

the first working day of 2020. Meanwhile, quarterly budgetary performance statements for the year 2019 were submitted to the Monetary Board in the interest of effective monitoring of budgetary control.

10.3 Effecting Payments for Internal and External Parties

- (a) All internal payments for employee remunerations, staff loans, operational expenses, etc., were executed in 2019 within the time targets.
- (b) All external payments to local and foreign suppliers were made as per the procedures laid down under the standing orders of the Central Bank. During 2019, a total of 6,198 payments were effected, of which 5,929 were to local suppliers and 269 to foreign suppliers.
- (c) Nearly 3,027 disbursements amounting to Rs 1,231.9 billion to the General Treasury and relevant projects, and 821 installments amounting to Rs 1,411.7 billion on repayment of foreign loans were made during the year 2019. In addition, 4 banking arrangement agreements were signed with two foreign banks for various projects.

10.4 Management of internal funds

- (a) A separate unit, which was established under FD and commenced operations in March 2016 to centrally manage the investments of the Central Bank's internal funds (excluding EPF) as per the decision taken by the Monetary Board, managed 17 internal funds consisting of 8 superannuation funds of the Central Bank staff and pensioners and 4 other funds administered by FD, Deposit Insurance and Liquidity Support Fund administered by Resolution and Enforcement Department, 3 funds administered by Staff Services Management Department and 13 project funds administered by Regional Development Department. All funds are invested under a common Investment Policy by FD and the owner departments function as the administrators of the respective funds. The fund management process is governed by the Monetary Board approved Investment Policy Statement/Guidelines (IPS/IPG) and Strategic Asset Allocation Guidelines. Further, this also includes an independently operating front office and a back office and decisions taken at the Internal Investment Oversight Committee (IIOC) chaired by the Deputy Governor overseeing Financial Sector Regulation and Supervision cluster, which met 12 times during 2019 to advise and monitor the investments of funds. Performance of these Investments were reported monthly to the Monetary Board for information purposes.
- (b) The funds are invested mainly in government securities, fixed deposits, high rated corporate debentures and short term reverse repos. The audited financial Statements of the six superannuation funds for 2018 were submitted to the Monetary Board as per the rules of those funds. At the end of 2019, the total fund base had increased to Rs. 130.17 billion.

Table II-23
Performance of Fund Management – 2019 (Rs. bn.)

Department	Portfolio value as at 31 Dec 2019 (invested values)	Portfolio value as at 31 Dec 2018 (invested values)
Finance	59.96	55.16
Resolution and Enforcement	64.06	53.96
Regional Development	6.07	3.64
Staff Services Management	0.08	0.08
Total	130.17	112.84

10.5 Maintaining Fixed Assets Register

FD maintained all records of the fixed assets of the Central Bank in the Fixed Assets Register in the fixed asset module of the General Ledger System. All changes such as new purchases, change of locations, revaluations, depreciation and disposals were recorded in this register during 2019. The register was updated with 1,559 items procured and 338 disposals in 2019.

10.6 Maintaining the database of staff loans

FD continuously updated the loan data base of the Central Bank staff with the assistance of Information Technology Department to facilitate the loan recovery record process and to supply information to employees and to the management. A total of 2,055 loans amounting to Rs 2.17 billion were granted to the employees during 2019.

10.7 Other Operations - Procurement Process

According to the Rules of the Central Bank, The representation of FD is required in all technical evaluation committees and tender boards for procurement of goods and services and the Boards of Survey of the Central Bank for disposal of fixed assets. During 2019, officers of FD represented 192 tender boards and 61 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

Financial Intelligence Unit (FIU) has been continuously demonstrating its pursuit to achieve the objective of establishing an effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework in Sri Lanka, in close cooperation with national and international authorities since its inception. The FIU, which was established in 2006 under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), functions as an independent statutory authority and acts as the lead AML/CFT regulator of the country. In addition, FIU has provided a comprehensive coverage for the country's financial and non-financial establishments to comply with the AML/CFT regulations issued by Financial Action Task Force (FATF) and supervised 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), Terrorist Financing (TF), Proliferation Financing (PF) and other related unlawful activities 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 authorities for investigation. The country's AML/CFT regime also consists of two other major pieces of legislation, i.e., 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), where FIU is involved in implementing their provisions effectively.

