

# FINANCIAL INTELLIGENCE UNIT ANNUAL REPORT 2017



FINANCIAL INTELLIGENCE UNIT OF SRI LANKA

# ANNUAL REPORT 2017

Financial Intelligence Unit of Sri Lanka





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# LIST OF ACRONYMS

AMCs	- Authorized Money Changers
AML	- Anti-Money Laundering
APG	- Asia Pacific Group on Money Laundering
BIMSTEC	- Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation
BSD	- Bank Supervision Department
CAMAC	- China AML Monitoring and Analysis Centre
CANZUS	- Canada, Australia, New Zealand and USA
CBS	- Centre for Banking Studies
CBSL	- Central Bank of Sri Lanka
CDD	- Customer Due Diligence
CFIB	- Colombo Fraud Investigation Bureau
CFT	- Countering the Financing of Terrorism
CIABOC	- Commission to Investigate Allegations of Bribery or Corruption
CID	- Criminal Investigation Department
CSTFA	- Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005
CTRs	- Cash Transaction Reports
DNFBPs	- Designated Non-Financial Businesses and Professions
DSNBFIs	- Department of Supervision of Non-Bank Financial Institutions
DPRK	- Democratic People's Republic of Korea
EAG	- Eurasian Group
ECD	- Exchange Control Department
EFTs	- Electronic Fund Transfers
FATF	- Financial Action Task Force
FCID	- Financial Crimes Investigation Division
FED	- Foreign Exchange Department
FIU	- Financial Intelligence Unit
FSRBs	- FATF-Style Regional Bodies
FTRA	- Financial Transactions Reporting Act, No. 06 of 2006
ICRG	- International Co-operation Review Group
ICs	- Insurance Companies
IMF	- International Monetary Fund

IRCSL	- Insurance Regulatory Commission of Sri Lanka
IRD	- Inland Revenue Department
KYC	- Know Your Customer
LankaFIN	- FIU-Sri Lanka's Online Database Management System
LBs	- Licensed Banks
LCBs	- Licensed Commercial Banks
LEAs	- Law Enforcement Agencies
LFCs	- Licensed Finance Companies
LKR	- Sri Lankan Rupees
LSBs	- Licensed Specialized Banks
ME	- Mutual Evaluation
MER	- Mutual Evaluation Report
ML/TF	- Money Laundering and Terrorist Financing
MOD	- Ministry of Defence
MOUs	- Memorandums of Understanding
MVTS	- Money or Value Transfer Service
NCC	- National Coordinating Committee
NGOs	- Non-Governmental Organizations
NICs	- National Identity Cards
NRA	- National Risk Assessment
PMLA	- Prevention of Money Laundering Act, No. 05 of 2006
PNB	- Police Narcotic Bureau
RAs	- Regulatory Authorities
RBA	- Risk-Based Approach
RIs	- Reporting Institutions
SAs	- Supervisory Authorities
SBs	- Stock Brokers
SEC	- Securities and Exchange Commission of Sri Lanka
SGAML-CFT	- Sub-Group on Anti-Money Laundering and Combating the Financing of Terrorism
SIS	- State Intelligence Service
STRs	- Suspicious Transaction Reports
TC	- Technical Compliance
TID	- Terrorist Investigation Division
UNODC	- United Nations Office on Drugs and Crime
UNSCRs	- United Nations Security Council Resolutions
USD	- US Dollar



# YEAR 2017 AT A GLANCE...

Commenced awareness programmes covering the DNFBP sector



**21**

Risk Based Supervisions on Financial Institutions

ISSUED

- Suspicious Transactions (Format) Regulations of 2017
- Circulars on onsite examination in terms of risk-based approach examination plan for 2017
- Guidelines on AML/CFT compliance obligations for MVTs Providers, No. 1 of 2017

The FIU hosted the 20th Annual Meeting of the Asia/Pacific Group on Money Laundering (APG) in Colombo during July 15-21, 2017

**408**  
Delegates  
**41**  
Member Countries  
**24**  
Observers



96 % increase in international Intelligence sharing



Strengthened the staff capacity of the FIU

**35**  
Training Programmes

**2,624**  
Participants



**925**

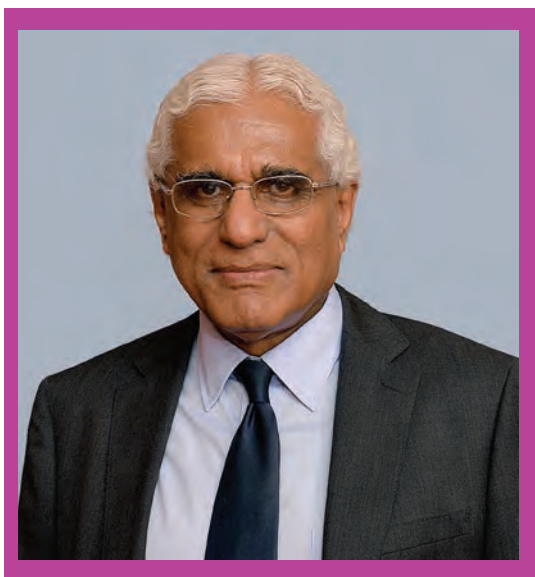
**Total STRs**

Financial Institutions **766**  
LEAs **144**  
Regulators **13**  
Public Complaints **2**



2 domestic MOUs and 5 foreign MOUs were signed

## NATIONAL COORDINATING COMMITTEE CHAIRMAN'S MESSAGE



The Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) is the apex institution committed to combat Money Laundering (ML), Terrorist Financing (TF) and Financing of Proliferation (PF) in Sri Lanka. The Annual Report highlights the activities undertaken by the FIU-Sri Lanka in combating ML, TF and PF in the Financial Year 2017.

Financial crime is a serious global threat. The challenge before us is that the fight against money laundering and financing of terrorism is never done. Advancement in information, communication and payment technologies have led to great advances in terms of the speed and ease of cross-border transmissions of financial resources. This has made it more challenging to detect financial crimes. Hence, it is vital for countries in the region to be alert to guard themselves against such complex criminal activities, to coordinate with others and share lessons regarding ML/FT related crimes. Accordingly, successful prevention and combating of money laundering and terrorist financing require necessary resources at the FIU-Sri Lanka and awareness among all stakeholders. Further, in addition to domestic inter-agency cooperation, international cooperation is also critical for the successful investigation of financial crimes. The FIU-Sri Lanka must play a pivotal role in ensuring the transfer of financial intelligence to the domestic law enforcement agencies on the one hand and coordinate the exchange of information with foreign FIUs on the other. Protecting our reputation as a well-regulated and clean financial market is not negotiable. We take our Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) mandate very seriously.

Since its inception, the FIU-Sri Lanka has continued to improve the AML/CFT framework of the country and to develop its own capacities. Accordingly, the FIU-Sri Lanka is working towards strengthening its legal and regulatory framework, IT infrastructure including information systems, analytical skills and other capacities, to be in line with international standards, to perform its core functions in an efficient manner.

