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An Overview of Corporate Governance in the Financial Sector in Sri Lanka

BY:

D V D Kalubowila
Senior Assistant Director
Bank Supervision Department

A A R Lanson
Senior Assistant Director
Communications Department

S P Sedara
Senior Assistant Director
Supervision of Non-Bank Financial Institution

D D N Wilathgamuwa
Deputy Director
Legal and Compliance Department

What is Corporate Governance?

The term "Corporate Governance" could be described as "how a company is governed" in conducting its day-to-day operations. It sets guidelines and best practices on how a company should be operated, supervised, directed or managed. This means performing the business in the best interest of its stakeholders. Thus, the Board of Directors and the Key Management Personnel (KMPs) of a given company are expected to execute good corporate governance on behalf of the stakeholders. The drive behind the introduction of Corporate Governance is to facilitate effective, entrepreneurial and prudent management that can bring sustainable success to the company. Accordingly, an established corporate culture of reinforcing appropriate norms, for responsible or ethical behaviour could be identified as a fundamental component of good governance.

Corporate Governance, the Board and the Stakeholders of a company

According to the *Organization for Economic Cooperation and Development* (OECD), Corporate Governance could be defined as a set of relationships between a company's management, its Board, its shareholders and other stakeholders, which provides the structure for setting the objectives of the company, and how those objectives are attained and performance is monitored. Corporate Governance should provide proper incentives for the Board and management to pursue objectives that are in the interests of both the company and shareholders, and should also facilitate effective monitoring, and thereby encouraging firms to use resources more efficiently.

Role of the Shareholders in Executing Corporate Governance

While Boards of Directors are assigned with the ultimate responsibility for the governance of their companies, shareholders too, have a vital role to play. The shareholders' role in governance is to appoint the directors to ensure that a suitable governance structure is in position for the smooth functioning of the company. The quality and the integrity of the Board of Directors appointed by the shareholders will be a key determinant of the quality of Corporate Governance in the entity.

Role of the Board of Directors in Executing Corporate Governance

The responsibilities of the Board largely include setting of the company's strategic direction, providing the required leadership to implement those, overseeing the administration of the business and informing the shareholders on their stewardship. Corporate Governance is therefore about what the Board of a company does and how it sets the values of the company. Although, Corporate Governance practices have an influence on the day to day activities of a company, it should be distinguished from the day to day operational management performed by full-time executives.

Agency Theory and Corporate Governance

As explained in the previous sections, the concept of Corporate Governance can broadly be considered as a shield for investors' interests and a comprehensive risk management system. One of the generally recognized explanations of Corporate Governance stems from the agency theory, outlining it with reference to how the equity and debt holders (the principals) can impact the day to day functioning of managers of a firm (agents) to perform for the ultimate interests of lenders of capital; and the efficiency with which the manager of a firm will assign the capital at disposal depends on the extent to which the shareholders and creditors motivate them. The core of the agency theory, which lies in the separation of ownership and control, is typically viewed from a contractual stand that was initially regarded by Coase and subsequently by Jensen & Meckling.

Corporate Governance in the Financial Sector

Mr. J. Wolfensohn, the President of the World Bank points out that Corporate Governance is about promoting corporate fairness, transparency and accountability (article in Financial Times, June 21, 1999). Accordingly, compliance with applicable laws, rules, principles, guidelines and directions are vital especially for institutions in the field of banking and finance. Governance in banks is a considerably more complex issue than in other sectors. Banks must comply with the same codes of Board governance as other companies but, in addition, factors like risk management, capital adequacy and funding, internal controls and compliance all have an impact on their governance matrix.

"Corporate Governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" [The Journal of Finance, Shleifer and Vishny (1997, page 737)]. Corporate Governance standards for the banking and financial sector have been given great attention following the global economic collapse prompted by the failures of many leading financial companies. A few examples are the collapses of companies such as Lehman Brothers, JP Morgan etc.

Corporate Governance in the Banking Sector and the Regulatory/Supervisory Measures

Banks play an important role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Therefore, the safety and soundness of Banks are key to financial stability of a given economy. The banking sector in Sri Lanka, amounting to net assets of almost Rs. 11 Tn by August 2018, represents more than 60% of the financial sector. Being such a significant sector, governance weaknesses of systemically important banks (the six largest licensed commercial banks in Sri Lanka) can lead to transmission of problems across the banking sector as well as the entire economy, leading to incurring macroeconomic costs. This makes it essential that the top management of banks is structured and functioning with utmost diligence at all times. The Bank Supervision Department of the Central Bank of Sri Lanka (CBSL), which is the regulator of banks operating in the country, has set rules and principles of Corporate Governance in order to mitigate incidents of mismanagement in banks.

During the last 10-year period, the global regulations issued on Corporate Governance have significantly improved. New and stronger regulations/guidelines have been introduced with greater supervisory expectations from risk management functions. These have required more frequent engagement with Board of Directors and senior management. Accordingly, the authorities have taken measures to improve regulatory and supervisory oversight of corporate and risk governance of banks.

In July 2015, the Basel Committee on Bank Supervision (BCBS), which is the international regulatory body for banks, issued a revised set of 'Corporate Governance principles for banks', setting out the key elements of an effective bank governance framework. Accordingly, the Board of a bank has the overall responsibility for the bank**,** including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture. Therefore, the Board has ultimate accountability for the bank's business strategy & financial soundness, key personnel decisions, internal organisation & governance structure/practices, risk management and compliance obligations.

The Board, KMPs and Corporate Governance

In terms of the competencies of the Board and KMPs, the best practices require the Board and KMPs to pass a defined 'fit and proper' test, i.e. suitability in terms of competencies to hold the position, financial standing and the level of integrity. Management should be open and transparent with the Board on all significant matters about which the Board should know. Non-executive Board Members should have unrestricted access to a bank's employees and information as needed to enable them to carry out their duties. Also, it is vital to be aware of legal and institutional weaknesses to sound Corporate Governance, and to take steps to foster effective foundations for Corporate Governance.

The members of the board should exercise their "duty of care" and "duty of loyalty" to the bank under applicable national laws and supervisory standards. This includes actively engaging in the major matters of the bank and keeping up with material changes in the bank's business and the external environment as well as acting in a timely manner to protect the long-term interests of the stakeholders. The board should also ensure

that transactions with related parties, including internal group transactions, are reviewed to assess risks and are subject to appropriate restrictions, such as requiring related party transactions, i.e. a transaction between two parties having a pre-existing connection to the reporting entity to be conducted on arm's length terms and that corporate or business resources of the bank are not misappropriated or misapplied. Accordingly, in this context, a related party transactions means a transaction with any of the bank's subsidiary companies/any of the bank's associate companies/ any directors of the banks/ any of the bank's KMPs/ a close relation of any of the bank's directors or KMPs/a shareholder owning a material interest in the bank or a concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.

In discharging responsibilities, the Board should consider the legitimate interests of depositors, shareholders and other relevant stakeholders. It should also ensure that the bank maintains an effective relationship with its supervisors.

Corporate Governance in Other Financial Institutions

Other Financial Institutions in Sri Lanka mainly comprises the following categories:

1. Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs)
2. Primary Dealers in Government Securities (PDs)
3. Money Brokers (MBs)
4. Insurance Companies
5. Unit Trusts
6. Superannuation Funds

Out of the above categories, LFCs, SLCs, PDs and MBs are under the regulatory purview of CBSL while there are different regulatory bodies overlooking other segments. LFCs and SLCs are governed by Directions on Corporate Governance, which have been issued by CBSL.

