the four categories mentioned below based on (a) the period which the credit facilities have remained non-performing and (b) the potential risk of credit facilities. However, multiple credit facilities granted to a single borrower, which are classified in terms Direction 4(5), shall be categorised as follows:
- (i) Facilities classified in terms of Direction 3(5), shall be categorised as per Directions 4(6)(I) to 4(6)(IV).
 - (ii) Other facilities of such borrower shall initially be categorised into the "Special Mention" category. Subsequent categorisation of such facilities shall be in terms of Directions 4(6)(I) to 4(6)(IV).
- 4 (6)(I) "Special Mention" credit facilities:
- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Overdrafts	Exceeds the sanctioned limit for a continuous period of 90 days or more but less than 180 days.
Credit facilities, repayable in monthly installments	3 installments or more but less than 6 installments, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 90 days or more but less than 120 days from the due date.
Other credit facilities	The payments are in arrears for 90 days or more but less than 180 days from the due date.

4 (6)(II) Sub-standard credit facilities:

- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Overdrafts	Exceeds the sanctioned limit for a continuous period of 180 days or more but less than 360 days.
Credit facilities, repayable in monthly installments	6 installments or more but less than 12 installments, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 120 days or more but less than 180 days from the due date.
Other credit facilities	The payments are in arrears for 180 days or more but less than 360 days from the due date.

- (ii) The potential risk of credit facilities:

Where the situation of the borrower makes it uncertain that part or the entirety of the facility will be repaid and involves more than normal risk of loss due to unsatisfactory debt servicing record or financial condition of the borrower, insufficiency of collateral or any other factors which give rise to some doubts as to the ability of the borrower to comply with the present repayment terms.

4 (6)(III) Doubtful credit facilities:

- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Overdrafts	Exceeds the sanctioned limit for a continuous period of 360 days or more but less than 540 days.
Credit facilities, repayable in monthly installments	12 installments or more but less than 18 installments, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 180 days or more but less than 240 days from the due date.
Other credit facilities	The payments are in arrears for 360 days or more but less than 540 days from the due date.

- (ii) The potential risk of credit facilities:

Where there is a high risk of partial default or where full collection is improbable and there is a high risk of default.

4 (6)(IV) Loss credit facilities:

- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Overdrafts	Excess the sanctioned limit for a continuous period of 540 days or more.
Credit facilities, repayable in monthly installments	18 installments or more, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 240 days or more.
Other credit facilities	The payments are in arrears for 540 days or more.

(ii) The potential risk of credit facilities:

Where the situation of the borrower makes it virtually certain that the facility will not be repaid, as in the following circumstances:

- (a) The customer is in a weak financial position or the ability of the customer to earn income is low, which indicates that the customer may not be able to service the debt.
- (b) The business of the customer has become uncertain or the customer has used the funds obtained for purposes other than for which they were meant.
- (c) The customer is deceased and there are no assets to repay the debt.
- (d) The customer has ceased or dissolved his business and is in debt to other creditors with preferential rights over the whole of the customer's assets, where the said creditors' total claims exceed the value of the customer's assets.
- (e) The customer's business is under liquidation.
- (f) The bank has filed a bankruptcy suit against the customer or has applied for participation in property with other creditors who have filed for bankruptcy, where the parties have agreed to restructure the debt with approval from the Court.
- (g) The bank has applied for participation in property with other creditors who have sued the debtor.
- (h) The bank is unable to contact or find the borrower.

4 (7) Reclassification of credit facilities:

4(7)(I) Re-classification of NPL as PLA:

Banks shall reclassify NPL as PLA, if interest and principal in arrears are paid by the borrower in relation to classified NPLs.

4 (7)(II) Re-classification of rescheduled NPL as PLA:

The NPL accounts which have been subjected to rescheduling, whether in respect of principal installment or interest amount, would be eligible to be upgraded to the PLA category only after the specified periods in respect of following category, subject to satisfactory performance during such period.

Rescheduled NPL in	Upgrade to the PLA
Special mention category	Period of 90 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms.
Sub-standard and Doubtful categories Loss category	Period of 180 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms.
Loss category	Period of 360 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms.

The amount of specific provision made earlier, in respective of rescheduled NPL of above categories, could also be reversed after the period specified above.

4 (8) Granting of new credit facilities:

Banks shall not grant new credit facilities for repayment of NPL in the name of the same borrower or any party, unless the credit facility so created is also classified as NPL and categorised into the same category of the repaid NPL had been categorized under Direction 4(6). The reclassification of such NPL as PLA shall be subject to Directions (4)(7)(I) and 4(7)(II).

5 (1) Banks shall recognise interest on an account which has been classified as NPL as income, as and when the interest is collected by the bank, if it is collected on a cash basis.

- 5 (2) Banks shall suspense all interest accrued but uncollected from the date a credit facility is classified as NPL and credit such accrued interest to the "Interest in Suspense Account" and debit such accrued interest to the "Interest Receivable Account-NPL".
- 5 (3) Banks shall continue the present practice of debiting the overdraft/credit card facilities classified as NPL with interest receivable and crediting to Interest in Suspense Account.
- 5 (4) At the time of classifying the credit facilities as NPL, bank shall reverse the accrued interest and credit the same to Interest in Suspense Account. The reversal of unearned income identified after the close of a financial year could be accounted for in the financial year in which the advances were identified as NPL.

- 6 (1) Banks shall maintain (a) General provisions and (b) Specific provisions, for credit risk mitigation purposes.

6 (1)(I) General Provisions

Banks shall maintain general provisions in the following manner:

- (i) 1% of total outstanding of on-balance sheet PLAs as referred to in Direction 3 (4) above and total outstanding of special mention on-balance sheet credit facilities as referred to in Direction 4(6)(I) above, net of interest in suspense that has been debited to the respective accounts.
- (ii) Banks shall have a general provision of 0.7% of total credit facilities as specified in Direction 6(1)(I)(i) above by 30.06.2008 and, thereafter, make an incremental provision of 0.1% every quarter till 31.03.2009. In effect, banks shall meet the total requirement of 1% not later than 31.03.2009.
- (iii) Banks are exempted from maintaining a general provision in respect of credit facilities secured by cash deposits, gold or Government Securities with the same bank. Banks shall, for this purpose, meet the following conditions to be eligible for the exemption:
 - (a) Bank shall have the right to take legal possession of such securities, in the event of default, insolvency or bankruptcy of borrower.
 - (b) All documentation used in such collateralised transactions shall be binding on all parties and be legally enforceable in all relevant jurisdictions.

6 (1)(II) Specific Provisions

Banks shall maintain specific provisions, as per the credit facilities categorised in accordance with Direction 4(6), on the amount outstanding, net of realisable security value as specified in Direction 7(1) and interest suspended in the event of such interest being debited to the credit facility as per the following:

Categories of Non-performing Credit Facilities	Minimum Specific Provisioning Requirement
Substandard Credit card	25%
Others	20%
Doubtful	50%
Loss	100%

- 6 (2) In respect of any credit facilities falling within the ambit of Direction 4(8), banks shall maintain specific provisions as follows:
- (i) Where credit facilities are applied for the repayment of the capital sum outstanding, provisions shall be maintained at a level not less than what would have been required to be maintained under Direction 6(1)(II) at the time of repayment of the NPL.
 - (ii) Where credit facilities are applied for the repayment of interest, provision shall be maintained at 100% of the outstanding facility.
 - (iii) Where credit facilities are applied for the repayment of capital and interest (e.g. in the case of an overdraft), provisions for capital and interest shall be provided for in accordance with Directions 6(2)(i) and 6(2)(ii).

7 (1) Valuation of security for provisioning purposes shall be as specified below.

7 (1)(I) Primary Mortgage over Immovable Property

- (i) The value of security is based on progressive discounts on the forced sale value (FSV) of immovable property and on a current valuation report as specified below.
- (ii) The progressive discounts shall be as follows:

Item	% of FSV of immovable property that can be considered as the value of security	
	Freehold Property	Leasehold Property
At the first time of Provisioning Period in the Loss Section	75	60
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	Property should be reviewed on a regular basis, and discounted further at the discretion of the bank's management.	

(iii) Current external professional valuation report:

The valuation report shall meet the following conditions.

- (a) Banks shall obtain a current external professional valuation report in respect of a facility/ies where the capital outstanding amount is equal to or more than Rs. 5,000,000/- or 0.1% of the bank's capital base, whichever is less. Capital base shall be the same as that appearing in the computation of the Capital Adequacy Ratio subject to certification by the bank's External Auditor.
- (b) Such report shall be from an External Independent Valuer.
An External Independent Valuer shall be:
 - (aa) A Chartered Valuation Surveyor; or
 - (ab) A Fellow of the Institute of Valuers of Sri Lanka (IVSL) with 5 years experience
 - (ac) A Graduate member of IVSL with 10 years experience
 - (ad) An Associate member of IVSL with 20 years experience.
- (c) The period of the valuation report shall be:
 - (aa) 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.
 - (ab) In respect of credit facilities granted for all other purposes: a report that is not more than three years old.

(iv) Current internal valuation report:

The valuation report shall meet the following conditions.

- (a) Banks shall obtain a current internal valuation report in respect of a credit 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.
- (b) It shall be a current internal assessment of the value of properties mortgaged for such credit facilities, carried out by an independent officer who has not been involved in the credit decision and signed by a senior officer of the bank.
- (c) A current internal assessment is defined as an assessment that is not more than two years old.

7 (1)(II) Mortgages other than Primary Mortgages

Mortgages other than primary mortgages over immovable property will qualify for the above purpose subject to complying with the conditions in Direction 7(1)(I) above and if such property is mortgaged to the same bank.

7(1)(III) Deposit of Title Deeds of Property with an Undertaking to Mortgage

No value shall be assigned until a property mortgage is executed in favour of the bank.

7(1)(IV) Assignment over Life Insurance Policies

90 per cent of the surrender value shall be considered as value of security, provided confirmation of surrender value from the insurer is available and the assignment in favour of the bank is duly registered.

7(1)(V) Secured on Gold

The market price of gold, subject to an adequate insurance cover.

7(1)(VI) Assignment of Shares**(i) Quoted**

(a) 90 percent of the latest market price

(b) If trading has been suspended (other than temporary suspension), the net realisable tangible asset value, as per the latest audited financial statements (not more than 18 months old), is to be used, provided an auditor's certificate evidencing the value per share is available. No value shall be given if appropriate financial statements/certificates are not available and if sales are temporarily suspended.

(ii) Unquoted

Value may be given, provided the shares are marketable. Appropriate value may be determined on the basis of 75 per cent of the net tangible asset value per share as certified by the company's auditors.

7(1)(VII) Mortgage over Plant, Machinery and Equipment

Value based on an external valuation report or, in the absence of such valuation, the net book value calculated by using a 20 per cent depreciation rate on the straight-line basis taking into account the date of acquisition and the acquisition price shall be applicable.

7(1)(VIII) Mortgage over Motor Vehicles

Based on an external valuation report or, in the absence of such valuation, the net book value calculated by using a 25 per cent depreciation rate on the straight line basis taking into account the date of original registration and the acquisition price on that date, would be applicable.

7(1)(IX) Pledge over Stocks/Goods under the Bank's Control

50 per cent of the market value determined on a case-by-case basis may be applicable.

7(1)(X) Hypothecation of Stock-in-Trade

30 per cent of the current value of stocks provided that the level of stock-in-trade is closely monitored by the bank.

7(1)(XI) Quoted Debentures

(i) 90 per cent of the latest market price

(ii) If trading has been suspended (other than temporary suspension), the net realisable tangible asset value, as per the latest audited financial statements (not more than 18 months old), is to be used, provided an auditor's certificate evidencing the value per share is available. No value shall be given if appropriate financial statements/certificates are not available and if sales are temporarily suspended.

7(1)(XII) Guarantees

- (i) Licensed Banks – incorporated locally or outside Sri Lanka

Eligible value of guarantee is based on a rating given by an eligible credit rating agency recognition under the Direction issued on maintenance of capital adequacy ratio (Basel II), as follows:

Bank's credit rating	Value of security
AAA to AA- or equivalent	80%
A+ to A- or equivalent	50%

- (ii) Government Guarantee

Full value.

7(1)(XIII) Other Types of Security

As specifically approved by the Director of Bank Supervision on a case-by-case basis.

- 8 (1) Banks incorporated or established within Sri Lanka shall have a well-designed write-off/write down policy established by the Board of Directors, delineating the approach, authority, accountability for negligence and inappropriate follow-up, independent review and audit, continuous monitoring, reporting, etc. This policy should aim at recovering maximum salvage value through enforcement of collateral / guarantees, etc.
- Banks, incorporated outside Sri Lanka, are required to follow write-off/write down policy duly laid down by their head office.
- 9 (1) Banks shall segregate all credit facilities (a) classified as non-performing (b) rescheduled (c) written off/written down from other credit facilities to facilitate close follow-up action and to monitor recoveries.
- 10 (1) Banks shall submit the information on classification of loans and advances to the Central Bank of Sri Lanka on a monthly basis, in accordance with reporting format and instructions at Annex attached hereto. The returns for a given period should be submitted to the Central Bank on or before the 15th day of the month following the month to which the information relates.
- 11 (1) The following Directions and Circulars issued to licensed commercial banks are hereby revoked:
- (i) Directions on Suspension of interest on non-performing advances and classification of bad and doubtful advances for provisioning purposes (Schedule I) and valuation of securities for provisioning purposes (Schedule II) dated 22 August 1997, issued under Section 46A of the Banking Act, as amended.
 - (ii) Circular letter dated 15 August 2003 amending Direction 11(1)(i) above.
 - (iii) Circular letter dated 13 July 2004 on criteria for selection of Valuers.
 - (iv) Circular letter dated 8 September 2004 on classification of bad and doubtful advances for provisioning purposes (classification of medium and long-term project loans).
 - (v) Amendment to Direction 11(1)(i) dated 15 December 2004 on valuation of securities for provisioning purposes relating to the requirement to obtain a current professional valuation report.
 - (vi) Circular letter dated 29 March 2006 on reversal of unearned income and classification of advances as non-performing.
 - (vii) Direction dated 6 December 2006 on the requirement to maintain a general provision for advances.

Annex

Licensed Commercial Banks
Banking Act Direction No 3 of 2008
Classification of Loans and Advances, Income Recognition and Provisioning
Reporting Format

Name of Bank:

As at: DD/MM/YYYY

Amount in ' 000

Credit Facilities	Performing Loans and Advances (PLA)	Categorisation of Non-performing Loans				Total NPLs	Total Credit Facilities
		Special Mention	Substandard	Doubtful	Loss		
On-balance Sheet Credit Facilities							
Cheques purchased							
Import bills							
Export bills							
Overdrafts							
Credit card							
Short term loans							
Medium and long term loans							
Housing loans							
Staff loans							
Re-scheduled loans							
Lease rentals (net)							
Loans against debt securities							
Pawning advances							
Loans to Banks and Financial Institutions							
Other credit exposures							
Interest receivables							
Loans and Advances (gross)							
Suspended Interest (-)							
Specific provisions (-)							
General provisions (-)							
Loans and Advances (net)							
Value of Security							
Off-balance Sheet Credit Facilities							
Guarantees							
Bonds							
Letters of Credit							
Acceptances							
Interest Receivables							
Loans and Advances (gross)							
Suspended Interest (-)							
Specific provisions (-)							
General provisions (-)							
Loans and Advances (net)							
Value of Security							

Separate returns for DBU and OBU to be submitted.

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

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

Colombo
May 8 2008

DIRECTIONS

BANKING ACT DIRECTION NO 4 OF 2008
CLASSIFICATION OF LOANS AND ADVANCES,
INCOME RECOGNITION AND PROVISIONING

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

- 1 (1) These Directions may be cited as the Banking Act Direction No. 4 of 2008. The Section referred to in these Directions will be those of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006.
- 2 (1) In terms of Section 76J(1) of the Banking Act, the Monetary Board is empowered to issue Directions to licensed specialised banks regarding the manner in which any aspect of the business of such banks is to be conducted.
- 3 (1) The following definitions shall be applicable for the purposes of these Directions.
- 3 (2) Total credit facilities shall mean on-balance sheet credit facilities and off-balance sheet credit facilities as specified below.
- 3 (2)(I) On-balance sheet credit facilities:
On-balance sheet credit facilities shall mean Term loans, Block loans, Packing credits, Pledge loans, Revolving loans, Bills financed, Discounting facilities, Hire purchase loans, Leasing facilities, Trust receipts, Pawning advances, Credit card facilities, Reverse repurchase facilities, Lending for debt instruments under stand by credit lines and other instruments of a similar nature.
- 3 (2)(II) Off-balance sheet credit facilities:
Off-balance sheet credit facilities shall mean a commitment to accept contingent liabilities, and include guarantees, bonds, warranties, letters of credit and acceptances.
- 3 (3) Borrower shall mean individuals, single companies, the Government of Sri Lanka, public corporations, statutory bodies, firms, associations of persons and any other institutions.
- 3 (4) Performing loans and advances (PLA) shall mean all credit facilities other than non-performing loans and advances (NPL) classified in terms of Direction 3 (5).
- 3 (5) NPL shall mean bad and doubtful debts. For this purpose, all credit facilities, excluding exempted credit facilities referred to in Direction 4(2), are classified as non-performing on the following basis:
- 3 (5)(I) Based on period
 - (i) Credit facilities repayable in monthly installments: when 3 consecutive installments, principal and/or interest, have not been paid.
 - (ii) Credit facilities repayable in quarterly/half yearly installments: when an installment is not paid within 90 days from the due date.
 - (iii) Credit facilities repayable in one installment at the end of a specified period or on a due date (bullet payments): when the payment is not made within 90 days from the end of the agreed period or the due date.
 - (iv) Credit cards: when the minimum payment is in arrears for 90 days from the due date.

3 (5)(II) Based on potential risk

In addition to the classification requirements for NPL as set out in Direction 3(5)(I), banks shall classify PLA as NPL where full recoverability in accordance with the agreed terms is in doubt due to circumstances affecting the repayment capacity.

3 (6) New credit facility shall mean any credit facility granted to borrowers with the involvement of cash/ fund movements. A facility granted for the capitalisation of accrued and unpaid interest or to convert an overdraft to a term loan shall not be considered as a new credit facility.

4 (1) Classification of performing and non-performing credit facilities:

Banks shall classify all credit facilities granted to a borrower, for monitoring and risk mitigation purposes, into the two categories of (a) performing loans and advances and (b) non-performing loans and advances, as specified in Directions 3 (4) and 3 (5) above.

4 (2) Exempted credit facilities:

When classifying credit facilities as NPL under Direction 4(1) above, credit facilities secured on cash deposits shall be exempted. Banks shall, for this purpose, meet the following conditions to be eligible for the exception:

- (i) Banks shall have the right to take legal possession of such cash deposit, in the event of default, or insolvency or bankruptcy of borrower.
- (ii) All documentation used in cash collateralised transactions shall be binding on all parties and legally enforceable in all relevant jurisdictions. A duly signed lien in the bank's favour and a letter of set-off shall be available.
- (iii) Such cash deposit shall be set-off against the credit facilities within 3 months from the date on which the credit facilities would have otherwise been classified as non-performing.
- (iv) During the period referred to in Direction 4(2)(iii) above, if the outstanding exceeds the deposit, such excess shall be classified as non-performing.

4 (3) The availability of security or net worth of the borrower/guarantor shall not be considered in the application of Direction 3 (5) except as permitted by Direction 4 (2) above.

4 (4) Classification of rescheduled credit facilities:

When rescheduling occurs before a credit facility is classified as NPL, the rescheduled credit facility shall be classified as non-performing when, in aggregate, the period of time the credit facility was in arrears before rescheduling and after rescheduling exceeds the time period specified in the Direction 3 (5) in respective credit facilities. In the case of capitalisation of accrued and unpaid interest, banks shall classify a credit facility created by way of capitalisation of accrued and unpaid interest as NPL in terms of Directions 3 (5) and 4(5) and categorise as required by Direction 4(6).

4 (5) Classification of multiple credit facilities granted to a single borrower:

- (i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/have been classified as NPL in terms of Direction 3 (5) and if the aggregate amount outstanding of such NPL exceeds 30% of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing January 1, 2009.
- (ii) In the computation of the percentage threshold as specified in Direction 4(5)(i) above, banks shall exclude all accrued interest credited to an interest in suspense account from both numerator and denominator.

4 (6) Categorisation of non-performing credit facilities:

Banks shall categorise NPL, which are classified in terms of Directions 3(5) and 4(5) above, into the four categories mentioned below based on (a) the period which the credit facilities have remained non-performing and (b) the potential risk of credit facilities. However, multiple credit facilities granted to a single borrower, which are classified in terms Direction 4(5), shall be categorised as follows:

- (i) Facilities classified in terms of Direction 3(5), shall be categorised as per Directions 4(6)(I) to 4(6)(IV).

- (ii) Other facilities of such borrower shall initially be categorised into the “Special Mention” category. Subsequent categorisation of such facilities shall be in terms of Directions 4(6)(I) to 4(6)(IV).

4 (6)(I) “Special Mention” credit facilities:

- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Credit facilities, repayable in monthly installments	3 installments or more but less than 6 installments, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 90 days or more but less than 120 days from the due date.
Other credit facilities	The payments are in arrears for 90 days or more but less than 180 days from the due date.

4 (6)(II) Sub-standard credit facilities:

- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Credit facilities, repayable in monthly installments	6 installments or more but less than 12 installments, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 120 days or more but less than 180 days from the due date.
Other credit facilities	The payments are in arrears for 180 days or more but less than 360 days from the due date.

- (ii) The potential risk of credit facilities:

Where the situation of the borrower makes it uncertain that part or the entirety of the facility will be repaid and involves more than normal risk of loss due to unsatisfactory debt servicing record or financial condition of the borrower, insufficiency of collateral or any other factors which give rise to some doubts as to the ability of the borrower to comply with the present repayment terms.

4 (6)(III) Doubtful credit facilities:

- (i) The period which the credit facilities have remained non-performing.

Facility Type	Determinant
Credit facilities, repayable in monthly installments	12 installments or more but less than 18 installments, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 180 days or more but less than 240 days from the due date.
Other credit facilities	The payments are in arrears for 360 days or more but less than 540 days from the due date.

- (ii) The potential risk of credit facilities:

Where there is a high risk of partial default or where full collection is improbable and there is a high risk of default.

4 (6)(IV) Loss credit facilities:

Facility Type	Determinant
Credit facilities, repayable in monthly installments	18 installments or more, principal and/or interest are due and unpaid.
Credit Cards	The minimum payment is in arrears for 240 days or more.
Other credit facilities	The payments are in arrears for 540 days or more.

- (i) The period which the credit facilities have remained non-performing.

- (ii) The potential risk of credit facilities:

Where the situation of the borrower makes it virtually certain that the facility will not be repaid, as in the following circumstances:

- (a) The customer is in a weak financial position or the ability of the customer to earn income is low, which indicates that the customer may not be able to service the debt.
- (b) The business of the customer has become uncertain or the customer has used the funds obtained for purposes other than for which they were meant.
- (c) The customer is deceased and there are no assets to repay the debt.
- (d) The customer has ceased or dissolved his business and is in debt to other creditors with preferential rights over the whole of the customer's assets, where the said creditors' total claims exceed the value of the customer's assets.
- (e) The customer's business is under liquidation.
- (f) The bank has filed a bankruptcy suit against the customer or has applied for participation in property with other creditors who have filed for bankruptcy, where the parties have agreed to restructure the debt with approval from the Court.
- (g) The bank has applied for participation in property with other creditors who have sued the debtor.
- (h) The bank is unable to contact or find the borrower.

4 (7) Reclassification of credit facilities:

4(7)(I) Re-classification of NPL as PLA:

Banks shall reclassify NPL as PLA, if interest and principal in arrears are paid by the borrower in relation to classified NPLs.

4(7)(II) Re-classification of rescheduled NPL as PLA:

The NPL accounts which have been subjected to rescheduling, whether in respect of principal installment or interest amount, would be eligible to be upgraded to the PLA category only after the specified periods in respect of following category, subject to satisfactory performance during such period.

Rescheduled NPL in	Upgrade to the PLA
Special mention category	Period of 90 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms.
Sub-standard and Doubtful categories	Period of 180 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms.
Loss category	Period of 360 days after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms.

The amount of specific provision made earlier, in respective of rescheduled NPL of above categories, could also be reversed after the period specified above.

4 (8) Granting of new credit facilities:

Banks shall not grant new credit facilities for repayment of NPL in the name of the same borrower or any party, unless the credit facility so created is also classified as NPL and categorised into the same category the repaid NPL had been categorized under Direction 4(6). The reclassification of such NPL as PLA shall be subject to Directions (4)(7)(I) and 4(7)(II).

5 (1) Banks shall recognise interest on an account which has been classified as NPL as income, as and when the interest is collected by the bank, if it is collected on a cash basis.

5 (2) Banks shall suspense all interest accrued but uncollected from the date a credit facility is classified as NPL and credit such accrued interest to the "Interest in Suspense Account" and debit such accrued interest to the "Interest Receivable Account-NPL".

5 (3) Banks shall continue the present practice of debiting the credit card facilities classified as NPL with interest receivable and crediting to Interest in Suspense Account.

5 (4) At the time of classifying the credit facilities as NPL, bank shall reverse the accrued interest and credit the same to Interest in Suspense Account. The reversal of unearned income identified after the close of a financial year could be accounted for in the financial year in which the advances were identified as NPL.

6 (1) Banks shall maintain (a) General provisions and (b) Specific provisions, for credit risk mitigation purposes.

6(1)(I) General Provisions

Banks shall maintain general provisions in the following manner:

- (i) 1% of total outstanding of on-balance sheet PLAs as referred to in Direction 3 (4) above and total outstanding of special mention on-balance sheet credit facilities as referred to in Direction 4(6)(I) above, net of interest in suspense that has been debited to the respective accounts.
- (ii) Banks shall have a general provision of 0.7% of total credit facilities as specified in Direction 6(1)(I)(i) above by 30.06.2008 and, thereafter, make an incremental provision of 0.1% every quarter till 31.03.2009. In effect, banks shall meet the total requirement of 1% not later than 31.03.2009.
- (iii) Banks are exempted from maintaining a general provision in respect of credit facilities secured by cash deposits, gold or Government Securities with the same bank. Banks shall, for this purpose, meet the following conditions to be eligible for the exemption:
 - (a) Banks shall have the right to take legal possession of such securities, in the event of default, insolvency or bankruptcy of borrower.
 - (b) All documentation used in such collateralised transactions shall be binding on all parties and be legally enforceable in all relevant jurisdictions.

6(1)(II) Specific Provisions

Banks shall maintain specific provisions, as per the credit facilities categorised in accordance with Direction 4(6), on the amount outstanding, net of realisable security value, as specified in Direction 7(1) and interest suspended in the event of such interest being debited to the credit facility as per the following:

Categories of Non-performing Credit Facilities	Minimum Specific Provisioning Requirement
Substandard Credit card	25%
Others	20%
Doubtful	50%
Loss	100%

6 (2) In respect of any credit facilities falling within the ambit of Direction 4(8), banks shall maintain specific provisions as follows:

- (i) Where credit facilities are applied for the repayment of the capital sum outstanding, provisions shall be maintained at a level not less than what would have been required to be maintained under Direction 6(1)(II) at the time of repayment of the NPL.
- (ii) Where credit facilities are applied for the repayment of interest, provision shall be maintained at 100% of the outstanding facility.
- (iii) Where credit facilities are applied for the repayment of capital and interest (e.g. in the case of a credit card), provisions for capital and interest shall be provided for in accordance with Directions 6(2)(i) and 6(2)(ii).

7 (1) Valuation of security for provisioning purposes shall be as specified below:

7(1)(I) Primary Mortgage over Immovable Property

- (i) The value of security is based on progressive discounts on the forced sale value (FSV) of immovable property and on a current valuation report as specified below.
- (ii) The progressive discounts shall be as follows:

Item	% of FSV of immovable property that can be considered as the value of security	
	Freehold Property	Leasehold Property
At the first time of Provisioning Period in the Loss Section	75	60
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	Property should be reviewed on a regular basis, and discounted further at the discretion of the bank's management.	
		Nil

(iii) Current external professional valuation report:

The valuation report shall meet the following conditions.

- (a) Banks shall obtain a current external professional valuation report in respect of a facility/ies where the capital outstanding amount is equal to or more than Rs. 5,000,000/- or 0.1% of the bank's capital base, whichever is less. Capital base shall be the same as that appearing in the computation of the Capital Adequacy Ratio subject to certification by the bank's External Auditor.
- (b) Such report shall be from an External Independent Valuer.
An External Independent Valuer shall be:
 - (aa) A Chartered Valuation Surveyor; or
 - (ab) A Fellow of the Institute of Valuers of Sri Lanka (IVSL) with 5 years experience
 - (ac) A Graduate member of IVSL with 10 years experience
 - (ad) An Associate member of IVSL with 20 years experience.
- (c) The period of the valuation report shall be:
 - (aa) 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.
 - (ab) In respect of credit facilities granted for all other purposes: a report that is not more than three years old.

(iv) Current internal valuation report:

The valuation report shall meet the following conditions.

- (a) Banks shall obtain a current internal valuation report in respect of a credit 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.
- (b) It shall be a current internal assessment of the value of properties mortgaged for such credit facilities, carried out by an independent officer who has not been involved in the credit decision and signed by a senior officer of the bank.
- (c) A current internal assessment is defined as an assessment that is not more than two years old.

7(1)(II) Mortgages other than Primary Mortgages

Mortgages other than primary mortgages over immovable property will qualify for the above purpose subject to complying with the conditions in Direction 7(1)(I) above and if such property is mortgaged to the same bank.

7(1)(III) Deposit of Title Deeds of Property with an Undertaking to Mortgage

No value shall be assigned until a property mortgage is executed in favour of the bank.

7(1)(IV) Assignment over Life Insurance Policies

90 per cent of the surrender value shall be considered as value of security provided confirmation of surrender value from the insurer is available and the assignment in favour of the bank is duly registered.

7(1)(V) Secured on Gold

The market price of gold, subject to an adequate insurance cover.

7(1)(VI) Assignment of Shares

(i) Quoted

(a) 90 percent of the latest market price

(b) If trading has been suspended (other than temporary suspension), the net realisable tangible asset value, as per the latest audited financial statements (not more than 18 months old), is to be used, provided an auditor's certificate evidencing the value per share is available. No value shall be given if appropriate financial statements/certificates are not available and if sales are temporarily suspended.