This was an important year for the FIU-Sri Lanka as Sri Lanka had been elected co-chair of the Asia/Pacific Group (APG) on Money Laundering for 2016 – 2018. The FIU-Sri Lanka took pride in being able to host the 20<sup>th</sup> Annual Meeting of the APG in Colombo in July 2017.

The year 2017 was also a challenging year as Sri Lanka was subjected to the International Cooperation Review Group (ICRG) process of the Financial Action Task Force (FATF). The Mutual Evaluation Report adopted in 2015, recommended that Sri Lanka initiates a number of actions to rectify the identified AML/CFT deficiencies. Accordingly, series of measures were implemented to address the deficiencies. However, in October 2017, the FATF 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". Sri Lanka has made a high-level political commitment to work with the FATF and APG to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. As the Chairman of the National Coordinating Committee established to coordinate AML/CFT priorities, I urge all stakeholders to work towards achieving a better rating for Sri Lanka. The desired results could be achieved if all stakeholders focus on continuous improvement in their legal and institutional frameworks and enhance the competencies of their staff.

I take this opportunity to thank the FIU-Sri Lanka and wish them success in their endeavors.

**Dr. Indrajit Coomaraswamy**

Governor of the Central Bank of Sri Lanka

Chairman of the AML/CFT

National Coordinating Committee

## DIRECTOR'S MESSAGE

The Financial Intelligence Unit - Sri Lanka (FIU-Sri Lanka), in its 11 years of operations, continues to be the sole authority to strengthen the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime of the country, in terms of the statutory provisions of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA). During the year 2017, the FIU-Sri Lanka performed the role of receiving financial information relating to ML/TF, analyzing and disseminating analytic results to the law enforcement agencies, regulators and other relevant entities, amidst many challenges in the implementation of international obligations to fight ML/TF. The Annual Report 2017 of the FIU-Sri Lanka highlights the developments in the AML/CFT legislative and policy framework, operational aspects of the FIU-Sri Lanka, stakeholder cooperation and international arrangements.

Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs), Insurance Companies (ICs) and Money or Value Transfer Service (MVTs) Providers continued to report to the FIU-Sri Lanka on cash transactions and electronic fund transfers (both domestic and cross-border) exceeding LKR 1.0 million or its equivalent in foreign currencies, through the FIU-Sri Lanka's online database management system, "LankaFIN". Over 10.94 million cash transactions and electronic fund transfers and 766 suspicious transactions were reported by the above reporting institutions. A total of 429 Suspicious Transactions Reports (STRs) were referred to law enforcement and regulatory authorities for further investigations during the year.

In order to strengthen the stakeholder cooperation and international relations, the FIU-Sri Lanka signed 2 Memorandums of Understanding (MOUs) domestically with the Department for Registration of Persons and Sri Lanka Police, and 5 MOUs internationally with the Anti-Money Laundering Office (AMLO) of the Kingdom of Thailand, the FIU of the Kingdom of Bhutan, China AML Monitoring and Analysis Centre, FIU of Qatar and the FIU of Trinidad and Tobago. Accordingly, the total number of MOUs signed with domestic agencies and foreign counterparts as at end 2017 increased to 5 and 37, respectively, facilitating the sharing of information and intelligence for the purpose of investigations and prosecution of persons involved in suspicious transactions. Furthermore, on a number of occasions, the FIU-Sri Lanka sought assistance from members of the Egmont Group to carry out investigations and collaborated with member countries to gather intelligence on their investigations.

In order to bolster the reporting of STR by institutions designated under the FTRA, the FIU-Sri Lanka implemented regulations, further increasing the coherence on the reporting

process. The FIU-Sri Lanka also implemented a Risk-Based Approach in conducting on-site examinations.

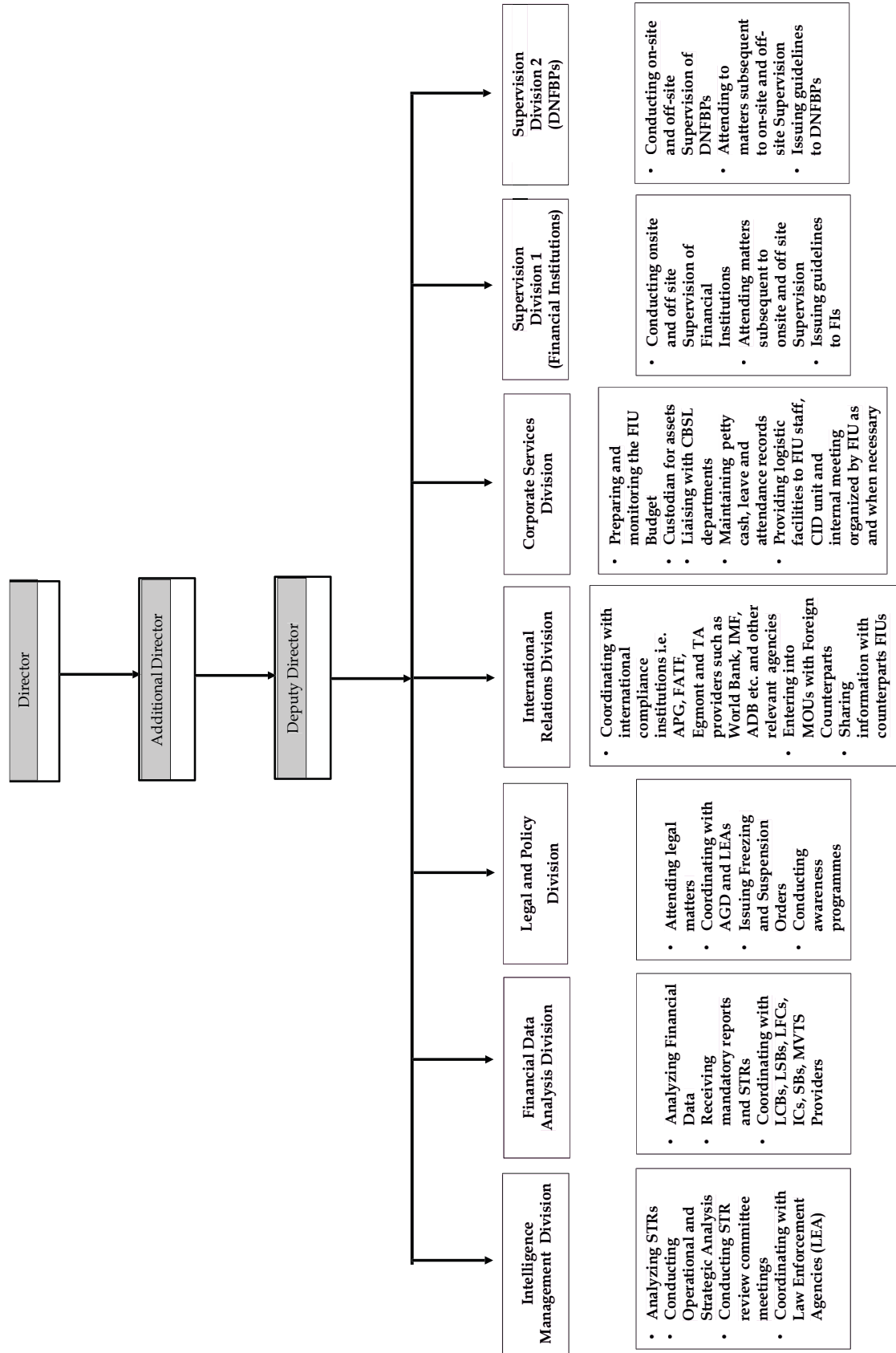
In continuing efforts to enhance awareness on detecting, analyzing and reporting of transactions relating to ML/TF, 35 awareness/training programmes were conducted during the year, accommodating 2,624 participants from LCBs, LSBs, LFCs and MVTs providers.

