

## 10.6 Maintaining the database of staff loans

FD continuously updated the loan database of the CBSL staff with the assistance of the Information Technology Department to facilitate the loan recovery record process and to supply information to employees and the management during the year 2018. Accordingly, 1,556 loans amounting to Rs 1.9 billion have been granted to the employees during 2018.

## 10.7 Other Operations - Procurement Process

According to the Rules of the CBSL, FD is represented in all Technical Evaluation Committees and Tender Boards for the procurement of goods and services and the Boards of Survey of the CBSL for disposal of fixed assets. During the year 2018, FD officers represented around 229 Tender Boards and 84 Technical Evaluation Committees related to procurements, one Board of Survey and one Vehicle Disposal Committee related to disposal of fixed assets.

## 11. FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit (FIU) has been providing its services locally as well as internationally for over a decade now. Since its establishment in 2006 under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), it functions as an independent statutory authority. FIU acts as the lead Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulator of the country. In addition, FIU has provided a comprehensive coverage for country's financial and non-financial establishments to comply with the AML/CFT regulations issued by Financial Action Task Force (FATF) and supervise by FATF jointly with Asia Pacific Group on Money Laundering (APG). The key functions of FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering (ML) and Terrorist Financing (TF) and other related unlawful activities as defined in the FTRA, analysis of suspicious financial transactions relating to the above unlawful activities and dissemination of information of such analyses to relevant law enforcement agencies for investigation. Furthermore, the functions of FIU are also enforced under the Prevention of Money Laundering Act, No. 5 of 2006 (PMLA) and Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA).

### 11.1 Receipt, Analysis and Dissemination of Information

FIU has made it mandatory for reporting institutions to submit information on financial transactions, including suspicious transactions, from Reporting Institutions through a web-based system, "LankaFin", especially designed to assist in reporting on ML and TF. Accordingly, Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Insurance Companies, Stock Brokers (SBs) and Money or Value Transfer Service (MVTs) providers continued to report to FIU on cash transactions and electronic fund transfers (both

local and foreign) of Rs. 1.0 million and above or its equivalent in foreign currencies. In addition, Suspicious Transactions Reports (STRs) were filed with FIU by the Reporting Institutions in terms of Section 7 of the FTRA. Accordingly, over 11.9 million of cash/funds transfers and 1,022 STRs were reported during the year 2018. Moreover, Authorised Money Changers (AMCs) also reported their cash transactions exceeding the threshold amount through the Director of Foreign Exchange who monitors and regulates the AMC sector. In 2018, FIU disseminated 317 STRs to law enforcement agencies and regulatory authorities for further investigation.

### 11.2 Regulation of Reporting Institutions

FIU continued to issue regulations for its reporting entities to streamline the regulatory framework further. Accordingly, Gazette (Extraordinary) No. 2053/20 dated January 10, 2018 on Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 was issued to Designated Non-Finance Businesses to conduct the customer due diligence based on "Risk-Based Approach". Furthermore, during the year, FIU issued seven guidelines to Financial Institutions as well as Designated Non-Finance Businesses and Professions on the areas such as Money Laundering and Terrorist Financing Risk Management, AML/CFT Compliance Obligations for Casinos and Gambling Houses, AML/CFT Compliance Obligations for Dealers in Real Estate, Precious Metals, Precious and Semi-Precious Stones, Identification of Beneficial Ownership, Implementing United Nations Resolution (Sanctions in relation to Democratic People's Republic of Korea and Iran) and Suspicious Transactions Reporting. Apart from this, a circular on Procedure of Conducting Risk-Based Onsite Examinations, was issued to strengthen the process of AML/CFT supervision.

### 11.3 Domestic and International Cooperation

During the year, FIU entered into a number of Memorandum of Understanding (MOUs) to share information among them and represented in several international cooperation events to enhance the knowledge of the FIU staff and knowledge sharing basis.

#### a) Memorandum of Understanding

In 2018, FIU signed three MOUs domestically with the Department of Motor Traffic, Insurance Regulatory Commission of Sri Lanka and Securities and Exchange Commission of Sri Lanka. Accordingly, the total number of MOUs signed by FIU with domestic agencies increased to 08 as at end 2018.

#### b) Egmont Group

The FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 155 member FIUs globally, in order to carry out investigations and collaborate with member countries to gather intelligence on their investigations. Total number of instances that FIU exchanged information with Egmont members was 94 in the year 2018. FIU responded for 24 requests from counterpart

FIUs and made 70 requests from counterpart FIUs to share information relating to on-going investigations. Further, the FIU officers participated in the Egmont Group of Financial Intelligence Units' Meetings held in Buenos Aires, Argentina in March 2018 and the Egmont Plenary meeting held in Sydney, Australia in September 2018.