While the existing Directions on Corporate Governance are comprehensive on paper, their application by LFCs and SLCs is becoming increasingly questionable in light of the failures of several LFCs and SLCs in the recent past. Though market and external factors can be attributed as the trigger points for failures of LFCs and SLCs in the recent past, the underlying reason for almost all the failures could be identified as the poor Corporate Governance which has led to mismanagement and fraud. This is mainly due to the prevailing Corporate Governance Directions not being effectively implemented by these institutions. Therefore, emphasis should be placed on ensuring the effective implementation of the existing Corporate Governance Directions by creating corporate cultures conducive for good Corporate Governance.

With respect to PDs, which also come under the supervision of CBSL, specific Directions on Corporate Governance are yet to be issued. However, some aspects of Corporate Governance including the fitness and propriety of Directors are covered under other Directions and the Code of Conduct applicable to PDs. Further, the functioning of the Board of Directors and sub-committees and controls on related party transactions are being assessed during examinations of PDs by CBSL.

Steps to Promote a Stronger Corporate Governance Structure

Having a sound Corporate Governance structure is mandatory to any institution. Therefore, in order to promote a sound corporate culture, the Boards should take the lead in establishing the "tone at

the top" in accordance with the discussion in the beginning of this article.

The institution's code of conduct/ethics, or a comparable policy, should define acceptable and unacceptable behaviours. It should explicitly disallow behaviour that could lead to any reputation risks or improper/illegal activity, such as financial misreporting, money laundering, fraud, anti-competitive practices, bribery and corruption, or the violation of consumer rights. Also, it should make clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations and company policies.

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Countering Proliferation Financing: Requirements for a Sovereign Nation

By
Ayesh Ariyasinghe
Deputy Director
Financial Intelligence Unit

Introduction

The topic of weapons of mass destruction (WMD) and the threat such weapons pose has resurfaced with the ongoing North Korea-South Korea-United States (US) deliberations. This is especially important as the threat is increased due to malevolence means posed by non-state actors who have gained access to such weaponry and technology to build such weaponry. The ongoing concern among the international community has resulted in attempts being proposed to counter the threat posed by such non-state actors and WMDs. The concern is fueled greatly by adverse media reports, which tend to enhance geopolitical tensions and political rhetoric. Irrespective of what, where and who the adverse reports and political rhetoric are aimed at, the threat posed is significantly enlarged looking at the potential harm that maybe caused due to being triggered by an irrational act. This article discusses the measures taken to counter proliferation financing in an effective manner within the sphere of international law to arrest the threat posed by the spread of weapons of mass destruction non-state actors and irrational dictatorial leaders. For ease of reference, this article shall discuss firstly, the threat posed by proliferation financing of WMD, and secondly, the measures currently being engaged in arresting/mitigating proliferation financing of WMD.

Part –I: The Threat of Proliferation Financing of Weapons of Mass Destruction and the Security Challenge Posed by Weapons of Mass Destruction

1.1 Weapons of Mass Destruction

Weapons of Mass Destruction[1] are identified as the materials, weapons or devices that could cause or capable of causing serious bodily harm to a significant number of people through release, dissemination or impact of toxic or poisonous chemicals or precursors, decease organisms, radiation or radioactive material. These weapons include biological devices, chemical devices, nuclear and improvised nuclear devices, radiological dispersion devices and exposure devices. Accordingly, the threat of WMD could be categorised under: a.) chemical; b.) biological; c.) radiological; d.) nuclear; and e.) using other delivery systems (such as missiles, manned aircrafts and unmanned drones).

Chemical and radiological weapons capability is identified as the most widespread due to access to chemical/ radiological material globally[2]. However, nuclear weapons, characteristically using a smaller weapons payload compared to other modes of WMD can be considered as causing a large-scale destruction within a short timeframe from the time of weapon is activated to time of destruction[3]. Also, radioactive material used in the nuclear and radiological weapons would increase the second-round contamination threat potential.

WMDs allow dictatorial state governments such as North Korea or non-state actors such as Al-Qaeda, Taliban and Islamic State of Iraq and Levant / Syria (ISIL/ISIS) and other clandestine organisations to inflict large number of casualties across major economic and political targets. The WMD threat combined with terrorism creates a deadly cocktail, that require increased internationally coordinated action and enforcement of counter proliferation financing measures.

It is important, in this context, to identify the sudden rise in WMDs and the threat of proliferation financing relating to WMD. The abrupt end to the Cold War, found WMD related chemicals and war materials in excess supply. With the end of the Cold War[4] between USA and the USSR, the financial flows from purchase of WMD material dried up. As a result, producers of these residual materials were forced to sell to any clandestine organisation on demand, which included non-state actors, aiming at WMD manufacturing. At times, countries like North Korea used these conditions such as excess supply to stock pile with the aim of weapons manufacturing. Lot of storage facilities were breached by non-state actors or parties

1. WMD is defined under US law codes (USC) Section 2332a: Any explosive, incendiary, or poison gas, including the following: a bomb; grenade; rocket having an explosive or incendiary charge of more than four ounces; missile having an explosive or incendiary charge of more than one-quarter ounce; mine; or device similar to any of the previously described devices;

   Any weapons that is designed or intend to cause death or serious bodily injury through the release, dissemination, or impact of toxic or poisonous chemicals, or their precursors;

   Any weapon involving a disease organism; and

   Any weapon that is designed to release radiation or radioactivity at a level dangerous to human life.
2. Conference on Strategic Trade Controls, organised by the US Department of Justice, February 2018 (Colombo)
3. US State Department assessment (https://www.state.gov/documents/organization/65477.pdf) and also, see "the National Strategy to Combat Weapons of Mass Destruction" – (2002) White House Publication, Wash. DC USA
4. With the conclusion of WWII, the mutual distrust between USA and USSR led to intelligence gathering, arms build-up and coalition forming which was termed as cold war or a war not waged openly but undercover.

sympathetic to non-state actors' cause. Such breaches to the storage compounds of the Cold War partners resulted in the spread in WMD and WMD technology among non-state actors.

In the last two decades, the threat of using WMD by countries[5] and non-state actors has emerged as a significant security issue that saw the United Nations Security Council (UNSC) stepping up to counter proliferation through promulgation of United Nations Security Council Resolutions (UNSCRs). Some non-state actors such as Al-Qaida have openly stated their intention to acquire and use nuclear weapons.[6] With the advent of internet and open source material available on the worldwide web that discusses the technical and scientific details of building WMD of various scale and nature, the threat has become a "clear and present danger" for all countries. The nature of harm that could spread due to contamination, seepage of radiological hazardous elements, exposure to radiation increased mortality rates. The gravity of the threat posed has resulted in the issue of prevention of proliferation of WMD taking centre stage of global security priorities of many committed nations including the United States and the G-20 countries.

1.2 Proliferation and Proliferation Financing

Due to lack of certain facilities and the complexity surrounding the manufacturing process of WMDs, facilitator assistance has been sought by non-state actors and rogue states intent on producing WMD or acquiring ready-made weapons. Facilitators assistance maybe used in proliferation or during any stage of proliferation. Proliferation is the process involving the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations. It includes technology, goods, software, services or expertise. Dual-use goods are identified as goods that are purchased to manufacture WMD but may have one or many harmless or productive uses.

Proliferation financing is the act of providing funds or financial services that are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations. Facilitator services are acquired using proliferation financing as well as acquisition and stock piling of material used for WMD production. Further, proliferation financing facilitates the movement and development of proliferation-sensitive goods. The movement and development of such items can contribute to global instability and may ultimately result in a loss of life, if proliferation-sensitive items are deployed.