The year 2017 was a remarkable year as the 20th Annual Meeting of the Asia/Pacific Group on Money Laundering (APG) was hosted in Colombo, Sri Lanka by the FIU-Sri Lanka, with the participation of 408 delegates from 41 member countries of the APG and 24 observers from several international observer organizations. The event was graced by His Excellency the President and the Minister of Finance and Mass Media of Sri Lanka, ensuring the nation's commitment towards combating ML and TF. The meeting was concluded on a successful note.

2017 also saw Sri Lanka being listed as a jurisdiction with strategic AML/CFT deficiencies in the Financial Action Task Force's Compliance Document. Sri Lanka is stepping up to the task identified by the ICRG process, with the coordination of the FIU-Sri Lanka and other stakeholders, actively engaging in working towards overcoming the deficiencies identified.

We are excited about year 2018 with all the activities envisaged. Although challenging tasks are afoot, I am confident that we, as a team, could strive to reach the goal of achieving AML/CFT compliance status for the country, in accordance with international standards.

# FUNCTIONAL ORGANIZATIONAL CHART OF THE FIU SRI LANKA



## VISION, MISSION, AND STRATEGIC GOALS

### VISION

To be the trusted and respected single agency with commitment to excellence in establishing the framework for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) in Sri Lanka.

To administer, effectively, the provisions of the Financial Transactions Reporting Act (FTRA), No.6 of 2006 by facilitating the prevention, detection, investigation and prosecution of the offences related to Money Laundering and Terrorist Financing (ML/TF).

### MISSION

### STRATEGIC GOALS

Strengthening the AML/CFT measures in Sri Lanka in line with international practices.

Strengthening the co-operation with relevant international and domestic institutions to combat ML/TF.

# CHAPTER 01

## MANAGEMENT OF INFORMATION

The Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) is the national centre to receive, analyse and assess Suspicious Transaction Reports (STRs) and threshold-based reports relevant to money laundering, associated predicate offences and terrorist financing from the institutions engaged in finance business or designated non-finance business, as defined in the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA). As in the previous years, during 2017 also, dissemination of the findings of STRs in a timely manner to relevant law enforcement agencies and supervisory authorities for necessary action has been one of the core activities of the FIU-Sri Lanka.

### 1.1 Collection of Information

In terms of Section 15 (1) of the FTRA, the FIU-Sri Lanka receives three types of mandatory reports from reporting institutions:

- 1) Cash Transactions
- 2) Electronic Fund Transfers
- 3) Suspicious Transactions

As per the FTRA, institutions engaged in finance business and designated non-finance business are required to submit Cash Transaction Reports (CTRs), Electronic Fund Transfers (EFTs) and Suspicious Transaction Reports (STRs) to the FIU-Sri Lanka. At present, Reporting Institutions (RIs) include, Licensed Banks (LBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs), Insurance Companies (ICs), Authorized Money Changers (AMCs), Money or Value Transfer Service Providers (MVTS), casinos, real estate agents, dealers in precious metals, dealers in precious and semi-precious stones, lawyers, notaries, accountants and trust or company service providers. Other than these institutions, Law Enforcement Agencies (LEAs), Supervisory Authorities (SAs) and general public can also submit information relating to any suspicion on Money Laundering and Terrorist Financing (ML/TF) to the FIU-Sri Lanka.



## Cash Transaction Reports and Electronic Fund Transfers

In terms of Section 6 of the FTRA, every institution is required to report CTRs and EFTs exceeding an amount as prescribed by the Minister of Finance by Order published in the Gazette. Accordingly, the present applicable reporting threshold is Rupees One million or its equivalent in any foreign currency, as prescribed by the Minister of Finance in the Extraordinary Gazette No. 1555/9 dated June 25, 2008.

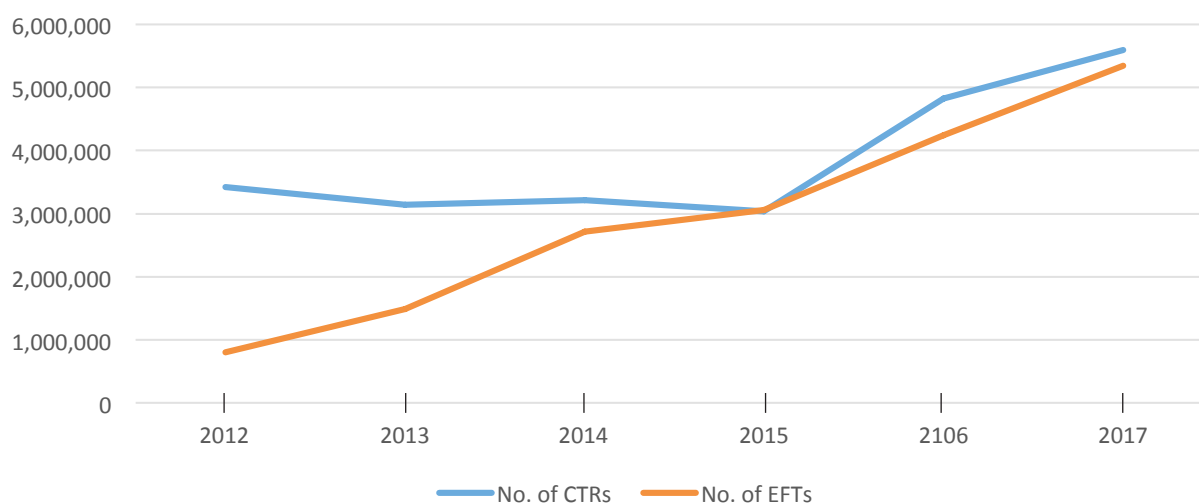
At present LBs, LFCs, SBs, ICs, AMCs and MVTs providers submit CTRs and EFTs electronically through LankaFIN secured network (the online reporting mechanism) introduced by the FIU-Sri Lanka.

**Table 1.1**  
**Receipt of CTRs and EFTs through LankaFIN**

Year	2012	2013	2014	2015	2016	2017
No. of CTRs	3,420,819	3,139,919	3,214,613	3,034,243	4,828,061	<b>5,596,899</b>
No. of EFTs	796,836	1,483,445	2,712,393	3,056,182	4,241,320	<b>5,346,084</b>
Total	4,217,655	4,623,364	5,927,006	6,090,425	9,069,381	<b>10,942,983</b>

Source : LankaFIN, Financial Intelligence Unit-Sri Lanka

**Figure 1.1**  
**Receipt of CTRs and EFTs through LankaFIN**



Source: LankaFIN, Financial Intelligence Unit-Sri Lanka

The number of transactions reported as CTRs has increased from 4,828,061 to 5,596,899, while the number of EFTs has increased from 4,241,320 to 5,346,084 from 2016 to 2017 (see Table 1.1 and Figure 1.1 above). This shows the fact that the Sri Lankan financial sector still engages in a high number of cash based transactions. Further, the increase of both CTRs and EFTs signal an increase in economic activity.