(ii) Unquoted

Value may be given, provided the shares are marketable. Appropriate value may be determined on the basis of 75 per cent of the net tangible asset value per share as certified by the company's auditors.

7(1)(VII) Mortgage over Plant, Machinery and Equipment

Value based on an external valuation report or, in the absence of such valuation, the net book value calculated by using a 20 per cent depreciation rate on the straight-line basis taking into account the date of acquisition and the acquisition price shall be applicable.

7(1)(VIII) Mortgage over Motor Vehicles

Based on an external valuation report or in the absence of such valuation, the net book value calculated by using a 25 per cent depreciation rate on the straight line basis taking into account the date of original registration and the acquisition price on that date, would be applicable.

7(1)(IX) Pledge over Stocks/Goods under the Bank's Control

50 per cent of the market value determined on a case-by-case basis may be applicable.

7(1)(X) Hypothecation of Stock-in-Trade

30 per cent of the current value of stocks provided that the level of stock-in-trade is closely monitored by the bank.

7(1)(XI) Quoted Debentures

(i) 90 percent of the latest market price

(ii) If trading has been suspended (other than temporary suspension), the net realisable tangible asset value, as per the latest audited financial statements (not more than 18 months old), is to be used, provided an auditor's certificate evidencing the value per share is available. No value shall be given if appropriate financial statements/certificates are not available and if sales are temporarily suspended.

7(1)(XII) Guarantees

(i) Licensed Banks – incorporated locally or outside Sri Lanka

Eligible value of guarantee is based on a rating given by an eligible credit rating agency recognition under the Direction issued on maintenance of capital adequacy ratio (Basel II), as follows:

Bank's credit rating	Value of security
AAA to AA- or equivalent	80%
A+ to A- or equivalent	50%

(ii) Government Guarantee

Full value.

7(1)(XIII) Other Types of Security

As specifically approved by the Director of Bank Supervision on a case-by-case basis.

- 8 (1) Banks incorporated or established within Sri Lanka shall have a well-designed write-off/write down policy established by the Board of Directors, delineating the approach, authority, accountability for negligence and inappropriate follow-up, independent review and audit, continuous monitoring, reporting, etc. This policy should aim at recovering maximum salvage value through enforcement of collateral / guarantees, etc.

Banks, incorporated outside Sri Lanka, are required to follow write-off/write down policy duly laid down by their head office.

- 9 (1) Banks shall segregate all credit facilities (a) classified as non-performing (b) rescheduled (c) written off/written down from other credit facilities to facilitate close follow-up action and to monitor recoveries.

- 10 (1) Banks shall submit the information on classification of loans and advances to the Central Bank of Sri Lanka on a monthly basis, in accordance with reporting format and instructions at Annex attached hereto. The returns for a given period should be submitted to the Central Bank on or before the 15th day of the month following the month to which the information relates.

- 11 (1) The following Directions and Circulars issued to licensed specialised banks are hereby revoked:

- (i) Directions on Specific provisions and unpaid interest in relating to suspension of interest on non-performing advances and classification of bad and doubtful advances for provisioning purposes (Schedule I) and valuation of securities for provisioning purposes (Schedule II) dated 21 November 1997, issued under Section 76J(1) of the Banking Act, as amended.
- (ii) Circular letter dated 15 August 2003 amending Direction 11(1)(i) above.
- (iii) Circular letter dated 13 July 2004 on criteria for selection of Valuers.
- (iv) Circular letter dated 8 September 2004 on classification of bad and doubtful advances for provisioning purposes (classification of medium and long-term project loans).
- (v) Circular letter dated 29 March 2006 on reversal of unearned income and classification of advances as non-performing.
- (vi) Direction dated 6 December 2006 on the requirement to maintain a general provision for advances.

Annex

Licensed Specialised Banks
Banking Act Direction No 4 of 2008
Classification of Loans and Advances, Income Recognition and Provisioning
Reporting Format

Name of Bank:

As at: DD/MM/YYYY

Amount in ' 000

Credit Facilities	Performing Loans and Advances (PLA)	Categorisation of Non-performing Loans				Total NPLs	Total Credit Facilities
		Special Mention	Substandard	Doubtful	Loss		
On-balance Sheet Credit Facilities							
Cheques purchased							
Import bills							
Export bills							
Overdrafts							
Credit card							
Short term loans							
Medium and long term loans							
Housing loans							
Staff loans							
Re-scheduled loans							
Lease rentals (net)							
Loans against debt securities							
Pawning advances							
Loans to Banks and Financial Institutions							
Other credit exposures							
Interest receivables							
Loans and Advances (gross)							
Suspended Interest (-)							
Specific provisions (-)							
General provisions (-)							
Loans and Advances (net)							
Value of Security							
Off-balance Sheet Credit Facilities							
Guarantees							
Bonds							
Letters of Credit							
Acceptances							
Interest Receivables							
Loans and Advances (gross)							
Suspended Interest (-)							
Specific provisions (-)							
General provisions (-)							
Loans and Advances (net)							
Value of Security							
Credit							

Bank Supervision Department
26 May 2008

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

Dear Sir/Madam

ESTABLISHMENT OF BANK BRANCHES

The Central Bank currently approves the opening of bank branches and other outlets by licensed banks considering the feasibility and suitability of the proposed expansion. At present, nearly 40 per cent of the bank branches in the country are concentrated in the Western Province resulting in a banking density (bank branches for 100,000 persons) of 11.9 in the Western Province as against a range of 5.3 to 8.4 in other provinces.

There is a need to accelerate economic development in areas of the country outside the Western Province to achieve balance regional development in the country. Establishing more branches and banking outlets outside the Western Province is expected to enhance access to finance and promote the savings habits, thereby increasing economic activity in those regions.

To facilitate this, the Monetary Board has decided that banks shall establish a minimum of two branches outside the Western Province for each new branch established in the Western Province. This new criteria will be applicable for all future requests made to the Central Bank for opening of branches.

Yours faithfully
B D W A Silva
Director of Bank Supervision

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

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

Colombo
15 August 2008

DIRECTIONS **BANKING ACT DIRECTION NO. 5 OF 2008** **AMENDMENTS TO DIRECTIONS ON CORPORATE GOVERNANCE** **FOR LICENSED COMMERCIAL BANKS IN SRI LANKA**

In the exercise of the powers conferred by Section 46(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006 and in terms of the Supreme Court order delivered on July 8, 2008, the Monetary Board hereby issues the following Directions in lieu of Direction No. 1 of 2008 dated April 23, 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. These Directions may be cited as the Banking Act Direction No. 5 of 2008.

1. The Banking Act Direction No. 1 of 2008 dated April 23, 2008 described as “Provisions regarding executive directors and transitional provisions for founding directors, incumbent chairmen and executive directors”, is hereby revoked.
2. The following new Direction shall replace the present Direction 3(2)(ii) (B) of the Banking Act Direction No. 11 of 2007.

- 3(2)(ii) (B) In this context, the following general exemption shall apply:
A director who has completed nine years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.
3. The following new Direction shall replace Directions 3(3)(i)(A) and 3(3)(i)(B) of the Banking Act Direction No. 11 of 2007.
- 3(3)(i) (A) In this context, the following general exemption shall apply:
A director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.
4. The following new Direction shall be included immediately after Direction 3(3)(ii) of the Banking Act Direction No. 11 of 2007.
- 3(3)(ii)(A) In this context, the following general exemption shall apply:
If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1 January 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.
5. The following new Direction shall be included immediately after Direction 3(9)(iv) of the Banking Act Direction No. 11 of 2007.
- 3(9)(v) If for any reason such as ill health or other incapacity, the Monetary Board considers that exemptions referred to in Directions 3(2)(ii)B, 3(3)(i)A and 3(3)(ii)A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

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

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

Colombo
15 August 2008

DIRECTIONS
BANKING ACT DIRECTION NO. 6 OF 2008
AMENDMENTS TO DIRECTIONS ON CORPORATE GOVERNANCE
FOR LICENSED SPECIALISED BANKS IN SRI LANKA

In the exercise of the powers conferred by Section 76J(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006 and in terms of the Supreme Court order delivered on July 8, 2008, the Monetary Board hereby issues the following Directions in lieu of Direction No. 2 of 2008 dated April 23, 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. These Directions may be cited as the Banking Act Direction No. 6 of 2008.

1. The Banking Act Direction No. 2 of 2008 dated April 23, 2008 described as “Provisions regarding executive directors and transitional provisions for founding directors, incumbent chairmen and executive directors”, is hereby revoked.
 2. The following new Direction shall replace the present Direction 3(2)(ii) (B) of the Banking Act Direction No. 12 of 2007.
- 3(2)(ii) (B) In this context, the following general exemption shall apply:
A director who has completed nine years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.

3. The following new Direction shall replace Directions 3(3)(i)(A) and 3(3)(i)(B) of the Banking Act Direction No. 12 of 2007.
 3(3)(i) (A) In this context, the following general exemption shall apply:
 A director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.
4. The following new Direction shall be included immediately after Direction 3(3)(ii) of the Banking Act Direction No. 12 of 2007.
 3(3)(ii)(A) In this context, the following general exemption shall apply:
 If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1 January 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.
5. The following new Direction shall be included immediately after Direction 3(9)(iv) of the Banking Act Direction No. 12 of 2007.
 3(9)(v) If for any reason such as ill health or other incapacity, the Monetary Board considers that exemptions referred to in Directions 3(2)(ii)B, 3(3)(i)A and 3(3)(ii)A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

Bank Supervision Department
20 August 2008

My Ref. : 02/17/800/0005/01

Your Ref. :

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

To: CEOs of All Licensed Commercial Banks

Dear Sirs

The Monetary Board has determined that investment in the International Sovereign Bonds issued in 2007 by the Government of Sri Lanka shall be treated as liquid assets in terms of item (g) of the definition of “liquid assets” under Section 86 of the Banking Act, No.30 of 1988.

Licensed commercial banks may, therefore, take into account the daily market value of their investment in the International Sovereign Bonds in computing their liquid assets ratio for the purpose of complying with the provisions of Section 21 of the Banking Act.

Yours faithfully
B D W A Silva
Director of Bank Supervision

Bank Supervision Department
20 August 2008

My Ref. : 02/17/800/0005/01

Your Ref. :

PERMITTING LICENSED COMMERCIAL BANKS TO TRADE IN THE INTERNATIONAL SOVEREIGN BONDS ISSUED IN 2007 BY THE GOVERNMENT OF SRI LANKA

To: CEOs of All Licensed Commercial Banks

Dear Sirs,

This is to inform you that the Monetary Board of the Central Bank of Sri Lanka with the concurrence of the Minister of Finance and Planning has authorised, in terms of the provisions of the Banking (Off-shore Banking Scheme) Order 2000 made under sections 23, 25 and 26 of the Banking Act No. 30 of 1988 as amended, for licensed commercial banks (LCBs) to invest in the international sovereign bonds issued by the Government of Sri Lanka in 2007, in the secondary market.

Yours faithfully
B D W A Silva
Director of Bank Supervision

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

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

Colombo
5 September 2008

DETERMINATIONS
BANKING ACT DETERMINATION NO 1 OF 2008
ANNUAL LICENCE FEE OF LICENSED COMMERCIAL BANKS

1. This Determination may be cited as the Banking Act Determination No 1 of 2008. The Sections referred to in this Determination will be those of the Banking Act, No.30 of 1988, as amended.
2. (1) In terms of Section 8(1) of the Banking Act every licensed commercial bank shall pay to the Central Bank an annual licence fee as may be determined by the Monetary Board, having regard to the different classes of banking business carried on by such bank.
(2) In terms of Section 8(2) of the Banking Act the Monetary Board shall inform each such licensed commercial bank the amount payable as licence fee, and the manner in which such fee shall be paid.
(3) In terms of Section 8(3) of the Banking Act where a licence fee is determined in respect of classes of banking business such fee shall apply to all banks carrying on such classes of business.
3. In the exercise of powers conferred by Section 8 (1) of the Banking Act, No.30 of 1988 as amended, the Monetary Board has determined that the licence fee that shall be paid for the year 2009 by a licensed commercial bank carrying on -
(1) domestic banking business including foreign exchange business and off-shore banking business be Rs. 500,000.00;
(2) off-shore banking business only be Rs. 300,000.00.
4. (1) Every licensed commercial bank shall pay the respective licence fee to the Central Bank of Sri Lanka by 31 January 2009.
(2) Every licensed commercial bank licensed in 2009, shall pay the annual licence fee for 2009 before the issue of the licence.
5. The annual licence fee applicable for future calendar years will be determined by the Monetary Board and notified to banks accordingly.

6. The previous Determination dated 1 March 1989 issued by the Monetary Board in terms of Section 8 of the Banking Act in relation to the annual licence fee of licensed commercial banks is hereby revoked.

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

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

Colombo
5 September 2008

DETERMINATIONS
BANKING ACT DETERMINATION NO 2 OF 2008
ANNUAL LICENCE FEE OF LICENSED SPECIALISED BANKS

1. This Determination may be cited as the Banking Act Determination No 2 of 2008. The Sections referred to in this Determination will be those of the Banking Act, No.30 of 1988, as amended.
2. (1) In terms of Section 76D(6) of the Banking Act, as amended, every licensed specialised bank shall pay to the Central Bank an annual licence fee as may be determined by the Monetary Board, having regard to the different classes of banking business carried on by such bank.
3. In the exercise of powers conferred by Section 76D(6) of the Banking Act No.30 of 1988, as amended, the Monetary Board has determined that every licensed specialised bank shall pay to the Central Bank a licence fee of Rs. 200,000.00 for the year 2009.
4. (1) Every licensed specialised bank shall pay the respective licence fee to the Central Bank of Sri Lanka by 31 January 2009.
(2) Every licensed specialised bank licensed in 2009, shall pay the annual licence fee for 2009 before the issue of the licence.
5. The annual licence fee applicable for future calendar years will be determined by the Monetary Board and notified to banks accordingly.
6. The Banking Act Determination No. 2 of 2005 dated 11 August 2005 issued by the Monetary Board in terms of Section 76D(6) of the Banking Act in relation to the annual licence fee of licensed specialised banks is hereby revoked.

Bank Supervision Department
12 September 2008

My Ref. : 02/17/600/0009/001
Your Ref. :

DESIGNATED FOREIGN CURRENCIES

To: the CEOs of All Licensed Commercial Banks

Dear Sir / Madam,

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

Accordingly, the Banking (Off-Shore Banking Scheme) Order 2000 dated 7th April, 2000, made under sections 23, 25 and 26 of the Banking Act No. 30 of 1988, is hereby amended to include the New Zealand Dollar as a designated currency for off-shore banking business carried out by licensed commercial banks, and to remove the Deutsche Mark, the French Franc and the Netherlands Guilder from the Schedule of Designated Foreign Currencies.

The Banking Act Order, No 1 of 2008 which contains the amended Schedule of Designated Foreign Currencies, is attached.

Yours faithfully
B D W A Silva
Director of Bank Supervision

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

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

Colombo
12 September 2008

BANKING ACT ORDER NO. 1 OF 2008
BANKING (OFF-SHORE BANKING BUSINESS SCHEME) ORDER

This order may be cited as the Banking Act Order No. 1 of 2008. The Sections referred to in this order will be those of the Banking Act No. 30 of 1988, as amended.

The following foreign currencies set out in the Schedule to this Order are determined as the Designated Foreign Currencies under the Banking (Off-Shore Banking Business Scheme) Order.

The Schedule referred to in this Order, replaces the Schedule in the Banking (Off-Shore Banking Business Scheme) Order 2000, dated 7th April 2000.

Designated Foreign Currencies

- (i) Australian Dollar
- (ii) Canadian Dollar
- (iii) Danish Kroner
- (iv) Euro
- (v) Hong Kong Dollar
- (vi) Japanese Yen
- (vii) New Zealand Dollar
- (viii) Norwegian Kroner
- (ix) Pound Sterling
- (x) Singapore Dollar
- (xi) Swedish Kroner
- (xii) Swiss Franc
- (xiii) United States Dollar

02/04/004/0012/001

8 October 2008

To: CEOs of all Licensed Banks

**USE OF BANKING SYSTEM BY INSTITUTIONS AND PERSONS NOT
AUTHORISED TO ACCEPT DEPOSITS**

A number of institutions and persons, that are not authorised to accept deposits from the public, are mobilising funds from the public in the guise of offering investment products/schemes. We find that such institutions and persons have used the banking system for their operations and that some banks have accommodated these transactions without identifying the legality of these transactions or the potential risks.

As you are aware, permitting these institutions and persons to use the banking system to resort to such practices can tarnish the image of your institution and thereby weaken public confidence in the banking system.

In this regard, we wish to draw your attention to the Circulars on Customer Due Diligence dated 3 December 2001 and Know Your Customer Procedures dated 19 January 2007 issued by the Director Bank Supervision and Know Your Customer and Customer Due Diligence Rules issued by the Director, Financial Intelligence Unit dated 18 May 2007. We wish to emphasise that special attention should be paid to strengthen Customer Due Diligence and Know Your Customer Procedures and to comply with such Circulars/Rules to ensure that sources of income and movement of funds are monitored, as required in these instructions.

H A Karunaratne
Director of Financial Intelligence Unit

B D W A Silva
Director of Bank Supervision

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

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

Colombo
24 October 2008

DIRECTIONS
BANKING ACT DIRECTION NO. 7 OF 2008
AMENDMENTS TO DIRECTIONS ON CORPORATE GOVERNANCE
FOR LICENSED COMMERCIAL BANKS IN SRI LANKA

In the exercise of the powers conferred by Section 46(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006 and in terms of the Supreme Court order delivered on September 1, 2008, the Monetary Board hereby issues the following Direction amending Direction No. 5 of 2008 dated August 15, 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 7 of 2008.

1. The following new Direction shall replace Direction No. 5 of the Banking Act Direction No. 5 of 2008, dated August 15, 2008.
 - 3(9)(v) If for any reason such as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemptions referred to in Directions 3(2)(ii)B, 3(3)(i)A and 3(3)(ii)A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

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

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

Colombo
24 October 2008

DIRECTIONS
BANKING ACT DIRECTION NO. 8 OF 2008
AMENDMENTS TO DIRECTIONS ON CORPORATE GOVERNANCE
FOR LICENSED SPECIALISED BANKS IN SRI LANKA

In the exercise of the powers conferred by Section 76J(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006 and in terms of the Supreme Court order delivered on September 1, 2008, the Monetary Board hereby issues the following Direction amending Direction No. 6 of 2008 dated August 15, 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 8 of 2008.

1. The following new Direction shall replace Direction No. 5 of the Banking Act Direction No. 6 of 2008, dated August 15, 2008.
 - 3(9)(v) If for any reason such as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemptions referred to in Directions 3(2)(ii)B, 3(3)(i)A and 3(3)(ii)A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

Ref:02/17/800/0006/01

31 October 2008

*Instructions to Licensed Commercial Banks Appointed as
Authorised Dealers*

Dear Sirs,

FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE

1. In view of the concerns relating to global financial market conditions, possible unhealthy speculative foreign exchange transactions, the impact on banks' risk management and the need to avoid excessive volatility in foreign exchange market, licensed commercial banks are informed that they should conform to the following prudential requirements with immediate effect.
2. Authorised dealers shall, with immediate effect, comply with the following conditions when entering into forward contracts in foreign exchange (including renewal of existing contracts) with their customers, until further notice.
 - i. Forward contracts for the sale and/or purchase of foreign exchange should only be for a period up to 180 days and only for the purpose of payments and receipts in foreign exchange in respect of trade in goods and services.
 - ii. An authorized dealer entering into a forward contract for the sale of foreign exchange should satisfy himself that the transaction relates to a genuine commercial contract involving trade in goods and services.
 - iii. An authorized dealer who enters into a forward contract for the sale of foreign exchange with a customer should obtain at the time the contract is entered into, a deposit of not less than 100% of the value of contract in Sri Lankan rupees, which should be retained until the date of performance of the contract.
 - iv. The date of performance of the forward contract should not be beyond the date of payment or receipt in foreign exchange, as the case may be, in terms of the relevant commercial contract underlying the forward exchange contract.
 - v. As at present, any cancellation of a forward foreign exchange contract by the customer should be subject to a penalty, at least to fully compensate the loss arising therefrom to the authorized dealer.
3. Please note that these operating instructions will not apply to:
 - i. Inter-bank forward contracts (local and foreign),
 - ii. Forward contracts where a foreign currency is purchased with another foreign currency,
 - iii. Purchases of foreign exchange in respect of share trading transactions specified in item 3 in the Operating Instructions No. 06/12/10/2002 dated 8th May 2002.
 - iv. Investments in government securities.
4. In the case of renewal or an extension of a contract, the maximum period of forward foreign exchange contract should be 180 days inclusive of the period that has already elapsed. In cases where the period exceeds 180 days, a fresh contract should be entered into and requires a 100% deposit as in the case of a new forward contract for the sale of foreign exchange.
5. Authorised dealers may pay interest on such deposits.
6. In the case of an importer, the margin already obtained in respect of Letters of Credit, if any, should not be treated as the deposit required for a forward contract for the sale of foreign exchange and, therefore, a fresh deposit of 100% of the value of the contract in Sri Lanka rupees is required for the forward contract.
7. Details relating to forward transactions in foreign exchange on any day should be reported, until further notice, at the end of the same day (not later than 6.00 p.m.) to the Director of Bank Supervision in the form set out in the Annex hereto.

Yours faithfully,

E A Hettiarachchi
Controller of Exchange

B D W A Silva
Director of Bank Supervision

Annex

FORWARD TRANSACTIONS IN FOREIGN CURRENCY

Name of the authorized dealer:

Date:

	Outstanding Balances at the beginning of the day (US\$ equivalent in mn)	Total transactions during the day (US\$ equivalent in mn)	Total margin deposit accepted (in Sri Lankan Rupees in mn)	Outstanding position at the close of the day (US\$ equivalent in mn)
A. Total forward sales				
B. Total forward purchases			Not applicable	

I certify that information given above is correct.

Date:.....

.....
Signature of the Authorized Officer

Ref: 02/17/800/0006/01

31 October 2008

*Instructions to Licensed Commercial Banks Appointed as
Authorised Dealers*

Dear Sirs,

PREPAYMENT OF IMPORT BILLS

The licensed commercial banks who are authorized dealers are informed that until further notice, they should not effect pre-payment of import bills and that such bills should be honoured as agreed to in the contract entered into with the supplier at the time of placing the import order.

Yours faithfully

E A Hettiarachchi
Controller of ExchangeB D W A Silva
Director of Bank Supervision

Ref: 02/17/800/0007/01Bank Supervision Department
6 November 2008*To: The CEOs of All Licensed Commercial Banks and
Licensed Specialised Banks***REGULATIONS MADE UNDER THE PUBLIC SECURITY ORDINANCE**
PROSCRIPTION OF TAMIL REHABILITATION ORGANISATION

We write to inform you that His Excellency the President has promulgated Emergency (Proscription of Tamil Rehabilitation Organisation) Regulations, No. 9 of 2007 on December 26, 2007 proscribing the Tamil Rehabilitation Organisation in Sri Lanka. A copy of the relevant Extraordinary Gazette No.1529/13 dated December 26, 2007 is attached herewith for your information.

In this regard, we wish to draw your special attention to Regulation 3 of these Regulations and advise you to refrain from carrying out any transactions with the above proscribed organisation.

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

Encl:
cc: Secretary-General/SLBA

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY
No.1529/13 – WEDNESDAY, DECEMBER 26, 2007
(Published by Authority)
PART I: SECTION (I) – GENERAL
Government Notifications
CF 1/64.
THE PUBLIC SECURITY ORDINANCE (CHAPTER 40)

REGULATIONS made by the President under Section 5 of the Public Security Ordinance (Chapter 40).

MAHINDA RAJAPAKSA,
President.

Colombo,
26th December, 2007.

REGULATIONS

1. These regulations may be cited as the Emergency (Proscription of Tamil Rehabilitation Organization) Regulations, No. 9 of 2007.
2. For the purposes of ensuring public security, for the preservation of public order and for upholding the Rule of Law, the Organization styled as the “Tamil Rehabilitation Organization” is hereby proscribed.
3. From and after the date of the coming into operation of these regulations, any person, who, -
 - (a) wears any uniform, dress, symbol or other emblem, which signifies or indicates any association with, or membership of, or adherence to the “Tamil Rehabilitation Organization” (hereinafter referred to as the “proscribed organization”); or
 - (b) summons or attends any meeting of the proscribed organization or participates or engages in any activity of, or any activity connected with or related to the said proscribed organization; or
 - (c) supports the proscribed organization, by inviting or exhorting persons to be enrolled as members, or by contributing or collecting funds, or by furnishing information or securing any other assistance to the said proscribed organization; or

- (d) harbours, conceals or in any other manner assists any member of the proscribed organization, with intention thereby to prevent, hinder or interfere with the apprehension, trial or punishment of such member; or
- (e) makes, prints, distributes or publishes or is in any way connected with or concerned in the making, printing, distribution or publication of any written or printed matter, which is or which purports to be printed, by or on behalf of the proscribed organization or by any member thereof; or
- (f) communicates or attempts to communicate to any other person in any manner whatsoever, any order, decision, declaration or exhortation made or purported to have been made by the proscribed organization or by any member thereof, or any information relating thereto, for the purpose of advancing the objectives of the said proscribed organization,

shall be guilty of an offence and shall on conviction be liable to imprisonment for a period not exceeding fifteen years.

4. (1) Where the Minister is satisfied, after such inquiry as he thinks fit, that any person has custody of any money, securities or credits which are being used or which are intended to be used, for the purposes of the proscribed organization, the Minister may by order in writing declare that such moneys, securities and credits as are in the custody of such person, or any such moneys, securities and credits which may come into his custody after the making of such order and any other movable or immovable property belonging to the said proscribed organization, shall be forfeited to the State.
- (2) The decision of the Minister under paragraph (1) shall be final and conclusive and shall not be called in question in any court by way of writ or otherwise.

Ref: 02/17/800/0007/001

Bank Supervision Department
06 November 2008

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

Dear Sirs,

MISLEADING AND UNETHICAL ADVERTISEMENTS

It has been observed on several occasions that banks are publishing misleading and unethical advertisements, e.g., 15% on US Dollar deposits, interest rate of 30% on Fixed deposits, mega bonus return of 300% or bonus interest of 200% etc., in the media and in bill boards displayed in public places. These advertisements are very misleading and cause much negative misinterpretation of the economic situation of the country. There have been complaints from the public about being misled by these advertisements too. Whilst we understand that good marketing strategies are necessary in a competitive market, we wish to emphasise that they should be ethical, with clear policies.

Therefore, we hereby request all the licensed banks to refrain from publishing misleading and unethical advertisements with immediate effect and to ensure that all important information is highlighted in a visible manner to enable the general public to understand clearly the nature of the products and the effective interest rates applicable.

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

cc: Secretary-General/SLBA

Ref: 02/17/800/0006/01

07 November 2008

Operating Instructions to Authorised Dealers

Dear Sirs,

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

Further to the circular No: 35/01/005/0010/09 dated 04.11.2008, issued by the Director, Domestic Operations on Margin Requirements Against Letters of Credit, all licensed commercial banks (LCBs) are requested to adhere to the following requirements on the importation of motor vehicles and related items given in Schedule A (copy attached) on DA terms with immediate effect until further notice.

1. A 200 percent margin deposit on the invoiced value of imports given in Schedule A, which are imported under DA terms, should be placed by the importer at the time of release of documents and acceptance of bills by the importer.
2. A 200 percent margin requirement is on the total value of the invoice, even if the same invoice includes items which are not subject to the margin requirement.
3. Banks should endorse the invoice to the effect that the margin deposit has been obtained.
4. The margin deposit should be released on the production of documentary evidence or payments through the banking channels in Sri Lanka and custom documents of clearance of imports.
5. Banks should not grant any advance to enable importers to place the margin deposits in respect of these imports.
6. Margin deposits will be subject to the statutory reserve requirements.
7. The banks may pay interest on such margin deposits.
8. The banks should submit monthly returns of the details of such margin deposits to Director, Bank Supervision, in the format as shown in the Annex I.
9. Above requirements will not apply to imports where shipment of imports has been made on or before 06th November 2008. The date of shipment is considered as the date of Bill of Lading.

Yours faithfully

E A Hettiarachchi
Controller of Exchange

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

Annex I

Margin Deposits on Imports of Items given in Schedule A under DA Terms

Name of the Bank:

Reporting Month:

Name of the Importer	Description		Invoiced Value in Rs.	Name of the Importer	Deposit in Rs.	Date of Deposit	Date of Release
	Item	H.S. Code					

.....
Authorised Signature

Please forward the report to Bank Supervision Department

Fax : 2477711

e-mail: hdajit@cbsl.lk

Ref:02/17/800/0006/01

05 December 2008

*Instructions to Licensed Commercial Banks
Appointed as Authorised Dealers*

Dear Sirs

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

This has reference to our Operating Instructions No. 02/17/800/0006/01 dated 07/11/2008 on the above subject.

Licensed Commercial Banks are hereby informed that the Schedule A referred to in our Operating Instructions No. 02/17/800/0006/01 dated 07/11/2008 is replaced with Schedule A¹, titled List of Items Requiring 200 per cent Margin Deposit against Imports on DA Terms – 05/12/2008, with effect from 08/12/2008.

Yours faithfully

E A Hettiarachchi
Controller of Exchange

B D W A Silva
Director of Bank Supervision

¹ This schedule is available at Central Bank's website – www.cbsl.gov.lk

Ref: 02/17/800/006/001

08 December 2008

*Instructions to Licensed Commercial Banks
Appointed as Authorised Dealers*

Dear Sirs

IMPORTS ON DOCUMENTS AGAINST ACCEPTANCE TERMS (DA)

Authorised Dealers are hereby informed that they are required to adhere to the following prudential requirements with effect from 08th December 2008.