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5. States included: Iraq, the Republic of Iran, Democratic Peoples' Republic of Korea (DPRK or North Korea), Syria, Pakistan, India, Yemen, Libya, Democratic Republic of Congo (DRC)

   Non-State Actors include: Al Qaeda, ISIL, Hezbollah, FARC, Boko Haram, Al-Shabaab and other operatives

6. The Global Challenge of WMD Terrorism (Cap.7) US State Department, https://www.state.gov/documents/organization/65477.pdf

1.3 Possible Vulnerability of a sovereign

A state or jurisdiction may be vulnerable across its financial sector due to the sectors global interconnectedness along with weak controls and countermeasures. A jurisdiction, due to its porous borders and weak border controls and import/ export regimes, is also vulnerable to WMD or related material being physically transported through its borders to supply another country or a non-state actor to produce WMDs.

A country is not recognised as a possible threat to proliferation financing by merely storing potential WMD material. Due to networks and technological advancements in the current era, finances would flow through any jurisdiction, to and from potential proliferators or proliferation facilitators. A jurisdiction is especially vulnerable if it falls within either one or more of the following four categories;

i) Where high volume of international financial services take place: financial centers have the potential to provide proliferators the opportunity to exploit legitimate financing and commercial channels to hide proliferation activities;

ii) Weaker level of AML/CFT compliance - illicit financial activities often take place in jurisdictions with weak legal and regulatory frameworks. Weak implementation of CDD measures, TFS, and beneficial ownership controls by supervised institutions may facilitate the use of legal persons or arrangements for sanctions evasion;

iii) Underlying proliferation risk - factors affecting the proliferation risks (i.e. the illicit movement of proliferation-sensitive goods) may be relevant to the proliferation financing context. Such factors include the sectors and activities identified in relevant UNSCRs (e.g. industries producing dual-use, proliferation-sensitive or military goods; international trade and shipping services; geographical vulnerabilities; and the presence of diplomatic personnel and persons from countries subject to sanctions);

iv) Strength of export controls, customs and border controls, and other mitigation measures - the extent to which the underlying proliferation risks are mitigated by the effective implementation of export controls and other measures.[7]

With reference to (iii.) and (iv.) above, a physical threat may arise through the country's imports and exports avenues – the ports. Such threat is enhanced where a country is geographically located where it may have potential to become a maritime hub, with administration and government keen to increase export-import volumes and the frequency of ships birthing its ports. Such venue, if coupled with weak border controls, porous entre-pot trade, transit[8] and transhipment[9] of re-exports assure of a highly likely avenue that could be utilised by proliferators for WMD material, dual use goods. The state, due to its inactivity and likely state of ignorance may become an unwitting party to a non-state actor or

7. FATF Guidance on Proliferation Financing (2018) – pg. 12-13

8. Transit transactions occur when a passage across the territory is only a portion of a complete journey, beginning and ending outside the borders of the state through which the transit takes place.

9. Transhipment transactions may occur where under customs procedure goods are unloaded from importing means of conveyance to exporting means of conveyance, whether such means may be same or dissimilar.

a rogue state importing proliferation materials that could be used for nuclear or other types of WMD production.

At present red flags are raised to identify when a possible use of any material would be only linked to WMD production. Such materials are already identified as possessing characteristics of chemical substances that could be used for Plutonium or Uranium enrichment processes, and other nuclear material or WMD oriented devices. However, difficulties may arise in identifying and preventing dual-use items being imported.

Dual use items are those that may have a practical use identified as productive or harmless. However, such material or equipment could be converted through some process to alter its properties and technology engaged in, so the equipment would aid in the production of WMD. Examples would include uranium enrichment used for power generation could also double as weapons grade uranium manufacturing, semi-conductors with high encryption technologies could be used in civilian applications as well as in WMD production processes, satellite technology equipment could be used in the range of harmless radio and television broadcasting to guided missile technology, freeze drying technology often used in food industry could also pave way for biological warfare - in cultivating lethal microorganisms and biological agents.

Prevention of these items entering a jurisdiction could be supervised and mitigated using a strategic trade controls (STC) regime. Global active groups identified as multilateral export control regimes[10] and state institutions have commenced listing such dual use materials and countries are warned to keep vigilance over their ports and customs processes to observe whether systems are being misused to import dual use items and thereafter passing it over to a high-risk entity who may be linked to a terrorist organisation or a WMD producer country.

Part II - Measures available to Counter Proliferation Financing

2.1 Non-proliferation vs. Counter proliferation

It is important to distinguish between non-proliferation measures and counter proliferation measures that could be adopted by a sovereign state.

Non-proliferation efforts signify commitments obtained from the states not to possess or produce WMD or share WMD capabilities with other states. On the other hand, counter proliferation efforts involve attempts to stop proliferation relevant transfers, such as cross border imports or re-exports, and transactions, such as financial transactions being taking place. If the non-proliferation measures are effective, then there is no requirement to have counter proliferation measures.

Globally, there are three identified mechanisms that could be useful in preventing proliferation.

a) Non-proliferation strategies:

Non-proliferation strategies refer to actively engaging policies and measures to prevent/ reduce use of weapons of threat. The active engagement may be put in place nationally or internationally, region wise or globally, jointly or countries acting separate from one another. Several such strategies would include banning of use or threatened use of a particular type of weapons in an event of conflict, encouraging weapons possessors to reduce stockpiles or

10. Wassenar Group, Australia Group, Nuclear Suppliers Group (NSG), Missile Technology Control Regimes (MTCR) are some of these groups.

eliminate their weapons altogether, limiting the spread of weapons to new possessors and establishing global prohibitions on possessing a type of weapon or on assisting in an illicit acquisition by a state or by a non-state actor.

b) Engage in Non-proliferation treaties:

Non-proliferation treaties would create a legally binding obligation on a state preventing the state from using a particular type of WMD or possession or helping to acquire them for a third party. Major non-proliferation treaties that are largely accepted and ratified by countries are the Nuclear Non-proliferation Treaty (NPT), Chemical Weapons Convention (CWC) and the Biological and Toxin Weapons Convention (BTWC).

a. NPT – Entered into force in 1970, the NPT has currently 191 states as parties to the treaty. The NPT is formed around three core pillars; 1) preventing the spread of nuclear weapons, 2) working towards a "general and complete" disarmament, 3) recognising the right to peacefully use nuclear energy and committing to share nuclear energy for peaceful purposes. NPT member countries include countries that do not possess nuclear weapons (non-weapons states), countries that currently possess nuclear weapons (recognised nuclear weapons states). However, India, Pakistan and North Korea are significant non-member countries possessing a sizable nuclear armament that are not bound by the treaty clauses due to not being parties to the NPT.

b. CWC – Entered into force in 1997, the CWC has currently 192-member countries. This treaty obligates its member states to refrain from usage, transfer or possession of chemical weapons. As chemicals could be derived from other substances, the CWC treaty further obligates member states to prevent transfer of chemical precursors (chemical compound that participates in a chemical reaction that produces a different compound that could be used for chemical WMD manufacture). CWC requires member states to impose strategic trade controls on chemical weapons precursors. CWC carries three Schedules that identify chemical used only for production of chemical weapons (Schedule I), chemicals that carry a small legitimate uses other than that of being chemical weapons (Schedule III) and chemicals that have common commercial application as well as the potential to be used in chemical weapons manufacture (Schedule III). Restrictions prior to import/export applicable under CWC differ according to the Schedule to which the chemical belongs[11]. Main organisation enabling the member states' activities within the treaty is the Organisation for the Prohibition of Chemical Weapons (OCPW)[12].

c. BTWC – Entered into force in 1975, currently has 179-member states. Treaty obligates upon its members not to possess, transfer of biological weapons, toxic based and their means of delivery. This could be termed as the weakest out of the three non-proliferation treaties discussed herein, and does not have a central international body to oversee

11. Schedule I – Chemicals are never to be transferred, Schedules II and III chemicals are subject to scrutiny prior to export/import approval is given.