### **Suspicious Transaction Reports**

In term of Section 7 of the FTRA, an institution needs to submit an STR when;

- It has reasonable grounds to suspect that any transaction or attempted transaction may be related to a commission of any unlawful activity or any other criminal offence
- It has information that it suspects may be relevant to an act preparatory to an offence under the provisions of the Convention on the Suppression of Financing of Terrorism Act, No. 25 of 2005 (CSFTA)
- It has information that it suspects may be relevant to an investigation or prosecution of a person or persons for an act constituting an unlawful activity
- It has information that it suspects may be of assistance in the enforcement of the Money Laundering Act, No. 5 of 2006 (PMLA) and CSFTA.

The Institution is required to report that fact to the FIU-Sri Lanka by submitting an STR as soon as practicable, after forming that suspicion or receiving the information, but no later than two working days therefrom through the compliance officer. At present LBs, LFCs, SBs, ICs, AMCs and MVTs providers submit STRs to the FIU-Sri Lanka electronically through LankaFIN.

In order to formalize the STR reporting formats, Suspicious Transactions (Format) Regulations of 2017 was issued on April 21, 2017 by Gazette Extraordinary No. 2015/56.

Further, in terms of Section 5 of the PMLA, any person who knows or has reason to believe from information or other matter obtained by him in the course of any trade, profession, business or employment carried on by such person, that any property has been derived or realized from any unlawful activity, the person should disclose his knowledge or belief as soon as is practicable to the FIU-Sri Lanka.

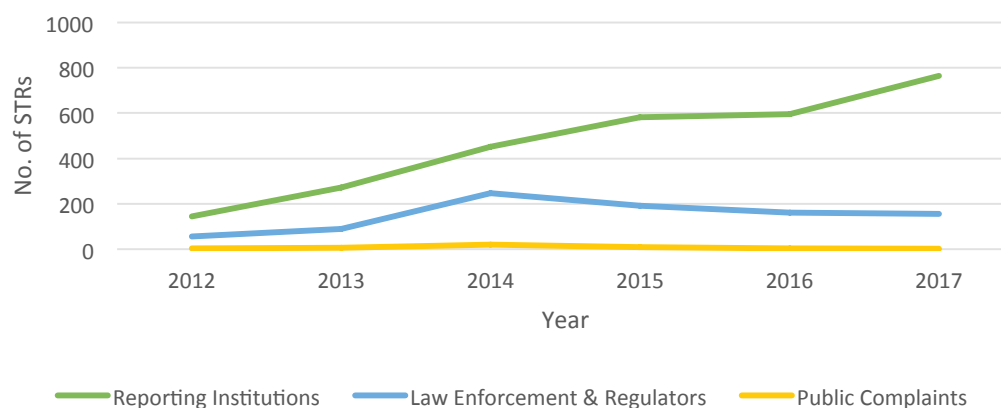
**Table 1.2**  
**STRs Reported by Stakeholders**

<b>Category</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Reporting Institutions	144	272	452	583	595	<b>766</b>
Law Enforcement Agencies & Supervisory Authorities	56	88	247	193	161	<b>157</b>
Public Complaints	3	6	19	9	3	<b>2</b>
<b>Total</b>	<b>203</b>	<b>366</b>	<b>718</b>	<b>783</b>	<b>759</b>	<b>925</b>

*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

As shown in Table 1.2 above, total STRs reported to the FIU-Sri Lanka during 2017 have increased to 925 from 759 in 2016, as a result of the increase in the STRs received from both Reporting Institutions as well as Law Enforcement Agencies and Supervisory Authorities.

**Figure 1.2**  
**STRs Reported by Stakeholders**

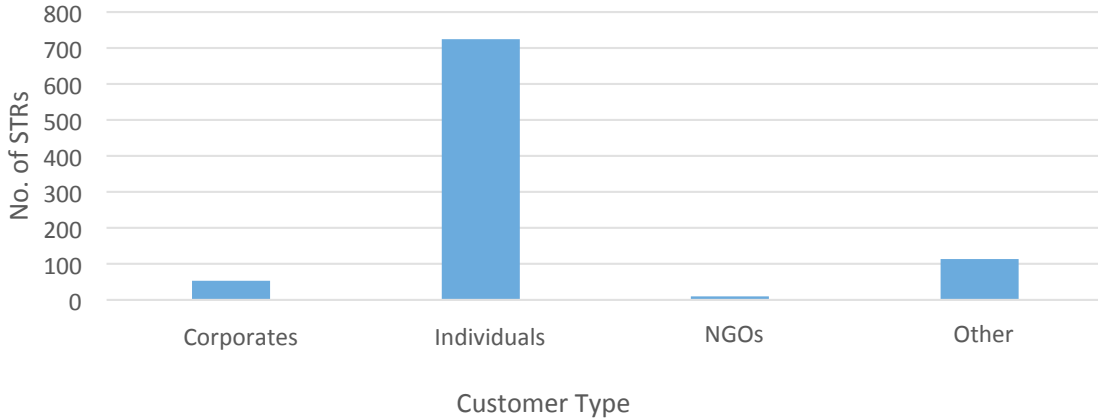


*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

## Analysis of Trends and Patterns of STRs Received

**Figure 1.3**

**No. of STRs by Customer Type**

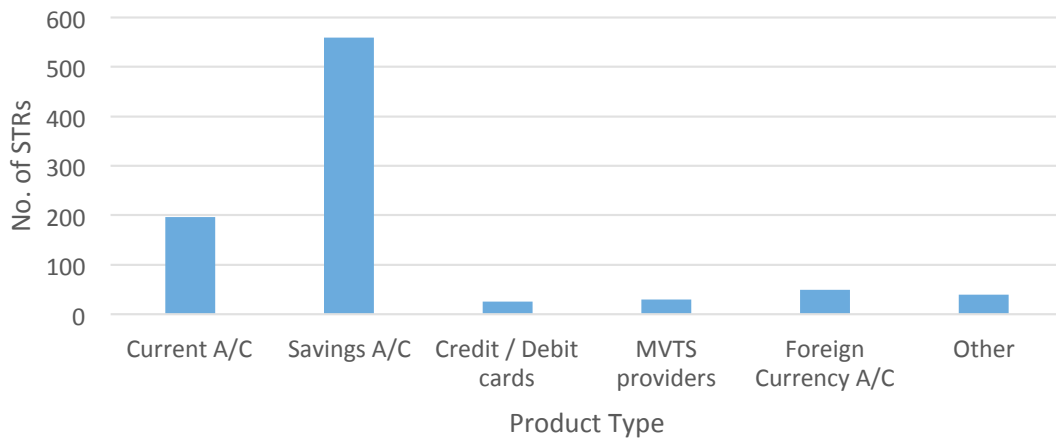


*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

As shown in Figure 1.3 above, the STRs on financial transactions carried out by individuals continued to be the major component of STRs reported during 2017 as well. The STRs reported on transactions conducted by NGOs remained the lowest.