1. A 100 per cent margin deposit on the invoiced value of the imports given in Schedule A1¹ titled List of Items Requiring 100 per cent Margin Deposit against DA Terms – 05/12/2008 should be placed by the importers at the banks that release documents, at the time of acceptance of documents by the importers. The 100 per cent margin requirement is on the total value of the invoice, even if the same invoice includes items which are not subject to the margin requirement. Banks should endorse the invoice to the effect that the margin deposit has been obtained.
2. The margin deposit should be released on the production of documentary evidence or payments through the banking channels in Sri Lanka and custom documents of clearance of imports.
3. Banks should not grant any advance to enable importers to place the margin deposits in respect of these imports.
4. Margin deposits will be subject to Statutory Reserve Requirements.
5. The banks may pay interest on such margin deposits.
6. Margin deposit requirements which are imposed for imports in terms of these instructions, are not applicable to the goods which are imported for re-export purposes under the Entrepot Trade subject to the following conditions:
 - a. Goods imported to be stored in a Custom Bonded Warehouse until such goods are re-exported to a third country.
 - b. Re-packaging/labeling/simple processing of goods imported to be carried out in a Custom Bonded Warehouse before re-exporting to a third country.
 - c. Exportation of goods directly from a second country to a third country without the goods physically arriving in the trader's country.
 - d. Transfer from one ship/aircraft to another within the port without cargo being taken into Bonded Warehouse.
7. The banks should submit monthly returns of the details of such margin deposits to the Director of Bank Supervision, in the format as shown in the Annex I.

¹ This schedule is available at Central Bank website - www.cbsl.gov.lk

8. Above requirements will not apply to the imports where shipment of imports has been made on or before 31st October 2008. The date of shipment is considered as the date of Bill of Lading.

Operating Instructions previously issued under Ref. No. 02/17/800/006/01 dated 31/10/2008 and 02/17/800/0006/01 dated 04/11/2008 respectively on the above subject are hereby rescinded with effect from 08th December 2008.

Yours faithfully

E A Hettiarachchi
Controller of Exchange

B D W A Silva
Director of Bank Supervision

Annex 1

Report 1: Margin Deposit on Imports under DA Terms

Name of the Bank:

Reporting Month:

Name of the Importer	Type of Import	Invoiced Value, Rs.	Deposit, Rs.	Date of Deposit

Please forward the report to Bank Supervision Department

Fax 2477711 E-mail:hdajit@cbsl.lk

.....
Authorised Signature

Report 2: Release of Margin Deposit on Imports under DA Terms

Name of the Bank:

Reporting Month:

Name of the Importer	Type of Import	Invoiced Value, Rs.	Deposit, Rs.	Date of Deposit

Please forward the report to Bank Supervision Department

Fax 2477711 E-mail:hdajit@cbsl.lk

.....
Authorised Signature

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

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

Colombo
30 December 2008

DIRECTIONS
BANKING ACT DIRECTION NO. 9 OF 2008
AMENDMENTS TO DIRECTIONS ON CLASSIFICATION OF LOANS AND
ADVANCES, INCOME RECOGNITION AND PROVISIONING
FOR LICENSED COMMERCIAL BANKS IN SRI LANKA

In the exercise of the powers conferred by Sections 46(1) and 46A of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No. 3 of 2008 dated 8 May 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 9 of 2008.

1. The following new Direction shall replace Direction No. 4(5)(i) of Banking Act Direction No. 3 of 2008.
 - (i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/ have been classified as NPL in terms of Direction 3(5) and if the aggregate amount outstanding of such NPL exceeds 30 per cent of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing 1 January 2010.
2. The following new Direction shall replace Direction No. 4(7)(I) of Banking Act Direction No. 3 of 2008. This Direction will be effective till 31 December 2009.

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

Banks shall reclassify NPL as PLA in the following manner:

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

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

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

Colombo
30 December, 2008

DIRECTIONS
BANKING ACT DIRECTION NO. 10 OF 2008
AMENDMENTS TO DIRECTIONS ON CLASSIFICATION OF LOANS AND
ADVANCES, INCOME RECOGNITION AND PROVISIONING
FOR LICENSED SPECIALISED BANKS IN SRI LANKA

In the exercise of the powers conferred by Sections 76J(1) of the Banking Act No. 30 of 1988, last amended by the Banking Act No. 46 of 2006, the Monetary Board hereby issues the following Direction amending Direction No. 4 of 2008 dated 8 May 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. This Direction may be cited as the Banking Act Direction No. 10 of 2008.

1. The following new Direction shall replace Direction No. 4(5)(i) of Banking Act Direction No. 4 of 2008.
 - i) Banks shall classify all credit facilities extended to a borrower as NPL, when one or more credit facilities has/ have been classified as NPL in terms of Direction 3(5) and if the aggregate amount outstanding of such NPL

exceeds 30 per cent of the total credit facilities extended to such borrower. Banks are required to comply with this Direction commencing 1 January 2010.

2. The following new Direction shall replace Direction No. 4(7)(I) of Banking Act Direction No. 4 of 2008. This Direction will be effective till 31 December 2009.

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

Banks shall reclassify NPL as PLA in the following manner:

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

Circular No. 35/01/005/0006/15

Domestic Operations Department
31 January 2008

To: All Licensed Commercial Banks and Primary Dealers.

REVERSE REPURCHASE FACILITY

This has reference to our Circular No.35/01/005/0006/14 dated 21 November 2007, on the above subject.

The Licensed Commercial Banks and Primary Dealers (Participating Institutions - PIs) are hereby informed that the penal rate of 19 per cent per annum applicable for borrowings of a PI under Reverse Repurchase Facility of the Central Bank, when such borrowings of the particular PI exceed 4 times during a calendar month as set out under Item 8(a) of our aforesaid Circular, will continue to remain unchanged until further notice.

A Kamalasiri
Director
Domestic Operations Department

Circular No. 35/01/005/0006/16

Domestic Operations Department
21 February 2008

To: All Licensed Commercial Banks and Primary Dealers.

REVERSE REPURCHASE FACILITY

The Central Bank will adopt the following procedures in granting Reverse Repurchase Facility (RRF) to Participating Institutions (PIs i.e. Commercial Banks and Primary Dealers), from 22 February 2008. Item 5,6,7,8,9,10,11 and 12 of the Section C (b) of our Circular No. 35/01/005/0006/04 dated 27 January 2004 will be applicable with regard to the settlement of the RRF. (A copy of our Circular attached for easy reference).

1. The RRF will not be available on the days when there is a liquidity surplus as per CBSL estimates and the CBSL conducts repurchase auctions to absorb liquidity.
2. When there is a liquidity shortage as per the CBSL estimates, RRF will be available to cover the full amount of the shortage in the system.
3. DOD will announce on electronic bidding system the total amount of RRF available under standing facility at or before 0930 hours on days in which there is a shortfall in the market.
4. PIs who wish to use the facility are required to inform their requirements to the OMO Division of the Domestic Operations Department by telephone or fax message before 1030 hours.

5. The DOD will allocate the total amount offered on the basis of amount requested by each PI. If the total amount requested is higher than the total amount offered, an allocation will be made on a pro rata basis.
6. The results will be informed to each PI by telephone or fax at or before 1100 hours.
7. PIs are requested to submit the amount accepted and details of the scripless securities through the facility available in the on-line electronic bidding system (standing facility) before 1200 hours.
8. RRF will be available for a participant subject to the following conditions:-
 - a. The RRF will be available to a particular PI only up to three (3) times per calendar month at the prevailing Central Bank Reverse Repo Rate.
 - b. The RRF is available only as the last resort to address an urgent liquidity requirement of the particular participant.
 - c. Participants seeking the facility on a particular day should not be a net lender in the money market on the same day, and
 - d. Funds borrowed under RRF should not be used to build up excess reserves in the reserve account of a commercial bank with the CBSL on that particular day.
9. The RRF at a Penal Rate of 19 per cent will be available on days when:
 - a. There is liquidity shortage in the system as per the CBSL estimates. This will be in addition to the RRF made available under 2 above, and all PIs including those who exceed the limit of three times per calendar month will be eligible.
 - b. Liquidity is broadly in balance in the system and the CBSL does not conduct repurchase auctions to absorb liquidity.

PIs are advised to seek the CBSL RRF only as a last resort to address the urgent liquidity requirements and be cautious in seeking the facility.

A Kamalasiri
Director
Domestic Operations Department

Circular No. 35/01/005/0006/17

Domestic Operations Department
12 March 2008

To: All Licensed Commercial Banks and Primary Dealers

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

The Market Operations Committee (MOC) of the Central Bank of Sri Lanka will decide, as and when it is deemed necessary, to issue Central Bank Securities (CBSL securities) under Section 91(1)(b) of the Monetary Law Act (Chapter 422), as a part of open market operations to absorb excess rupee liquidity. The main features of these securities are as follows:

- i. CBSL Securities will be issued in scripless form.
- ii. CBSL Securities are negotiable.
- iii. The terms and regulations applied to the operations of Scripless Securities Settlement System (SSSS) and Central Depository System (CDS) will be applied on transferring and the settlement of CBSL securities.
- iv. CBSL securities are marketable. However, these securities are not eligible as a collateral for Intra-day liquidity facility or reverse repurchase transactions with the CBSL.
- v. Similar to government Treasury bills, CBSL securities will be issued on a discount basis.
- vi. All commercial banks and primary dealers (PIs) are eligible to purchase these securities from the Central Bank. The general public may purchase them in the secondary market from commercial banks or primary dealers.
- vii. Similar to government securities, the primary issue of these securities is subject to the current 10 per cent withholding tax on interest income.

- viii. CBSL securities will be issued to PIs,
 - a) on an auction basis and/or
 - b) as placements at a pre-determined interest rate (yield rate).
- ix. The tenure (maturity period) of CBSL securities will be decided by the Central Bank, taking into consideration the market conditions prevailing at the time of issuing the Securities.

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

A. Issue of Central Bank Securities under the Auction System

1. The Central Bank will announce, when necessary, through the on-line electronic bidding system/ Money Market Monitoring System and /or any other means of communication that it intends to conduct an auction to issue CBSL securities. The auction announcement giving the amount and the maturity period of the securities to be sold, date and the time of the auction and the settlement date will be made either on the auction day or one business day prior to the auction date.
2. The auction will be conducted through the existing on-line electronic bidding system under the option for outright sale auctions. PIs are invited to submit bids, giving the amount (face value of securities expected to purchase) and interest rate (yield rate) on the auction date during the time indicated in the auction announcement
3. The rates quoted by PIs, shall be the yield rate with tax.
4. Bids should be submitted through the on-line electronic bidding system (under outright sales auction option). Bids by telephone will be entertained only in the event of a failure of the on-line bidding system. Bids submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to the Domestic Operations Department (DOD) before the close of business on the same day. A PI can submit up to a maximum of six bids for each maturity. The minimum amount of a bid shall be Rupees one million and bids should be in multiples of Rupees one million.
5. PIs whose bids are accepted will be informed of such acceptance through the on-line electronic bidding system after a half an hour of the close of the auction. The allotment will be made at the rates quoted by the successful bidders.
6. Results of the auction will be announced through the on-line electronic bidding system and/or any other means of communications after a half an hour of the close of the auction giving the total amount accepted and the weighted average yield rate of successful bids.
7. In the event of there being bids in excess of the amount offered at the same rate, the available quantum would be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
8. The sale value (sale price including withholding tax) of each successful bid will be calculated by discounting the face value of securities at the rate quoted by the respective PI adjusted for the withholding tax (after tax rate) for the maturity period of the securities.
9. The settlement of the transaction will be made through a Matched Trade Feed file on the basis of which, the system will settle the transaction by transferring securities sold to the respective Own Account of the successful bidders against the receipt of funds to the settlement account of the CBSL for the sale value (price with withholding tax) of the securities. PIs are not required to submit any settlement instructions in this regard to the system.
10. In those cases where the settlement is on the auction date itself, Matched Trade Feed file will be submitted to LankaSecure after two hours of the close of auction. If the settlement is on a following day, a Matched Tread Feed file will be submitted to LankaSecure on or before 0830 hours on the settlement date.
11. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (purchase by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the maturity period at the rate quoted by the PI. Such amount shall be debited to PI's Settlement Account with the CBSL on the next business day following the settlement date.

12. On the maturity date, the system will automatically initiate the settlement by transferring securities to the CBSL own account and maturity proceeds to RTGS A/c of PIs that held relevant securities on the business day prior to the maturity date.
13. The CBSL has the right to hold additional auctions on the same day, as it deems necessary.
14. The CBSL reserves the right to accept or reject a bid of a PI.

B. Issue of CBSL Securities at a Pre-Determined Rate

1. The Central Bank may issue, CBSL securities to PIs at a pre-determined yield rate.
2. The maturity period, the yield rate (with withholding tax) and the settlement date of CBSL securities to be issued at a pre-determined rate will be decided by the MOC and announced through on-line electronic bidding system / Money Market Monitoring System or/and any other means of communication, inviting PIs to purchase them between 1100 hours to 1430 hours on each business day entering into a deal with the OMO Division of DOD.
3. The PIs who wish to purchase CBSL securities at the pre-determined rates are required to inform the OMO Division of the DOD by telephone or fax message, the amount required to purchase (face value) not later than 1430 hours of the same day.
4. PIs are requested to submit the amount required to purchase (face value) to the electronic bidding system (under standing facility, outright sale option) on or before 1500 hours.
5. A minimum amount of a transaction shall be Rupees one million and bids should be in multiples of Rupees one million.
6. PIs whose deals were accepted could view such acceptance through the on-line electronic bidding system (under standing facility outright sale option) by 1500 hours on the same day.
7. In those cases where the settlement is on the deal date itself, Matched Trade Feed file will be submitted to LankaSecure on or before 1500 hours of the deal date. If the settlement is on a following day, a Matched Trade Feed file will be submitted to LankaSecure on or before 0830 hours on the settlement date.
8. The settlement of the transactions will be on a delivery versus payment (DVP) basis through the Matched Trade Feed facility available in LankaSecure. The system will settle the transaction by transferring securities sold to the respective Own Accounts of the PIs against the receipt of funds to the Settlement Account of the CBSL for the discounted value of the securities sold. The PIs are not required to submit any settlement instruction in this regard to the system.
9. The sale value (sale price including withholding tax) will be calculated by discounting the face value of securities sold by the applicable interest rate adjusted for the withholding tax (after tax rate) for the maturity period of the security.
10. The acceptance by the CBSL of a bid of PI is binding on the PI and the failure to honour the transaction (purchase by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the maturity period at the pre-determined rate. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.
11. On the maturity date, the system will automatically initiate the settlement by transferring securities to the CBSL own account and maturity proceeds to RTGS A/c of PIs that held relevant securities on the business day prior to the maturity date.
12. The Central Bank reserves the right to change the yield rate and the maturity period of CBSL securities to be issued under a pre- determined rate as and when it is deemed necessary and such changes will be notified to PIs through on-line electronic bidding system/Money Market Monetary System or any other means of communication on or before 0930 hours on the day it will become effective.

C. Early Retirement of CBSL Securities

The MOC may decide, as and when it is deemed necessary, to retire CBSL securities prior to the maturity date. The retirement of CBSL securities will be made either on,

- a. an auction basis or
- b. at a pre determined rate.

The terms and conditions on which these securities will be retired on an auction basis and at a pre-determined rate are outlined in sections C1 and C2.

(C 1) Retirement of CBSL Securities under the Auction System

1. The CBSL will announce as and when necessary, on the on-line electronic bidding system that it intends to retire (purchase) CBSL securities prior to the maturity date, on an auction basis.
2. The auction announcement giving details of the securities to be retired i.e. the amounts (face value), maturity date and ISIN of securities will be made either on the auction day or one business day prior to the auction date, through on-line electronic bidding system /Money Market Monitoring System or/and any other means of communication, and PIs are invited to submit offers, giving the amount and interest rate (yield rate) during 1300 hours to 1400 hours on the auction date. The settlement date will be on the business day following the auction date.
3. Offers should be submitted through the on-line electronic bidding system (under outright purchase auction option). Offers by telephone will be entertained only in the event of a failure of the on-line bidding system. Offers submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes. The original of the fax should be sent to DOD before the close of business on the same day. A PI can submit up to a maximum of six offers for each maturity. The minimum amount of an offer shall be Rupees one million and offers should be in multiples of Rupees one million.
4. Each successful PI will be informed of the acceptance of its offers and the relevant purchase price of the CBSL securities through the on-line electronic bidding system at 1430 hours.
5. In an event of there being offers in excess of the amount offered at the same rate, the available quantum would be allocated among such PIs on a 'pro-rata' basis. Accordingly, the offers at the cut off rate may be partially accepted.
6. The purchase value (price) of each successful offer will be calculated by discounting the face value of securities purchased at the rate offered by the respective PI, for the maturity period of the securities.
7. On the settlement date, a Matched Trade Feed file will be submitted to LankaSecure at or before 0830 hours on the basis of which, the system will credit the purchase price to the respective settlement account of each successful PI in RTGS against the receipt of securities retired (purchased) into the own account of the CBSL in LankaSecure. PIs are not required to submit any settlement instruction in this regard to the system.
8. The acceptance by the CBSL of a offer of a PI is binding on the PI and the failure to honour the transaction (sale by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL equivalent to the interest component on the sale value for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on next business day following the settlement date.
9. The CBSL has the right to hold additional auctions on the same day, as it deems necessary.
10. The CBSL reserves the right to accept or reject any offer of a PI.

(C2) Retirement of CBSL Securities at a Pre-Determined Rate

1. The Central Bank will announce that it intends to retire (purchase) CBSL securities at a pre-determined rate through on-line electronic bidding system/ Money Market Monitoring System or/and any other means of communication, giving the rate and the maturity date and ISIN of the CBSL securities to be retired prior to the maturity date and invite PIs to place their offers on the same day.
2. The settlement date will be on the business day following the dealing date.
 - a. The PIs who wish to sell CBSL Securities at the pre-determined rates are required to inform the OMO Division of the DOD by telephone/fax message the amount expected to sell not later than 1500 hours, the same day.
 - b. PIs are requested to submit the amount required to sale to the electronic bidding system (under standing facility outright purchase option) on or before 1530 hours of same day.

- c. The minimum amount of a transaction shall be Rupees one million and deals should be in multiples of Rupees one million.
 - d. PIs whose deals are accepted could view such acceptance through the on-line electronic bidding system (under standing facility outright purchase option) by 1530 hours on the same day.
3. The settlement of the transactions will be on a delivery versus payment (DVP) basis through the Matched Trade Feed facility available in LankaSecure. The Matched Trade Feed file will be submitted to LankaSecure at or before 0830 hours on the settlement date on the basis of which, the system will credit the respective settlement accounts of the PIs for the purchased value of securities against the receipt of the securities purchased into the own Account of the CBSL in LankaSecure. The PIs are not required to submit any settlement instruction in this regard to the system.
 4. The purchase value (price) will be calculated by discounting the face value of securities purchased by the pre-determined rate for the remaining period to maturity of the security.
 5. The acceptance by the CBSL of an offer of a PI to sell CBSL securities at a pre-determined rate is binding on the PI and the failure to honour the transaction (sale by PI) before the close of business of LankaSecure on the settlement date will render the PI liable to pay damages to the CBSL, equivalent to the interest component on the sale value for the remaining period to maturity at the pre-determined rate. Such amount shall be debited to the PI's Settlement Account with the CBSL on the next business day following the settlement date.

A Kamalasiri
Director
Domestic Operations Department

Circular No. 35/01/005/0006/18

Domestic Operations Department
21 May 2008

To: All Licensed Commercial Banks and Primary Dealers

**OPERATING INSTRUCTIONS ON LONG TERM REPO TRANSACTIONS (LTRP)
UNDER THE AUCTION SYSTEM**

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

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

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

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

1. The Market Operations Committee (MOC), will announce as and when necessary auctions for Long Term Repo Transactions (LTRP), on the on-line electronic bidding system. The announcement will include the amount offered, maturity date (the tenure) auction date and the settlement date.
2. The auction announcement will be made one working day in advance to the auction date and Participating Institutions (PIs) are invited to submit their bids, giving the amount and interest rate during 1300 hours and 1400 hrs on the auction date. The settlement date will be the succeeding business day.
3. Bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone will be entertained only in the event of a failure of the on-line bidding system. Bids submitted via telephone should be confirmed by fax signed by two authorized officers within 15 minutes.

The original of the fax should be sent to the Domestic Operation Department before the close of business on the same day.

4. A PI can submit up to a maximum of six bids for each tender. The minimum amount of a bid shall be Rupees one million and bids should be in multiples of Rupees one million.
5. Results of the auction will be announced at 1430 hours on the auction date via the on-line electronic bidding system and/or any other means of communication giving the total amount accepted and the Weighted Average Yield Rate (WAYR).
6. Each successful bidder will be informed of the acceptance of its bid/s and allotment through the electronic bidding system at 1430 hours. The allotment will be made at the rates quoted by the successful bidder. For each successful bid, scripless securities will be allocated at the Official Prices determined on the basis of current market prices, for the amount requested.
7. A confirmation of Repurchase transaction to each successful PI will be issued electronically through the electronic bidding system within one hour after the release of results. The confirmation shall substantially be in the form at Annexure I. The PIs are advised to promptly view the confirmation and retain a hard copy of the confirmation for their records. In the event a PI is unable to view or print the confirmation due to a technical failure in accessing the electronic bidding system, PSD will fax a copy of such confirmation to the PI on request.
8. On the settlement date the transactions will be settled on a delivery versus payment (DVP) basis through the Matched Trade Feed Facility available in LankaSettle. Matched Trade Feed file will be submitted to LankaSettle at or before 0830 hours of the settlement date, on the basis of which the system will settle the transaction by transferring the allocated securities (Purchased Securities) to the Domestic Operations Repurchase (DOP) Account of the successful PI in LankaSecure against the receipt of funds (amount accepted) for the sale value of securities (Purchase Price) to the Settlement Account of the CBSL. The PI is not required to submit any settlement instructions in this regard to the system.
9. Securities transferred to the DOP Account of PI in terms of these Operating Instructions may be traded by a PI only under a repo agreement. The maturity date of such a repo shall not be later than one working day before the maturity date of the repo transactions with the CBSL. The substitutions of securities is not permitted.
10. Successful PI should ensure that sufficient funds are available in the Settlement Account in LankaSettle to settle the Purchase Price of Securities in full at or before 0830 hours of the settlement date. If a PI fails to settle a repo transaction in full, before the close of business of LankaSecure the PI shall be liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value (Purchase Price) and the repurchase value (Repurchase Price) calculated as provided in these Operating Instructions. Such damages shall be debited to the PI's Settlement Account with the CBSL on the next business day. If the transaction involves securities carrying more than one International Securities Identification Number (ISIN), each such ISIN will be treated as a separate repo transaction, for the purpose of this clause.
11. On the maturity date (Repurchase Date), Matched Trade Feed file will be submitted to LankaSettle at or before 0830 hours to pay the Repurchase Price of securities to the Settlement Account of the PI against the delivery of the Purchased Securities to the Own Account of the CBSL in LankaSecure, in the same manner as outlined in clause 8 above.
12. Repurchase Price will consist of the Purchase Price (amount accepted) plus the interest component, which will be calculated at the rate quoted by the PI.
13. PIs should ensure the availability of Purchased Securities in their DOP Account in LankaSecure before close the business of LankaSecure on the working day immediately preceding the Repurchase Date to enable the reversal of a repurchase transaction in full at the time specified in clause 11 above. In the event of there being insufficient securities in the DOP Account of a PI to enable the reversal of a repurchase transaction in full on the Repurchase Date, the Central Bank shall act as set out in clause 14 below.
14. If a PI fails to settle a repo transaction entered into in terms of these Operating Instructions in full as set out in clause 13 above the CBSL at its discretion shall convert the defaulted repo transaction to an outright sale transaction at the official price. If the official price is higher than the purchase price of such securities, PI shall be liable to pay to the CBSL as sum equivalent to the difference between the official price and the purchase price of the securities and their interest component referred to in clause 12 above (different between the purchase price and the repurchase price). If the official price is equal or lower than the Purchase Price, PI is liable to pay to the CBSL the interest component referred to above. Payments calculated on the above basis and due from a PI shall be debited to the PI's settlement

account with the CBSL on the next business day. In addition, at the discretion of the CBSL, the facility provided to the PI to participate in repo transactions with the CBSL shall also be withdrawn.

15. In the event of there being bids at the same rate in excess of the amount offered, the available quantum of Treasury bills/bonds will be allocated among such bidders on a 'pro rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
16. If the Repurchase Date in respect of any repurchase transaction is a bank holiday, any obligation of a party of such repurchase transaction arising on such day shall be carried out by such party on the immediately succeeding business day.
17. The CBSL reserves the right to accept or reject a bid of a PI.

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

A Kamalasiri
Director
Domestic Operations Department

Annexure I

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

PARTICIPATING INSTITUTION :
AUCTION DATE :
AUCTION NO. :

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

Circular No. 35/01/005/0006/18

Domestic Operations Department
30 September 2008

To: All Licensed Commercial Banks and Primary Dealers.

REVERSE REPURCHASE FACILITY

This has reference to our Circular No.35/01/005/0006/16 dated 21 February 2008, on the above subject.

The Licensed Commercial Banks and Primary Dealers (Participating Institutions - PIs) are hereby informed that the limit on the number of times a particular PI could avail itself of the Reverse Repurchase Facility (RRF) of the Central Bank at its Reverse Repurchase Rate during a calendar month will be increased from its current limit of three (3) times to six (6) times a month with effect from 2 October, 2008.

A Kamalasiri
Director
Domestic Operations Department

Circular No. 35/01/005/0006/19Domestic Operations Department
13 October 2008*To: All Licensed Commercial Banks and Primary Dealers.***REVERSE REPURCHASE FACILITY**

This has reference to our Circular No.35/01/005/0006/18 dated 30 September 2008, on the above subject.

The Licensed Commercial Banks and Primary Dealers (Participating Institutions - PIs) are hereby informed that the limit on the number of times a particular PI could avail itself of the Reverse Repurchase Facility (RRF) of the Central Bank at its Reverse Repurchase Rate during a calendar month will be increased from its current limit of six (6) times to ten (10) times a month with effect from 15 October, 2008.

A Kamalasiri
Director
Domestic Operations Department**Operating Instructions No.35/01/005/0007/02**Domestic Operations Department
16 October 2008*To : All Licensed Commercial Banks***RESERVE REQUIREMENTS**

Your attention is invited to the Notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) and published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No.1571/12 of 16 October, 2008.

2. The Licensed Commercial Banks are hereby informed that in accordance with the said Notification, they should maintain reserves against deposit liabilities denominated in Sri Lanka Rupees at an amount equal to nine point two five per centum (9.25%) of the total of such deposit liabilities.
3. The above amendments take effect from 17 October, 2008. All other instructions contained in our Operating Instructions No.35/01/005/0007/01 of 20 March, 2003 will continue to apply.

A Kamalasiri
Director
Domestic Operations Department**Circular No. 35/01/005/0006/20**Domestic Operations Department
31 October 2008*To: All Licensed Commercial Banks and Primary Dealers.***REVERSE REPURCHASE FACILITY**

This has reference to our Circular No.35/01/005/0006/19 dated 13 October 2008, on the above subject.

The Licensed Commercial Banks and Primary Dealers (Participating Institutions - PIs) are hereby informed that the limit on the number of times a particular PI could avail itself of the Reverse Repurchase Facility (RRF) of the Central Bank at its Reverse Repurchase Rate during a calendar month is reduced from its current limit of ten (10) times to three (3) times a month with effect from 1 November, 2008.

A Kamalasiri
Director
Domestic Operations Department

Circular No.35/01/005/0010/07Domestic Operations Department
31 October 2008*To : All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circular No.35/01/005/0010/01 dated 22 October 2004, on the Margin Requirements against the Letters of Credit.

Commercial Banks are hereby informed that the margin deposit requirements against the Letters of Credit for the importation of vehicles imposed by our Circular No.35/01/005/0010/01 dated 22 October 2004 are increased from 100 per cent to 200 per cent with immediate effect.

A Kamalasiri
Director/Domestic Operations
Authorized Signatory of the Monetary Board
of the Central Bank of Sri Lanka

Circular No. 35/01/005/0010/08Domestic Operations Department
31 October 2008*To : All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

Commercial Banks are hereby informed that with immediate effect Letters of Credit (LCs) should not be opened by commercial banks for the importation of the items specified in Schedule A1 (attached), unless such LCs are covered by a minimum cash margin of 100 per cent of import value deposited with the LC opening banks at the time such LCs are opened.

In the case of existing LCs covering the importation of the goods mentioned in Schedule A1, no increase in the value of such LCs should be permitted by banks except on the terms prescribed in the above paragraph.

The Banks should not grant any advance to their import customers for the purpose of enabling such customers to provide the minimum margin requirements imposed by this circular. However, interest may be paid on margin deposits.

Banks should endorse the relevant invoice to the effect that the margin deposit as per this circular, has been obtained.

Banks are required to comply with this direction until further notice.

A Kamalasiri
Director/Domestic Operations
Authorized Signatory of the Monetary Board
of the Central Bank of Sri Lanka

Circular No.35/01/005/0010/09Domestic Operations Department
4 November 2008*To : All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circular Nos. 35/01/005/0010/01 and 35/01/005/0010/07 dated 22.10.2004 and 31.10.2008 respectively, on the Margin Requirements against Letters of Credit.

Licensed Commercial Banks are hereby informed that the Schedule A referred to in our Circular No.35/01/005/0010/01 dated 22.10.2004 is replaced with Schedule A, titled List of Items Requiring 200 per cent Margin Deposit Against Letters of Credit (attached), with immediate effect.

A Kamalasiri
Director
Domestic Operations Department

Circular No.35/01/005/0010/10Domestic Operations Department
4 November 2008*To : All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circular Nos. 35/01/005/0010/08 dated 31.10.2008 on the Margin Requirements against Letters of Credit. Licensed Commercial Banks are hereby informed that the Schedule A1 referred to in the aforesaid Circular is replaced with Schedule A1, titled List of Items Requiring 100 per cent Margin Deposit Against Letters of Credit (attached), with immediate effect.

A Kamalasiri
Director
Domestic Operations Department

Operating Instructions No.35/01/005/0007/03Domestic Operations Department
26 November 2008*To: All Licensed Commercial Banks***RESERVE REQUIREMENTS**

Your attention is invited to the notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Monetary Law (Amendment) Act No.32 of 2002 and published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No.1577/7 of 26 November 2008, on the above subject.

2. The Licensed Commercial Banks are hereby informed that in accordance with the said notification, they should maintain reserves against deposit liabilities denominated in Sri Lanka Rupees at an amount equal to seven point seven five per centum (7.75%) of the total of such deposit liabilities.
3. The above amendment takes effect from 28 November, 2008. All other instructions contained in our Operating Instructions No.35/01/005/0007/01 of 20 March, 2003 will continue to apply.