12. OCPW won the 2013 Nobel Peace prize in overseeing the destruction of Syrian chemical weapons www.opcw.org

implementation and guidance. Major violations are observed among several member countries although very few countries possess biological warfare weapons.

c) United Nations Security Council Resolutions on engaging non-proliferation sanctions

The objective of this article, will limit its purview to discussing the non – proliferation sanctions issued under the United Nations Security Council Resolutions.

2.2 Targeted Sanctions as a Weapon to Mitigate Proliferation

The concept of targeted sanctions are used as a countermeasure in mitigating the proliferation of weapons of mass destruction, financing of terrorism and money laundering. Sanctions are effective as far as member countries are applying counter measures as called for by sanction conventions against targeted individuals, institutions, non-state actors and states. This article would discuss the relevance of targeted sanctions in the financial sector as a part of the "non-violent measures" specified under Article 41 of the United Nations Charter applicable for a sovereign state.

Targeted financial sanctions are engaged under several UN Security Council Resolutions. Targeted financial sanctions are identified as the preferred tool in the undermentioned UNSCRs set out in **Table 1**.

In this context, it is pertinent to discuss the principles of international law governing the use and adoption of UN resolutions to fit a country's national legal framework and its operations.

2.3 Principles of International Law in Applicability of UN Sanctions on a Sovereign State

Principles governing public international law requires that states commit to respecting the international treaties that they have established and apply within their internal legal jurisdictions. International law, however, does not govern the manner, in which, provisions included in international treaties could be applied in effect to a sovereign state's internal/ domestic legal systems. Such matters are left to be decided by the state and in practice, two approaches play a predominant role in how a country applies its international obligations to internal application. These two approaches are the Dualist approach and the Monist approach. The dualist approach treats international law and internal laws as two separate systems as the latter reflected interpersonal relationship and the former reflected relationship between sovereign states. The monist approach arises from the fact that international treaties are beget through the will of the sovereign state to form a treaty of such nature, and therefore, a natural extension of the will of the state should apply to internal laws as well. In monist approach, jurists argue that the state willingly restricts or limits its sovereignty and accepts the customary international law as state's internal law automatically.

In this regard, it is important to take note of the approach adopted by Sri Lanka. Sri Lanka, follows a dualist approach, in which, the constitution of the country provides as primary source of law for the internal legal system. Under this approach, Sri Lanka has adopted international treaties through the ratification process of the parliament, with necessary practical implementation issues addressed via regulation or at the time of the international treaty acquiring the status of a legal enactment.

The UNSCRs reflect effects of an international treaty – the Charter of the United Nations. Countries that have adopted the Monist approach can automatically move to have the UNSCRs in place of local legislation, whereas, dualist approach prevents such automatic adoption. Most dualist nations have adopted an enabling

legislation that allows the nation to adopt subject to certain criteria to satisfy transparency, domestic prevention mechanisms and avoid private citizen's rights being infringed via adoption of international measure automatically.

Sri Lanka follows the dualist tradition as a nation, and has as its enabling legislation the United Nations Act, No. 45 of 1968 that allows for UNSCRs to be implemented within Sri Lanka as a Regulation made under the United Nations Act[13]. The Minister in charge of the subject of Foreign Affairs is empowered under the United Nations Act to make regulations to enable the UN Security Council measures to be effectively applied, and where necessary to provide for apprehension, trial and punishment of persons offending or violating the regulations so issued.[14]

The dualist approach is further confirmed under Section 2(2) of the United Nations Act, where any Regulation made under the Act, should be forthwith tabled in parliament after it is made. This affirms the supremacy of the constitutionally elected legislature in ratifying an international treaty, thereby giving the international treaty the power of law, once ratified.

2.4 The UN Approach to Counter Proliferation Financing

The United Nations Security Council (UNSC or UN Security Council) has a two-tiered approach[15] to counter proliferation financing through resolutions made under Chapter VII of the UN Charter and thereby imposing mandatory obligations for UN Member States:

Table – 1

Targeted Country/Non-State Actor	UNSCR Number (Year of Issue)
Democratic People's Republic of Korea (DPRK) also known as North Korea	1718 (2006), 1874 (2009), 2017 (2013), 2094 (2013), 2270 (2016), 2321 (2016), 2371 (2017), 2375 (2017) and 2397 (Dec. 2017)
Islamic Republic of Iran	1737 (2006), 1747 (2007), 1803 (2008), 1929 (2010) and 2231 (2015)
Taliban	1267 (1999), 1988 (2011), Certain exemptions 2255(2015), [The UN Monitoring Team is appointed pursuant to 1526 (2004)]
ISIL (Da'esh) Al-Qaida and associated entities	1267 (1999), 1989 (2011) and 2253 (2015) – [The UN Monitoring Team is appointed pursuant to 1526(2004)]

13. Section 2, United Nations Act, No. 45 of 1968
14. Ibid.
15. FATF (2018), Guidance on Counter Proliferation Financing- The Implementation of Financial Provisions of United Nations Security Council Resolutions to Counter the Proliferation of Weapons of Mass Destruction, FATF, Paris http://www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-counter-proliferation-financing.html

(a) Global approach under UNSCR 1540 (2004) and its successor resolutions:

These amount to broad-based provisions both prohibiting the financing of proliferation related activities by non-state actors and requiring countries to establish, develop, review and maintain appropriate controls on providing funds and services, such as financing, related to the export and trans-shipment of items that would contribute to WMD proliferation.

Obligations under the global approach: The obligations under this approach exist separately and do not form part of the FATF Recommendation 7 and its Interpretive Note, and Immediate Outcome 11, but do form part of the FATF Recommendation 2 and are relevant in the context of AML/CFT regime of a country.

(b) Country-specific approach under UNSCR 1718 (2006) and UNSCR 2231 (2015) and their (future) successor resolutions:

These UNSCRs involve country specific resolutions adopted against the Democratic People's Republic of Korea (DPRK) and the Islamic Republic of Iran (Iran).

The scope and nature of DPRK-related sanctions have been expanded following the country's repeated violations of UN resolutions.

For Iran, on the other hand, UNSCR 2231 (2015), endorses the Joint Comprehensive Plan of Action (JCPOA), which terminated the previous provisions of resolutions relating to Iran and WMD proliferation, including UNSCRs 1737 (2006), 1747 (2007), 1803 (2008) and 1929 (2010), but retained TFS on a number of individuals and entities designated pursuant to these resolutions and also established new specific restrictions, including a number of other measures.[16]

TFS obligations: Obligations for a sovereign country under the country-specific approach form part of the FATF Recommendation 7 and Immediate Outcome 11 discussed later in detail along with general requirements for a jurisdiction.

This article discusses the country specific approach taken on targeted financial sanctions and its relevancy to a sovereign nation to counter proliferation financing.

2.5 Identifying Targeted Financial Sanctions and its Scope under UNSCRs

In identifying the scope and objectives of the Targeted Financial Sanctions it is relevant to seek the recent guidance provided by the FATF. In terms of applicability of TFS relating to proliferation financing, one must refer to the latest available list of names of persons and entities designated by the UN Security Council or the relevant committees[17] set up by the Security Council. As the designation process removes/adds/amend from the list being current in terms of reference is mandatory. Designation/ listing criteria refers by the UN and Committees are:

16. FATF (2018), Guidance on Counter Proliferation Financing- The Implementation of Financial Provisions of United Nations Security Council Resolutions to Counter the Proliferation of Weapons of Mass Destruction

17. In relation to: (a) DPRK - both the UN Security Council and the Security Council 1718 Committee; (b) Iran: currently, the UN Security Council only, as the former 1737 Committee has been terminated following the adoption of the UNSCR 2231 (2015).