**Figure 1.4**

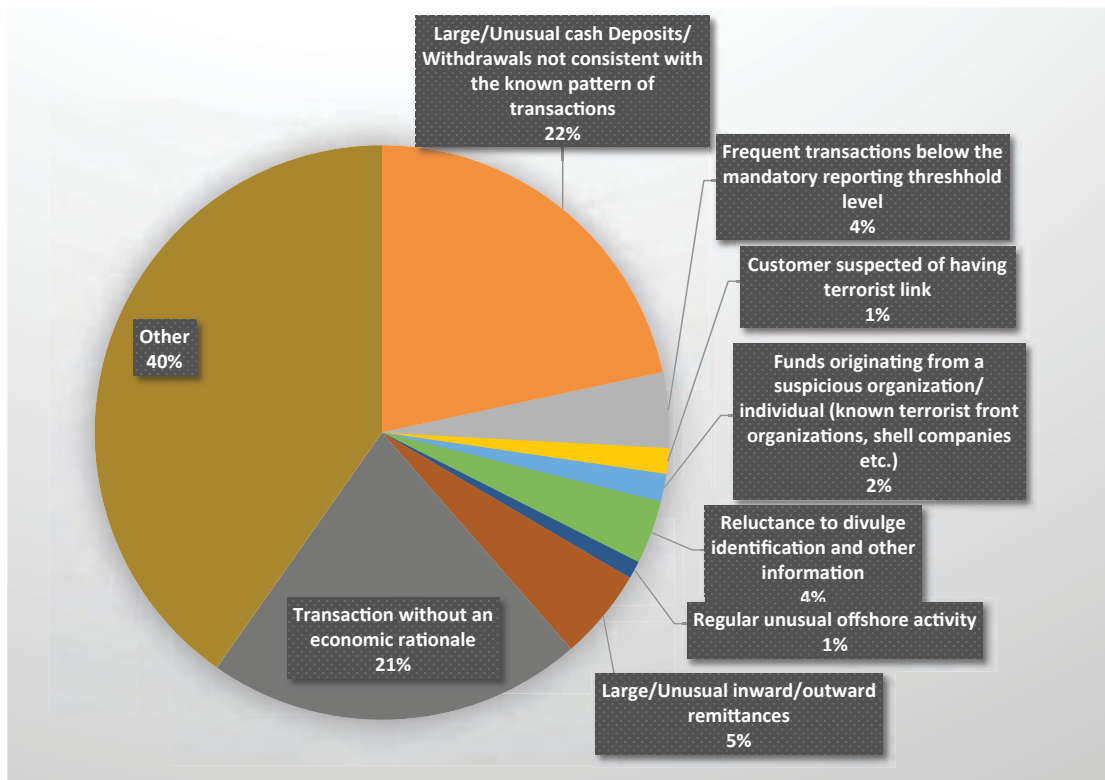
**No. of STRs by Product Type**



*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

As shown in Figure 1.4 above, majority of STRs were related to transactions carried out through current and savings accounts. STRs reported on the use of credit/debit cards, products of money or value service providers, and foreign currency accounts remained low in 2017. The other categories include STRs involving fixed deposits, pay orders, life insurance, share transactions and safety deposit lockers, etc.

**Figure 1.5**  
**STRs based on Suspicion**



*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

Figure 1.5 above depicts the main reasons for the submission of STRs.

## 1.2 Analysis of Information

Analysis of information collected/received from RIs is one of the major activities of the FIU-Sri Lanka. The analysis of information is two fold, i.e. strategic analysis and operational analysis. The strategic analysis process on STRs is performed by identifying transaction patterns through the analysis on CTRs and EFTs reported in the LankaFIN database.

The operational analysis is performed by calling further information from reporting institutions, regulatory/supervisory authorities and other relevant government agencies such as Sri Lanka Customs, Department of Immigration & Emigration, Registrar of Companies, NGO Secretariat, Registrar General of the Department for Registration of Persons, etc. Assistance from foreign counterpart FIUs is also sought in analyzing STRs where necessary. Combined results of both tactical and operational analysis of STRs would be disseminated to relevant LEAs and/or regulatory authorities.

As shown in Table 1.3 below, the number of STRs received relating to ML was significantly higher in 2017 as well. Since 2009, with the ending of the war against terrorism, the number of STRs on TF has not been significant, while STRs relating to money laundering show an increasing trend, especially relating to drug dealing, frauds, cheating, etc.

**Table 1.3**  
**Composition of STRs**

	2012	2013	2014	2015	2016	2017
No. of STRs on TF	89	7	53	19	43	<b>58</b>
No. of STRs on ML	470	359	665	764	716	<b>867</b>
Total	559	366	718	783	759	<b>925</b>

*Source : LankaFIN, Financial Intelligence Unit-Sri Lanka*

### 1.3 Dissemination of Information

After the preliminary investigations, analyzed STRs and related information are disseminated to relevant LEAs and/or supervisory authorities for further investigations or regulatory actions. Based on the findings of the tactical and operational analysis, the decision to disseminate such information is taken by the STR Review Committee headed by the Director FIU- Sri Lanka, along with senior officials representing the Attorney General's Department and relevant officers of the FIU-Sri Lanka. A summary of disseminated STRs is given in Table 1.4 below.

**Table 1.4**  
**Dissemination of Suspicious Transaction Reports**

	2012	2013	2014	2015	2016	2017
Law Enforcement Agencies	48	55	183	330	342	<b>295</b>
Supervisory Authorities	8	18	6	95	94	<b>134</b>

*Source : LankaFIN, Financial Intelligence Unit-Sri Lanka*

Majority of the STRs referred to LEAs were on frauds and drug trafficking. Further, STRs relating to suspected scams have also been referred to LEAs for further investigation. Majority of STRs referred to regulatory agencies are on possible violations of Section 83(C) of the Banking Act regarding pyramid schemes and violation of Exchange Control regulations (note: the Exchange Control Act was repealed in November 2017).

## 1.4 Suspension, Confiscation and Convictions Relating to ML/TF

### Suspension of Funds

As provided for in Section 15(2) of the FTRA, the FIU-Sri Lanka is authorized to suspend transactions or attempted transactions or any other transaction in respect of the funds affected by that transaction or attempted transaction that is suspected of relating to unlawful activities in order to facilitate further investigations. Accordingly, the FIU- Sri Lanka has issued such suspensions on 16 persons and entities amounting to LKR. 146 million during the year 2017.

### ML Convictions

By the end of year 2017, the number of ML convictions remained at 3, including the country's first ML conviction for drug trafficking.