A Kamalasiri
Director
Domestic Operations Department

Circular No.35/01/005/0010/11Domestic Operations Department
05 December 2008*To: All Licensed Commercial Banks***MARGIN REQUIREMENTS AGAINST LETTERS OF CREDIT**

This has reference to our Circulars No. 35/01/005/0010/09 and 35/01/005/0010/10 dated 04.11.2008, on the Margin Requirements against Letters of Credit.

All Licensed Commercial Banks are hereby informed that the Schedule A- titled List of Items Requiring 200 per cent Margin Deposit Against Letters of Credit and Schedule A1- titled List of Items Requiring 100 per cent Margin Deposit Against Letters of Credit referred to in our aforesaid Circulars are replaced with the Schedules A and A1 dated 05.12.2008 (under the same titles) attached hereto, respectively, with effect from 05.12.2008.

Licensed Commercial Banks are also informed that margin deposit requirements are not applicable to the goods which are imported for re-export purposes under the Entrepot Trade subject to the following conditions ;

- a) Goods imported to be stored in a Custom Bonded Warehouse until such goods are re-exported to a third country;
- b) Re-packing/ labeling/ simple processing of goods imported to be carried out in a Custom Bonded Warehouse before re-exporting to a third country;
- c) Exportation of goods directly from a second country to a third country without the goods physically arriving in the trader's country;
- d) Transfer from one ship/aircraft to another within the port without cargo being taken into Bonded Warehouse.

A Kamalasiri
Director
Domestic Operations Department

Schedule A
05.12.2008

List of Items Requiring 200 per cent Margin Deposit against Letters of Credit

H.S. Code	Description
Motor vehicles for the transport of ten or more persons, including the driver.	
With compression-ignition internal combustion piston engine (diesel or semi-diesel):	
8702.10.10	Motor vehicles for the transport of less than 13 persons (adults) including the driver, not more than three and half years old
8702.10.20	Motor vehicles for the transport of less than 13 persons (adults) including the driver, more than three and half years old
8702.10.30	Motor vehicles for the transport of 13 or more persons (adults) but less than 17 persons (adults) including the driver, not more than five years old
8702.10.40	Motor vehicles for the transport of 13 or more persons (adults) but less than 17 persons (adults) including the driver, more than five years old
Other:	
8702.90.10	Motor vehicles for the transport of less than 13 persons (adults) including the driver, not more than three and half years old
8702.90.20	Motor vehicles for the transport of less than 13 persons (adults) including the driver, more than three and half years old
8702.90.30	Motor vehicles for the transport of 13 or more persons (adults) but less than 17 persons (adults) including the driver, not more than five years old
8702.90.40	Motor vehicles for the transport of 13 or more persons (adults) but less than 17 persons (adults) including the driver, more than five years old
Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.	
Vehicles specially designed for travelling on snow; golf cars and similar vehicles:	
8703.10.10	Not more than three and half years old
8703.10.20	More than three and half years old
Other vehicles, with spark-ignition internal combustion reciprocating piston engine :	
	Of cylinder capacity not exceeding 1,000 cc :
8703.21.60	Motor cars including station wagons and racing cars, not more than three and half years old
8703.21.70	Motor cars including station wagons and racing cars, more than three and half years old
Other:	
8703.21.91	Not more than three and half years old
8703.21.92	More than three and half years old
	Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc:
8703.22.50	Motor cars including station wagons and racing cars, not more than three and half years old
8703.22.60	Motor cars including station wagons and racing cars, more than three and half years old
8703.22.70	Other, not more than three and half years old
8703.22.80	Other, more than three and half years old
	Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc :
	Motor cars including station wagons and racing cars of a cylinder capacity not exceeding 2,000 cc, not more than three and half years old :
8703.23.51	Of a cylinder capacity not exceeding 1,600 cc
8703.23.59	Other
8703.23.60	Motor cars including station wagons and racing cars of a cylinder capacity not exceeding 2,000 cc, more than three and half years old

8703.23.70	Motor cars including station wagons and racing cars of a cylinder capacity exceeding 2,000 cc, not more than three and half years old
8703.23.80	Motor cars including station wagons and racing cars of a cylinder capacity exceeding 2,000 cc, more than three and half years old
	Other:
8703.23.91	Of a cylinder capacity not exceeding 2,000 cc, not more than three and half years old
8703.23.92	Of a cylinder capacity not exceeding 2,000 cc, more than three and half years old
8703.23.93	Of a cylinder capacity exceeding 2,000 cc, not more than three and half years old
8703.23.94	Of a cylinder capacity exceeding 2,000 cc, more than three and half years old
	Of a cylinder capacity exceeding 3,000 cc :
8703.24.50	Motor cars including station wagons and racing cars, not more than three and half years old
8703.24.60	Motor cars including station wagons and racing cars, more than three and half years old
8703.24.70	Other, not more than three and half years old
8703.24.80	Other, more than three and half years old
	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel):
	Of a cylinder capacity not exceeding 1,500 cc:
8703.31.70	Motor cars including station wagons and racing cars, not more than three and half years old
8703.31.80	Motor cars including station wagons and racing cars, more than three and half years old
	Other:
8703.31.91	Not more than three and half years old
8703.31.92	More than three and half years old
	Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc :
	Motor cars including station wagons and racing cars of a cylinder capacity not exceeding 2,000 cc, not more than three and half years old :
8703.32.51	Of a cylinder capacity not exceeding 1,600 cc
8703.32.59	Other
8703.32.60	Motor cars including station wagons and racing cars of a cylinder capacity not exceeding 2,000 cc, more than three and half years old
8703.32.70	Motor cars including station wagons and racing cars of a cylinder capacity exceeding 2,000 cc, not more than three and half years old
8703.32.80	Motor cars including station wagons and racing cars of a cylinder capacity exceeding 2,000 cc, more than three and half years old
	Other:
8703.32.91	Of a cylinder capacity not exceeding 2,000 cc, not more than three and half years old
8703.32.92	Of a cylinder capacity not exceeding 2,000 cc, more than three and half years old
8703.32.93	Of a cylinder capacity exceeding 2,000 cc, not more than three and half years old
8703.32.94	Of a cylinder capacity exceeding 2,000 cc, more than three and half years old
	Of a cylinder capacity exceeding 2,500 cc:
8703.33.50	Motor cars including station wagons and racing cars, not more than three and half years old
8703.33.60	Motor cars including station wagons and racing cars, more than three and half years old
8703.33.70	Other, not more than three and half years old
8703.33.80	Other, more than three and half years old
	Other:
8703.90.30	Other electric, not more than three and half years old
8703.90.40	Other electric, more than three and half years old
8703.90.50	Other, not more than three and half years old

8703.90.60	Other, more than three and half years old
Motor vehicles for the transport of goods.	
with compression-ignition internal combustion piston engine (diesel or semi-diesel):	
vehicles of g.v.w. less than 1,500 kg :	
8704.21.81	Not more than five years old
8704.21.82	More than five years old
	Other:
8704.21.91	Not more than five years old
8704.21.92	More than five years old
	Other, with spark-ignition internal combustion piston engine:
Other vehicles of g.v.w. less than 1,500 kg :	
8704.31.71	Not more than five years old
8704.31.72	More than five years old
	Other:
8704.31.91	Not more than five years old
8704.31.92	More than five years old
Other :	
8704.90.30	Electric, not more than five old
8704.90.40	Other electric, more than five years old
8704.90.50	Other, not more than five years old
8704.90.60	Other, more than five years old
Chassis fitted with engines, for the motor vehicles of heading 87.01 to 87.05 :	
8706.00.20	New chassis fitted with engines for other motor vehicles of heading 87.02
8706.00.40	Other new chassis fitted with engines for other motor vehicles
8706.00.50	Used chassis fitted with engines
Bodies (including cabs), for the motor vehicles of headings 87.01 to 87.05.	
8707.10	For the vehicles of heading 87.03
8707.90.10	Other bodies and cabs incorporating attachments left over in the process of separating same from the main vehicle by cutting, but not meriting classification elsewhere by virtue of those left over attachments
8707.90.90	Other :
Parts and accessories of the motor vehicles of headings 87.01 to 87.05.	
8708.29.10	"Cut-portions" of bodies and cabs
8708.70.10	Rims fitted with tyres, showing signs of wear
8708.70.20	Other, rims fitted with tyres
8708.99.20	Other new chassis not fitted with engines, but with or without fittings
8708.99.30	Other used chassis not fitted with engines, but with or without fittings
8708.99.40	"Cut-portions" of motor vehicles
Trailers and semi-trailers; other vehicles, not mechanically propelled; Parts thereof.	
Trailers and semi-trailers of the caravan type, for housing or camping :	
8716.10.01	Not more than five years old
8716.10.02	More than five years old

Schedule A1
05.12.2008
List of Items Requiring 100 per cent Margin Deposit against
Letters of Credit

	HS Heading Covered
Oil and their fractions	All HS Codes under 1511 except 1511.10 All HS Codes under 1512 except 1512.11
Chocolates	All HS Codes under 1806
Bakery products, cakes, biscuits and other bakers' wares	All HS Codes under 1905
Beer	2203
Wine, Vermouth and other fermented beverages	All HS Codes under 2204, All HS Codes under 2205 and All HS Codes under 2206
Spirits, liqueurs and other spirituous beverages	All HS Codes under 2208
Perfumes and toilet waters	3303
Beauty or make-up preparations [Lip, Eye, Manicure, Pedicure etc]	All HS Codes under 3304
Preparations for use on the hair	All HS Codes under 3305
Pre-shave, shaving or after-shave preparation, Personal deodorants and anti-perspirants, Perfumed bath salts and other bath preparations. Preparations for perfuming or deodorizing rooms, and odoriferous preparation	3307.10,3307.20,3307.30, 3307.41, 3307.49 and 3307.90.90
Soap and organic surface-active products	All HS Codes under 3401
Tableware, kitchenware, other household articles and hygienic or toilet articles of plastics.	All HS Codes under 3924 except 3924.90.10
Articles of leather, hand bags and similar containers	All HS Codes under 4202 and All HS Codes under 4203
Articles of apparel of knitted or crocheted	All HS headings under Chapter 61 except 6117.80.10,6117.80.90 and 6117.90
Articles of apparel of not knitted or crocheted	All HS headings under Chapter 62 except 6217.10 and 6217.20
Footwear	All HS headings under Chapter 64 except all HS Codes under 6406.
Artificial flowers	All HS Codes under 6702
Wall tiles, floor tiles and the like	All HS Codes under 6907 and All HS Codes under 6908
Tableware, kitchenware, other household articles and toilet articles, of ceramic, porcelain or china	All HS Codes under 6911 and All HS Codes under 6912
Statuettes and other ornamental ceramic articles	All HS Codes under 6913

Glassware of a kind used for table, kitchen, toilet, office, indoor decoration or similar purposes	All HS Codes under 7013 except 7013.99.10 (Infants' feeding bottles)
Imitation Jewellery	All HS Codes under 7117
Tableware, kitchenware, other household articles of stainless steel	7323.93
Locks and padlocks	8301.10,8301.20,8301.30,8301.40 and 8301.50
Fans	8414.51 and 8414.59.10
Air conditioners	All HS Codes under 8415
Refrigerators, Freezers and other refrigerating and freezing equipment	All HS Codes under 8418 except 8418.61.50, 8418.61.60, 8418.69.50, 8418.69.60, all HS Codes under 8418.91 and all HS Codes under 8418.99
Dish washing machines	8422.11
Household and laundry-type washing machines	All HS Codes under 8450 except 8450.20 and 8450.90
Electro-mechanical domestic Appliances	All HS Codes under 8509 except 8509.90 (Parts)
Shavers, hair clippers and hair-removing appliances, with self-contained electric motor.	All HS Codes under 8510 except 8510.90 (Parts)
Electric instantaneous or storage water heaters and immersion heaters	8516.10
Hair dryers and other hair-dressing apparatus	8516.31 and 8516.32
Electric smoothing irons	All HS Codes under 8516.40
Microwave ovens	8516.50
Other Ovens and cookers	All HS Codes under 8516.60
Coffee or Tea makers	8516.71
Toasters	8516.72
Cellular mobile telephones	8517.12.10 and 8517.12.20
Video recording or reproducing apparatus, whether or not incorporating a video tuner	All HS headings under 8521
Televisions	All HS Codes under 8528.72
Antennas	8529.10.10, 8529.10.20, 8529.10.30
Electric filament or discharge lamps	8539.22
Wrist-watches and clocks	All HS Codes under 9101, All HS Codes under 9102, All HS Codes under 9103 and All HS Codes under 9105
Lamps and light fittings	9405.10, 9405.20, 9405.30, 9405.40 9405.40.10, 9405.40.20 and 9405.40.90
Toys	All HS Codes under 9503

Ref: 06/04/01/2008

Department of Exchange Control
 Central Bank of Sri Lanka
 P.O. Box. 590
 Colombo 01
 March 28 2008

Operating Instructions to Authorized Dealers

Dear Sirs,

FREIGHT FORWARDERS AND NON-VESSEL OPERATING COMMON CARRIERS
(LICENSING) REGULATIONS - 2005

We draw your attention to our operating instructions No: 06/07/07/2005 dated 23/09/2005 on the above subject and wish to inform you that the instructions given in the said operating instructions are hereby rescinded with immediate effect.

Yours faithfully
 D Wasantha
 Controller of Exchange

Ref: 06/04/02/2008

Department of Exchange Control
 Central Bank of Sri Lanka
 P. O. Box 590
 Colombo 01
 May 06 2008

Directions to Authorized Dealers

Dear Sirs,

INVESTMENT IN TREASURY BILLS BY FOREIGN INVESTORS

Authorized Dealers are hereby informed that citizens of foreign states, corporate bodies incorporated outside Sri Lanka and foreign institutional investors such as foreign country funds, mutual funds and regional funds may now purchase, sell or transfer Treasury bills, provided that all such investments in aggregate do not exceed 10% of the outstanding Treasury bill stock.

1. Method of Payment

Citizens of foreign states or corporate bodies incorporated outside Sri Lanka or foreign institutional investors who invest in Treasury bills shall make payments for purchase of Treasury bills by inward remittance through banking system and channelled through a special rupee account named "Treasury bill Investment External Rupee Account" (TIERA-2) opened in the name of the investor. These accounts may be held by eligible individual investors or jointly by two or more eligible investors.

2. Permitted Credits to TIERA-2

Accounts may be credited with :-

- (a) Proceeds of inward remittances received from abroad through banking system;
- (b) Proceeds realized out of sale or transfer or maturity proceeds of Treasury bills or any income realized by way of capital gain thereof.

3. Permitted Debits to TIERA-2

Accounts may be debited in respect of:-

- (a) Payments for investment in Treasury bills;
- (b) Payments to Primary Dealers;
- (c) Payments of relevant bank charges;
- (d) Local expenses of the foreign investor;
- (e) Outward remittance of sale or transfer or maturity proceeds of Treasury bills or any income realized by way of capital gain thereof;

4. Reporting Requirement

Authorized Dealers are required to furnish to this Department information on a daily basis via existing on-line system as per the attached format.

Yours faithfully
D Wasantha
Controller of Exchange

Name of the Authorised Dealer :

Daily Statement of Treasury bill Investment External Rupee Account (TIERA-2)

as at

Rs.Mn.

Item	Amount
01. Opening Balance (Previous day's closing Balance)	
02. Inflows	
(a) Capital gain	
(b) Remittance from abroad	
03. Withdrawals	
(a) Local withdrawals	
(b) Remittance abroad	
04. Closing Balance	

Contact Details:

“D” Branch

Tel No. : 2477242

E.mail : ecd@cbsl.lk

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

No.1550/21 – FRIDAY, MAY 23, 2008

(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 Section 7, 10, 11, 15 and 30(5) of the Exchange Control Act

THE notice under the Exchange Control Act published in the Government *Gazette (Extraordinary)* No. 1481/1 of 22nd January 2007, is hereby amended by the repeal of paragraph 1 and the substitution therefore of the following paragraph:

“1. Permission is hereby granted;

- (a). in terms of provisions of section 10, 11, 15 and sub section 5 of section 30 as applicable of the Exchange Control Act (Chapter 423 of the CLE) for the issue and transfer of Rupee Denominated Treasury Bonds (T Bonds) to foreign country funds, regional funds, mutual funds, corporate bodies incorporated outside Sri Lanka and citizens of foreign states, and
- (b). in terms of provisions of section 7 of the Exchange Control Act for making any payment by a resident in Sri Lanka to or for the credit of foreign country funds, regional funds, mutual funds, corporate bodies incorporated outside Sri Lanka and citizens of foreign states with respect to purchase of Rupee Denominated Treasury Bonds, subject to the conditions hereinafter set out.”

D. WASANTHA,
Controller of Exchange.

Colombo
23rd May, 2008

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY
No.1550/22 – FRIDAY, MAY 23, 2008
(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 Section 7 of the Exchange Control Act

PERMISSION is hereby granted for the purposes of section 7(a) of the Exchange Control Act (Chapter 423 of the CLE) to persons resident in Sri Lanka for making payments to or for the credit of citizens of foreign states, corporate bodies incorporated outside Sri Lanka and foreign institutional investors such as foreign country funds, mutual funds and regional funds with respect to their transactions in Rupee Denominated Treasury Bills.

D. WASANTHA,
Controller of Exchange

Colombo
23rd May 2008

Ref: 06/04/03/2008

Department of Exchange Control
Central Bank of Sri Lanka
P O Box 590
Colombo 01
May 23 2008

Directions to Authorized Dealers

Dear Sirs,

REFERENCE: OPERATING INSTRUCTIONS NO. 06/04/03/2007 OF 22/01/2007

The above Operating Instructions which were amended by Operating Instructions No. 06/04/10/2007 dated 06/12/2007 is hereby further amended as follows:

1. by the repeal of paragraph 1 and the substitution therefore of the following paragraph-

“1. The Government has decided to permit foreign country funds, regional funds, mutual funds, corporate bodies incorporated outside Sri Lanka and citizens of foreign states to purchase and hold Rupee Denominated Treasury Bonds (T-bonds) not exceeding 10% of the total value of T-bonds outstanding at any given point of time. Therefore, the above categories of foreign investors are permitted to purchase, hold and transfer T-bonds through both primary and secondary markets. Foreign investor who purchased such a T-bond is in a position to sell or transfer this T-bond to any person, whether a resident in Sri Lanka or a resident outside Sri Lanka, in the secondary market without any holding period.
2. by deleting the phrase - “approved by the Securities and Exchange Commission of Sri Lanka” in sub paragraph (a) of paragraph 3.

Operating Instructions previously issued under Ref. 06/04/10/2007 dated 06/12/2007 are hereby rescinded.

Yours faithfully
D Wasantha
Controller of Exchange

Ref: 06/04/04/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 01
May 29 2008

Directions to Authorized Dealers

Dear Sirs/Madam,

FOREIGN CURRENCY ACCOUNT FOR GEM & JEWELLERY EXPORTERS

It has been decided to introduce a foreign currency account titled “Foreign Currency Account for Gem & Jewellery Exporters” to facilitate their foreign exchange requirements as a measure to encourage exporters of Gem and Jewellery Industry in Sri Lanka.

Accordingly, the Authorized Dealers are hereby permitted to open and maintain Foreign Currency Accounts for individuals, firms and companies who are engaged in direct or indirect export of gem and/or jewellery subject to the following terms and conditions:

2. Opening of Accounts

Account under this scheme may be opened in the Domestic Banking Unit (DBU) for an individual, a firm or a company in the form of non-checkable, savings or fixed deposit account on the evidence of submission of a certificate issued to the National Gem & Jewellery Authority confirming that the individual, firm or company is an exporter of gem and/or jewellery.

3. Permitted Credits to Accounts

- (a) Export proceeds of gems and/or jewellery received through the banking system in designated foreign currency;
- (b) Proceeds of gem & jewellery sold abroad and brought into the country, declared to the Sri Lanka Customs and tendered by the account holder in person to an authorized dealer with a copy of the baggage declaration form issued by the Sri Lanka Customs;
- (c) Local receipts in foreign exchange by the account holder in the form of bank draft or bank transfer received in respect of supply of raw materials to gem and jewellery exporters;
- (d) Interest accrued to the account.

4. Permitted Debits to Accounts

- (a) Payments in foreign exchange for import of rough gem stones and other raw materials, provided that imports of gem stones and other raw materials are made in conformity with the provisions of Regulations made by the Minister of Internal and International Commerce and Food under Imports and Exports (Control) Act, No. 1 of 1969 and published in the Government Gazette No. 1022/6 dated April 08, 1998;
- (b) Withdrawals in foreign currency notes not exceeding US\$ 10,000 at a time for purchasing rough gem stones and other raw materials abroad;
- (c) Withdrawals in Sri Lanka Rupees for local disbursements are freely permitted. However, such withdrawals shall not be eligible for conversion into foreign currency and for re-crediting to the account;
- (d) Payments in foreign currency to a local supplier of rough gem stones or jewellery which should be in the form of bank transfer or bank draft.

5. Minimum Balance Requirement

An account under this scheme should be maintained with a minimum balance of at least US\$ 10,000.

6. Reporting Requirement

Authorized Dealers are required to furnish details of each account as per attached format to the Exchange Control Department quarterly within 15 days of the quarter following the reporting quarter.

Yours faithfully
D Wasantha
Controller of Exchange

Annex

Name of the Bank :

For the month of

Foreign Currency Account for Gem & Jewellery Exporters

Account No.	Name of the Account Holder	Currency	Opening Balance	Total Credits	Total Debits	Closing Balance

Ref: 06/04/05/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 01
June 02 2008

Directions to Authorized Dealers

Dear Sirs,

FOREIGN INVESTMENT DEPOSIT ACCOUNTS (FIDA)

The general permission is hereby granted in terms of provisions of the Exchange Control Act to Authorized Dealers to accept investments in deposits at their Domestic Banking Units (DBUs) from persons resident outside Sri Lanka under the following procedure:

- i) Investors eligible to open accounts: Citizens of foreign states, Sri Lankan citizens resident outside Sri Lanka, corporate bodies incorporated outside Sri Lanka and foreign institutional investors such as country funds, mutual funds and regional funds. Accounts may be held jointly with two or more eligible investors.
- ii) Type of accounts: Time deposits or savings deposits in designated foreign currencies or in Sri Lanka Rupees.
- iii) Permitted credits:
 - (a) Proceeds of inward remittances received from abroad through banking system for the purpose of investment in such deposits.
 - (b) Foreign Currency in the form of travellers' cheques, bank drafts or currency notes brought into the country by the account holder on declaration to Sri Lanka Customs as applicable during his temporary visits to Sri Lanka and tendered in person to the Authorized Dealer, provided that the travellers' cheques have been issued outside Sri Lanka and the bank drafts endorsed in the name of the account holder.
 - (c) Interest accruing on the funds held in the account.
- iv) Permitted debits: Outward remittances, transfers to other FIDAs, disbursements of the account holder in Sri Lanka and relevant statutory payments such as debit tax.
- v) Minimum account balance: US\$ 10,000 or equivalent in other designated foreign currencies or Sri Lanka Rupees.
- vi) Ceiling for total balances in FIDAs: Total liabilities on FIDAs of an authorized dealer should not exceed 20% of total deposit liabilities of its DBU.
- vii) Risk management: Authorized Dealers should assess the potential risks such as liquidity risk and exchange rate risk relating to FIDAs separately from risks relating to their other businesses and implement specific risk management systems. Information to assess the effectiveness of such risk management systems should be made available to the officials of the Bank Supervision Department for examination if and when required.
- viii) Reporting: Authorized Dealers are required to furnish to this Department information on a quarterly basis as per the attached format not later than 15th day of the following quarter.

Yours faithfully
D Wasantha
Controller of Exchange

Quarterly Statement of Foreign Investment Deposit Account (FIDA),
As at end of

Name of the Authorized Dealer.....

Item/Currency	No./Amount
01. No. of Accounts US\$ Pound Sterling Euro Sri Lanka Rupee Other (Please specify)	
02. Total balance outstanding '000 US\$ Pound Sterling Euro Sri Lanka Rupee Other (Please specify)	
03. Credits (a) Inward remittance '000 US\$ Pound Sterling Euro Sri Lanka Rupee Other (Please specify) (b) Foreign currency brought into the country and deposited '000 US\$ Pound Sterling Euro Sri Lanka Rupee Other (Please specify)	
04. Debits Outward remittance during the quarter '000 US\$ Pound Sterling Euro Sri Lanka Rupee Other (Please specify)	

N.B. Please provide information on currency-wise accounts

Authorized Officer :
 Name and Address
 of the Authorised Dealer :
 Date :

Contact Details:
 "D" Branch
 Exchange Control Department
 Tel. No. 2477242
 Fax No. 2477716
 E-mail: ecd@cbsl.lk

Ref:06/04/07/2008

Department of Exchange Control
 Central Bank of Sri Lanka
 P.O.Box 590
 Colombo 01.
 July 02 2008

Directions to Authorized Dealers

Dear Sirs,

NON-RESIDENT BLOCKED ACCOUNTS

Authorized Dealers are hereby granted permission for outward remittance of the total balance standing to the credit of existing non-resident blocked accounts as at 1st July, 2008 to the account holders or their legitimate beneficiaries subject to the following:-

- (i). Submission by the Authorized Dealer of the details of such blocked accounts, i.e., name, amount, address in the country of residence of the account holder, to the Controller of Exchange and receiving an acknowledgement from the Controller of Exchange for the same prior to release of the balance; and
 - (ii). Submission by the account holder to the Authorized Dealer of a Tax Clearance Certificate from the Department of Inland Revenue in respect of the amount under remittance.
2. Any outward remittance to or on behalf of an emigrant should be made through the blocked account maintained in the name of the emigrant.
 3. Permission is also granted for the following transactions with regard to deposits made after 1st July 2008 in existing blocked accounts or new blocked accounts opened and maintained in terms of the relevant provisions of the Exchange Control Act.
 - (i). Outward remittance of funds equivalent to a maximum of US\$ 20,000 per annum out of capital or any income derived by blocked account holders from all sources such as investments in real and financial assets, superannuation benefits, claims on insurance policies and rent received etc.. on production of relevant documentation regarding the source of income of the account holder, provided that such remittance in aggregate of all blocked accounts maintained with all Authorized Dealers by the account holder shall not exceed US\$ 20,000 per annum and the account holder shall submit an Affidavit duly stamped and attested by a Justice of Peace declaring that no remittance has been made or will be made in excess of the permitted limit of US\$ 20,000 per annum.
 - (ii). Disbursement in Sri Lanka for any purpose including investments in Sri Lanka.
 4. The permissions granted above shall not be applicable to any accounts or amounts that have been blocked or that will be blocked in terms of instructions specifically issued by the Controller of Exchange.
 5. The Authorized Dealers may pay interest on balances in blocked accounts as per agreement with the account holders.
 6. The Authorized Dealers are requested to submit the completed Form 4 to the Exchange Control Department on a weekly basis in respect of sale of foreign exchange for outward remittances and a consolidated statement of outward remittance of foreign exchange under blocked accounts on a monthly basis not later than the 1st week of the following month as per the attached format.
 7. Operating Instructions previously issued relating to Non-Resident Blocked Accounts are hereby rescinded.
 8. Interpretation-
'blocked account' here means accounts opened and maintained with an Authorized Dealer for making a payment or placing of any sum to the credit of a non-resident in terms of section 31 of the Exchange Control Act.

Yours faithfully,
D Wasantha
Controller of Exchange

**Consolidated Statement of Outward Remittance of Blocked Account Funds
for the Month of.....**

in USD

Item	Amount
1. Total remitted from 2 nd July 2008 to end of the month.....	
2. Total remitted during the month.....	

Contact Details:

"D" Branch
Exchange Control Department
Tel. No.2477242
E.mail: ecd@cbsl.lk

Authorized Officer.....
Name & Address of the
Authorized Dealer.....

FORM 4

Bank

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Branch

--	--	--	--

Serial No.

--	--	--	--	--	--	--	--

CENTRAL BANK OF SRI LANKA***Sale of Foreign Exchange - Emigrants and Blocked Account Holders*****To: Authorized Dealer**Full Name of the Applicant.....
(In Block Letters)Present Address :
(In Block Letters)Address Abroad :
.....
.....Nationality :
Occupation :
or Profession :
N.I.C & Passport No. :Names of Dependants
accompanying the applicant: (1)
(2)
(3)
(4)
(5)NIC & Passport Nos.
of the Dependants (1)
(2)
(3)
(4)
(5)Date of Proposed Departure **DD.MM.YY**
from Sri Lanka :Purpose of Purchase of
Foreign Exchange :Foreign Exchange
applied for :
Travellers Cheques :
Drafts :
Currency Notes :
Other (specify) :**Declaration by the Applicant and
Accompanying Dependants:**

I/we declare that I/we are leaving/have left Sri Lanka to reside permanently in the county of destination stated above and documents submitted herewith are true and correct to the best of my/our knowledge and belief. I/we also declare that I/we have not made any application to any Authorized Dealer for the same purpose.

Date:.....
DD.MM.YY **Signature of Applicant****To Controller of Exchange**

Bank Code :

Branch Code :

Sector Code :

Country Code :

Purpose Code :

Currency Code :

Foreign Exchange released:

Travellers Cheques :

Drafts :

Currency Notes :

Other (specify) :

Bank's Reference No. :

I have examined the relevant documents and am satisfied with the bonafides of the request and confirm the sale of foreign exchange for the purpose given by the applicant

Date:.....

.....
**Signature & Seal of
Authorised Dealer**

Ref:06/04/08/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 01
July 02 2008

Directions to Authorized Dealers

Dear Sirs,

SALE OF FOREIGN EXCHANGE TO EMIGRANTS

Authorized Dealers are hereby granted permission to sell foreign exchange in designated foreign currencies for outward remittance to emigrants up to a maximum value equivalent to US\$ 150,000 per family or per individual not accompanying a family at the time of their departure from Sri Lanka subject to the following procedure.