11.1 Receipt, Analysis and Dissemination of Information

In terms of the mandatory requirements, Reporting Institutions (RIs) continued to submit information on financial transactions, including suspicious transactions, from RIs through a web-based system, "LankaFin", especially designed to assist in reporting on ML and TF. 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 (CTRs) and Electronic Funds Transfers (EFTs) (both local and foreign) of Rs. 1.0 million and above each, or its equivalent in foreign currencies. Accordingly, during 2019, RIs have reported 4.9 million (provisional) CTRs and 6.6 million (provisional) EFTs. In addition, Suspicious Transactions Reports (STRs) were reported to FIU by the RIs in terms of Section 7 of the FTRA. After operational and strategic analyses, STRs were referred to the Law Enforcement Authorities (LEAs) and regulatory authorities, for further investigation. 2,806 STRs were reported to FIU during 2019 and FIU disseminated a total of 1,478 STRs to the LEAs and regulatory authorities for further investigations.

11.2 Regulation of Reporting Institutions

With a view to strengthening the AML/CFT supervision process and institutional compliance, FIU issues Regulations, rules and guidelines to Financial Institutions (FIs) as well as Designated Non Finance Businesses and Professions (DNFBPs). Accordingly, FIU issued several rules and guidelines during the year 2019 on suspicious transactions reporting, conducting ongoing customer due diligence on a risk-based approach, enhanced due diligence, identification of beneficial ownership and identification of Politically Exposed Persons (PEPs). FIU continuously took measures to enhance compliance of RIs by effective monitoring and enforcement, onsite and offsite surveillance, raising awareness through seminars and conducting compliance review meetings on AML/CFT to RIs. In line with that, FIU conducted 32 and 36 risk-based onsite examinations to FIs and DNFBPs, respectively, to assess such institutions' compliance with the FTRA, Customer Due Diligence (CDD) Rules, and other regulations and rules issued. Further, FIU took regulatory actions, such as imposing sanctions, issuing warning letters, and initiated follow up discussions with FIs and DNFBPs which failed to comply with the AML/CFT requirements.

11.3 Domestic and International Cooperation

(a) Memoranda of Understanding

In 2019, FIU entered into two Memoranda of Understanding (MoUs) with Financial Intelligence Unit of Maldives and Financial Analysis and Supervision Unit of Papua New Guinea, increasing the total number of MoUs with foreign counterparties to 39. Further, with a view to exchanging more information, three MoUs were signed with domestic agencies, i.e., the National Gem and Jewellery Authority, the Condominium Management Authority, and INTERPOL National Central Bureau for Sri Lanka during the year, increasing the total number of MoUs signed with domestic agencies up to 11.

(b) Egmont Group

FIU obtained assistance from members of the Egmont Group, the Association of FIUs consisting of 164 member FIUs globally, in order to carry out investigations and collaborate with member countries to gather intelligence on their investigations. FIU – Sri Lanka responded to 40 requests from counterpart FIUs and it also made 58 requests from counterpart FIUs to share information relating to on-going investigations during 2019. Further, FIU officers participated in the Egmont Group of Financial Intelligence Units' meetings held in Jakarta, Indonesia in January 2019 and the Egmont Plenary meeting held in Hague, Netherlands where Mr. D M Rupasinghe, Director, FIU - Sri Lanka was appointed as the Asia & Pacific Regional representative of the Egmont Group. The Asia & Pacific Regional Group of the Egmont Group comprises 28 FIUs in the region. Every two years, two senior officers from FIUs in the region are appointed to represent the Asia & Pacific region in the Egmont Group.

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

A team of officials from Sri Lanka representing key institutions participated for the 22nd APG Annual Meeting and Technical Assistance forum held during 18-23 August, 2019 in Canberra, Australia. During the meeting, the 4th follow up report of Sri Lanka was discussed. After constructive debate, the membership granted approval to upgrade the compliance rating of 4 recommendations previously rated non-compliant or partially compliant. Accordingly, out of 40 FATF recommendations, Sri Lanka's rating stood as, 7 compliant, 24 largely compliant, 7 partially compliant and 2 non-compliant by end 2019.