(a) persons or entities engaging in or providing support for, including through illicit means, proliferation-sensitive activities and programmes;

(b) acting on behalf of or at the direction of designated persons or entities;

(c) owned or controlled by designated persons or entities; and

(d) persons or entities assisting designated persons or entities in evading sanctions, or violating resolution provisions.

The designated lists for Iran with regard to clauses (a) to (d) above, can be found within UNSCR 2231 (2015) paragraph 6(c) of Annex B to the Resolution. Designated list with regard to clause (a) to (c) for DPRK could be found within UNSCR 1718 (2006), Operational Paragraph 8(d). Designated lists for DPRK with regard to third party entities/ persons assisting designated list entities/persons (Clause (d) above) are found within UNSCR 2087 (2013) under operational paragraph 12 and within UNSCR 2094(2013) under operational paragraph 27.

On these instances, from the date of adoption of the resolution within the jurisdiction, a UN member country is required to freeze immediately the funds, other financial assets and economic resources which are on its territories or under the jurisdiction as at the date of adoption of the resolution or at any time thereafter that are owned or controlled, directly or indirectly by the persons/entities mentioned under resolutions identified above. Further, a country/jurisdiction is required to further ensure that no funds or other assets and economic resources are made available to such persons and entities, except in specific situations, and under conditions specified in the UNSC resolutions. These provisions as per Recommendation 7 is not risk-based, meaning the applicability is across the designated list of entities/persons and risk profiling is not a criteria.

2.6 Role of the Financial Action Task Force and Implementation of Targeted Financial Sanctions

In remaining within the discussion on TFS, it is paramount to identify the role played by the Financial Action Task Force and its recommendations that perform a major role in the implementation of UN sanctions as a main countermeasure in combating proliferation financing.

The Financial Action Task Force (FATF) is deemed the "global policy setter" in setting the policies and measures to support and strengthen anti-money laundering and countering of terrorist financing regimes in jurisdictions worldwide. FATF was founded in 1989 following a Ministerial level meeting of the Group of Seven (G-7) member countries to address mounting concerns on money laundering, mitigating the global threat of trafficking of psychotropic/narcotic substances and international organized crime.

Since then, the G-7 group has expanded to Group of 20 countries (G-20)[18] who annually meet up in order to discuss the global policies governing AML/CFT. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for

18. Currently, the G20 is made up of 19 countries and the European Union. The 19 countries are Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States.

combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse. The mechanism FATF utilises is the peer participatory evaluation and country adherence to globally announced and accepted Recommendations.

Countries are required to adhere to Recommendations developed by the FATF, formed subsequent to mutual discussions and consensus, with the aim of strengthening a country's AML/CFT regime. These Recommendations, numbering 40, were initially conceptualised in 1990 as the international standards for combating of money laundering and underwent several transformations in late 1990s and during past decade and half[19].

Soon after the disastrous events of the World Trade Centre attacks in New York, USA on September 11, 2001, combating terrorism and countering financing of terrorism was added to the FATF Recommendations as 8 Special Recommendations (which were distinguished by the use of Roman numerals, and the initials, SR). Observing an escalation in the global threat of proliferation of weapons of mass destruction, proliferation financing was added as the ninth Special Recommendation, thus identifying the Recommendations as 40 + 9. These recommendations form the basis for a co-ordinated response to threats to the integrity of the financial system and help ensure a level playing field. The FATF Recommendations were revised to ensure that they remain up to date and relevant, and they are intended to be of universal application.

Since the revision undergone in 2012, it is important to identify the FATF Recommendation incorporating the combating of proliferation financing. Further, the FATF introduced 11 Immediate Outcomes as measures of effectiveness of a country/jurisdiction in implementing the technical criteria of 40 Recommendations.

With regard to countering proliferation financing, Recommendations 7 of the FATF 40 Recommendations refers to what is required from jurisdictions in implementing targeted financial sanctions against the financing of proliferation of WMD. Immediate Outcome 11 on proliferation financial sanctions and certain elements of Immediate Outcome 1 relating to national cooperation and coordination aim to measure how effective countries are implementing these Recommendations.

Recommendation 7: Targeted Financial Sanctions Relating to Proliferation

"Countries should implement targeted financial sanctions to comply with United Nations Security Council resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and it's financing.

19. Recommendations are currently referred to as FATF 40 Recommendations after the 2012 revision that compiled previous 40+9 together to form 40 Recommendations.

These resolutions require countries to freeze without delay the funds or other assets of, and to ensure that no funds and other assets are made available, directly or indirectly, to or for the benefit of, any person or entity designated by, or under the authority of, the United Nations Security Council under Chapter VII of the Charter of the United Nations."[20]

The targeted financial sanctions (TFS) under the FATF Recommendations cross reference the United Nations standards and the asset freeze provisions and related lists pursuant to the following UNSCRs:

- UNSCR 1989 *Al Qaida* Sanctions List, and successors and amendments to such sanctions;
- UNSCR 1988 Sanctions List (*the Taliban*), successors and amendments to such sanctions;
- UNSCR 2231 (2015) (Iran) Financial Sanctions List, successors and amendments to such list; and
- UNSCR 1718 (DPRK) Financial Sanctions List, successors and amendments to the list.

In terms of countries, the UNSCRs are currently applicable to two countries, Iran and DPRK. The UNSCRs also include any successor Resolutions subsequently enacted through the UN Security Council. However, UN member countries, on their own, could identify and use specific treatment of transactions done with countries under the UNSCR regime. Anecdotally, one such treatment is approaching a deadline on 20 May 2018, where the USA has relaxed its treatment of Iran and which relaxation is being scrutinized whether to be kept intact, amended or withdrawn.

20. FATF Recommendation 7 (2012) FATF, Paris, France

2.7 Applicability of FATF Standards on a Sovereign Nation

The FATF Standards require countries to establish the necessary legal authority and identify competent authorities responsible for implementing and enforcing targeted financial sanctions, and for competent authorities, to have mechanisms for cooperation and, where appropriate, coordination mechanisms to combat the financing of proliferation of WMD.

Recommendation 7 of the FATF Standards requires countries to implement proliferation financing-related Targeted Financial Sanctions made under UNSCRs. Recommendation 2 requires countries to put in place effective national cooperation and, where appropriate, coordination mechanisms to combat the financing of proliferation of weapons of mass destruction. Immediate Outcome 11 and certain elements of Immediate Outcome 1 relating to national cooperation and coordination aim to measure how effective countries are implementing these Recommendations.