- (i). The maximum value of remittance will include funds legally acquired from all sources and expected to be remitted consequent to emigration including proceeds of any real or financial assets, amount of claim or income received in Sri Lanka and the value of personal effects including personal jewellery exported by emigrants.
- (ii). The maximum value US\$ 150,000 includes sale of foreign exchange by any one or all Authorized Dealers to an emigrant family or individual not accompanying a family.
- (iii). Submission of an affidavit duly stamped and attested by a Justice of Peace declaring the emigrant's final and irrevocable decision to leave Sri Lanka for permanent residence in the country of destination on a proposed date of departure and that there is no legal impediment to the remittance.
- (iv). Submission of Tax Clearance Certificate from the Department of Inland Revenue in respect of the amount of funds under remittance.
- (v). Submission of valuation from National Gem & Jewellery Authority in case of export of personal jewellery.
- (vi). Submission of valid passport and photocopies of Immigrant Visa.
- (vii). Crediting of any funds belonging to emigrants in excess of the US\$ 150,000 limit to relevant blocked accounts opened and maintained in terms of Directions to Authorized Dealers, No. 06/04/07/2008 dated July 2, 2008 on 'Non-Resident Blocked Accounts'.
- (viii). Processing of application for remittance shall be within 3 months of the emigrant's proposed date of departure from Sri Lanka.
- (ix). Where the remittance is made in more than one instalment, the remittance of all instalments shall be made through the same Authorized Dealer.
- (x). Making an endorsement by the Authorized Dealer on the passport indicating the amount of foreign exchange sold and purpose of remittance.
- (xi). Application for outward remittance of funds by emigrants subsequent to their departure from Sri Lanka shall be referred to the Exchange Control Department for approval.
- (xii). Submission of the completed Form 4 on a weekly basis by the Authorized Dealer to the Exchange Control Department in respect of sale of foreign exchange to emigrants and a consolidated statement of foreign exchange sales to emigrants on a monthly basis not later than the 1st week of the following month as per the attached format.

2. Operating Instructions previously issued relating to sale of foreign exchange to emigrants are hereby rescinded.

Yours faithfully,
D Wasantha
Controller of Exchange

**Consolidated Statement of Foreign Exchange Sales to Emigrants
for the Month of.....**

in USD

Item	No. / Amount
1. No. of remittances	
2. Total remitted from 2nd July 2008 to end of the month.....	
3. Total remittances during the month.....	

Contact Details:

"D" Branch
Exchange Control Department
Tel. No.2477242 E.mail: ecd@cbsl.lk

Authorized Officer.....
Name & Address of the
Authorized Dealer.....

Ref: 06/04/09/2008

Department of Exchange Control
Central Bank of Sri Lanka
P. O. Box 590
Colombo 01
July 3 2008

Directions to Authorized Dealers

Dear Sirs,

FOREIGN INVESTMENT DEPOSIT ACCOUNTS (FIDA)

This Direction is issued further to the Direction No: 06/04/05/2008 dated 02/06/2008 issued by the Exchange Control Department on the above subject.

You are hereby informed that;

1. The Department of Inland Revenue has confirmed that FIDA accounts are exempted from the income tax, withholding of income tax and debit tax.
2. Foreign Investment Deposit Account (FIDA) is renamed as “**Special Foreign Investment Deposit Account (SFIDA)**”.

Yours faithfully
D Wasantha
Controller of Exchange

Ref: 06/04/11/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box 590
Colombo 01
July 10 2008

Directions to Authorized Dealers

Dear Sirs,

SENIOR FOREIGN NATIONALS - SPECIAL ACCOUNTS

The Government of Sri Lanka has decided to welcome senior foreign nationals who wish to prolong their stay in Sri Lanka on Resident Visa under the “Sri Lanka – MY DREAM HOME PROGRAMME”. This scheme is open to all senior foreign nationals who are over 55 years of the age. Applicants are allowed to bring their spouses and dependents.

An applicant under this scheme is required to remit minimum of US\$15,000 or its equivalent in other convertible foreign currency and deposit such funds in a fixed deposit foreign currency account opened in the name of the applicant at the Domestic Banking Unit of an Authorized Dealer. This amount should remain in the account as long as the applicant stays in Sri Lanka under the Resident Visa. In addition a monthly remittance of US\$ 1,500 for the principal applicant and US\$ 750 or equivalent in other foreign currency for accompanying spouse and each dependent child for their upkeep in Sri Lanka shall be deposited in a Sri Lanka Rupee savings or current account in the name of the account holder.

For the purpose of depositing the funds brought into the country by senior foreign nationals under this scheme, Authorized Dealers are hereby permitted to open under-mentioned special accounts in their Domestic Banking Units.

Senior Foreign Nationals’ Fixed Deposit Accounts (SFNFDA) - Foreign Currency**Credits**

These accounts should be opened for the purpose of depositing the minimum initial sum of US\$15,000 or an equivalent amount in any convertible foreign currency brought into the country through banking channels.

Debits

Withdrawals from this account may be permitted with the prior approval of the Controller of Exchange at the time that senior foreign national decided to terminate his stay in Sri Lanka.

Interest paid on Senior Foreign Nationals’ Fixed Deposit Accounts (SFNFDA) should be transferred to the Senior Foreign Nationals’ Rupee Accounts (SFNRA) as mentioned below.

Senior Foreign Nationals' Rupee Accounts (SFNRA)

These accounts may be opened in the form of savings or current accounts with a minimum deposit of US\$1,500/- or equivalent in other convertible foreign currency brought into the country and converted into Sri Lanka Rupees:

Credits

Credits to this account should be confined to the following:

- (i) Foreign currency brought into the country by the senior foreign national for his upkeep (i.e. US\$ 1,500/- per month) and for the upkeep of his spouse and other dependants (i.e. US\$ 750/- for each dependant per month);
- (ii) Interest paid on funds held in Senior Foreign Nationals' Fixed Deposit Accounts (SFNFDA)

Debits

Debits to this account should be confined to the following:

- (i) Local expenses of the investor and his dependents;
- (ii) Outward remittances for payments for current international transactions of the investor and/or his dependents resident in Sri Lanka.

All Authorized Dealers should furnish to "D" branch of the Exchange Control Department quarterly statements of both rupee and foreign currency accounts within 15 days of the lapse of each quarter ending March, June, September and December.

Direction previously issued under Ref. No. 06/04/10/2008 dated 09.07.2008 on the above subject is hereby rescinded.

Yours faithfully
D Wasantha
Controller of Exchange

Ref. No. 06/04/12/2008

Department of Exchange Control
Central Bank of Sri Lanka
P. O. Box 590
Colombo 01.
July 11 2008

Directions to Authorized Dealers

Dear Sirs,

ISSUANCE OF FOREIGN CURRENCY NOTES TO SRI LANKANS TRAVELLING ABROAD

It has been decided to increase the issuance of foreign currency notes as a part of the travel allowance for Sri Lankans travelling abroad from its present level of US\$ 1000 to US\$ 2000 or its equivalent in any other convertible foreign currency. However, Authorized Dealers are instructed to exercise due diligence and discretion after satisfying the bona fides of the request when issuing such foreign currencies.

Directions previously issued under Ref. No. 06/04/08/2007 dated 14.06.2007 on the above subject is hereby rescinded.

Yours faithfully
D Wasantha
Controller of Exchange

The Gazette of the Democratic Socialist Republic of Sri Lanka
EXTRAORDINARY
No.1559/16 – WEDNESDAY, JULY 23, 2008
(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 5,7,8,11,22(1) and 30 (5) of the Exchange Control Act

PERMISSION - Permission is hereby granted in terms of sections 5,7,8,11, sub-section (1) of section 22 and sub-section (5) of section 30 of the Exchange Control Act (Chapter 423 of the CLE) to the following categories of persons for purchasing, transferring and making payments in respect of Sri Lanka Development Bonds (SLDBs) issued by the Government of Sri Lanka and for the export of Bonds by or to such categories of persons:

- (i). Primary Dealers appointed by the Central Bank of Sri Lanka under the Registered stock and Securities Ordinance No.7 of 1937 and the Local Treasury Bills Ordinance No.8 of 1923;
- (ii). Citizens of foreign states whether resident in Sri Lanka or outside Sri Lanka;
- (iii). Citizens of Sri Lanka who have made their permanent abode outside Sri Lanka;
- (iv). Citizens of Sri Lanka who have proceeded outside Sri Lanka to take up employment or to set up in business or in a profession;
- (v). Bodies corporate or unincorporated established under the laws of a country other than Sri Lanka;
- (vi). Companies registered to carry on insurance business in Sri Lanka under the provisions of the Regulation of Insurance Industry Act No.43 of 2000 provided that all purchases of SLDBs are made against debits to Special Foreign Currency Accounts maintained with commercial banks by such insurance companies in terms of the approval granted by the Controller of Exchange.

The Notice published in the *Gazette Extraordinary* No.1208/14 of November 01,2001 is hereby revoked.

E.A.HETTIARACHCHI,
Controller of Exchange.

Colombo
23 July 2008

Ref: 06/04/13/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box. 590
Colombo 01
July 25 2008

Directions to Authorized Dealers

Dear Sirs/Madam,

**FREIGHT FORWARDING & ISSUE OF HOUSE AIR WAY BILLS/HOUSE BILLS
OF LADING / FORWARDERS CARGO RECEIPTS**

Authorized dealers are hereby requested to include the following Freight Forwarders who have been registered with the Central Bank of Sri Lanka since 2007.12.31 to the list of freight forwarders for the purpose of accepting their House Air Way Bills/ House Bills of lading, Forwarders Cargo Receipts for negotiation in respect of Exports cargo.

Name of the Freight Forwarder	Registered No.
1) Harbour Lines (Pvt) Ltd	06/07/009/0249
2) Easy Freight (Pvt) Ltd	06/07/009/0250
3) La Vague International (Pvt) Ltd	06/07/009/0251
4) Atlas Freight (Pvt) Ltd	06/07/009/0252
5) Southern Maritime (Pvt) Ltd	06/07/009/0253
6) Freightship Shipping (Pvt) Ltd	06/07/009/0254
7) Pan Global Shipping (Pvt) Ltd	06/07/009/0255
8) Macship Agencies Lanka (Pvt) Ltd	06/07/009/0256
9) Voyager Logistics International (Pvt) Ltd	06/07/009/0257
10) DP Logistics (Pvt) Ltd	06/07/009/0258
11) ASAC Maritime (Pvt) Ltd	06/07/009/0259
12) Concord Shipping (Pvt) Ltd	06/07/009/0260
13) Trans Net Shipping (Pvt) Ltd	06/07/009/0261
14) Unistar Global Logistics (Pvt) Ltd	06/07/009/0262
15) Asia Trade & Logistics (Pvt) Ltd	06/07/009/0263
16) Asiaan Tiger Lines Lanka (Pvt) Ltd	06/07/009/0264
17) Transmarine Logistics Lanka (Pvt) Ltd	06/07/009/0265
18) FML Cargoways (Pvt) Ltd	06/07/009/0266

Yours faithfully
E A Hettiarachchi
Controller of Exchange

Ref: 06/04/14/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O Box 590
Colombo 01.
August 26 2008

Directions to Authorized Dealers

Dear Sirs,

**PERMITTING LICENSED COMMERCIAL BANKS TO TRADE IN THE INTERNATIONAL SOVEREIGN
BONDS ISSUED IN 2007 BY THE GOVERNMENT OF SRI LANKA**

Your attention is invited to the circular bearing No: 02/17/800/0005/01 issued by the Director of Bank Supervision on the above subject.

In connection with the said investment in International Sovereign Bonds (ISB), Authorized Dealers are hereby permitted:

- (i) in terms of provisions of section 7(a) of the Exchange Control Act No 24 of 1953 (ECA) to make payments to persons resident outside Sri Lanka in respect of purchase of ISB.
- (ii) in terms of provisions of sections 11(2) and 17(2) of ECA to transfer ISB to persons resident outside Sri Lanka and to trade such ISB among Authorized Dealers.

Yours faithfully
E A Hettiarachchi
Controller of Exchange

Ref: 06/04/15/2008

Department of Exchange Control
Central Bank of Sri Lanka
P. O. Box 590
Colombo 01
November 4 2008

Directions to Authorized Dealers

MONITORING SCHEME ON RELEASE OF FOREIGN EXCHANGE FOR TRAVEL PURPOSES

Attention of the Authorized Dealers is invited to paragraph 2 of item "C" of the guidelines issued to Authorized Dealers under Ref. No. EC/D/GL/1994/2 dated 18/03/1994 whereby Authorized Dealers have been permitted to issue foreign exchange for travel abroad for any purpose including education and medical treatment abroad on verifying the bona-fides of the request.

Authorized Dealers are hereby informed that, while there is no change to such permission, any release of foreign exchange by you for the above purposes over and above USD 5,000 or its equivalent in any other convertible foreign currency per person, should be reported to the Controller of Exchange with effect from 3rd November 2008 on a monthly basis in the attached format.

Yours faithfully
E A Hettiarachchi
Controller of Exchange

To: Controller of Exchange
Exchange Control Department
Central Bank of Sri Lanka
Colombo 01

THE MONTHLY REPORT IN RESPECT OF RELEASE OF FOREIGN EXCHANGE

Name of the Applicant	Address of the Applicant	N.I.C. & Passport No.	Purpose: Travel(T), Medical(M) or Education(E)	Amount of Foreign Exchange Released in USD or equivalent in any other convertible foreign currency

.....

DD/MM/YY

.....
**Signature of the officer Authorized by
the bank & Seal of the Authorized Dealer****Ref: 06/04/18/2008**

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 01.
December 03 2008

Directions to Authorized Dealers

Dear Sirs,

NON RESIDENT FOREIGN CURRENCY (NRFC) ACCOUNTS

As a further measure of liberalizing Exchange Controls and enhancing worker remittances through the formal sector, it has been decided to implement the following with effect from December 03, 2008.

1. Authorized Dealers are hereby informed that the requirement imposed in terms of our Operating Instructions No. EC/08/88(D) dated 05/05/1988, to produce Customs confirmation on passport or Customs Declaration Card to credit the foreign currency brought into the country by the account holder, is hereby amended. Authorized Dealers are now permitted to accept any amount of designated foreign currencies brought by the account holder to the credit of NRFC accounts without Customs confirmation on passport or Customs Declaration Card.
2. The limit of USD 1,000 which was imposed in terms of the Operating Instructions No. 06/04/09/2007 dated 15/06/2007 with regard to acceptance of foreign currency to the credit of NRFC Accounts from the immediate family members of the NRFC account holders is hereby removed and permission is granted to accept any amount of designated foreign currencies to the credit of NRFC accounts from immediate family members.

Yours faithfully
E A Hettiarachchi
Controller of Exchange

Ref: 06/04/19/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 01.
December 03 2008

Directions to Authorized Dealers

Dear Sirs,

RESIDENT FOREIGN CURRENCY (RFC) ACCOUNTS

As a further measure of liberalizing Exchange Controls and enhancing worker remittances through the formal sector, it has been decided to implement the following with effect from December 03, 2008.

1. Authorized Dealers are hereby informed that the minimum requirement for opening an RFC Account has been reduced from the present level of USD 500 or its equivalent in other designated foreign currencies to USD 100 or its equivalent

in other designated foreign currencies, by amending the Operating Instructions No. EC/52/91(D) of 01/08/1991 issued to Authorized Dealers on the above subject.

2. Authorized Dealers are hereby permitted to accept any amount of designated foreign currencies as subsequent deposits to the credit of RFC Accounts without Customs confirmation on passport or Customs Declaration Card.

Yours faithfully
E A Hettiarachchi
Controller of Exchange

Ref: 06/04/20/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O.Box 590
Colombo 01.
December 8 2008

*Instructions to Licensed Commercial Banks
Appointed as Authorized Dealers,*

MARGIN REQUIREMENTS FOR IMPORTS MADE ON ADVANCE PAYMENT TERMS

Authorized Dealers are hereby informed that they are required to adhere to the following prudential requirements with effect from 08th December 2008.

- i. A 100 per cent margin deposit on the total invoiced value of the goods given in the attached Schedule A1 which will be imported against advance payment terms, should be placed by the importer at the bank at the time of effecting the remittance.
- ii. Banks should endorse the invoice to the effect that the margin deposit has been obtained.
- iii. The margin deposit should be released on the production of documentary evidence in confirmation on clearance of goods from Sri Lanka Customs.
- iv. Banks should not grant any loans to enable importers to place the margin deposits in respect of these imports.
- v. Margin deposits will be subject to Statutory Reserve Requirements.
- vi. The banks may pay interest on such margin deposits.
- vii. Margin deposit requirements which are imposed for imports in terms of these instructions, are not applicable to the goods which are imported for re-export purposes under the Entrepot Trade subject to the following conditions:
 - a. Goods imported to be stored in a Custom Bonded Warehouse until such goods are re-exported to a third country.
 - b. Re-packing/ labelling/ simple processing of goods imported to be carried out in a Custom Bonded Warehouse before re-exporting to a third country.
 - c. Exportation of goods directly from a second country to a third country without the goods physically arriving in the trader's country.
 - d. Transfer from one ship/ aircraft to another within the port without cargo being taken into Bonded Warehouse.
- viii. The banks should submit monthly returns of the details of such margin deposits to the Director of Bank Supervision with a copy to the Controller of Exchange in the format as shown in the Annex I.

Directions previously issued under Ref. Nos. 06/04/16/2008 and 06/04/17/2008 dated 06/11/2008 and 11/11/2008 respectively on the above subject are hereby rescinded.

Yours faithfully

E A Hettiarachchi
Controller of Exchange

B D W A Silva
Director of Bank Supervision

Schedule A1

**List of Items Requiring 100 per cent Margin Deposit against Advance Payment Terms
08/12/2008**

Description	HS Heading Covered
Oil and their fractions	All HS Codes under 1511 except 1511.10 All HS Codes under 1512 except 1512.11
Chocolates	All HS Codes under 1806
Bakery products, cakes, biscuits and other bakers' wares	All HS Codes under 1905
Beer	2203
Wine, Vermouth and other fermented beverages	All HS Codes under 2204, All HS Codes under 2205 and All HS Codes under 2206
Spirits, liqueurs and other spirituous beverages	All HS Codes under 2208
Perfumes and toilet waters	3303
Beauty or make-up preparations [Lip, Eye, Manicure, Pedicure etc]	All HS Codes under 3304
Preparations for use on the hair	All HS Codes under 3305
Pre-shave, shaving or after-shave preparation, Personal deodorants and anti-perspirants, Perfumed bath salts and other bath preparations, Preparations for perfuming or deodorizing rooms, and odoriferous preparation	3307.10,3307.20,3307.30, 3307.41, 3307.49 and 3307.90.90
Soap and organic surface-active products	All HS Codes under 3401
Tableware, kitchenware, other household articles and hygienic or toilet articles of plastics.	All HS Codes under 3924 except 3924.90.10
Articles of leather, hand bags and similar containers	All HS Codes under 4202 and All HS Codes under 4203
Articles of apparel of knitted or crocheted	All HS headings under Chapter 61 except 6117.80.10, 6117.80.90 and 6117.90
Articles of apparel of not knitted or crocheted	All HS headings under Chapter 62 except 6217.10 and 6217.20
Footwear	All HS headings under Chapter 64 except all HS Codes under 6406.
Artificial flowers	All HS Codes under 6702
Wall tiles, floor tiles and the like	All HS Codes under 6907 and All HS Codes under 6908
Tableware, kitchenware, other household articles and toilet articles, of ceramic, porcelain or china	All HS Codes under 6911 and All HS Codes under 6912
Statuettes and other ornamental ceramic articles	All HS Codes under 6913
Glassware of a kind used for table, kitchen, toilet, office, indoor decoration or similar purposes	All HS Codes under 7013 except 7013.99.10 (Infants' feeding bottles)
Imitation Jewellery	All HS Codes under 7117
Tableware, kitchenware, other household articles of stainless steel	7323.93
Locks and padlocks	8301.10,8301.20,8301.30,8301.40 and 8301.50
Fans	8414.51 and 8414.59.10
Air conditioners	All HS Codes under 8415

Refrigerators, Freezers and other refrigerating and freezing equipment	All HS Codes under 8418 except 8418.61.50, 8418.61.60, 8418.69.50, 8418.69.60 , all HS Codes under 8418.91 and all HS Codes under 8418.99
Dish washing machines	8422.11
Household and laundry-type washing machines	All HS Codes under 8450 except 8450.20 and 8450.90
Electro-mechanical domestic appliances	All HS Codes under 8509 except 8509.90 (Parts)
Shavers, hair clippers and hair-removing appliances, with self-contained electric motor.	All HS Codes under 8510 except 8510.90 (Parts)
Electric instantaneous or storage water heaters and immersion heaters	8516.10
Hair dryers and other hair-dressing apparatus	8516.31 and 8516.32
Electric smoothing irons	All HS Codes under 8516.40
Microwave ovens	8516.50
Other Ovens and cookers	All HS Codes under 8516.60
Coffee or Tea makers	8516.71
Toasters	8516.72
Cellular mobile telephones	8517.12.10 and 8517.12.20
Video recording or reproducing apparatus, whether or not incorporating a video tuner	All HS headings under 8521
Televisions	All HS Codes under 8528.72
Antennas	8529.10.10, 8529.10.20, 8529.10.30
Electric filament or discharge lamps	8539.22
Wrist-watches and clocks	All HS Codes under 9101, All HS Codes under 9102, All HS Codes under 9103 and All HS Codes under 9105
Lamps and light fittings	9405.10, 9405.20, 9405.30, 9405.40, 9405.40.10, 9405.40.20 and 9405.40.90
Toys	All HS Codes under 9503

To: Director Bank Supervision
 Dept. of Bank Supervision
 Central Bank of Sri Lanka
 Colombo 01
 Fax: 2477711 E-mail: hdajit@cbsl.lk

Annex I

REPORT I: MARGIN DEPOSITS ON IMPORTS MADE ON ADVANCE PAYMENT TERMS

Name of the Bank:

Reporting Month:

Bank Code	Name of the Importer	Date of Remittance (DDMMYYYY)	Remittance Ref. No.	Invoiced Value		Deposit Rs.	Date of Deposit
				Currency Type	Amount		

REPORT II: RELEASE OF MARGIN DEPOSITS ON IMPORTS MADE ON ADVANCE PAYMENT TERMS**Name of the Bank:****Reporting Month:**

Bank Code	Name of the Importer	Date of Remittance (DDMMYYYY)	Remittance Ref. No.	Invoiced Value		Deposit Rs.	Date of release of the Deposit	Date of clearance of the goods
				Currency Type	Amount			

cc: Controller of Exchange
Exchange Control Department
Central Bank of Sri Lanka
Colombo 01
Fax: 2477716 E-mail: advance.ecd@cbsl.lk

Ref: 06/04/21/2008

Department of Exchange Control
Central Bank of Sri Lanka
P.O. Box. 590
Colombo 01
December 30 2008

Directions to Authorized Dealers

Dear Sir,

**FREIGHT FORWARDING & ISSUE OF HOUSE AIR WAY BILLS/ HOUSE BILLS
OF LADING / FORWARDERS CARGO RECEIPTS**

Authorized dealers are hereby requested to include the following Freight Forwarders who have been registered with the Central Bank of Sri Lanka since 2008.07.25 to the list of freight forwarders for the purpose of accepting their House Air Way Bills/ House Bills of lading, Forwarders Cargo Receipts for negotiation in respect of Exports cargo.

Name of the Freight Forwarder	Registered No.
1) Air Marine Logistics (Pvt) Ltd.	06/07/009/0267
2) Mitsui O.S.K Lines Lanka (Pvt) Ltd.	06/07/009/0268
3) InterContinental Container Line Colombo (Pvt) Ltd.	06/07/009/0269
4) Colombo Container Line (Pvt) Ltd.	06/07/009/0270
5) Marine Express Lines Colombo (Pvt) Ltd.	06/07/009/0271
6) Ocean Way International Logistics (Pvt) Ltd.	06/07/009/0272
7) Peri Logistics (Pvt) Ltd.	06/07/009/0273
8) IFB Lanka (Pvt) Ltd.	06/07/009/0274
9) M & F Shipping (Pvt) Ltd.	06/07/009/0275
10) SEDS Lanka (Pvt) Ltd.	06/07/009/0276
11) McLaren Logistics Ltd.	06/07/009/0277

Yours faithfully
E A Hettiarachchi
Controller of Exchange

RULES ON
KNOW YOUR CUSTOMER (KYC) & CUSTOMER DUE DILIGENCE (CDD)
FOR THE INSURANCE INDUSTRY

Introduction

Money laundering and terrorist financing can harm the soundness of a country's financial system, as well as the stability of individual institutions, in multiple ways. Customer identification and due diligence procedures also known as "know your customer" rules, are part of an effective Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regime. These rules are not only consistent with, but also enhance, the safe and sound operation of insurance sector institutions.

While preparing operational guidelines on customer identification and due diligence procedures, institutions are advised to treat the information collected from the customer for the purpose of entering into insurance contracts, as confidential and not divulge any details thereof for cross-selling or for any other purposes, and that the information sought is relevant to the perceived risk, is not intrusive and is in conformity with the rules issued hereunder.

The rules on KYC/CDD include the following sections:

- Part I - Role of the Supervisor
- Part II - Money Laundering and Financing of Terrorism in Insurance
- Part III - Control Measures and Procedures against Money Laundering and Financing of Terrorism
- Part IV - Anti-Money Laundering Programme
- Part V - Suspicious Transaction Report, Instructions and Format.

These rules are issued under Section 2(3) of the Financial Transactions Reporting Act No.6 of 2006 and any contravention of, or non-compliance with the same will be liable to the penalties under the relevant provisions of the Act.

Director
Financial Intelligence Unit
11 September 2008

PART I
ROLE OF THE SUPERVISOR

1. Supervisory authority, in conjunction with law enforcement authorities and in cooperation with other supervisors, must adequately supervise insurers for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) purposes in order to assess their ability to prevent and counter such threats.

Application of relevant insurance core principles

2. According to the International Association of Insurance Supervisors (IAIS) Insurance Core Principles a sound regulatory and supervisory system is necessary for maintaining efficient, safe, fair and stable insurance markets. The Financial Actions Task Force (FATF) Recommendations emphasise that jurisdictions should ensure that financial institutions are subject to adequate regulation and supervision, and are effectively implementing the FATF Recommendations. According to FATF Recommendation 23, the regulatory and supervisory measures that apply for prudential purposes and which are also relevant to money laundering, should apply in a similar manner for AML/CFT.
3. Therefore, the supervisor should be aware of the relevance for AML/CFT purposes of the duties it carries out to comply with the Insurance Core Principles. By way of example, the application of standards on corporate governance issues; approval of control and ownership of the insurer and changes thereto; suitability of significant owners, board members and senior management (fit and proper testing; and the internal control measures of the insurers are relevant in this context.
4. Attention to money laundering and the financing of terrorism with respect to supervisory duties will enhance international efforts to prevent the risks of misuse of insurers. It will raise the awareness of the board of directors and management of insurers, help in keeping internal procedures effective, and prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest or holding a management function in an insurer.

5. The supervisor should take account of these risks at each phase of the supervisory process, at the licensing stage and in the course of ongoing supervision.
6. The supervisory authority should have adequate powers, including the authority to conduct on-site inspections, to monitor and ensure compliance by insurers with requirements to prevent money laundering and the financing of terrorism. It should be authorised to compel production of any information from insurers that is relevant to monitoring such compliance, and to impose adequate administrative sanctions for failure to comply with such requirements.
7. The supervisor should periodically review the effectiveness of its systems to prevent money laundering and the financing of terrorism. This review may include liaison with other competent authorities.
8. The supervisor should be provided with adequate financial, human and technical resources to prevent or assess the insurance sector's ability to prevent money laundering and the financing of terrorism. It should have in place processes to ensure its staff are of high integrity and have adequate and relevant training for example with respect to AML/CFT legislation, money laundering and terrorist financing typologies and techniques used to monitor compliance with AML/CFT standards by insurers.

Monitoring compliance

9. The supervisor should monitor adherence by insurers with AML/CFT regulations, this guidance paper and any guidance issued by the supervisor as well as policy and procedures set by management.
10. When conducting on-site inspections the supervisor should consider the insurer's policies and systems as a whole, inter alia by checking policy statements, procedures, books and records, manuals, training programmes, as well as the adequacy of operations, by checking at random or on a risk basis client files for identification and verification documentation, internal reports to the compliance officer on suspicious transactions and formal Suspicious Transaction Reports (STRs) to the Financial Intelligence Unit (FIU).
11. The supervisor should take appropriate corrective measures or sanctions and, if appropriate, refer to law enforcement agencies in cases where there is a lack of compliance by an insurer.

Cooperation

12. FATF Recommendation 31 states that jurisdictions should ensure that policy makers, the FIU, law enforcement agencies and supervisors have effective mechanisms in place which enable them to cooperate and, where appropriate, coordinate domestically with each other concerning the development and implementation of policies and activities to prevent money laundering and the financing of terrorism.
13. FATF Recommendation 40 states that jurisdictions should ensure that their competent authorities, including the supervisors, provide the widest possible range of international cooperation to their foreign counterparts. There should be clear and effective gateways to facilitate the prompt and constructive exchange directly between counterparts, either spontaneously or upon request, of information relating to both money laundering and the underlying predicate offences.
14. FATF Recommendation 40 states that exchange of information should be permitted without unduly restrictive conditions. In particular:
 - the competent authorities, including the supervisor, should not refuse a request for assistance on the sole ground that the request is also considered to involve fiscal matters,
 - countries should not invoke laws that require financial institutions to maintain secrecy or confidentiality as a ground for refusing to provide cooperation,
 - the competent authorities, including the supervisor, should be able to conduct inquiries and, where possible, investigations on behalf of foreign counterparts,
15. The supervisor should establish controls and safeguards so that information exchanged by competent authorities is used only in an authorised manner, consistent with their obligations concerning privacy and data protection.
16. Depending on the type of competent authorities involved and the nature and purpose of the cooperation, different channels can be appropriate for the exchange of information. Examples of mechanisms or channels that are used to exchange information include bilateral or multilateral agreements or arrangements, memorandum of understanding, exchanges on the basis of reciprocity, or liaison through appropriate international or regional organizations.

PART II

MONEY LAUNDERING AND FINANCING OF TERRORISM IN INSURANCE

The process of money laundering and financing of terrorism

1. Money laundering is the processing of the proceeds of crime to disguise their illegal origin. Once these proceeds are successfully 'laundered' the criminal is able to enjoy these monies without revealing their original source. Money laundering can take place in various ways.
2. Financing of terrorism can be defined as the willful provision or collection, by any means, directly or indirectly, of funds with the intention that the funds should be used, or in the knowledge that they are to be used, to facilitate or carry out terrorist acts. Terrorism can be funded from legitimate income.