(d) BIMSTEC Sub-Group on Combating the Financing of Terrorism (BIMSTEC SG-CFT)

FIU successfully conducted the BIMSTEC SG-CFT Workshop on the theme of "Experience in Countering Terrorism and Terrorist Financing through Case Studies" in Colombo from 27 to 29 November, 2019 with the participation of 40 delegates from BIMSTEC member countries. The workshop provided an opportunity to

share Sri Lanka's experience in Countering Terrorism and Terrorist Financing with other members of the BIMSTEC. Further, FIU officials participated in the 11th meeting of the BIMSTEC Sub-Group on Anti-Money Laundering and Combating the Financing of Terrorism held in Thailand in September 2019.

(e) Knowledge Sharing with Other FIUs

FIU hosted a team of officials from Financial Intelligence Unit of Maldives for a four day study visit during 2-5 December, 2019. The study visit mainly focused on sharing experiences on AML/CFT risk based supervision, analysis of suspicious transactions, and sharing Sri Lankan experiences on Mutual Evaluation and National Risk Assessment on ML/TF. FIU Sri Lanka intends to continue this initiative with other FIUs in the region in order to further strengthen the cooperation among FIUs.

11.4 Institutional Capacity Building and Awareness Programmes

Continuing the efforts to enhance the awareness on detecting, analysing and reporting of ML and TF related transactions, 55 awareness/training programmes were conducted during the year, accommodating 3,688 participants. The 6th and 7th Technical Assistance Missions of the IMF were conducted by experts from the IMF in March and October 2019, respectively. The Missions continued to provide technical assistance to enhance AML/CFT regime in Sri Lanka, in the areas of risk-based supervision, FIU capacity developments 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. With the generous sponsorship provided by the Asian Development Bank (ADB), FIU was able to get technical assistance from an expert from Finland FIU, on a two week consultation mission on configuration of goAML application.

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 on the international AML/CFT standards. The Mutual Evaluation Report (MER) adopted in September 2015 recommended a series of actions to be implemented by Sri Lanka under APG's 'expedite enhanced follow up' process. In October 2016, the FATF informed that Sri Lanka would be subject 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 had 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 passing the Trusts (Amendment) Act, No. 6 of 2018, the Mutual Assistance in Criminal Matters (Amendment) Act, No. 24 of 2018, issuing regulations/directives/guidelines on implementing United Nation's Security Council Resolutions on Democratic People's Republic of Korea and Iran, extending the AML/CFT coverage to DNFBPs by issuing CDD Rules, implementing risk based supervision, enforcing supervisory actions and conducting awareness programmes for financial institutions and DNFBPs.

The FATF assessed Sri Lanka's progress in implementing the Action Plan through the Asia Pacific Joint Group (AP/JG). In February 2019, FATF made the initial determination that Sri Lanka has completed its action plan substantially. Subsequently, an on-site assessment was conducted by the AP/JG to verify implementation of the FATF Action Plan, from 16 to 17 September, 2019. The AP/JG representatives had face-to-face meetings with all relevant stakeholders, including the private sector and the Minister of Finance to ascertain Sri Lanka's political and institutional commitment towards the implementation of AML/CFT framework in a suitable manner. The recommendations made by the review team on Sri Lanka's progress were discussed at the FATF Plenary held in October 2019 and all members endorsed the decision to delist Sri Lanka from the Grey List. Accordingly, on 18 October 2019, the FATF announced that Sri Lanka is no longer subject to the FATF monitoring process. The delisting by the FATF is expected to have a positive economic and financial impact on Sri Lanka.

12. FOREIGN EXCHANGE

Department of Foreign Exchange (DFE) was established effective from 20 November 2017 under Section 2 of the Foreign Exchange Act No. 12 of 2017 (FEA), for the purpose of implementing the provisions of the FEA to carry out the responsibility for promoting and regulating foreign exchange transactions vested in the Central Bank as the agent of the Government of Sri Lanka (GOSL).

The main duties of DFE include appointing Authorised Dealers (ADs), Restricted Dealers (RDs) and other persons to deal in foreign exchange as prescribed by the Hon. Minister of Finance in terms of the FEA, implementing provisions of the FEA by formulating Regulations and Orders and issuing of Directions for carrying out foreign exchange activities and transactions, granting permissions for specific purposes not covered by the general permissions given under the FEA, conducting policy oriented research to determine the effectiveness of existing