**Table 1.5**  
**List of Convictions obtained**

	2014	2015	2016
	1 <sup>st</sup> Conviction	2 <sup>nd</sup> Conviction	3 <sup>rd</sup> Conviction
Charges	Fraud (Section 3(1) of the PMLA)	Payment Card Fraud (Section 3(2) of the PMLA)	Drug Trafficking (Section 3(1) of the PMLA)
Value Confiscated	LKR. 7,028,958 (USD 48,475)	USD 31,300	LKR 29,000,000 ( USD 205,000)
Sentence	In addition to the sentence of imprisonment, the above amount was confiscated and fines were imposed.	The above amount was confiscated in addition to the sentence of imprisonment and 3 times the value of the above amount was imposed as fine.	In addition to the 20 years of imprisonment, 3 times the value was imposed as a fine and all properties were confiscated.

*Source : Financial Intelligence Unit-Sri Lanka*

# CHAPTER 02

## DOMESTIC AND INTERNATIONAL COOPERATION

To facilitate investigations and prosecutions of persons suspected of committing and participating in Money Laundering and Terrorist Financing (ML/TF) related activities, it is vital to share information with regard to financial intelligence among government authorities and institutions, who are stakeholders of such investigations and prosecutions. Furthermore, intelligence sharing with foreign FIUs is a key aspect to combating illicit activities that have cross border links and networks. The FIU-Sri Lanka played a leading role in this mutually benefited information sharing mechanism in 2017.

### 2.1 Domestic Cooperation

#### Law Enforcement Agencies

The FIU-Sri Lanka analyses the Suspicious Transaction Reports (STRs) that are received from various sources (mostly from the Reporting Institutions - RIs), and disseminates financial intelligence generated through such analyses to the stakeholders including Law Enforcement Agencies (LEAs) and Regulatory Authorities (RAs). These LEAs include Sri Lanka Customs, Sri Lanka Police, Ministry of Defense (MOD), Criminal Investigation Department (CID), State Intelligence Service (SIS), Police Narcotic Bureau (PNB), Commission to Investigate Allegations of Bribery or Corruption (CIABOC), Terrorist Investigation Division (TID), Colombo Fraud Investigation Bureau (CFIB), Police Central Anti-Vice Striking Unit and Financial Crimes Investigation Division (FCID). The information provided by the FIU-Sri Lanka facilitates LEAs to carry out their investigations on predicate offenses and ML/TF activities, and it provides the basis for the prosecution of persons where necessary.

**Table 2.1**

**STRs Referred to LEAs from 2013 to 2017**

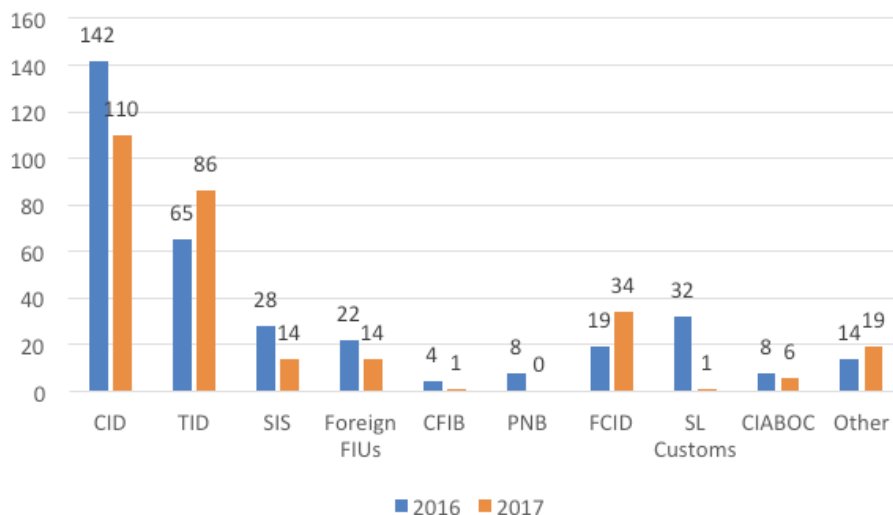
	2013	2014	2015	2016	2017
Money Laundering	55	153	307	264	187
Terrorist Financing	0	30	23	78	98
<b>Total</b>	<b>55</b>	<b>183</b>	<b>330</b>	<b>342</b>	<b>285</b>

*Source : Financial Intelligence Unit-Sri Lanka*



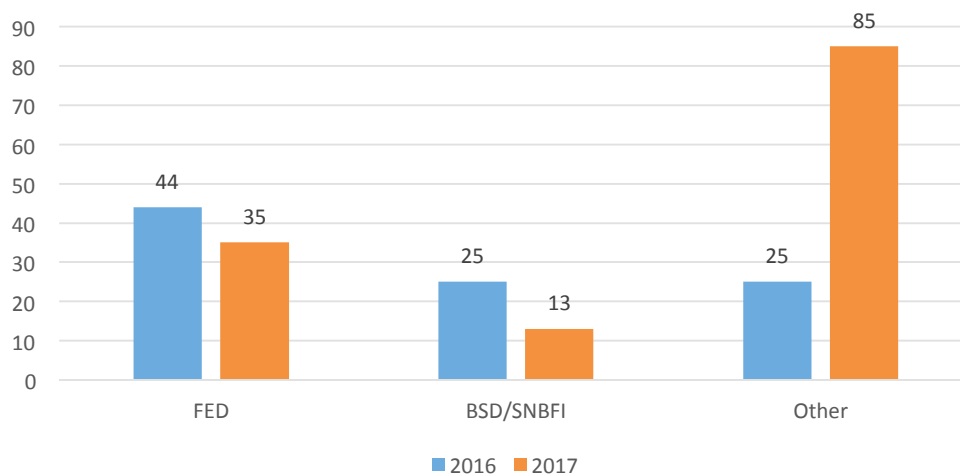
STRs disseminated to LEAs decreased in 2017 compared to 2016. Most of the STRs on TF were mainly referred to the SIS and TID.

**Figure 2.1**  
**STRs Referred to Law Enforcement Agencies**



Source : LankaFIN, Financial Intelligence Unit-Sri Lanka

**Figure 2.2**  
**STRs Referred to Regulatory Authorities**



Source : LankaFIN, Financial Intelligence Unit-Sri Lanka

## Regulatory Authorities

During the year 2017, the FIU-Sri Lanka referred 134 STRs to RAs such as Bank Supervision Department (BSD), Department of Supervision of Non-Bank Financial Institutions (DSNBFI), Foreign Exchange Department of the CBSL (FED), NGO Secretariat, Insurance Regulatory Commission of Sri Lanka (IRCSL), and Securities and Exchange Commission of Sri Lanka (SEC) for further investigations. Majority of the STRs referred to the FED were on the suspicion of

the violation of foreign exchange regulations. Additionally, 83 STRs were reported to the Inland Revenue Department (IRD) on the suspicion of tax related offenses. This is an increase of 61 STRs compared to the previous year's 22 STRs.