Vulnerabilities in insurance

3. Life insurance and non-life insurance can be used in different ways by money launderers and terrorist financiers. The vulnerability depends on factors such as (but not limited to) the complexity and terms of the contract, distribution, method of payment (cash or bank transfer) and contract law. Insurers should take these factors into account when assessing this vulnerability. This means they should prepare a risk profile of the type of business in general and of each business relationship.
4. Examples of the type of life insurance contracts that are vulnerable as a vehicle for laundering money or terrorist financing are products, such as:
 - unit-linked or with profit single premium contracts
 - single premium life insurance policies that store cash value
 - fixed and variable annuities
5. When a life insurance policy matures or is surrendered, funds become available to the policyholder or other beneficiaries. The beneficiary to the contract may be changed possibly against payment, before maturity or surrender, in order that payments are made by the insurer to a new beneficiary. A policy might be used as collateral to purchase other financial instruments. These investments in themselves may be merely one part of a sophisticated web of complex transactions with their origins elsewhere in the financial system.
6. Non-life insurance money laundering or terrorist financing can be seen through inflated or totally bogus claims, e.g. by arson or other means causing a bogus claim to be made to recover part of the invested illegitimate funds. Other examples include cancellation of policies for the return of premium by an insurer's cheque, and the overpayment of premiums with a request for a refund of the amount overpaid. Money laundering can also occur through under-insurance, where a criminal can say that he received compensation for the full amount of the damage, when in fact he did not.

Examples of how terrorism could be facilitated through property and casualty coverage, include use of worker's compensation payments to support terrorists awaiting assignment and primary coverage and trade credit for the transport of terrorist materials.

7. Money laundering and the financing of terrorism using reinsurance could occur either by establishing fictitious (re)insurance companies or reinsurance intermediaries, fronting arrangements and captives, or by the misuse of normal reinsurance transactions. Examples include:
 - the deliberate placement via the insurer of the proceeds of crime or terrorist funds with reinsurers in order to disguise the source of funds,
 - the establishment of bogus reinsurers, which may be used to launder the proceeds of crime or to facilitate terrorist funding,
 - the establishment of bogus insurers, which may be used to place the proceeds of crime or terrorist funds with legitimate reinsurers.
8. Insurance intermediaries independent or otherwise are important for distribution, underwriting and claims settlement. They are often the direct link to the policyholder and therefore intermediaries should play an important role in anti-money laundering and combating the financing of terrorism. The FATF recommendations allow insurers, under strict conditions, to rely on customer due diligence carried out by intermediaries. The same principles that apply to insurers should generally apply to insurance intermediaries. The person who wants to launder money or finance terrorism may seek an insurance intermediary who is not aware of, or does not conform to, necessary procedures, or who fails to recognise or report information regarding possible cases of money laundering or the financing of terrorism. The intermediaries themselves could have been set up to channel illegitimate funds to insurers. In addition to the responsibility of intermediaries, customer due diligence ultimately remains the responsibility of the insurer involved.

PART III

CONTROL MEASURES AND PROCEDURES AGAINST MONEY LAUNDERING AND FINANCING OF TERRORISM

1. Insurers should be constantly vigilant in deterring criminals from making use of them for the purposes of money laundering or the financing of terrorism. By understanding the risks of money laundering and the financing of terrorism, insurers are in a position to determine what can be done to control these risks, and which procedures and measures can be implemented effectively and efficiently.
2. For reasons of sound business practice and proper risk management insurers should already have controls in place to assess the risk of each business relationship. As customer due diligence is a business practice suitable not just for commercial risk assessment and fraud prevention but also to prevent money laundering and the financing of terrorism, control measures should be linked to these existing controls. The concept of customer due diligence goes beyond the identification and verification of only the policyholder which extends to identification of the potential risks of the whole business relationship.
3. The duty of vigilance consists mainly of the following elements:
 - customer due diligence, including underwriting checks and verification of identity,
 - recognition and reporting of suspicious customers/transactions, and
 - provisions affecting the organization and the staff of the insurer, such as a compliance and audit environment, keeping of records, the recruitment of staff and training.

Performing due diligence on customers, beneficial owners and beneficiaries

4. Insurers should know the customers¹ with whom they are dealing. A first step in setting up a system of customer due diligence is to develop clear, written and risk based client acceptance policies and procedures, which among other things concern the types of products offered in combination with different client profiles. These policies and procedures should be built on the strategic policies of the board of directors of the insurer, including policies on products, markets and clients.
5. The insurer's strategic policies will determine its exposure to risks such as underwriting risk, reputational risk, operational risk, concentration risk² and legal risk. After determining the strategic policies, client acceptance policies should be established, taking account of risk factors such as the background and geographical base of the customer and/or beneficial owner³ and the complexity of the business relationship. This is why, as indicated above, control measures and procedures with respect to AML/CFT should be an integral part of the overall customer due diligence.
6. Insurers should be aware that, for example, they are more vulnerable to money laundering if they sell short term coverage by means of a single premium policy than if they sell group pensions to an employer with annuities to be paid after retirement. The former is more sensitive to money laundering and therefore calls for more intensive checks on the background of the client and the origin of the premium than the latter. Insurers should also be aware of requests for multiple policies to be taken out for premiums slightly below any publicised limits for performing checks, such as checks on the source of wealth.
7. Customer due diligence measures that should be taken by insurers include:
 - identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information,
 - determining whether the customer is acting on behalf of another person, and then taking reasonable steps to obtain sufficient identification data to verify the identity of that other person,
 - identifying the (ultimate) beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the insurer is satisfied that it knows who the beneficial owner is. For legal persons and arrangements insurers should take reasonable measures to understand the ownership and control structure of the customer,
 - obtaining information on the purpose and intended nature of the business relationship and other relevant factors,
 - conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the insurer's knowledge of the customer and/or beneficial owner, their business and risk profile, including, where necessary, the source of funds.

¹ Under normal conditions the term 'customer' refers to 'policyholder'.

² Concentration risk: the risk that too much business is being conducted with persons or corporations belonging to the same conglomerate, group or geographical area.

³ According to the FATF Recommendations beneficial owner 'refers to the natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a person or arrangement.

8. The extent and specific form of these measures may be determined following a risk analysis based upon relevant factors including the customer, the business relationship and the transaction(s). Enhanced due diligence is called for with respect to higher risk categories. Decisions taken on establishing relationships with higher risk customers and/or beneficial owners should be taken by senior management. Subject to national legal requirements insurers may apply reduced or simplified measures in the case of low risk categories.
9. Prior to the establishment of a business relationship, the insurer should assess the characteristics of the required product, the purpose and nature of the business relationship and any other relevant factors in order to create and maintain a risk profile of the customer relationship. Based on this assessment, the insurer should decide whether or not to accept the business relationship. As a matter of principle, insurers should not offer insurance to customers or for beneficiaries that obviously use fictitious names or whose identity is kept anonymous.
10. Factors to consider when creating a risk profile, which are not set out in any particular order of importance and which should not be considered exhaustive, include (where appropriate):
 - type and background of customer and/or beneficial owner,
 - the customer's and/or beneficial owner's geographical base,
 - the geographical sphere of the activities of the customer and/or beneficial owner,
 - the nature of the activities,
 - the means of payment as well as the type of payment (cash, wire transfer, other means of payment),
 - the source of funds,
 - the source of wealth,
 - the frequency and scale of activity,
 - the type and complexity of the business relationship,
 - whether or not payments will be made to third parties,
 - whether a business relationship is dormant,
 - any bearer arrangements,
 - suspicion or knowledge of money laundering, financing of terrorism or other crime.
11. The requirements for customer due diligence should apply to all new customers as well as, on the basis of materiality and risk, to existing customers and/or beneficial owners. As to the latter the insurer should conduct due diligence at appropriate times. In insurance, various transactions or 'trigger events' occur after the contract date and indicate where due diligence may be applicable. These trigger events include claims notification, surrender requests and policy alterations, including changes in beneficiaries
12. The requirement for an insurer to pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose is essential to both the establishment of a business relationship and to ongoing due diligence. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help competent authorities and auditors. In this respect "transactions" should be interpreted in a broad sense, meaning inquiries and applications for an insurance policy, premium payments, requests for changes in benefits, beneficiaries, duration, etc.
13. In the event of failure to complete verification of any relevant verification subject or to obtain information on the purpose and intended nature of the business relationship, the insurer should not conclude the insurance contract, perform the transaction, or should terminate the business relationship. The insurer should also consider making a Suspicious Transaction Report (STR) to the Financial Intelligence Unit (FIU).

Establishing a business relationship

14. Before an insurance contract is concluded between customer and insurer there is already a pre-contractual business relationship between these two and possibly other parties. After a policy is taken out:
 - the insurer covers a certain risk described in the contract and policy conditions,
 - certain transactions may take place such as premium payments, payments of advance or final benefits, and
 - certain events may occur such as a change in cover or a change of beneficiaries.
15. The insurer will need to carefully assess the specific background, and other conditions and needs of the customer. This assessment is already being carried out for commercial purposes (determining the risk exposure of the insurer and setting an adequate premium) as well as for reasons of active client management. To achieve this, the insurer will collect relevant information, for example details of source of funds, income, employment, family situation, medical

history, etc. This will lead to a customer profile which could serve as a reference to establish the purpose of the contract and to monitor subsequent transactions and events.

16. The insurer should realize that creating a customer profile is also of importance for AML/CFT purposes and therefore for the protection of the integrity of the insurer and its business.
17. In addition, the beneficial owner should also be identified and verified. For the purposes of this guidance paper the expression beneficial owner applies to the owner/controller of the policyholder as well as to the beneficiary to the contract.
18. With regard to reinsurance, due to the nature of the business and the lack of a contractual relationship between the policyholder and the reinsurance company, it is often impractical or impossible for the reinsurer to carry out verification of the policyholder or the beneficial owner. Therefore, for reinsurance business reinsurers should only deal with authorized insurers (1) that are licensed or otherwise authorised to issue insurance policies and (2) which have warranted or otherwise confirmed that they apply AML/CFT standards at least equivalent to those in this guidance paper, provided there is no information available to the contrary for instance from FATF and trade associations or from the reinsurers' visits to the premises of the insurer.
19. When the identity of customers and beneficial owners with respect to the insurance contract has been established the insurer is able to assess the risk to its business by checking customers and beneficial owners against internal and external information on known fraudsters or money launderers (possibly available from industry databases) and on known or suspected terrorists (publicly available on sanctions lists such as those published by the United Nations).

Timing of identification and verification

20. In principle identification and verification of customers and beneficial owners should take place when the business relationship with that person is established. This means that (the owner / controller of) the policyholder needs to be identified and their identity verified before, or at the moment when, the insurance contract is concluded. Valid exceptions are mentioned in the following paragraphs.
21. Identification and verification of the beneficiary may take place after the insurance contract has been concluded with the policyholder, provided the money laundering risks and financing of terrorism risks are effectively managed. However, identification and verification should occur at or before the time of payout or the time when the beneficiary intends to exercise vested rights under the policy.
22. Where a policyholder and/or beneficiary is permitted to utilise the business relationship prior to verification, financial institutions should be required to adopt risk management procedures concerning the conditions under which this may occur. These procedures should include measures such as a limitation of the number, types and/or amount of transactions that can be performed and the monitoring of large or complex transactions being carried out outside the expected norms for that type of relationship. Where the insurer has already commenced the business relationship and is unable to comply with the verification requirements it should terminate the business relationship and consider making a suspicious transaction report to the FIU.
23. Examples of situations where a business relationship could be used prior to verification are:
 - group pension schemes,
 - non-face-to-face customers,
 - premium payment made before the application has been processed and the risk accepted, and
 - using a policy as collateral.
24. In addition, in the case of non-face-to-face business verification may be allowed after establishing the business relationship. However, insurers must have policies and procedures in place to address the specific risks associated with non-face-to-face business relationships and transactions.

Transactions and events in the course of the business relationship

25. The insurer should perform ongoing due diligence on the business relationship. In general the insurer should pay attention to all requested changes to the policy and/or exercise of rights under the terms of the contract. It should assess if the change/transaction does not fit the profile of the customer and/or beneficial owner or is for some other reason unusual or suspicious. Enhanced due diligence is required with respect to higher risk categories. The Customer Due Diligence (CDD) program should be established in such a way that the insurer is able to adequately gather and analyse information.

26. Examples of transactions or trigger events after establishment of the contract that require CDD are:
- a change in beneficiaries (for instance, to include non-family members, or a request for payments to be made to persons other than beneficiaries),
 - a change/increase of insured capital and/or of the premium payment (for instance, which appear unusual in the light of the policyholder's income or where there are several overpayments of policy premiums after which the policyholder requests that reimbursement is paid to a third party),
 - use of cash and/or payment of large single premiums,
 - payment/surrender by a wire transfer from/to foreign parties,
 - payment by banking instruments which allow anonymity of the transaction
 - change of address and/or place of residence of the policyholder, in particular, tax residence,
 - lump sum top-ups to an existing life insurance contract,
 - lump sum contributions to personal pension contracts,
 - requests for prepayment of benefits,
 - use of the policy as collateral/security (for instance, unusual use of the policy as collateral unless it is clear that it is required for financing of a mortgage by a reputable financial institution),
 - change of the type of benefit (for instance, change of type of payment from an annuity to a lump sum payment),
 - early surrender of the policy or change of the duration (where this causes penalties or loss of tax relief),
27. The above list is not exhaustive. Insurers should consider other types of transactions or trigger events which are appropriate to their type of business.
28. Occurrence of these transactions and events does not imply that (full) customer due diligence needs to be applied. If identification and verification have already been performed, the insurer is entitled to rely on this unless doubts arise about the veracity of that information it holds. As an example, doubts might arise if benefits from one policy of insurance are used to fund the premium payments of another policy of insurance.
29. The best possible identification documentation should be obtained from each verification subject. "Best possible" means that which is the most difficult to replicate or acquire unlawfully because of its reputable and/or official origin.

Individuals

30. The following personal information should be considered:
- full name(s) used,
 - date and place of birth,
 - nationality,
 - current permanent address including postcode/zip code,
 - occupation and name of employer (if self-employed, the nature of the self-employment), and
 - specimen signature of the individual.
31. It is recognised that different jurisdictions have different identification documents. In order to establish identity it is suggested that the following documents may be considered to be the best possible,
- national identity card, or,
 - current valid passport
32. Original documents should be signed by the individual and if the individual is met face-to-face, the documents should preferably bear a photograph of the individual. Where copies of documents are provided, appropriate authorities and professionals may certify the authenticity of the copies.
33. Documents which are easily obtained in any name should not be accepted uncritically. These documents include, an identity card issued by the employer of the applicant even if bearing a photograph, credit cards, business cards, provisional driving licences (not bearing a photograph), and student union cards.

Legal persons, companies, partnerships and other institutions/arrangements

34. The types of measures normally needed to perform CDD on legal persons, companies, partnerships and other institutions/arrangements satisfactorily require identification of the natural persons with a controlling interest and the natural persons who comprise the mind and management of the legal person or arrangement. Where the customer or the owner of the controlling interest is a public company that is subject to regulatory disclosure requirements, it is not necessary to identify and verify the identity of any shareholder of that company.

35. FATF Recommendation 5 requires, where customers and/or beneficial owners are legal persons or legal arrangements, the insurers to:
 - verify that any person purporting to act on behalf of the customer and/or beneficial owner is so authorized and identify and verify the identity of that person,
 - verify the legal status of the legal person or legal arrangement, e.g. by obtaining proof of incorporation or similar evidence of establishment or existence, and
 - form an understanding of the ownership and control structure of the customer and/or beneficial owner.
36. Where trusts or similar arrangements are used, particular care should be taken in understanding the substance and form of the entity. Where the customer is a trust, the insurer should verify the identity of the trustees, any other person exercising effective control over the trust property, the settlers and the beneficiaries. Should it not be possible to verify the identity of the beneficiaries when the policy is taken out, verification must be carried out prior to any payments being made.
37. When dealing with the identification and verification of companies, trust and other legal entities the insurer should be aware of modes, corporate or otherwise, that are known to be misused for illicit purposes.
38. Sufficient verification should be undertaken to ensure that the individuals purporting to act on behalf of an entity are authorised to do so.
39. The following documents or their equivalent should be considered:
 - certificate of incorporation,
 - the name(s) and address(es) of the beneficial owner(s) and/or the person(s) on whose instructions the signatories of the customer are empowered to act,
 - constitutional documents e.g. memorandum and articles of association, partnership agreements,
 - copies of powers of attorney or other authorities given by the entity.
40. In all transactions undertaken on behalf of an employer-sponsored pension or savings scheme the insurer should, at a minimum, undertake verification of the principal employer and the trustees of the scheme (if any).
41. Verification of the principal employer should be conducted by the insurer in accordance with the procedures for verification of institutional applicants for business. Verification of any trustees of the scheme will generally consist of an inspection of the relevant documentation, which may include:
 - the trust deed and/or instrument and any supplementary documentation,
 - a memorandum of the names and addresses of current trustees (if any),
 - extracts from public registers,
 - references from professional advisers or investment managers.
42. As legal controls vary between jurisdictions, particular attention may need to be given to the place of origin of such documentation and the background against which it is produced.

Enhanced measures with respect to higher risk customers and non-cooperative countries and territories

43. Enhanced CDD measures should apply to all higher risk business relationships, clients and transactions. This includes both high risk business relationships assessed by the insurer, based on the customer's individual risk situation, and the types of business relationships mentioned in the following paragraphs.
44. With regard to enhanced due diligence, in general the insurer should consider which of the following, or possible additional measures, are appropriate:
 - certification by appropriate authorities and professionals of documents presented requisition of additional documents to complement those which are otherwise required,
 - performance of due diligence on identity and background of the customer and/or beneficial owner, including the structure in the event of a corporate customer,
 - performance of due diligence on source of funds and wealth,
 - obtaining senior management approval for establishing business relationship,
 - conducting enhanced ongoing monitoring of the business relationship.

Bearer policies

45. Bearer policies are insurance contract that require the insurer to pay funds to the person(s) holding the policy document or to whom the entitlement to the benefit(s) is endorsed without knowledge or consent of the insurer. This type of

policy does not exist in every jurisdiction but, where it does, it could serve as a financial instrument that can easily be exchanged from person to person without the endorsee being identified. Identification and verification by the insurer would only occur at the policy's maturity when the benefits are being claimed. From the point of view of AML and CFT the use of bearer policies should be discouraged. Where bearer policies are nevertheless permitted in a jurisdiction the insurer should perform appropriate enhanced CDD as specified above.

Viatical arrangements

46. Where a policyholder becomes seriously or terminally ill, he may decide to transfer the entitlement to the benefits of a life insurance policy after his death to a third party in order to receive funds before his death. In some jurisdictions there are "viatical" companies that purchase and sell these entitlements. In these cases similar risks exist as described under "bearer policies". Where viatical arrangements are allowed in a jurisdiction, supervisory overview or regulation is recommended. The insurer who needs to pay funds to a viatical company should perform enhanced CDD as specified above including the identification and verification of the viatical company and its beneficial owners.

Politically Exposed Persons (PEPs)

47. PEPs are defined as individuals who are or have been entrusted with prominent public functions in Sri Lanka or abroad for example Heads of State or of government, senior politician, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.
48. The FATF Recommendations require additional due diligence measures in relation to PEPs. For this purpose insurers should:
 - have appropriate risk management systems to determine whether the customer is a PEP. The board of directors of the insurer must establish a client acceptance policy with regard to PEPs, taking account of the reputational and other relevant risks involved,
 - obtain senior management approval for establishing business relationships with such customers,
 - take reasonable measures to establish the source of wealth and source of funds, and
 - conduct enhanced ongoing monitoring of the business relationship.

New or developing technologies

49. New or developing technologies can be used to market insurance products. e-commerce or sales through the internet is an example of this. Although for this type of non-face-to-face business verification may be allowed after establishing the business relationship, the insurer should nevertheless complete verification.
50. Although a non-face-to-face customer can produce the same documentation as a face-to-face customer, it is more difficult to verify their identity. Therefore, in accepting business from non-face-to-face customers an insurer should use equally effective identification procedures as those available for face-to-face customer acceptance, supplemented with specific and adequate measures to mitigate the higher risk.
51. Examples of such risk mitigating measures are:
 - certification by appropriate authorities and professionals of the documents provided,
 - requisition of additional documents to complement those which are required for face-to-face customers,
 - independent contact with the customer by the insurer,
 - third party introduction, e.g. by an intermediary subject to the criteria established in paragraphs,
 - requiring the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards.

Non- Cooperative Countries and Territories

52. Compliance by jurisdictions with the FATF Recommendations is periodically assessed by international organizations. Jurisdictions that do not sufficiently apply the FATF Recommendations could be listed by the FATF as Non-Co-operative Countries and Territories (NCCTs). In specific circumstances, jurisdictions may be asked to impose appropriate countermeasures. Insurers should give special attention, especially in underwriting and claims settlement, to business originating from jurisdictions which do not sufficiently apply the FATF Recommendations.

Simplified Customer Due Diligence

53. In general, the full range of CDD measures should be applied to the business relationship. However, if the risk of money laundering or the financing of terrorism is lower (based on the insurer's own assessment), and if information on

the identity of the customer and the beneficial owner is publicly available, or adequate checks and controls exist elsewhere in national systems it could be reasonable for insurers to apply, subject to national legislation, simplified or reduced CDD measures when identifying and verifying the identity of the customer, the beneficial owner and other parties to the business relationship.

54. Insurers should bear in mind that the FATF lists the following examples of customers where simplified or reduced measures could apply:
 - financial institutions – where they are subject to requirements to combat money laundering and the financing of terrorism consistent with the FATF Recommendations, and are supervised for compliance with those controls,
 - public companies that are subject to regulatory disclosure requirements,
 - government administrations or enterprises.
55. Simplified CDD or reduced measures could also be acceptable for various types of products or transactions.
 - life insurance policies where the maturity value is less than Rs. 1 million or a single premium of less than Rs.500,000,
 - insurance policies for pension schemes if there is no surrender clause and the policy cannot be used as collateral,
 - a pension, superannuation or similar scheme that provides retirement benefits to employees, where contributions are made by way of deduction from wages and the scheme rules do not permit the assignment of a member's interest under the scheme,
 - general insurance policies where the sum insured is less than Rs. 1 million.

Reliance on intermediaries and third parties

56. Depending on the legislation of the jurisdictions in which the insurer operates, it may be allowed to rely on intermediaries and third parties to perform the following CDD elements:
 - identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information,
 - identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner to the extent the intermediary or third party is satisfied that they know who the beneficial owner is, including taking reasonable measures to understand the ownership and control structure of the customer, and
 - obtaining information on the purpose and intended nature of the business relationship.
57. Where such reliance is permitted, the following criteria should be met:
 - the insurer should immediately obtain the necessary information concerning the above mentioned elements. Insurers should take adequate steps to satisfy themselves that copies of identification data and other relevant documentation relating to the CDD requirements will be made available from the intermediaries and third parties upon request without delay. Insurers should be satisfied with the quality of the due diligence undertaken by the intermediaries and third parties.
 - the insurer should satisfy itself that the intermediaries and third parties are regulated and supervised, and have measures in place to comply with CDD requirements in line with FATF Recommendations 5 and 10.
58. Where such reliance is permitted, the ultimate responsibility for customer and/or beneficial owner identification and verification remains with the insurer relying on the intermediaries or third parties. The checks by the insurer as indicated in the previous paragraph do not have to consist of a check of every individual transaction by the intermediary or third party. The insurer should be satisfied that the AML and CFT measures are implemented and operating adequately.
59. Insurers should satisfy the above provisions by including specific clauses in the agreements with intermediaries/third parties or by any other appropriate means. These clauses should include commitments for the intermediaries/third parties to perform the necessary CDD measures, granting access to client files and sending (copies of) files to the insurer upon request without delay. The agreement could also include other compliance issues such as reporting to the FIU and the insurer in the case of a suspicious transaction. It is recommended that insurers use application forms to be filled out by the customers and/or intermediaries/third parties that include information on identification of the customer and/or beneficial owner as well as the method used to verify their identity.
60. The insurer should undertake and complete its own verification of the customer and beneficial owner if it has any doubts about the ability of the intermediary or the third party to undertake appropriate due diligence.

PART IV

ANTI- MONEY LAUNDERING PROGRAMME

Organization and staff Risk management arrangements

1. Insurers should have in place programmes and systems to prevent money laundering and the financing of terrorism. Each insurer's programme should be sufficiently robust to effectively and efficiently handle the volume of information processed by that insurer. The programmes and systems should constitute an operational, practical and precise approach for dealing with money laundering and terrorist financing. These programmes and systems should be adapted to the group structure, organisational structure responsibility structure and products and market conditions.
2. These programmes should include the development of internal policies, procedures and controls which, inter alia, should cover:
 - CDD, the detection of unusual or suspicious transactions and the reporting obligation, and the communication of these policies, procedures and controls to the employees,
 - appropriate compliance management arrangements,
 - record keeping arrangements, and
 - adequate screening procedures to ensure high standards when hiring employees
 - an ongoing employee training programme,
 - an adequately resourced and independent audit function to test compliance (e.g. through sample testing) with these policies, procedures, and controls.
3. The development of policies, procedures and controls enables the insurer to comply with legislation and to determine the desired standard of CDD for its own organisation. In order to be able to verify whether the insurer works in compliance with its internal policies, procedures and controls, an audit function should be in place. It is of importance that the audit function is independent and, if applicable, that the auditor has direct access and reports directly to management and the board of directors.
4. It is important that the board of directors and senior management of the insurer establish and support the developed internal policies, procedures and controls and the implementation and adherence thereto. Implementation of internal AML/CFT measures must constitute a relevant priority to insurers. In addition, the board of directors and senior management of an insurer should be kept regularly informed of all significant matters relating to AML/CFT measures and whether the insurer is suspected of being used to launder money or to finance terrorism. This information should be used to evaluate the effectiveness of the programmes and to take appropriate action.
5. Compliance management arrangements should include the appointment of a compliance officer at management level. The compliance officer should be well versed in the different types of products and transactions which the institution handles and which may give rise to opportunities for money laundering and the financing of terrorism. On receipt of a report from a member of staff concerning a suspicious customer or suspicious transaction the compliance officer should determine whether the information contained in such a report supports the suspicion. The compliance officer should verify the details in order to determine whether the insurer should submit a report to the FIU. The compliance officer should keep a register of all reports to the FIU and a separate register of all reports made to him by staff.
6. Insurers should ensure that:
 - there is a clear procedure for staff to report suspicions of money laundering and the financing of terrorism without delay to the compliance officer,
 - there is a clear procedure for reporting suspicions of money laundering and the financing of terrorism without delay to the FIU, and
 - all staff know to whom their suspicions should be reported.
7. Insurers should ensure that the principles applicable to insurers also apply to branches and majority owned subsidiaries located abroad, especially in jurisdictions which do not or insufficiently apply the FATF Recommendations. Thus, branches and majority owned insurance subsidiaries should observe appropriate AML/CFT measures which are consistent with the home jurisdiction requirements. Where local applicable laws and regulations prohibit this implementation, the supervisor in the jurisdiction of the parent institution should be informed by the insurer that it cannot apply the FATF Recommendations.
8. It is recommended that insurers and other financial institutions should liaise to exchange information on both trends and risks in general and on concrete cases, subject to their obligations concerning privacy and data protection.

Record keeping

9. Insurers should keep records on the risk profile of each customer and/or beneficial owner and the data obtained through the CDD process (e.g. name, address, the nature and date of the transaction, the type and amount of currency involved, and the type and identifying number of any account involved in the transaction), official identification documents (such as passports, identity cards or similar documents) and the account files and business correspondence, for at least six years after the end of the business relationship.
10. Insurers should maintain, for at least six years after the business relationship has ended, all necessary records on transactions, both domestic and international, and be able to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions, including the amount and types of currency involved, if any, so as to provide, if necessary, evidence for prosecution of criminal activity.
11. Insurers should ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records, particularly for higher risk categories of clients or business relationships.
12. Insurers should ensure that they have adequate procedures:
 - to access initial proposal documentation including, where these are completed, the client financial assessment, client needs analysis, copies of regulatory documentation, details of the payment method, illustration of benefits, and copies of documentation in support of verification by the insurers,
 - to access all post-sale records associated with the maintenance of the contract, up to and including maturity of the contract, and
 - to access details of the maturity processing and/or claim settlement including completed “discharge documentation”.

Screening of staff

13. Staff should have the level of competence necessary for performing their duties. Insurers should ascertain whether they have the appropriate ability and integrity to conduct insurance activities, taking into account potential conflicts of interests and other relevant factors, for instance the financial background of the employee.
14. Insurers should identify the key staff within their organisation with respect to AML/CFT and define fit and proper requirements which these key staff should possess. Paragraphs 19 and 20 provide a description of relevant positions.
15. The responsibility for initial and on-going assessment of the fitness and propriety of staff lies with the insurer. The procedures concerning the assessment of whether staff meets the fit and proper requirements should include the following:
 - verification of the identity of the person involved, and
 - verification of whether the information and references provided by the employee are correct and complete.
16. Decisions regarding the employment of key staff should be based on a well founded judgment as to whether they meet the fit and proper requirements.
17. Insurers should keep records on the identification data obtained about key staff. The records should demonstrate the due diligence performed in relation to the fit and proper requirements.

Training of staff

18. Insurers’ staff should receive initial and ongoing training on relevant AML/CFT legislation, regulations, guidance and the insurers’ own AML/CFT policies and procedures. Although each insurer should decide for itself how to meet the need to train members of its staff in accordance with its particular legal, regulatory and commercial requirements, the programme will at a minimum include:
 - a description of the nature and processes of laundering and terrorist financing, including new developments and current money laundering and terrorist financing techniques, methods and trends,
 - a general explanation of the underlying legal obligations contained in the relevant laws, and
 - a general explanation of the insurers’ AML/CFT policy and systems, including particular emphasis on verification and the recognition of suspicious customers/transactions and the need to report suspicions to the compliance officer.
19. Employees who, due to their assigned work, need more specific training can be divided into two categories. The first category of employees is those staff who deal with:
 - new business and the acceptance – either directly or via intermediaries – of new policyholders, such as sales persons,
 - the settlement of claims, and
 - the collection of premiums or payments of claims.

They need to be made aware of their legal responsibilities and the AML/CFT policies and procedures of the insurer, in particular the client acceptance policies and all other relevant policies and procedures, the requirements of verification and records, the recognition and reporting of suspicious customers/transactions and suspicion of the financing of terrorism. They also need to be aware that suspicions should be reported to the compliance officer in accordance with AML/CFT requirements.