In applying the guidance in this section, countries should consider the following general principles:

(a) Countries should implement these measures according to their legal framework;

(b) countries' efforts to implement these measures should complement, rather than duplicate, export control regimes or other existing WMD counter proliferation controls, or through the adaptation or expansion of existing financial mechanisms, controls or prohibitions;

(c) Countries may consider leveraging their AML/CFT controls in carrying out their obligations relating to proliferation financing;

(d) supervised institutions can comply with these measures by identifying high risk customers and transactions, applying enhanced scrutiny

to such customers and transactions, and taking appropriate follow-up action to promote compliance with these UNSCR provisions;

(e) supervised institutions should generally manage and mitigate their risk of exposure to these measures by considering relevant information provided by competent authorities and on existing customer and transactional information currently being collected by financial institutions, including through their customer due diligence programs and existing AML/CFT obligations when identifying high risk customers and transactions;

(f) supervised institutions should consider undertaking reasonable efforts to collect additional information related to identified high-risk customers and transactions and subject such high-risk customers and transactions to ongoing/enhanced monitoring;

(g) encourage supervised institutions to use a risk-based approach;

(h) consider placing institutions involved in financial transactions or having accounts or customers that are more vulnerable to proliferation activities, under enhanced scrutiny; and

(i) countries should prohibit DPRK banks from establishing or maintaining correspondent relationships with banks in their jurisdictions to prevent the provision of financial services, 45 and to consider enhanced supervision and monitoring.[21]

Conclusion

In conclusion, it is emphasized that sanctions have come evolved greatly from their origins and currently can be identified as an effective tool to tackle a complex issue such as proliferation financing. The targeted financial sanctions identify the target individual or entity (legal person/ arrangement) and imposes a responsibility on the financial institutions and other stakeholders to implement sanctions effectively. The property belonging to the identified individual or entity are frozen, **without delay,** and such is the commitment and obligation of a sovereign country being a member of the UN body. Delays are not envisaged in any event due to the practical reason that funds/ assets may be removed from the financial sector and channeled back to or hidden from the authorities view. Keeping abreast of the validation and continuous updating of the list by the UN Security Council and the relevant committees are also of importance to a sovereign jurisdiction. A country must oblige as a part of strengthening the global fight against terrorism and proliferation financing and also as a supportive measure reflective of the international duty cast upon as a member states of the UN.

21. Ibid, FATF Guidance Note -

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Virtual Currency: What Public Needs to Know

By:
Migara S. Handunge, Regional Manager
S. Gunaratna, Senior Manager
Regional Office – Matara
Central Bank of Sri Lanka

Money and wealth are two different terms when explaining money and functions of money. Earning of money differs from earning of wealth. In order to generate wealth, goods are produced by using natural resources as well as human skills. The output of earning of wealth is called goods and services. But, a certain symbolic item is collected in earning of money. The symbolic item for earning of money is called as "currency". So, goods and services can be purchased by using "currency".

Generally, usage of currency is at the national level. There is no "currency", which is common for all the countries in the world. The name and the symbol of currency differ from country to country. Some examples of national currencies are given in the following table.

Serial No	Country	Currency unit
1	United States of America	US Dollar
2	United Kingdom	Sterling Pound
3	Japan	Yen
4	France	Euro
5	China	Yuan

There are common agreements and criteria for these currencies among the countries. Meanwhile, a growth in private currencies was seen during the 19th century.

Private currencies

The currency units issued by private companies/ organizations are called "private currencies". These

private currencies are used as an alternative to the national currencies. Although private currencies have not been accepted by the governments of some countries, there are countries where private currencies have been accepted. In general, these private currencies are issued against securities such as Gold, Silver, etc. So issuers are safe under these securities. Further, even in inflationary circumstances the values of private currencies are secured due to increase of value in those exchanged items.

Private currencies, which were introduced in USA in the mid of 2018 are still in use. As an example a printed note named "Ithaca Hours" is a famous private currency which has been used in Ithaca, New York since, 1991. Under this mechanism, participatory labourers in the area can earn and purchase "Ithaca hours" and they are able to use this private currency to purchase goods and services in the area. Berkshares region in Massachusetts also has a famous private currency which is called as "Berkshares". "Berkshares" were introduced in 29th September 2016. According to the official web page of "Berkshares", there are about 400 local businessmen who have registered for this private currency. The authorities in the Berkshares region expected to uphold the capital within the region and to build up strong relationships between business communities and residents in this region by using Berkshares. It is also considered as a tool, which helps to develop the economy of social community as well as a tool of creating a self-sufficient economy in the region.

It is worthwhile to note that private currencies have been used in England as well. A private currency called "Totness Pound" was famous in the Totness region, in England. "Totness Pound" was introduced in March, 2007. At that time the value of the Totness Pound was set equal to the value of the Sterling Pound. This was secured by a bank balance maintained in Sterling Pounds. This private currency was attracted by the businessmen in the region. Some other examples for private currencies are, "Lewes Pound" (2008), "Brixton Pound" (2009), "Stroud Pound" (2009) and "Bristol Pound". "Bristol Pound" was used for electronic payments. "Calgary Dollar" and "Toronto Dollar" are the popular private currencies in Canada. Anyway, there is no any legal acceptance for private currencies in Canada. There were some instances that the private currencies are also printed fraudulently. Bernard von NotHaus who was arrested in 2011 for Money laundering, mail fraud, counterfeit notes and conspiracy issued the "Liberty Dollar" during the period 1998-2004.

Digital currencies

The "private currency" concept had a global expansion with the improvement in the technology. So this improved version is named "Digital currency". New life for digital currency was commenced with the introduction of digital "gold currency" and "e–gold" in 1996. Digital currency is also called "cryptocurrency". However, digital currency has a global usage at present. Digital currencies also have some common features of national currencies. Digital currency is a payment system technology, which uses a symbol to make a payment. The recent growth of usage of social networks such as Facebook, Viber has created an impact on the expansion of usage in digital currencies. Another reason for such expansion could be online gambling environments such as "Online Vegas Casino". Digital currencies are exchanged among members in digital society as a medium of exchange and a unit of account. Digital currencies have safety and reliability issues.

So, there is a doubt as to how digital currencies act as a mode of store, which is a salient feature in currency. Further, it is important to be aware of the risks of these types of transactions such as; person who faces the risk, is it only for the users? or is there any impact to the economy as well?.

According to a definition presented by a report of the European Central Bank in 2015, "Virtual Currency Schemes – A Further Analysis" virtual currency is a digital representation of value, not issued by a central bank, a credit institution or a e-money institution, which, in some circumstances, can be used as an alternative to money. However, in their previous report of October 2012, virtual currency was defined as a type of unregulated digital money, which is issued and usually controlled by its developers and used and accepted among the members of a specific virtual community.

Common examples for digital currencies are cryptocurrencies such as "Bitcoin", "Litecoin", and "Ethereum". Some other cryptocurrencies are "Ripple", "Cardeno", "Sterlin", "Neo", "Nev", "Omisego" and "Monero".

Bitcoin

Bitcoin was introduced in 2008. It was introduced by a mysterious character named Satoshi Nakamoto whose real identity is unknown. The world famous Forbes magazine has named Bitcoin as a "common exchange mechanism between individuals, anywhere in the world at lowest cost in the speed of e-mail under the traditional financial system". Bitcoin originated with a scheme outlined in Nakamoto in January 2009, a nine page proposal for a "peer to peer" electronic cash system. Bloomberg mentioned that the system

has approved a collection of 21 million Bitcoins and the last Bitcoin will be issued in the year 2140. Cost is low when using Bitcoin in transactions and they are not subject to regulations with regard to banks. It is not required to have an intermediary for the Bitcoin transactions. There is no requirement to obtain a service from a bank to carry out Bitcoin transactions. There are people who become millionaires by investing money in Bitcoins. The value of Bitcoin in 2017, has recorded a significant increase.

The persons, who engage with the Bitcoin transactions, are not required to disclose their identity. It does not have any bond to any country and there is no regulator to monitor these transactions. Since there is no intermediary the transaction cost is very low. There are no high charges like in credit card transactions. Therefore, not only large businesses but also small businesses entered into Bitcoin transactions. Bitcoins are used not only for purchasing of goods & services, but as a mode of investment as well.