**Memorandums of Understanding with Domestic Agencies**

In order to combat the complex ML/TF activities, a country should have a well-established and effective collaboration mechanism among stakeholders, who are responsible for the detection and prevention of such activities. Hence, coordination and cooperation between the FIU-Sri Lanka and relevant domestic agencies is imperative. Owing to this fact, Sections 15(1) (r) of the FTRA empowers the FIU-Sri Lanka to exchange information relating to ML/TF, by entering into Memorandums of Understanding (MOUs) with domestic agencies. Accordingly, the FIU-Sri Lanka signed an MOU on January 11, 2017 with the Department for Registration of Persons, which facilitates the FIU-Sri Lanka to obtain information on National Identification Cards (NICs), a vital source of information on STR analysis to build profiles of suspected persons. Also on December 13, 2017, FIU-Sri Lanka signed an MOU with the Sri Lanka Police, taking the intelligence gathering mechanism of the FIU-Sri Lanka to a much higher level, enabling it to obtain information on criminal records of suspected persons. The FIU-Sri Lanka had already entered into 3 MOUs with domestic agencies by the end of 2016. Accordingly, the total number of MOUs signed with domestic agencies by the FIU-Sri Lanka has increased to 5 as at end 2017.



*Director, FIU-Sri Lanka exchanging signed MOUs with the Department for Registration of Persons and Sri Lanka Police*

**Table 2.2**

**MOUs with Domestic Agencies as at December 31, 2017**

<b>Domestic Agency</b>	<b>Date of Signing</b>
1. Sri Lanka Customs	May 14, 2010
2. Department of Immigration and Emigration	September 27, 2016
3. Inland Revenue Department	October 19, 2016
4. Department for Registration of Persons	January 11, 2017
5. Sri Lanka Police	December 13, 2017

*Source : Financial Intelligence Unit-Sri Lanka*

## 2.2 International Cooperation

### Exchange of Information with Counterpart FIUs

Offenses of ML/TF are internationally connected financial crimes that could threaten the stability of the global economic and financial system. Further, with the expansion of cross-border transaction and movements of people due to globalization, ML/TF activities are becoming increasingly sophisticated and difficult to detect. Persons and entities engaged in ML/TF activities operate in internationally organized networks, therefore it is extremely important for FIUs to exchange information with counterpart FIUs to counter such organized illicit operations. The FIU-Sri Lanka is empowered by Sections 15(1)(q), 16 and 17 of the FTRA to cooperate with foreign institutions and agencies for the investigation or prosecution of ML/TF. The information shared in this manner is used only for intelligence purposes.

During the year 2017, the FIU-Sri Lanka made 54 requests to Egmont Group member countries. Meanwhile, it received 50 requests from various counterparts-including FIUs of the United Kingdom, Philippines, Bangladesh and India-to share information. This is a significant increase in both requests made and received compared to the previous year. The FIU-Sri Lanka was able to respond to requests for information from several counterparts in connection with a cyber-heist related to a foreign Central Bank. Some counterpart FIUs facilitated certain investigations of LEAs of Sri Lanka by providing necessary information. Table 2.3 below shows the information requests made and information requests received by the FIU-Sri Lanka from 2013 to 2017.

**Table 2.3**  
**Sharing of Information with Foreign Counterpart FIUs**

	2013	2014	2015	2016	2017
Requests Received	18	10	13	27	50
Requests Made	2	8	19	36	54

*Source : Financial Intelligence Unit-Sri Lanka*

### Memorandums of Understanding with Counterpart FIUs

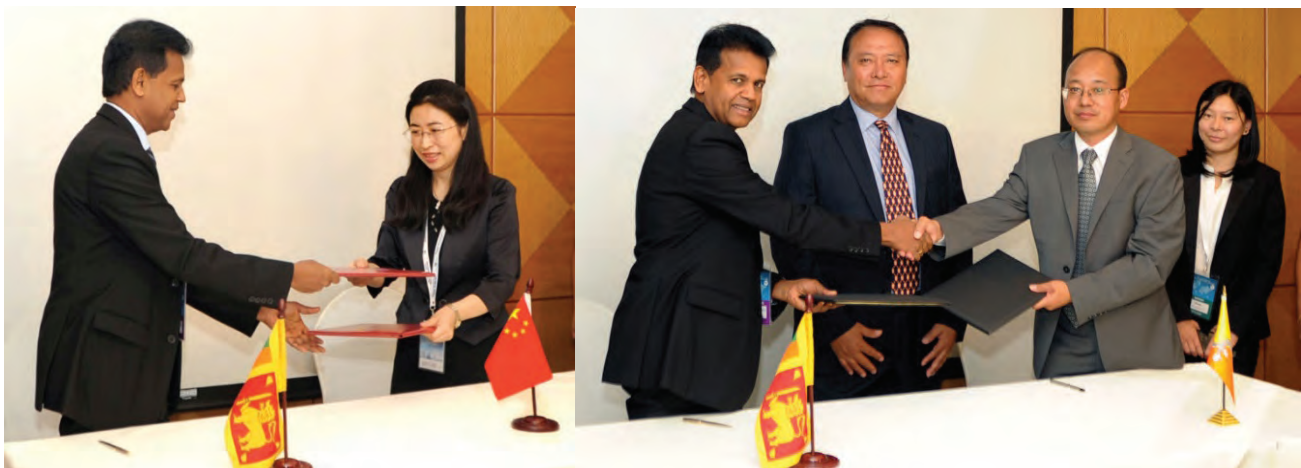
In terms of Section 16 and 17 of the FTRA, the FIU-Sri Lanka entered into 5 MOUs in 2017 with the Financial Intelligence Unit of Trinidad and Tobago, Qatar Financial Information Unit, Financial Intelligence Unit of the Kingdom of Bhutan, China AML Monitoring and Analysis Centre (CAMAC) and Anti Money Laundering Office of Thailand (AMLO) to exchange information for financial intelligence purposes. Accordingly, the total number of MOUs signed by the FIU-Sri Lanka with foreign counterparts increased to 37 as at end of 2017 (see Table 2.4).



*Director, FIU-Sri Lanka signing MOU with the Qatar Financial Information Unit*



*Director, FIU-Sri Lanka exchanging signed MOU with the Anti-Money Laundering Office of Thailand*



*Director, FIU-Sri Lanka exchanging signed MOUs with the China AML Monitoring and Analysis Centre (CAMAC) and the Financial Intelligence Unit of the Kingdom of Bhutan*