A higher level of instruction covering all aspects of AML/CFT policy and procedure should be provided to the second category of staff, including directors and senior management with the responsibility for supervising or managing staff, and for auditing the system. The training should include:

- their responsibility regarding AML/CFT policies and procedures,
- relevant laws, including the offences and penalties arising,
- procedures relating to the service of production and restraint orders
- internal reporting procedures, and
- the requirements for verification and record keeping.

20. In addition to the training mentioned in the previous paragraphs, the compliance officer should receive in-depth training concerning all aspects of all relevant legislation and guidance and AML/CFT policies and procedures. The compliance officer will require extensive initial and continuing awareness on the validation and reporting of suspicious customers/transactions, etc.

PART V

REPORTING OF SUSPICIOUS TRANSACTIONS TO THE FINANCIAL INTELLIGENCE UNIT

1. If an insurer suspects, or has reasonable grounds to suspect, that funds are the proceeds of a unlawful activity or are related to terrorist financing it should be required to report its suspicions promptly to the FIU.
2. An important pre-condition of recognition of a suspicious transaction is for the insurer to know enough about the customer and business relationship to recognise that a transaction, or a series of transactions, is unusual.
3. Suspicious transactions might fall into one or more of the following examples of categories:
 - any unusual financial activity of the customer in the context of his own usual activities,
 - any unusual transaction in the course of some usual financial activity
 - any unusually linked transactions,
 - any unusual or disadvantageous early redemption of an insurance policy,
 - any unusual employment of an intermediary in the course of some usual transaction or financial activity e.g. payment of claims or high commission to an unusual intermediary,
 - any unusual method of payment,
 - any involvement of any person subject to international sanctions.
4. Verification, once begun, should be pursued either to a conclusion or to the point of refusal. If a prospective policyholder does not pursue an application, this may be considered suspicious in itself.
5. Insurers, their directors, officers and employees should not disclose the fact that a suspicious transaction report or related information is being reported, or has been reported, to the FIU. The insurer should be aware that if it performs additional CDD because of suspicions it could unintentionally tip off the policyholder, beneficiary or other subjects of the suspicious transaction report. The insurer could then decide not to pursue enhanced due diligence activities but to file a suspicious transaction report.

Ref. 037/01/016/0001/008

Financial Intelligence Unit
Tel. No. 2477125
Fax No. 2477692
e-mail : hkaru@cbsl.lk
23 May 2008

To: Chief Executive Officers of Licensed Banks

Dear Sir/Madam,

**COMPLIANCE WITH THE RULES ON CUSTOMER
DUE DILIGENCE FOR FINANCIAL INSTITUTIONS.**

This refers to the Rules issued by the FIU on 18th May 2007 on the above subject.

It has been observed that certain banks have adopted inadequate customer due diligence procedures in opening customer accounts and facilitating customer transactions leading to unfair competition among the banking industry. This will adversely affect the credibility of the banking institution and unity of the banking industry leaving the doors open for criminals to exploit our financial system. Therefore banking institutions are hereby advised to strictly adhere to the KYC/CDD Rules issued by the FIU and make arrangements to safeguard their own banking institutions contributing for the nation's effort in combating money laundering and countering the financing of terrorism.

Further, I wish to indicate that any contravention or non-compliance will be liable to the penalties under the Financial Transactions Reporting Act No. 06 of 2006.

Yours faithfully
H A Karunaratne
Director/Financial Intelligence Unit

Cc ; All Compliance officers of Licensed Banks
Sri Lanka Banks' Association
Director, Bank Supervision / CBSL

Financial Intelligence Unit
Tel. No. 2477125
Fax No. 2477692
e-mail : hkaru@cbsl.lk
24 June 2008

To: Chief Executive Officers of all Licensed Banks

Dear Sir/Madam,

**INCLUSION OF THE WORLD TAMIL MOVEMENT AMONG THE
LIST OF TERRORIST ORGANIZATIONS IN CANADA**

The Government of Canada has listed the "World Tamil Movement (WTM)", the LTTE front organization as a terrorist group with effect from 13 June 2008, pursuant to the Criminal Code of Canada.

The official notification by the Office of the Superintendent of Financial Institutions, Canada and the announcement by the Office of the Canadian Minister of Public Safety Hon. Stockwell Day are attached.

The listing of the WTM prohibits all persons in Canada and all Canadian citizens overseas from dealing with the WTM, its assets owned or controlled by them. It is considered illegal also to knowingly participate, contribute or facilitate any activity of a listed entity such as the WTM.

Accordingly, please monitor and report us details on remittances facilitated/to be facilitated by World Tamil Movement through your bank immediately, including the dates, beneficiaries and the amounts involved.

Yours faithfully
Director/Financial Intelligence Unit

Copies to: All Compliance Officers of Licensed Banks.

Ref. 037/01/023/0001/008

Financial Intelligence Unit
Tel. No. 2477125
Fax No. 2477692
e-mail : hkaru@cbsl.lk
30 June 2008

*To: Chief Executive Officers of
all Licensed Banks and Registered Finance Companies*

Dear Sir/Madam,

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

Further to our Circular No. 4 of 15th September 2006 on the above subject.

In terms of the Order and Regulations published in Gazette Extraordinary No.1555/9 dated 25th June 2008 by His Excellency the President under the Provisions of the Section 6 of the Financial Transactions Reporting Act No.6 of 2006, the reporting threshold for cash and electronic fund transfers has been revised to Rs.1,000,000/- or its equivalent in foreign currency with effect from 01st June 2008.

You are hereby informed to ensure compliance with the above regulatory provisions embodied in the Gazette aforementioned. Please acknowledge the receipt.

Yours faithfully
Director/Financial Intelligence Unit

Copies to: All Compliance Officers of Licensed Banks and Registered Finance Companies.
Director, Bank Supervision Department
Director, Department of Supervision of Non-Bank Financial Institutions

Circular No.: RTGS/01/2008

February 25 2008

To: All participants of LankaSettle System

CHANGE OF NAMES OF LANKASETTLE PARTICIPANTS

In terms of the provisions of the companies Act No. 07 of 2007 Hatton National Bank Ltd. and Commercial Bank of Ceylon Ltd. have been registered as Public Limited Companies under the following names,

- (i) Hatton National Bank PLC
- (ii) Commercial Bank of Ceylon PLC

Accordingly the static data of LankaSettle System will be changed as indicated below with effect from February 27, 2008:

Participant organization name

- (i) Hatton National Bank PLC
- (ii) Commercial Bank of Ceylon PLC

The account name and SWIFT BIC of the Banks will remain unchanged.

C J P Siriwardena
Superintendent of Public Debt

K B Dissakaruna
Addl. Director/Payments and Settlements

April 7 2008

Circular No.: RTGS/02/2008*To: All participants of LankaSettle System***RESTRICTION OF BUSINESS HOURS OF LANKASETTLE SYSTEM
ON APRIL 11, 2008**

The Central Bank of Sri Lanka, having considered the restricted business hours of participating institutions of LankaSettle system on April 11, 2008, (a declared half-holiday in lieu of April 12, 2008, which is a statutory holiday falls on a Saturday), has decided to restrict business hours on April 11, 2008 from 8.00 a.m. to 3.00 p.m. Accordingly, the events after 1.00 p.m. of the Operating Schedule of LankaSettle System for April 11, 2008 will be revised as follows:

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

C J P Siriwardena
Superintendent of Public Debt

K R M Siriwardhane
Director/Payments and Settlements

May 27 2008

Circular No: CITS/01/2008*To: All Participating Institutions of the Cheque Imaging and Truncation (CIT) System***GENERAL DIRECTION ON THE PARTICIPATING INSTITUTIONS SERVICE NORMS AND
STANDARD TIMES FOR ACCEPTING CHEQUE DEPOSITS
FROM CUSTOMERS AND CREDITING CHEQUE PROCEEDS TO
CUSTOMERS' ACCOUNTS UNDER THE CHEQUE IMAGING AND
TRUNCATION (CIT) SYSTEM**

Attention of the participating institutions is invited to Section 6(iii) and (iv) of the above Direction No.01/2007 dated 14 November 2007, whereby participating institutions have been instructed to ensure that:

6. (iii) procedures are clearly laid down to assess staff accountability for any delays. In order to take necessary action to improve customer services, a special register shall be introduced to record: the cheques collected before the cut off time and not sent for clearing on the same business day; cheques of which the proceeds not credited on T+1; and reasons for delays; and
- (iv) periodic evaluations on the compliance with this direction are conducted on half-yearly basis with a view to upgrade the quality of customer services and submit a half-yearly report to the Director, Payments and Settlements Department of the Central Bank of Sri Lanka, within two weeks from the end of the relevant period.

Accordingly, each participating institution is hereby requested to submit a half-yearly report on its compliance with the Direction, in the annexed form No.CBSL/CITS/T+1/1 on or before 15 January and 15 July of each year to the Director, Payments and Settlements Department of the Central Bank of Sri Lanka.

All participating institutions are required to submit the half-yearly report for the period from January to end June 2008 as per the annexed form No.CBSL/CITS/T+1/1 on or before 15 July 2008.

K R M Siriwardhane
Director/Payments and Settlements

Form No. CBSL/CITS/T+1/1

Name of the Bank :
Name of the Branch :
Reporting Period : January to end June 2008

Half Yearly Report
General Direction on the Participating Institutions Service Norms and Standard Times
for Accepting Cheque Deposits from Customers and Crediting Cheque Proceeds
to Customers' Accounts under the Cheque Imaging and Truncation (CIT) System

1. Cheques collected before the cut off time and not sent for clearing on same business day

No. of cheques	Reasons

2. Cheques of which the proceeds not credited on T+1 (excluding the cheques for which additional days were granted due to reasons such as contingency events at LankaClear or at a participating institution)

No. of cheques	Reasons

Date :

.....
Authorized Officer

June 20 2008

Circular No.: RTGS/03/2008

To: All participants of LankaSettle System

CHANGE OF NAMES OF LANKASETTLE PARTICIPANTS

In terms of the provisions of the companies Act No. 07 of 2007, Nations Trust Bank Ltd. and Sampath Bank Ltd. have been registered as Public Limited Companies under the following names,

- (i) Nations Trust Bank PLC
- (ii) Sampath Bank PLC

Accordingly the static data of LankaSettle System will be changed as indicated below with effect from June 25, 2008:

Participant organization name

- (i) Nations Trust Bank PLC
- (ii) Sampath Bank PLC

The account name and SWIFT BIC of the Banks will remain unchanged.

C J P Siriwardena
Superintendent of Public Debt

K B Dissakaruna
Addl. Director/Payments and Settlements

October 13 2008

Circular No. RTGS /04/2008*To: All participants of LankaSettle System***ACQUISITION OF BUSINESS OF STANDARD CHARTERED BANK (PAKISTAN) LIMITED BY
STANDARD CHARTERED BANK**

The Standard Chartered Bank has been permitted to acquire the business of Standard Chartered Bank (Pakistan) Limited. The Standard Chartered Bank has informed us that such acquisition will take place with effect from October 13, 2008. Accordingly, the arrangements on LankaSettle with effect from October 14, 2008 will be as follows:

The customer accounts now held by the Standard Chartered Bank (Pakistan) Limited will be held by the Standard Chartered Bank. Balances lying in the accounts of Standard Chartered Bank (Pakistan) Limited at the close of business on October 13, 2008 will be transferred to the RTGS account of Standard Chartered Bank. The SWIFT user Identification Code (BIC) and RTGS Settlement Account Number will be as follows:

SWIFT User I D Code	:	SCBLLKLXXXX
RTGS Settlement Account No.	:	SCBLLKLXXXX010004402

The Standard Chartered Bank (Pakistan) Limited will cease to operate as a participant in LankaSettle System as of the closure of business on October 13, 2008. Accordingly, SWIFT User Identification Code: SCBLPKKXULK and RTGS Settlement Account Number SCBLPKKXULK010004413 will cease to be operative with effect from October 13, 2008.

J P Mampitiya
Director/Payment and Settlements

15 October 2008

Circular No: CITS/02/2008*To: All participating Institutions of the Cheque Imaging and Truncation System***MIGRATION OF CHEQUE IMAGING AND TRUNCATION SYSTEM TO CD SUBMISSION MODE**

The Cheque Imaging and Truncation (CIT) System was introduced in 2006 with the objective of increasing efficiency of the cheque clearing process by eliminating the movement of physical cheques in the entire clearing cycle. However, it is observed that around 50% of the cheques are still submitted as physical cheques for image capturing and transmission.

Having considered the inefficiencies, risk involved in handling physical cheques and the inability to credit the proceeds of realized cheques within stipulated time frames to beneficiaries, the members of the National Payments Council (NPC), at its meeting held on 29 February 2008, decided to take urgent measures to implement receiving images of cheques directly from the Participating Institutes (PIs) to facilitate the truncation of the physical cheque at the collecting bank.

Furthermore, at the NPC meeting held on 20 August 2008 it was decided to stipulate deadlines for all PIs to migrate to the system where the cheque images captured at the collecting bank to be submitted on a compact disk as an interim arrangement before moving towards direct connectivity where the cheque images and the information could be transmitted on-line to LankaClear.

All PIs are hereby requested to migrate to CD submission mode on or before the deadlines specified below, if you are currently not submitting the cheque images in CD mode:

- a. Western Province - 31 March 2009
- b. All other Provinces - 30 June 2009

J P Mampitiya
Director/Payments and Settlements

29 October 2008

Circular No.: RTGS/05/2008*To: All participants of LankaSettle System*

AMENDMENT TO LANKASETTLE SYSTEM RULES – AUGUST 2003 (AS AMENDED)
DAILY OPERATING SCHEDULE OF THE LANKASETTLE SYSTEM

Payments Reforms Steering Committee (PRSC) has decided at its meeting held on 21.10.2008 to advance the shut down time of the RTGS System for 15 minutes due to system upgrades and improvements. Accordingly Central Bank has **amended the table in the Clause 1.2 of Volume 4 of LankaSettle System Rules (as amended) on Daily Operating Schedule as given in the table in paragraph 2 below.**

2. You are hereby informed that the **table in the Clause 1.2 of Volume 4 of LankaSettle System Rules (as amended) on Daily Operating Schedule is amended to read as follows with effect from November 03, 2008.**

TIME	EVENT	ACTIVITIES/TRANSACTIONS
6.30 a.m. 7.30 a.m. to 8.00 a.m.	System start-up Start of day processing	Start-up of RTGS/SSS applications. Update official prices of securities, earmarking securities for ILF.
8.00 a.m. 8.00 a.m.	LankaSettle System opens for business ILF/auto reversal of Repos	System opens for effecting transactions. Grant ILF and settle second leg of Repos of OMO.
8.15 a.m.	Maturities/interest payments, start of the day (SOD) file	Settlement of maturity proceeds/coupon payments of securities, effecting LankaSettle charges/penalties.
8.30 a.m.	Multilateral Net Settlement Batch from LankaClear	SLIPS/Main Clearing.
8.30 a.m.	Outright sales/purchases	Settle OMO outright sales and purchases.
11.00 a.m.	Reversal of Reverse Repos	Settlement of second leg of Reverse Repos under OMO.
11.45 a.m.	Reverse Repos (Auction)	Settlement of first leg of Reverse Repos under OMO.
12.45 p.m.	Repos (Auction)	Settlement of first leg of Repos under OMO.
1.00 p.m.	Closure of Primary Auction settlement	Settlement of securities under Primary Auction.
2.15 p.m.	Multilateral Net Settlement Batch from LankaClear	Rupee Draft Clearing.
2.45 p.m.	Multilateral Net Settlement Batch from LankaClear	Settlement Clearing and Adjustment Clearing.
3.00 p.m.	Primary cut-off time for third party transactions	Close for new transactions (for T + 0) in favour of third parties, except for bank-to-bank (MT2XX series).
4.00 p.m.	Repos (standing)	Settlement of first leg of Repos under OMO
4.15 p.m.	Reverse Repos (Standing)	Settlement of first leg of Reverse Repos under OMO.
4.15 p.m.	ILF Repayment	Repayment of ILF.
4.30 p.m.	Final cut-off timeClose for business	No further inputs are accepted. With the closure of system for business, queue/settlement processing will cease and any transactions still in queues will be rejected.
4.30 p.m. to 5.00 p.m.	EOD processing	End-of-day (EOD) processes, e.g. generate reports/GL export (EOD) file, database maintenance for billing/statement printing purposes.
5.00 p.m.	System shut down	Commence shutting down of RTGS/SSSS application software, obtain off line backups.

3. Participants are advised to monitor their settlement accounts through browser work stations and assure to keep sufficient funds in their settlement accounts at the times of settlement of Multilateral Net Settlement (MLNS) batches in the RTGS system.
4. Accordingly, effective from 03 November 2008, the shut down time of the RTGS System is 5.00 p.m.

C J P Siriwardena
Superintendent of Public Debt

K B Dissakaruna
Addl. Director/Payments and Settlements

05 December 2008

Operating Instructions: PSD/ACU/01/2008

To: All Commercial Banks

AMENDMENTS TO THE ASIAN CLEARING UNION AGREEMENT AND PROCEDURE RULES

1. Introduction

Commercial Banks are hereby informed that in terms of a decision taken by the Board of Directors of the Asian Clearing Union (ACU), all transactions among member countries of the ACU can be processed either in US Dollars or in Euro within the ACU mechanism with effect from 01.01.2009. The accounts maintained at the ACU Secretariat relating to transactions among the member countries of the Union will be kept in "Asian Monetary Units" (viz, ACU dollar or ACU euro) which may be referred in the abbreviated form as "AMUs". The value of one ACU dollar and one ACU euro shall be equivalent to one US Dollar and one Euro, respectively.

Accordingly, commercial banks are requested to note that these operating instructions supersede all previous Operating Instructions and Circulars issued by the Banking Department or the Payments and Settlements Department of the Central Bank of Sri Lanka relating to transactions under the ACU mechanism.

2. Opening of Nostro Accounts in Euros

Commercial Banks are authorized to open Nostro accounts denominated in Euro (to be called ACU euro accounts) with their correspondent banks in other ACU member countries, in addition to the existing Nostro accounts denominated in US Dollars. All eligible transactions under the ACU mechanism should be routed through these accounts depending on the transacting currency (i. e. US Dollar or Euro).

The operations on these accounts shall be governed by the prevailing Exchange Control Regulations and such other directions, rules, regulations or guidelines as the Central Bank of Sri Lanka may issue or specify from time to time.

3. Settlement of trading transactions and other remittances, remitting surplus funds, funding Nostro Accounts and value dates

- I. All invoices and instruments of payment shall be denominated in US Dollars or Euro or convertible currencies.
- II. When commercial banks are requested by their correspondent banks abroad to remit surplus funds in their ACU dollar or ACU euro accounts maintained in Sri Lanka, the concerned commercial banks should make available relevant US Dollar/Euro amounts to the Central Bank of Sri Lanka on respective value dates, in order to effect the transfers through the respective member Central Banks. Alternatively, the commercial banks may purchase US Dollars/Euro from the Central Bank of Sri Lanka to effect these transfers.
- III. Commercial banks in Sri Lanka who are intending to repatriate surplus funds in their ACU dollar or ACU euro accounts held abroad, shall advise their correspondent banks to effect such transfers through the respective Central Banks. On receipt of advices from the relevant Central Banks, the Central Bank of Sri Lanka shall make funds available to the recipient commercial banks either in US Dollars/Euro or in Sri Lanka Rupees.
- IV. Where commercial banks in Sri Lanka desire to fund their ACU dollar or ACU euro accounts abroad, such US Dollar/Euro amounts should be made available to the Central Bank of Sri Lanka on the relevant value dates. The commercial banks may, if they wish, purchase US Dollars/Euros against Sri Lanka Rupees from the Central Bank of Sri Lanka for this purpose.

- V. Where advices are received from Central Banks of other ACU member countries to credit funds to the Nostro Accounts held with local commercial banks, the Central Bank of Sri Lanka will make available such funds in US Dollars or Euros, as per the request on value dates under advice to the recipient commercial banks.
- VI. Value date for this Circular shall be the Spot value date or the Tom value date.

4. Requests for Funding of Nostro Accounts and Repatriation of Surplus funds in such Accounts

Requests by commercial banks for funding their Nostro Accounts held with correspondents in member countries of the ACU and repatriation of surplus funds held by such correspondents with commercial banks in Sri Lanka shall be made to Central Bank of Sri Lanka using the communication media of SWIFT, Telex or telephone-

I. Communication via SWIFT system

Where SWIFT system is used, commercial banks are required to use MT 202 for individual fund transfers and MT 203 for multiple fund transfers; such communications should be received before 14.45 hours on the same working day.

II. Communication via Telephone

Where details of transfers are communicated to the ACU Division of the Payments and Settlements Department by telephone, such communications should be made before 14.45 hours; the name of the informer and the receiver should be noted by both parties and written confirmation should reach the said Division of the Payments and Settlements Department before 15.30 hours on the same working day in attached formats "A1 or A2"/"B1 or B2" as appropriate.

Contact persons	Contact Telephone Nos.	Fax No.
Mrs. Ranjani Weerasinghe	2477535	2422819
Mrs. Hema Algama	2477057/53	2346280

III. The details of funding of Nostro Accounts on Spot basis or Tom basis should be informed to the ACU Division of the Central Bank of Sri Lanka by telephone and the written confirmation should be sent through SWIFT or fax (only if the SWIFT is not available) immediately after the telephone message.

5. Fund transfers to accounts of the Central Bank of Sri Lanka

All credits to the Central Bank of Sri Lanka relating to the settlements under ACU mechanism should be made to the following accounts on the respective value dates.

Currency	Bank	A/c No.
US Dollar	Federal Reserve Bank, New York	021083527
Euro	Deutsche Bundesbank, Frankfurt	5040040828

6. Euro Credits to Nostro Accounts of Commercial Banks held abroad

In order for the Central Bank of Sri Lanka to effect fund transfers relating to ACU transactions to the Euro accounts held abroad by commercial banks in Sri Lanka commercial banks are requested to forward names of their correspondent banks and the respective account numbers to the Director of Payments and Settlements Department of the Central Bank of Sri Lanka on or before 31.12.2008.

7. Interest on ACU dollar and ACU euro accounts

Commercial banks are permitted to consider payment of interest, at their discretion, on ACU dollar and ACU euro accounts maintained by the commercial banks of other ACU member countries as per mutually agreed terms and conditions.

J P Mamapitiya
Director/Payments & Settlements

Public Debt Department
May 6 2008

To : All CEOs of Licensed Commercial Banks and Primary Dealers

GUIDELINES/PROCEDURES TO PARTICIPATING AGENTS

Treasury bills issued by the government of Sri Lanka to foreign investors

The guidelines and procedures applicable for the sale, purchase and transfer of Treasury bills issued by the Government of Sri Lanka to foreign investors are indicated below. In the absence of any specific guideline for any aspect of its operation, participating agents i.e., Licensed Commercial Banks (LCBs) and Primary Dealers (PDs) shall comply with the currently applicable operating guidelines, procedures, system rules, regulatory provisions and directions issued by the Public Debt Department (PDD) of the Central Bank of Sri Lanka (CBSL) in the conduct of transactions in Treasury bill issues to local investors. If there are no any such applicable rules etc., participating agents are requested to seek clarification regarding the same from the undersigned. These Guidelines/Procedures shall be effective from May 05, 2008.

1. General

1.1 Eligible Foreign Investors

Only the following categories of foreign investors are eligible to invest in Treasury bills issued by the Government of Sri Lanka:

- 1.1.1 Foreign institutional investors such as foreign country funds, mutual funds and regional funds.
- 1.1.2 Corporate bodies incorporated outside Sri Lanka; and
- 1.1.3 Citizens of foreign states.

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

1.2 Tenure of Treasury Bills

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

1.3 Limit on Treasury Bill Investment

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

1.4 Registration

Participating agents shall be responsible for registering details of their foreign investors at the Central Depository System (CDS) maintained by the Public Debt Department (PDD) of the CBSL. All Treasury bill transactions with foreign investors shall be recorded under the Customer Foreign (CSF) account type of the CDS.

CDS will issue statements containing the following to the foreign account holders.

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

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

2. Selling Procedure

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

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

- 2.2 Foreign exchange brought into the country for the purchase of Treasury bills and proceeds realized on a sale/transfer/maturity of Treasury bills or any income realized by way of capital gain shall be routed through a special Rupee account named “**Treasury Bill Investment External Rupee Account - 2 (TIERA-2)**” opened in the name of the foreign investor by participating agents in an LCB. Thus, it is the duty of the participating agents to open the special account on customer behalf solely for these specified transactions. The operational instructions issued on 05/05/2008 by the Controller of Exchange will be applicable in this respect.

- 2.3 Before confirmation of the sale, participating agents shall be responsible to inquire from the PDD of the CBSL the leeway available in the specified Treasury bill limit (10% of the total value of Treasury bill outstanding) permitted for foreign investors to invest in Treasury bills. The PDD shall be informed by fax/e-mail once the deal is confirmed.
- 2.4 Participating agents shall be responsible for creating customer owned investor accounts promptly for their foreign investors at the CDS and the transactions should be recorded under the “CSF” account type.
- 2.5 Foreign investors are permitted to enter into Repo/Reverse Repo transactions with eligible investors described under Clause 1.1 only, using Treasury bills purchased under this scheme as collateral.

3. Fund Transfers

- 3.1 When a foreign investor buys Treasury bills from the primary market, the relevant PD should remit the proceeds of the bills to the Central Bank Real Time Gross Settlement System (RTGS) Account. When a foreign investor sells Treasury bills in the secondary market, the LCB (custodian bank) who maintains the TIERA-2 shall transfer respective Rupee amounts to the relevant party on behalf of the investor. However, foreign investors are not permitted to utilize funds available at NRFC accounts in Sri Lanka to purchase Treasury bills under this scheme.
- 3.2 The CBSL may purchase Dollar funds from the market up to 60% of the total amount received through investments in Treasury bills by foreign investors.

4. Payment of Maturity Proceeds at Maturity

Maturity proceeds payable on Treasury bills (face value) shall be payable in Rupees by the PDD of the CBSL on behalf of the Government of Sri Lanka through RTGS to respective participating agents on respective maturity dates. Such participating agents are responsible to transfer the respective payments to the TIERA-2 of foreign investors with value proceeds on the same day.

If the maturity date falls on a day which is not a business day for the banks in Sri Lanka, the payment of maturity proceeds shall be made on the business day prior the due date.

5. Joint Holdings

Treasury bills may be held jointly by foreign investors within the facilities available (at present, only two) with the CDS. Payment of maturity proceeds shall be based on the agreement between custodian bank and joint holders.

6. Tax Treatment

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

7. Other

Foreign investors are permitted to enter into derivative transactions to minimize exchange or other risks. The PDD and Exchange Control Department (ECD) of the CBSL shall monitor and supervise the transactions relating to these Treasury bills.

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

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

Telephone : 94 11 2477277 / 212 / 274 / 276 / 278 / 316

Fax : 94 11 2477718 / 719 / 759

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

R B Weerasinghe
Actg. Superintendent of Public Debt

06/05/2008
Central Bank of Sri Lanka
Colombo.

Public Debt Department
May 23 2008

To : All CEOs of Licensed Commercial Banks and Primary Dealers

GUIDELINES/PROCEDURES FOR FOREIGN INVESTORS

(These Guidelines/Procedures shall replace the Guidelines/Procedures issued to Foreign Investors dated 30/11/2007 and shall be effective from 23/05/2008)

Treasury Bonds issued by the Government of Sri Lanka to Foreign Investors

1. Eligible Investors

Only the following categories of foreign investors are eligible to invest in Treasury bonds issued by the Government of Sri Lanka:

- (a) Foreign country funds, mutual funds or regional funds;
- (b) Corporate bodies incorporated outside Sri Lanka; and
- (c) Citizens of foreign states

2. Investment

Eligible investors could buy Sri Lanka Government Treasury bonds –

- a) In the case of Primary Market purchases – from the Primary Dealers (PDs) appointed by the Central Bank of Sri Lanka (CBSL) ;
- b) In the case of Secondary Market purchases – from PDs or Licensed Commercial Banks (LCBs)

(The list of such institutions is given at the end of this circular).

3. Registration

Participating agents (LCBs and PDs) shall be responsible for registering details of their foreign investors at the Central Depository System (CDS) maintained by the Public Debt Department (PDD) of the CBSL.

CDS will issue statements containing the following to foreign investors in the foreign account category.

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

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

4. Status

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

5. Tenure

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

6. Payments for Treasury Bonds

Eligible investors under Clause 1 above shall open a special Rupee account named “**Treasury Bond Investment External Rupee Account (TIERA)**” in a LCB (hereinafter called as “custodian bank” for functions relating to transfer of funds/money) and make payment for purchase of Treasury bonds in Rupees by crediting that account. The custodian bank has to make necessary arrangements to transfer respective Rupee amounts to the relevant party. However, funds available at NRFC accounts in Sri Lanka are not permitted to transfer to TIERA.

7. Issue and Delivery of Treasury Bonds

The Treasury bond shall be issued in scripless form to foreign investors who have duly made payments as specified in Clause 6 and by registering in the CDS as specified in Clause 3.

8. Repo Market Transactions

Eligible foreign investors are permitted to engage in repo transaction using Treasury bonds purchased under this scheme as collateral.

9. Interest on Treasury Bonds**(i) Interest Payments**

Interest shall be payable in Rupees semi-annually through Real Time Gross Settlement System (RTGS) by the PDD of the CBSL on behalf of the Government on respective payment dates of particular Treasury bond series to the respective participating agents registered with the CDS and such participating agents are responsible to transfer such amounts to TIERA of foreign investors with value benefits on the same day. If any interest payment date falls on a day which is not a business day for the banks in Sri Lanka, payment shall be made on the next business day.

(ii) Interest Period

The "Interest Period" is the period from and including the date of issue to but excluding the first interest payment date and each successive period from and including an interest payment date to but excluding the next succeeding interest payment date.

(iii) Rate of Interest

The rate of interest payable on Treasury bonds shall be the coupon rate of the specific Treasury bond series.

10. Repayment of the Principal

- (a) The principal repayable on Treasury bonds shall be payable in Rupees by the PDD of the CBSL on behalf of the Government to respective participating agents of the CBSL and such participating agents are responsible to transfer the respective payments to the TIERA of foreign investors with value benefits of the same day.
- (b) The principal sum of a Treasury bond shall be repayable on the maturity date. If the maturity date falls on a day which is not a business day for the banks in Sri Lanka, repayment of principal shall be made on the next business day.