Purchase and sale of Bitcoins can be done through Bitcoin exchange institutions by using various national currencies. Popular Bitcoin exchange institutions are "coinbase", "bitstamp", and

The price fluctuation in the Bitcoin currency in 2017

Source - www.coindesk.com

The price fluctuation in the Bitcoin currency during the last 5 years

Source - www.coindesk.com

"bitfinex". Bitcoins can be transferred from one person to another by using computer and/ or phone software. So, funds can be transferred through digital technology from a person to another person. Purchasing Bitcoins are getting stored in a place called digital wallet. A Bitcoin wallet is a software programme where Bitcoins are stored. Bitcoin wallet facilitates sending and receiving Bitcoins and gives ownership of the Bitcoin balance to the user. Backup can be stored in the "wallet in cloud". There is a risk of hacking data stored in the servers. Information in the digital wallet can get lost as a result of viruses attacks in to the computers. Also

data could be deleted mistakenly. So, there is a risk for loss of information. Bitcoin transactions can be done anonymously. Name of the person, who is engaged with the Bitcoin transactions, is not revealed. These transactions are done through the identity number of the wallet. Privacy is protected in these transactions. There is a possibility for illegal transactions and even in those cases no one can identify these racketeers. Therefore, racketeers use this system in their drug deals, weapon deals, etc. In the meantime, Bitcoin transactions can be used for money laundering purposes. Other risk is governments losing large sums of money due to non-disclosure of these type of transactions.

The four most typical Bitcoin scams are Ponzi Scams, Bitcoin Mining Scams, Bitcoin Exchange Scams and Bitcoin Wallet Scams.

- **Ponzi Scams**: Ponzi scams or high-yield investment programs, hook you with higher interest than the prevailing market rate (e.g. 1-2 per cent interest per day) while redirecting your money to the thief's wallet. They also tend to duck and emerge under different names in order to protect themselves. Keep away from companies that give you Bitcoin addresses for incoming payments rather than the common payment processors such as Bitpay or Coinbase.
- **Bitcoin Mining Scams:** These companies will offer to mine outrageous amounts of Bitcoin for you. You will have to pay them. That is the last moment you see your money**.**
- **Bitcoin exchange scams:** Bitcoin exchange scams offer features that the typical Bitcoin wallets do not offer, such as PayPal/ Credit Card processing or better exchange rates. Needless to say, these scams leave you in the hang while they siphon your dollars.
- **Bitcoin wallet scams:** Bitcoin wallet scams are similar to online wallets - with a difference. They will ask you for your money. If robbers like the amount that is the last moment you see your deposit. The address, in other words, leads to them, rather than to you.

Nature of Bitcoin transactions

01. Irreversible

A transaction cannot be reversed after confirmation. If someone sends money, he sends it. There is no one to help you. There is no regulation to report. If the funds are sent to a scammer or, if a hacker stole your computer, the loss has to be borne. No one can change it. There is no safety net.

02. Pseudonymous

Accounts are not connected with the real world identities.

03. Fast and Global

Transaction is propagated instantly in the network and the transaction is confirmed within a couple of minutes.

04. Permissionless

Person who want to do Bitcoin transactions do not need to take permission from anyone. It is just software that everybody can download for free. After installation, it can be used to purchase and sell Bitcoins.

Litecoin

Litecoin is a cryptocurrency, which is popular among cryptocurrency users. When price of a Bitcoin increased by 1731 per cent in 2017 price of a Litecoin increased by 7291 per cent. Mr. Charlie

Lee introduced the Litecoin in October 2011. He is an ex-employee of Google and he wanted to introduce a cryptocurrency, which is higher in value than the Bitcoin.

Lee designed the Litecoin to complement Bitcoin by solving some of the issues of Bitcoin, like transaction links, fees and concentrated mining pools. While Bitcoin is seen as "gold" and a store of value for long term purposes, Litecoin is seen as "silver" and a mean of a transaction for cheaper and everyday purposes. Litecoin, by its own admission, is a clone of Bitcoin. Litecoin was designed to be 4 times faster than the Bitcoin. Average block mining speed of a Litecoin transaction is 2.5 minutes. Bitcoin takes 10 minutes for this purpose. So in Litecoin, more transactions could be confirmed due to this. Therefore, this is popular among traders who do a large number of small transactions.

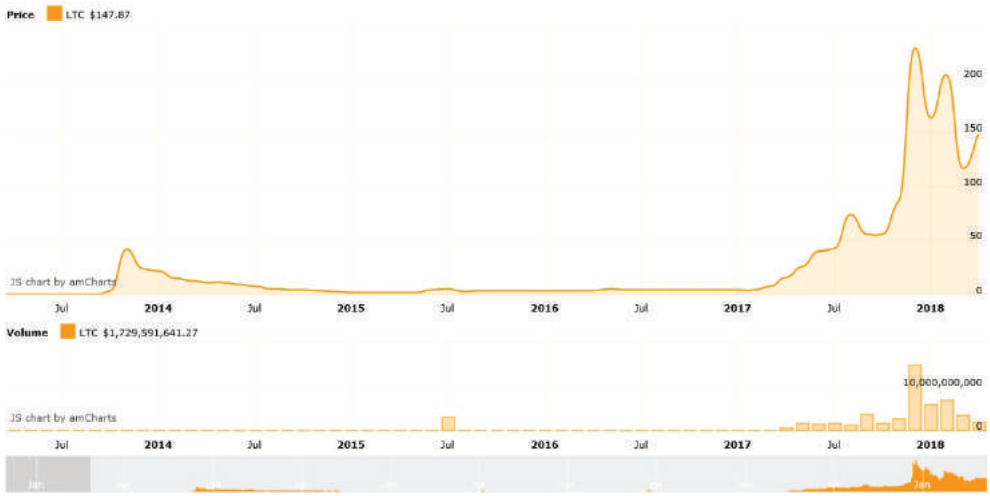
On July 2015, the Bitcoin network experienced a flood attack. The flood attack was an attack which the network was congested with thousands of transactions and at one point there were around 80,000 transactions in the mempool. However, the Litecoin was able to prevent such attacks.

There can only ever be 84 million Litecoins. Those could be purchased through exchange systems such as BTC-e, Kraken and Cryptsy. On 18 December 2017, Litecoin reached its all-time highest value of