#### **c) Asia Pacific Group on Money Laundering (APG)**

The FIU officers participated in the APG Plenary and Technical Assistance Sessions held in Kathmandu, Nepal in July 2018 where the Director of the FIU co-chaired the Plenary and the APG Typologies and Capacity Building Workshop held in Russia in December 2018.

#### **(d) BIMSTEC Sub-Group on Anti Money Laundering and Combating the Financing of Terrorism (BIMSTEC SG-AML/CFT)**

The FIU officers participated in the 10th SG-AML/CFT meeting of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) held in Kathmandu, Nepal during 19-20 November 2018.

### **11.4 Institutional Capacity Building and Awareness Programmes**

In continued efforts to enhance the awareness on detecting, reporting and analysing of ML and TF related transactions, 61 awareness/training programmes were conducted during the year, accommodating 3,258 participants from LCBs, LSBs, LFCs, MVTS providers, DNFBBs, Stock Brokers and Insurance Companies. The 4th and 5th Technical Assistance Mission of the International Monetary Fund (IMF) was conducted by experts from the IMF during the period 26 February – 07 March 2018 and 26 November - 04 December 2018, respectively. The Mission continued to provide technical assistance to strengthen AML/CFT regime in Sri Lanka, in the areas of risk-based supervision, FIU capacity development and legislative amendments. Further, the Resident Advisor from the US Department of Treasury also continued to provide technical assistance in the areas of FIU Operational Effectiveness, Financial Sector Supervision and AML/CFT Case Development and Asset Management.

### **11.5 Review by International Cooperation Review Group**

The 2nd Mutual Evaluation (ME) on Sri Lanka was conducted during 2014/15 by the APG, with the intention of assessing Sri Lanka's AML/CFT compliance with international AML/CFT standards. The Mutual Evaluation Report (MER) adopted in July 2015 recommended a series of actions to be implemented by Sri Lanka under the APG's 'expedite enhanced follow up' process. In October 2016, the FATF informed that Sri Lanka will be subjected to a review of the International Cooperation Review Group (ICRG) of the FATF to assess the progress of AML/CFT effectiveness. After several discussions and progress reports, the FATF informed that Sri Lanka has not made sufficient

progress in 4 areas, namely International Cooperation, Supervision, Legal Persons and Arrangements and Targeted Financial Sanctions on Proliferations (North Korea & Iran). As a result, the FATF at its Plenary held at Buenos Aires, Argentina in October 2017, listed Sri Lanka as a jurisdiction with strategic AML/CFT deficiencies in the FATF's Compliance Document which is more commonly identified as the "Grey List". Upon listing, a time-bound action plan to address the strategic deficiencies identified was provided to Sri Lanka.

Since the listing in November 2017, Sri Lankan authorities have taken effective and tangible steps to implement the FATF Action Plan including the passing of Trust Ordinance (Amendment) Act, No. 6 of 2018, Mutual Assistance in Criminal Matters (Amendment) Act, No. 24 of 2018, issuance of regulation/directives/guidelines on implementing United Nations Security Council Resolutions on Democratic People's Republic of Korea and Iran, extending the AML/CFT coverage to Designated Non Finance Businesses and Professions (DNFBPs) by issuing Customer Due Diligence Rules, implementation of risk-based supervision, enforcement actions and outreach for financial institutions and DNFBBs.

The FATF assessed Sri Lanka's progress in implementing the Action Plan through the Asia Pacific Joint Group (AP/JG). Three progress reports were submitted and face-to-face discussions were held with the AP/JG on the progress made by Sri Lanka during January, May and September 2018, respectively. The AP/JG had acknowledged the progress made by Sri Lanka. Hence, it is expected that Sri Lanka would exit the "Grey List" by mid-2019.

## **12. FOREIGN EXCHANGE**

The Department of Foreign Exchange (DFE) was established in terms of Section 2 of the Foreign Exchange Act (FEA) No. 12 of 2017, with effect from 20 November 2017. The main purpose is to implement the provisions of FEA by the CBSL of Sri Lanka as the agent of the government, in order to ensure proper promotion and regulation of foreign exchange in Sri Lanka.

In discharging the functions entrusted to the department, DFE authorises persons i.e., Authorised Dealers (ADs), Restricted Dealers (RDs) and other persons prescribed by the Minister, to deal in foreign exchange in terms of FEA, facilitate issuance of Regulations, Orders and Directions pertaining to foreign exchange operations with necessary approvals, monitor the compliance with such Regulations, Orders and Directions by respective authorised persons and conduct investigations on non-compliances with the provisions of FEA.

Accordingly, DFE is organised under three divisions namely, Policy and Research Division, Capital Transactions Division and Statistics, Monitoring and Investigation Division in order to perform the following main functions in an efficient and effective manner. The main activities carried out by DFE during 2018 are summarised below.