11. Repatriation

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

12. Joint Holdings

Treasury bonds may be held jointly by holders. Repayment of principal and payment of interest shall be based on the agreement between custodian bank and joint holders.

13. Tax Treatment

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

14. Stamp Duty

All documents used on the issue, transfer or redemption of Treasury bonds are free from stamp duty.

15. Jurisdiction

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

16. Governing Law

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

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

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

Telephone : 94 11 2477277 / 212 / 274 / 281 / 278 / 276

Fax : 94 11 2477718/719/759

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

C J P Siriwardena
Superintendent of Public Debt

23/05/2008
Central Bank of Sri Lanka
Colombo

<u>Name of Institutions</u>	<u>Contact No.</u>	<u>E-mail Address</u>
Licensed Commercial Banks		
Bank of Ceylon PD Unit	94-11-2348878	gm@boc.lk
Commercial Bank of Ceylon Ltd.	94-11-2447516	alg@combank.net
Citi Bank N A	94-11-2326086	kapila.jayawardena@citigroup.com
Deutsche Bank	94-11-2448581	stefan.mahrdt@db.com
DFCC Vardhana Bank Ltd.	94-11-2371450	Elgee.Perera@dfccvardhanabank.com
Habib Bank Ltd.	94-11-2389355	sherwani@slt.net.lk
Hatton National Bank Ltd.	94-11-2661303	theaga@hnb.lk
Hongkong & Shanghai Banking Corp.	94-11-2447536	ceosrilanka@hsbc.com.lk
ICICI Bank Limited	94-11-4242424	naveen.agarwal@icicibank.com
Indian Bank	94-11-2446122	ibcol@slt.net.lk
Indian Overseas Bank	94-11-2320515	iobch@lgo.lk
MCB Bank Ltd.	94-11-2440569	gmoffice@mcb.lk
National Development Bank Ltd	94-11-2448889	Nihal.welikala@ndbbank.com
Nations Trust Bank Ltd	94-11-4313101	zulfigar.zavahir@nationtrust.com
Pan Asia Banking Corporation Ltd	94-11-2565556	nadarajah@pabcbank.com
Public Bank	94-11-2576288	lks@publicbank.slt.lk
People's Bank	94-11-2334041	asoka@peoplesbank.lk
Sampath Bank Ltd.	94-11-2300152	anil@sampath.lk
Seylan Bank Ltd.	94-11-2456777	gm@seylan.lk
State Bank of India	94-11-2447166	ceosbilk@slt.net.lk
Standard Chartered Bank	94-11-2480012	clive.haswell@lk.standardchartered.com
Union Bank of Colombo Ltd.	94-11-2370690	mahefdo@unionb.com
Standard Chartered Bank (Pakistan) Ltd.	94-11-2675046	goharulayn_afzal@ubipk.com
Primary Dealers		
Bank of Ceylon PD Unit	94-11-2448830	pdu@boc.lanka.net
Capital Alliance Ltd.	94-11-2317777	general@capitalalliance.lk
Commercial Bank of Ceylon Ltd.	94-11-2449516	dula@combank.net
Ceylinco Shriram Securities Ltd.	94-11-2564935/6	hiran@ceyshri.com.lk
First Capital Treasuries Ltd.	94-11-2308852/53	fclgroup@fclgroup.com
HNB Securities Ltd	94-11-2661199	hnbsl@hnb.lk
NSB Fund Management Company Ltd.	94-11-2564706	nsbfmc@slt.net.lk
NatWealth Securities Ltd.	94-11-4703000	chandrad@natwealth.com
People's Bank	94-11-2308762	pd@peoplesbank.lk
Seylan Bank Asset Management Ltd.	94-11-2456341/2	ajantha@seylan.lk
Sampath Surakum Ltd	94-11-2305841	surakum@sampath.lk

Public Debt Department
May 23 2008

To : All CEOs of Licensed Commercial Banks and Primary Dealers

GUIDELINES/PROCEDURES TO PARTICIPATING AGENTS

These guidelines/procedures shall replace the guidelines/procedures issued to the Participating Agents dated 30/11/2007 and shall be effective from 23/05/2008.

The guidelines and procedures applicable for the sale, purchase and transfer of Treasury bonds issued by the Government of Sri Lanka to foreign investors are indicated below. In the absence of any specific guideline for any aspect of its operation, participating agents i.e., Licensed Commercial Banks (LCBs) and Primary Dealers (PDs) shall comply with the currently applicable operational guidelines, procedures, system rules, regulatory provisions and directions issued by the Public Debt Department (PDD) of the Central Bank of Sri Lanka (CBSL) in the conduct of transactions in Treasury bond issues to local investors. If there are no any such applicable rules etc., participating agents are requested to seek clarification regarding the same from the undersigned.

1. General

1.1 Eligible Foreign Investors

Only the following categories of foreign investors are eligible to invest in Treasury bonds issued by the Government of Sri Lanka:

Foreign country funds, mutual funds or regional funds;
Corporate bodies incorporated outside Sri Lanka; and
Citizens of foreign states

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

1.2 Tenure of Treasury Bonds

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

1.3 Limit on Treasury Bond Investment

The total investment permitted to eligible foreign investors in Treasury bonds should not exceed 10% of the total value of the Treasury bond outstanding at any given point of time (regarding this requirement, please refer to 2.3 below). The available series of Treasury bonds will be informed daily (before 9.00 a.m.) by the PDD to all participating agents through e-mail.

1.4 Registration

Participating agents shall be responsible for registering details of their foreign investors at the Central Depository System (CDS) maintained by the Public Debt Department (PDD) of the CBSL. All Treasury bond transactions with foreign investors shall be recorded under the Customer Foreign (CSF) account type of the CDS.

CDS will issue statements containing the following to the foreign account holders.

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

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

2. Selling Procedure

2.1 Eligible foreign investors under Clause 1.1 above are permitted to;

2.1.1 Purchase Treasury bonds issued by the Government of Sri Lanka from the secondary market through participating agents.

2.1.2 Bid at primary auctions of Treasury bonds through PDs.

In order to effect the transactions in accordance with instructions received from customers, participating agents shall ensure that such transactions are within the legal requirements and do not breach the system rules applicable to LankaSettle.

2.2 Foreign exchange brought into the country for the purchase of Treasury bonds and proceeds realized on a sale/transfer/maturity of Treasury bonds or any income realized by way of interest/capital gain shall be routed through a special Rupee account named “**Treasury Bond Investment External Rupee Account (TIERA)**” opened in the name of the foreign investor by participating agents in an LCB. Thus, it is the duty of the participating agents to open the special account on customer behalf solely for these specified transactions. The operational instructions issued on 06/12/2007 by the Controller of Exchange will be applicable in this respect.

2.3 Before confirmation of the sale, participating agents shall be responsible to inquire from the PDD of the CBSL the leeway available in the specified Treasury bond limit (10% of the total value of Treasury bond outstanding) permitted for foreign investors to invest in Treasury bonds. The PDD shall be informed by fax/e-mail once the deal is confirmed.

2.4 Participating agents shall be responsible for creating customer owned investor accounts promptly for their foreign investors at the CDS and the transactions should be recorded under the “CSF” account type.

2.5 Foreign investors are permitted to enter into Repo/Reverse Repo transactions in Sri Lanka using Treasury bonds purchased under this scheme as collateral.

3. Fund Transfers

When a foreign investor purchases/sells Treasury bonds in the secondary market, the LCB (custodian bank) who maintains the TIERA shall transfer respective Rupee amounts to the relevant party on behalf of the investor. If a foreign investor buys such bonds by bidding in the primary market, the relevant PD should remit the proceeds of the bonds to the Central Bank Real Time Gross Settlement System (RTGS) Account. However, foreign investors are not permitted to utilize funds available at NRFC accounts in Sri Lanka to purchase Treasury bonds under this scheme.

4. Interest Payments on Treasury Bonds

Interest shall be payable in Rupees semi-annually through RTGS by the PDD of the CBSL on behalf of the Government on respective payment dates of a particular Treasury bond series to respective participating agents and such participating agents are responsible to transfer such amounts to TIERA of foreign investors with value benefits on the same day.

If any interest payment date falls on a day which is not a business day for the banks in Sri Lanka, payment shall be made on the next business day.

5. Repayment of the Principal

The principal repayable on Treasury bonds shall be payable in Rupees by the PDD of the CBSL on behalf of the Government of Sri Lanka through RTGS to respective participating agents on respective maturity dates. Such participating agents are responsible to transfer the respective payments to the TIERA of foreign investors with value benefits on the same day.

If the maturity date falls on a day which is not a business day for the banks in Sri Lanka, the repayment of the principal shall be made on the next business day.

6. Joint Holdings

Treasury bonds may be held jointly by foreign investors within the facilities available (at present, only two) with the CDS. Repayment of principal and payment of interest shall be based on the agreement between custodian bank and joint holders.

7. Tax Treatment

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

8. Other

8.1 Foreign investors are permitted to use these Treasury bonds as collateral for transaction with other foreign parties.

8.2 Foreign investors are permitted to enter into derivative transactions to minimize exchange or other risks. The PDD and Exchange Control Department (ECD) of the CBSL shall monitor and supervise the transactions relating to these Treasury bonds.

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

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

Telephone : 94 11 2477277 / 212 / 274 / 281 / 276 / 278

Fax : 94 11 2477718 / 719 / 759

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

C J P Siriwardena
Superintendent of Public Debt

23/05/2008

Central Bank of Sri Lanka
Colombo.

18 August 2008

Circular No. SSSS/01/2008*To: All Participants of the LankaSettle System***AMENDMENT TO THE LANKASETTLE SYSTEM RULES ISSUED IN AUGUST 2003****Introduction of Personal Computer Based Payment and Securities Settlement System (PC Based System)**

You are hereby informed that the Rule 2.1 in Volume 1 and Rule 4.8 in Volume 4 of LankaSettle System Rules (as amended) are amended as per Annex 1 with effect from 18 August 2008.

With this LankaSettle System Rules amendment, Central Bank of Sri Lanka (CBSL) introduces Personal Computer Based Payment and Securities Settlement System (PC Based System) as an alternative settlement system in the event of a prolonged, unrecoverable LankaSettle Application Event.

Participants shall comply with the instructions given in the Rule 4.8.1 of LankaSettle System Rules issued in August 2003 (as amended), when the CBSL declares a prolonged, unrecoverable LankaSettle Application Event.

J P Mampitiya
Director/Payments & Settlements

C J P Siriwardena
Superintendent/Public Debt

A Kamalasiri
Director/Domestic Operations

Enclosed: 1. Annex 1 - Amendment to the LankaSettle System Rules issued in August 2003
2. CD 1 - CD containing the software required under sections 3.1.1 and 3.1.2 of the Attachment D to the Annex 1

Annex 1**1). Amendment to Rule 2.1 in the Volume 1 of the LankaSettle System Rules issued in August 2003**

Following interpretations should be inserted in between the words “Participant” and “Person resident in Sri Lanka” to the Rule 2.1 in the Volume 1 of the LankaSettle System Rules issued.

“PC Based PSS” shall mean Personal Computer Based Payment Settlement System

“PC Based SSS” shall mean Personal Computer Based Securities Settlement System

“PC Based System” shall mean Personal Computer Based Payment and Securities Settlement System ”

2). Amendment to Rule 4.8 in the Volume 4 of the LankaSettle System Rules issued in August 2003

Rule 4.8 in the Volume 4 of the LankaSettle System Rules is hereby deleted and substituted with the following amended Rule 4.8.

“4.8 Other Contingency Events**4.8.1 LankaSettle Application Event**

In an event of a prolonged, unrecoverable RTGS and LankaSecure applications failure, the Central Bank will declare a LankaSettle Application Event. Such declaration will be communicated to all Participants, LankaClear (Pvt) Ltd., the Sri Lanka Banks’ Association (Guarantee) Ltd. and Primary Dealers’ Association by an available communication means (telephone, fax, SWIFT, Reuters etc.). All Participants shall take steps stipulated in Attachment D promptly, expeditiously and in such an event, within the cut off time stipulated in such a declaration.

In an event of a LankaSettle Application Event, the existing LankaSettle System (i.e. RTGS System, Scripless Securities Settlement System and the Scripless Securities Depository) would not be available for the Participants. As an alternative to the LankaSettle System a PC Based System which will be operated by the Central Bank, will be available for Participants to settle their transactions. The Central Bank has the right to settle transactions on gross or net basis and will not make any partial settlements. If sufficient funds and/or securities are not available in Participants’ Settlement Accounts and/or Securities Accounts, the respective transaction will be queued in the System until required funds and/or securities are received to complete the transaction. Any transaction remained pending due to non-availability of funds or securities will be cancelled from the System at the end of the particular business day.

The system will not be an on-line system, but off-line where participants submit the payment/securities instructions in CD form or in diskettes. The PC Based System will not accept any forward dated transaction to be settled in respect of any type of payment.

The PC Based System consists of two independent systems:

- (i) Personal Computer Based Payment Settlement System (PC Based PSS); and
- (ii) Personal Computer Based Securities Settlement System (PC Based SSS)

The Central Bank shall have the power to issue such other instructions/directions/circulars it may deem necessary in addition to the procedures stipulate in Attachment D.

4.8.2 Other System Disabling Events

Other system disabling events may arise, that must be dealt with on the case by case basis. In such circumstances, the Central Bank may take such measures as it considers necessary including:

- extend or shorten the LankaSettle operating days;
- suspend operations of the System; and
- suspend the operating procedures of the System under these System Rules.

The Central Bank will attempt to remain in the contact with Participants and provide instructions to restore operations.

The Central Bank will execute such emergency measures as are necessary to resume operations with minimum delay. Participants must cooperate with the Central Bank in the execution of these measures.”

Attachment D

Operational Mechanism and Procedures to be followed in the event of a LankaSettle Application Event under Rule 4.8.1 of Volume 4

1. Balances of the Participants' Settlements Accounts in the RTGS System and Securities Settlement System

If the Central Bank decides to move to the PC Based System at the beginning of a business day, the Central Bank will open the System with the previous business day's end of the day balances of the Participants' Settlement Accounts in the RTGS System and Securities Accounts in LankaSecure System. If the Central Bank decides to move to the PC Based System in the middle of a business day, the Central Bank will endeavour to use the latest available balances of the Participants' Settlements Accounts in the RTGS System and Securities Accounts in the LankaSecure System before the contingency event occurred. If the situation does not permit to do so, the Central Bank will open the System with the previous business day's end of the day balances of the Participants' Settlement Accounts in the RTGS System and the Securities Accounts in the LankaSecure System.

2. Fund transfers in the PC Based PSS and Securities Transfers in PC Based SSS

Inter participant fund transfers will be settled in the PC Based PSS and inter participant securities transfers will be settled in the PC Based SSS. The two systems are not interlinked to facilitate automated Delivery versus Payments (DvP) transactions relating to securities.

3. Procedure to be followed by participants with regard to PC Based PSS and PC Based SSS

Both systems recognize transactions under two categories:

- (i) Inter participant transactions excluding transactions with the Central Bank; and
- (ii) Transactions with the Central Bank

3.1 Inter Participant transactions excluding the transactions with the Central Bank

Inter participant transactions excluding the transactions with the Central Bank are categorized into two:

- (i) Payments related transactions
- (ii) Securities related transactions

3.1.1 Payment related transactions

Each Participant shall forward details of its inter participant fund transfers relating to transactions effected during hours and/or days specified by the Central Bank in its declaration, to be debited to its Settlement Account in the PC Based PSS in diskette/CD form using Excel data file (ExcelData.xls) provided by the Central Bank along with the hard copy as per Attachment D.1, duly signed by two authorized officers, to the Director, Payments and Settlements Department (PSD) of the Central Bank before the cut off time declared by the Central Bank.

3.1.2 Securities related transactions

Each Participant shall forward details of its inter participant securities related transactions effected during hours and/or days specified by the Central Bank in its declaration, to be debited/credited to its Securities Account in the PC Based SSS to the Superintendent of Public Debt (SPD), Public Debt Department (PDD) of the Central Bank in diskette/CD form using Excel data file (SecurityTxnData.xls) provided by the Central Bank along with the hard copy as per Attachment D.2, duly signed by two authorized officers. All securities related transactions shall be Deliver Free (DvF) or Receive Free (RvF) type which involves only the movement of securities. The System does not facilitate Delivery Vs Payment (DvP) transactions. Accordingly, the details of the payment relating to a purchase of securities shall be forwarded by the Participant that purchases the securities, to the PC Based PSS as explained under 3.1.1 above.

3.2 Transactions with the Central Bank

3.2.1 Open Market Operations (OMO) – Participants are requested to deal first with the OMO Front Office of the Domestic Operations Department (DOD) of the Central Bank in respect of the following transactions with the Central Bank:

- Repurchase Transactions (Repo);
- Reverse Repurchase Transactions (Reverse Repo);
- Outright Sales; and
- Outright Purchases

Each Participant shall inform the details of its each deal over the phone to the OMO Front Office and fax the written confirmation using the relevant format given in Attachment D.3(a) or D.3(b) or D.3(c) to the OMO Front Office of the DOD within half an hour after entering into such a deal with the DOD. A payment leg relating to an OMO transaction will be settled in the PC Based PSS and the securities leg relating to that OMO transaction will be settled in the PC Based SSS, if sufficient funds and/or securities are available in the respective Participant's Settlement Account in the PC Based PSS and the Securities Account in the PC Based SSS, by debiting/crediting the respective Accounts.

Confirmation for each settled OMO transaction as per the relevant format given in the Attachment D.4(a) or D.4(b) will be issued by the PSD to the respective Participant.

3.2.2 Intra-day Liquidity Facility (ILF)

Funds under the ILF will be provided to the Participants by the Central Bank. Participants shall inform the details of ILF requirements over the phone to the OMO Front Office of the DOD and shall fax the written confirmation as per the format in Attachment D.5 within half an hour to the OMO Front Office of the DOD after entering into such a deal.

Each Participant is also required to transfer securities to its ILF account in the PC Based SSS as explained under 3.1.2 above, once a deal is finalized. ILF will be granted at the official price announced by the Central Bank. Each Participant shall ensure that sufficient funds are available in its Settlement Account in the PC Based PSS in order to reverse the ILF transactions within the time specified by the Central Bank.

3.2.3 Cash Deposits/Withdrawals

Each Participant has to deal directly with the Currency Department of the Central Bank and forward requests on cash deposits or withdrawals to/from its Settlement Account in the PC Based PSS at the Central Bank. Relevant entries regarding such cash deposits or withdrawals will be made by the Central Bank to the respective Participant's Settlement Account.

3.2.4 Settlements of Primary Issues of Government Scripless Securities (T bills and T bonds)

Front Office of the PDD will conduct the auctions for government securities. On the settlement day, Back Office of the PDD will inform the successful bidders regarding net values due from each relevant primary dealer (PD). Accordingly, each PD who has purchased securities at the auction shall maintain sufficient funds in its Settlement Account and request relevant fund transfer as explained under 3.1.1 above, in the PC Based PSS, enabling the Central Bank to effect the payment in the PC Based PSS and transfer relevant securities in the PC Based SSS.

3.2.5 Maturity & Coupon Payments for Scripless Securities (T bills and T bonds)

The Central Bank will effect maturity and coupon payments for Scripless Securities (T bills and T bonds) to each relevant Participant's Settlement Account in the PC Based PSS.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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

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

Colombo.
25 March 2008

FINANCE COMPANIES (INTEREST) DIRECTION NO.1 OF 2008

1. This Direction may be cited as the Finance Companies (Interest) Direction No.1 of 2008 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act No.78 of 1988 and shall come into operation with effect from 01 April 2008.
2. (a) The maximum annual rate of interest which may be paid by any finance company on a time deposit accepted or renewed during any quarter shall not exceed :-
 - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 2.5 percentage points if such deposit carries a maturity period of 12 months or less;
 - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 5 percentage points if such deposit carries a maturity period of more than 12 months.
- (b) The maximum rate of discount which may be allowed by a finance company on the sale, during any quarter, of a bond or other instrument of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed:-
 - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 2.5 percentage points if such bond or instrument carries a period of maturity of 12 months or less;
 - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 5 percentage points if such bond or instrument carries a maturity period of more than 12 months.
3. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit during any quarter, shall not exceed the weighted average yield applicable to 91-day Treasury Bills issued during the immediately preceding quarter *less* 1 percentage point.
4. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid by such finance company in each month, in a format given by the Director, on or before the 15th day of the following month.
5. In this Direction,
 - i) "time deposit" shall have the same meaning as in the Finance Companies (Deposits) Direction No.1 of 2005; and
 - ii) "Director" means the Director of the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka.
6. The Finance Companies (Interest) Direction No.2 of 2005 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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

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

Colombo.
31 March 2008

FINANCE COMPANIES (INTEREST) DIRECTION NO.2 OF 2008

1. This Direction may be cited as the Finance Companies (Interest) Direction No.2 of 2008 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act No.78 of 1988 and shall come into operation with effect from 01 April 2008.
2. (a) The maximum annual rate of interest which may be paid by any finance company on a time deposit accepted or renewed during any quarter shall not exceed :-
 - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 2 percentage points if such deposit carries a maturity period of 12 months or less;
 - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 4 percentage points if such deposit carries a maturity period of more than 12 months.(b) The maximum rate of discount which may be allowed by a finance company on the sale, during any quarter, of a bond or other instrument of which the price is less than the redeemable value at maturity shall be such that the maximum annual yield on the instrument shall not exceed:-
 - (i) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 2 percentage points if such bond or instrument carries a period of maturity of 12 months or less;
 - (ii) the weighted average yield applicable to 364-day Treasury Bills issued during the immediately preceding quarter increased by 4 percentage points if such bond or instrument carries a maturity period of more than 12 months.
3. The maximum annual rate of interest, which may be paid by a finance company on any savings deposit during any quarter, shall not exceed the weighted average yield applicable to 91-day Treasury Bills issued during the immediately preceding quarter *less* 1 percentage point.
4. Every finance company shall furnish a statement to the Director containing the details of the rates of interest paid by such finance company in each month, in a format given by the Director, on or before the 15th day of the following month.
5. In this Direction,
 - (i) “time deposit” shall have the same meaning as in the Finance Companies (Deposits) Direction No.1 of 2005; and
 - (ii) “Director” means the Director of the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka.
6. The Finance Companies (Interest) Direction No.1 of 2008 is hereby revoked.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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

Nivard Ajith Leslie Cabraal

Chairman

Monetary Board of the Central Bank of Sri Lanka

Colombo.

16 October 2008.

FINANCE COMPANIES (CORPORATE GOVERNANCE)**DIRECTION, NO. 3 OF 2008**

The Direction may be cited as the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 (hereinafter referred to as a 'finance company') and shall come into operation with effect from 1 January, 2009.

2. The Responsibilities of the Board of Directors

- (1) The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-
 - a) approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;
 - b) approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;
 - c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;
 - d) approving a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;
 - e) reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;
 - f) identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;
 - g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;
 - h) ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;
 - i) periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;
 - j) ensuring that the finance company has an appropriate succession plan for key management personnel;
 - k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;
 - l) understanding the regulatory environment;
 - m) exercising due diligence in the hiring and oversight of external auditors.
- (2) The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with paragraph 7 of this Direction.
- (3) There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.
- (4) A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.

- (5) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.
- (6) The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.
- (7) The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.
- (8) The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.

3. Meetings of the Board

- (1) The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.
- (2) The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.
- (3) A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.
- (4) A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.
- (5) The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.
- (6) If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.
- (7) All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
- (8) The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.
- (9) Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.

4. Composition of the Board

- (1) Subject to the transitional provisions contained herein, the number of directors on the Board shall not be less than 5 and not more than 13.
- (2) Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.

- (3) Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.
- (4) With effect from three years from the date of this Direction, the number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors.

A non-executive director shall not be considered independent if such director:

- a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;
- b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;
- c) has been employed by the finance company during the two year period immediately preceding the appointment as director;
- d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company;
- e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;
- f) is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization:
 - i. which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or
 - ii. in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10 % of the capital funds as shown in its last audited balance sheet of the finance company; or
 - iii. in which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.
- (5) In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.
- (6) Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.
- (7) With effect from three years from the date of this Direction, a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half of the number of directors that constitute the quorum at such meeting are non-executive directors.
- (8) The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.
- (9) There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.
- (10) All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.
- (11) If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.

5. Criteria to assess the fitness and propriety of directors

- (1) Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a director of a finance company.
- (2) A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies / bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

6. Delegation of functions

- (1) The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
- (2) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.

7. The Chairman and the Chief Executive Officer

- (1) The roles of chairman and chief executive officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009.
- (2) The chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.
- (3) The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.
- (4) The chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.
- (5) The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.
- (6) The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.
- (7) The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.
- (8) The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.
- (9) Subject to the transitional provisions contained herein, the chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.
- (10) The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.
- (11) The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.

8. Board appointed Committees

- (1) Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.

(2) Audit Committee

The following shall apply in relation to the Audit Committee:

- a) The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.
- b) The Board members appointed to the committee shall be non-executive directors.
- c) The committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
- d) The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- e) The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:
 - (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;
 - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and
 - (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.
- f) The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.
- g) The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.
- h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.
- i) The committee shall review the external auditor's management letter and the management's response thereto.
- j) The committee shall take the following steps with regard to the internal audit function of the finance company:
 - (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;
 - (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;
 - (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;
 - (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;

- (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;
- (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;
- k) The committee shall consider the major findings of internal investigations and management's responses thereto;
- l) The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the external auditors without the executive directors being present.
- m) The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
- n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
- o) The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.
- p) The secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.
- q) The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.

(3) Integrated Risk Management Committee

The following shall apply in relation to the Integrated Risk Management Committee:

- a) The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.
- b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.
- c) The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.
- e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
- f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- h) The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

9. Related party transactions

- (1) The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.
- (2) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:
 - a) A subsidiary of the finance company;
 - b) Any associate company of the finance company;
 - c) A director of the finance company;
 - d) A key management personnel of the finance company;
 - e) A relative of a director or a key management personnel of the finance company ;
 - f) A shareholder who owns shares exceeding 10 % of the paid up capital of the finance company;
 - g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10 % of the paid up capital of the finance company, has substantial interest.
- (3) The transactions with a related party that are covered in this Direction shall be the following:
 - a) Granting accommodation,
 - b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,
 - c) providing financial or non-financial services to the finance company or obtaining those services from the finance company,
 - d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.
- (4) The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean:
 - a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board.
The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.
 - b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty;
 - c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;
 - d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;
 - e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.

10. Disclosures

- (1) The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.

- (2) The Board shall ensure that at least the following disclosures are made in the Annual Report:
- A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.
 - A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.
 - The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.
 - Details of directors, including names, transactions with the finance company.
 - Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.
 - Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.
 - The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.
 - A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.
 - A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.
 - The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.

11. Transitional provisions

- On the date of this Direction, if the number of directors on the Board of a finance company is either less than 5 or exceed 13, such finance company shall comply with paragraph 4(1) hereof, within three years from the date of this Direction.
- On the date of this Direction, if the number of executive directors in a finance company is more than one half of the number of directors of the Board, the Board shall expressly identify the excess executive directors and inform the names of such excess executive directors to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka within three months from the date of this Direction. Thereafter, such excess executive directors shall not be considered as members of the Board.
- The following transitional provision shall apply to the 9-year retirement requirement imposed under paragraph 4(2) of this Direction:
A director who has completed nine years as at January 1, 2009 or who completes such term at any time prior to December 31, 2009, may continue for a further maximum period of 3 years commencing January 1, 2009.
- The following transitional provision shall apply to the maximum age limit imposed under paragraph 5(1) of this Direction:
A director who has reached the age of 70 years as at January 1, 2009 or who would reach the age of 70 years prior to December 31, 2009, may continue in office for a further maximum period of three years commencing January 1, 2009.
- The following transitional provision shall apply to the maximum 20 company/entity directorship limitation imposed under paragraph 5(2) of this Direction:
If any person holds posts of director in excess of the limitation given in paragraph 5(2), such person shall within a maximum period of three years from January 1, 2009, comply with the limitation and notify the Monetary Board accordingly.
- If for any reason such as ill health or any disqualification specified in the Act, the Monetary Board considers that exemptions referred to in sub-paragraphs 11(3), 11(4) and 11(5) should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

12. Definitions

- (1) “Act” shall mean the Finance Companies Act, No. 78 of 1988.
- (2) “accommodation” shall have the same meaning as contained in the Finance Companies (Lending) Direction No.1 of 2007
- (3) “relative” shall have the same meaning as contained in section 46 of the Finance Companies Act No 78 of 1988
- (4) “key management personnel” are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.
- (5) “substantial interest” shall have the same meaning as contained in section 46 of the Finance Companies Act No 78 of 1988.

FINANCE COMPANIES ACT, NO. 78 OF 1988

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

Nivard Ajith Leslie Cabraal
Chairman

Monetary Board of the Central Bank of Sri Lanka
Colombo.
31 December 2008.

FINANCE COMPANIES (CORPORATE GOVERNANCE – AMENDMENT) DIRECTION, NO. 4 OF 2008

The Direction may be cited as the Finance Companies (Corporate Governance-Amendment) Direction, No. 4 of 2008 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 (hereinafter referred to as a ‘finance company’) and shall come into operation with effect from 1 January, 2009.

2. Paragraph 4 of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 is amended hereby as follows:
 - (1) By repeal of words ‘With effect from three years from the date of this Direction’ from sub-paragraph (4) thereof and the substitution therefor, of the following:
“With effect from three years commencing 01.01.2009”
 - (2) By repeal of words ‘With effect from three years from the date of this Direction’ from sub-paragraph (7) thereof and the substitution therefor, of the following:
“With effect from three years commencing 01.01.2009”
3. Paragraph 11 of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 is amended hereby as follows:
 - (1) By repeal of words ‘within three years from the date of this Direction’ from sub-paragraph (1) thereof and the substitution therefor, of the following:
“within three years commencing 01.01.2009.”
 - (2) (a) By repeal of words ‘within three months from the date of this Direction’ from sub-paragraph (2) thereof and the substitution therefor, of the following:
“within three years commencing 01.01.2009”.
 - (b) By the repeal of the word ‘Thereafter’ from sub-paragraph (2) thereof and the substitution therefor, of the following:
“On the expiry of three years commencing 01.01.2009”