The price fluctuation in the Litecoin currency in 2017

Source - www.coindesk.com

The price fluctuation in Litecoin currency during the past five years



Source - www.coindesk.com

360.93 US dollars, compared to the price one year before of 4.40 US dollars, which was an incredible 8200 per cent rise.

Ethereum

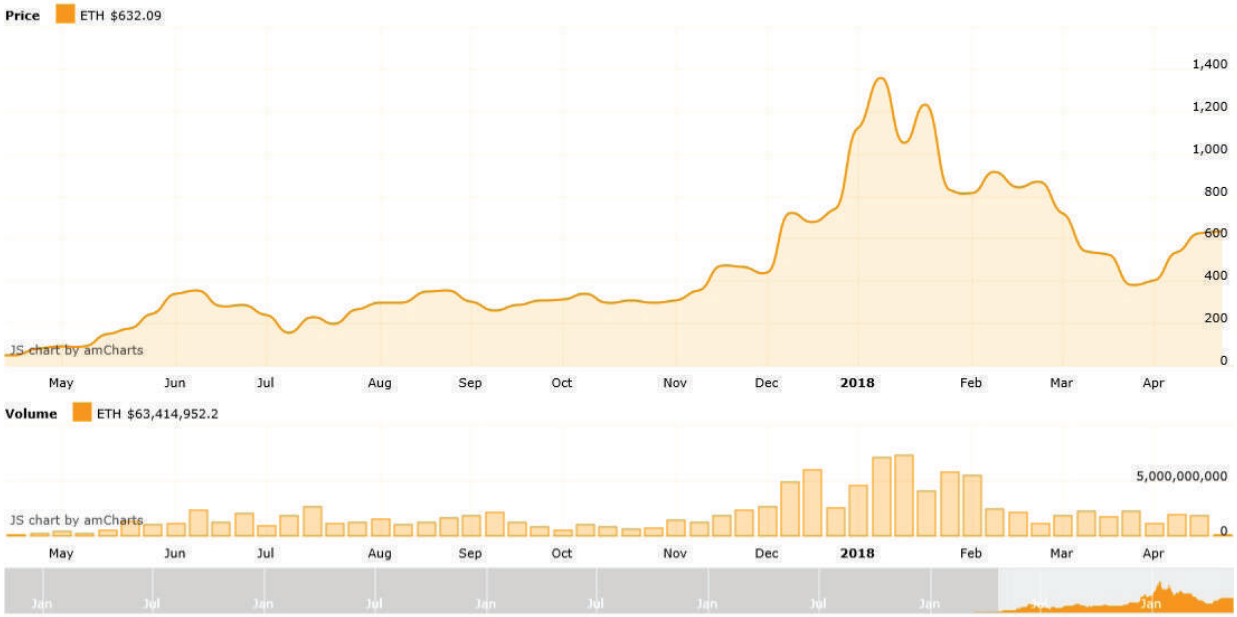
At its simplest, Ethereum is an open software platform based on block chain technology that enables developers to build and deploy decentralized applications. Like the Bitcoin, Ethereum is a distributed public block chain network. Although there are some significant technical differences between the two, the most important thing to note is that Bitcoin and Ethereum differ substantially in purpose and capability. Ethereum was proposed in late 2013 by Vitalik Butterin, a cryptocurrency researcher and programmer. The system went live on 30 July 2015, with 11.9 million coins premined for sale.

Value of Ethereum has increased by 13000 per cent in 2017. Although Bitcoin takes 10 minutes to confirm a transaction, Ethereum takes only few seconds. Fees on Ethereum transaction depends on the complexity of the transaction and storage requirements. The cost of a transaction is comparatively low when compared to a Bitcoin transaction. As an example, for a Bitcoin transaction in 2017, the average fee was about 23 US dollars. However, average cost of an Ethereum transaction was only 0.33 US dollars, which is unbelievably low. Ethereum transactions can be covered out through blockers, cryptocurrency exchange houses and online cryptocurrency exchanges.

Message from the Central Bank of Sri Lanka

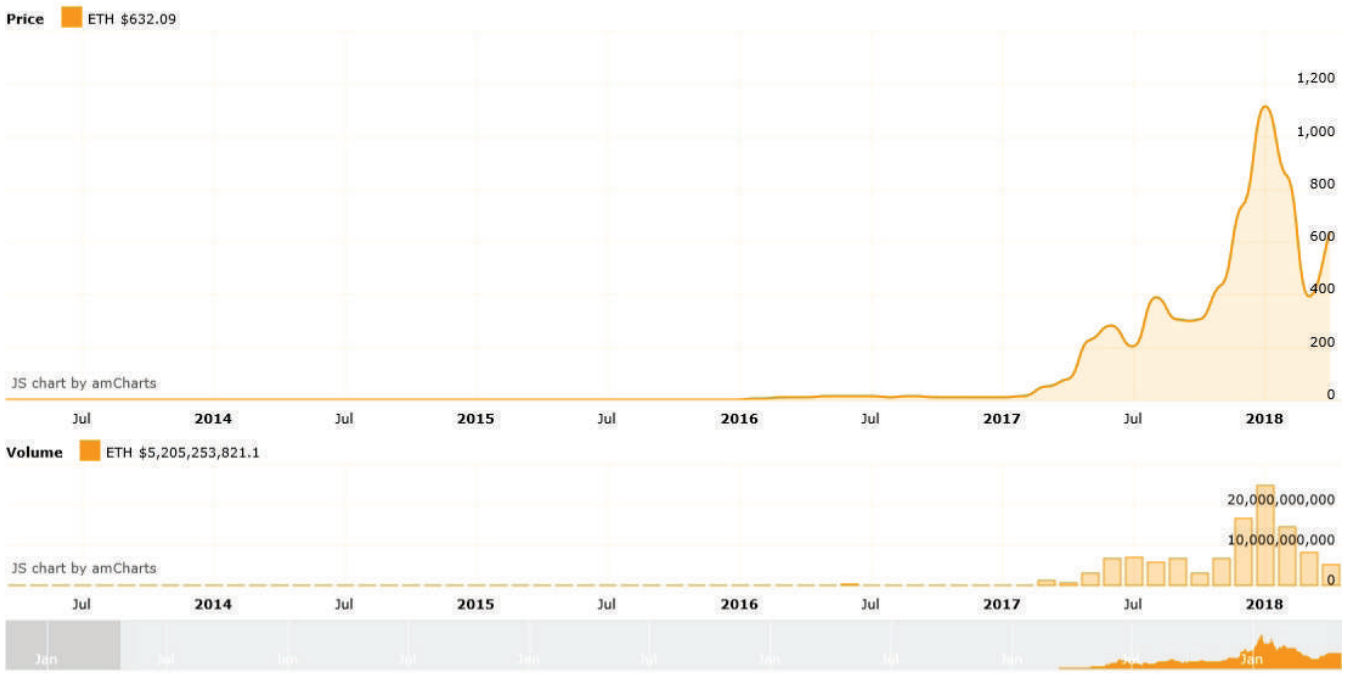
The Central Bank of Sri Lanka (CBSL) is aware of the growing interest in virtual currencies (VCs), both domestically and internationally.

The price fluctuation in the Ethereum currency in 2017



Source - www.coindesk.com

The price fluctuation in Ethereum currency during the past five years



Source - www.coindesk.com

The term "virtual currencies" is commonly used to refer to digitally created representations of value that are issued by private developers and denominated in their own unit of account. Common examples of virtual currencies are cryptocurrencies such as Bitcoin, Litecoin and Ethereum. Virtual currencies are not central bank issued currency.

Virtual currencies such as cryptocurrencies use decentralized peer-to-peer digital networks to

authorize transactions. Due to the absence of a centralized authority such as a central bank to guarantee the value of the currency and regulate transactions, there is no recourse in the event of any user or transaction related issues or disputes. The value of virtual currencies is dependent on speculation and is not backed by an underlying asset or a regulatory framework. Due to this, virtual currencies may demonstrate major volatility. Similarly, there appears to be a high probability of virtual currencies being used in illegal activities. Further, though unintentional, their usage could amount to breaches of anti-money laundering and combating the financing of terrorism (AML/CFT) laws. Therefore, cryptocurrencies, in the present form, may pose significant risks in terms of financial, operational, legal, customer protection and security related risks to their users as well as to the economy.

It is hereby notified to the public that CBSL has not given licence or authorization to any entity or company to operate schemes involving virtual currencies, including cryptocurrencies, and has not authorized any Initial Coin Offerings (ICOs).

(Reference: CBSL Press Release on Public awareness on Virtual Currencies in Sri Lanka dated 16.04.2018).

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Mr. B L J S Balasooriya

Director, Regional Office Management Department,
Central Bank of Sri Lanka

Mr. D M Rupasinghe

Director, Financial Intelligence Unit, Central Bank of Sri Lanka

Mrs. D R Karunaratne

Deputy Director, Bank Supervision Department, Central Bank of Sri Lanka

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