**Table 2.4**  
**MOUs with Foreign Counterpart FIUs as at December 31, 2017**

<b>No.</b>	<b>Name of Counterpart FIU</b>	<b>Date of Signing</b>
1	Financial Intelligence Unit of Bank Negara Malaysia	January 18, 2008
2	Financial Intelligence Unit of the Da Afghanistan Bank	February 29, 2008
3	Korean Financial Intelligence Unit	December 18, 2008
4	Indonesian Financial Transaction Reports and Analysis Centre	May 27, 2009
5	Financial Information Unit of Nepal Rastra Bank	July 09, 2009
6	The Anti-Money Laundering Council of Philippines	July 09, 2009
7	Cambodian Financial Intelligence Unit of National Bank of Cambodia	October 26, 2009
8	Financial Intelligence Unit of India	March 30, 2010
9	Australian Financial Transactions and Analysis Centre (AUSTRAC)	May 07, 2010
10	Financial Intelligence Unit of Belgium	June 18, 2010
11	Financial Intelligence Unit of Solomon Islands	July 15, 2010
12	Financial Intelligence Unit of Bangladesh	October 28, 2010
13	Financial Intelligence Centre of South Africa	December 02, 2010
14	Fiji Financial Intelligence Unit	July 21, 2011
15	Transaction Reports and Reports Analysis Centre of Canada	August 02, 2011
16	Financial Intelligence Unit of Slovenia	August 09, 2011
17	Financial Crime Enforcement Network (FinCEN) – USA	July 10, 2012
18	The Financial Information Unit of the Bank of Mongolia	July 11, 2012
19	Federal Financial Monitoring Service (Russian Federation)	July 11, 2012
20	Saudi Arabian Financial Investigation Unit (SAFIU)	July 11, 2012
21	Japan Financial Intelligence Centre (JAFIC)	March 11, 2013
22	Lebanon Special Investigations Commission (LSIC)	July 03, 2013
23	Financial Intelligence Unit of Costa Rica	July 08, 2013
24	Financial Intelligence Unit of Denmark	September 30, 2013
25	General Directorate of Prevention of Money Laundering of the Republic of Albania	June 05, 2014
26	Financial Intelligence Unit of the Republic of Peru	June 05, 2014
27	Financial Intelligence Unit of the Republic of Union of Myanmar	July 17, 2014
28	Financial Intelligence Service of Kyrgyz Republic	June 10, 2015
29	Financial Analysis Unit of the Republic of Panama	February 02, 2016
30	State Financial Monitoring Service of Ukraine	August 02, 2016
31	Israel Money Laundering and Terror Financing Prohibition Authority	August 05, 2016
32	Suspicious Transaction Reporting Office of Singapore	September 01, 2016
33	Anti-Money Laundering Office of Thailand (AMLO)	February 01, 2017
34	Financial Intelligence Unit of the Kingdom of Bhutan	July 16, 2017
35	China AML Monitoring and Analysis Centre (CAMAC)	July 16, 2017
36	Financial Intelligence Unit of Trinidad and Tobago	October 26, 2017
37	Qatar Financial Information Unit	October 26, 2017

*Source: Financial Intelligence Unit-Sri Lanka*

## **Asia Pacific Group on Money Laundering**

Sri Lanka hosted the 20<sup>th</sup> Annual Meeting of the Asia/Pacific Group on Money Laundering (APG) in Colombo during July 15-21, 2017 with the participation of 408 delegates from 41 member countries of the APG and 24 observers from several international observer organizations. The event was graced by His Excellency the President, Maithripala Sirisena and Hon. Mangala Samaraweera, Minister of Finance and Mass Media.

This year's Annual Meeting discussed Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) evaluations, follow-up reports and transitional follow-up reports of 31 member countries, with action plans being approved to rectify deficiencies of respective countries. The event also witnessed the signing of MOUs between member countries for intelligence/information sharing, including two MOUs signed by Sri Lanka with the Financial Intelligence Unit of the Kingdom of Bhutan and China AML Monitoring and Analysis Centre (CAMAC).

The meeting facilitated accord among countries on a wide range of preventive measures, institutional requirements, enforcement and prosecution issues, and obligations, to achieve mutual legal assistance and international cooperation to freeze and confiscate criminal proceeds. The APG Annual Meeting provided a platform for its members to seek technical assistance and training while countries were also made aware of research typologies regarding ML and TF trends, methods, risks and vulnerabilities.

Meetings of the Steering Group and sub-regional groups of North Asia, South East Asia, Pacific, South Asia and CANZUS (Canada, Australia, New Zealand and US) were also held during the week while the pre-plenary sessions of the Annual Meeting concluded during July 15-16, 2017. International observers from the Financial Action Task Force (FATF), International Monetary Fund, World Bank, United Nations, United Nations Office on Drugs and Crime (UNODC), Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) contributed actively during the sessions in order to achieve the objectives of the Annual Meeting.



*His Excellency the President, Maithripala Sirisena addressing the 20<sup>th</sup> Annual Meeting of the Asia/Pacific Group on Money Laundering (APG)*



*20<sup>th</sup> Annual Meeting of the Asia/Pacific Group on Money Laundering (APG) in Colombo during July 15-21, 2017 with the participation of 408 delegates*

## **Egmont Group**

The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence among members to combat ML/TF. This is especially relevant as FIUs are uniquely positioned to cooperate and support national and international efforts to counter ML/TF and they are the trusted gateway for sharing financial information domestically and internationally, in accordance with global AML/CFT standards.

Egmont Group consists of 155 member FIUs. The FIU-Sri Lanka has been a member of the Egmont Group since May 26, 2009 and continued to share financial intelligence with its foreign counterparts effectively.

The officials of the FIU-Sri Lanka have been actively participating in the Annual Plenary and various working group meetings of the Egmont Group since 2009. The officials of the FIU-Sri Lanka attended the Egmont Group Working Groups and Heads of FIU Meetings held in Doha, Qatar in January 2017.

**Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation**

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional organization comprising seven member states lying in the littoral and adjacent areas of the Bay of Bengal, constituting a contiguous regional unity. This sub-regional organization came into being on June 06, 1997 through the Bangkok Declaration. It constitutes seven member states: five from South Asia, namely Bangladesh, Bhutan, India, Nepal, Sri Lanka, and two from Southeast Asia, i.e. Myanmar and Thailand.

There are a number of areas of cooperation among BIMSTEC members and the FIU-Sri Lanka is a member of the BIMSTEC Sub-Group on Anti-Money Laundering and Combating the Financing of Terrorism (SGAML-CFT) under the Counter-Terrorism and Transnational Crime area. The officials of the FIU-Sri Lanka attended the 9<sup>th</sup> meeting of the BIMSTEC SGAML-CFT held in Yangon, Myanmar in April 2017.



*The officials of FIU-Sri Lanka attended the 9<sup>th</sup> meeting of the BIMSTEC SGAML-CFT held in Yangon, Myanmar in April 2017*



## **Joint Financial Action Task Force / Financial Action Task Force of Latin America Plenary**

The FATF is an inter-governmental body established in 1989 by the Ministers of its member jurisdictions. The objectives of the FATF are to set standards and promote the effective implementation of legal, regulatory and operational measures for 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 24<sup>th</sup> FATF Plenary was held in Buenos Aires, Argentina as a joint plenary with the Financial Action Task Force of Latin America (GAFILAT). The GAFILAT was created as a Regional Group in the style of the FATF, adhering to the 40 FATF Recommendations as the most recognized international standard against ML/TF. It also has the power to develop its own standards to improve national policies to prevent and combat these crimes.

A team of officials representing the FIU and other stakeholders attended the 24<sup>th</sup> FATF/GAFILAT joint plenary meeting held in Buenos Aires, Argentina, in November 2017.

# CHAPTER 03

## INSTITUTIONAL COMPLIANCE

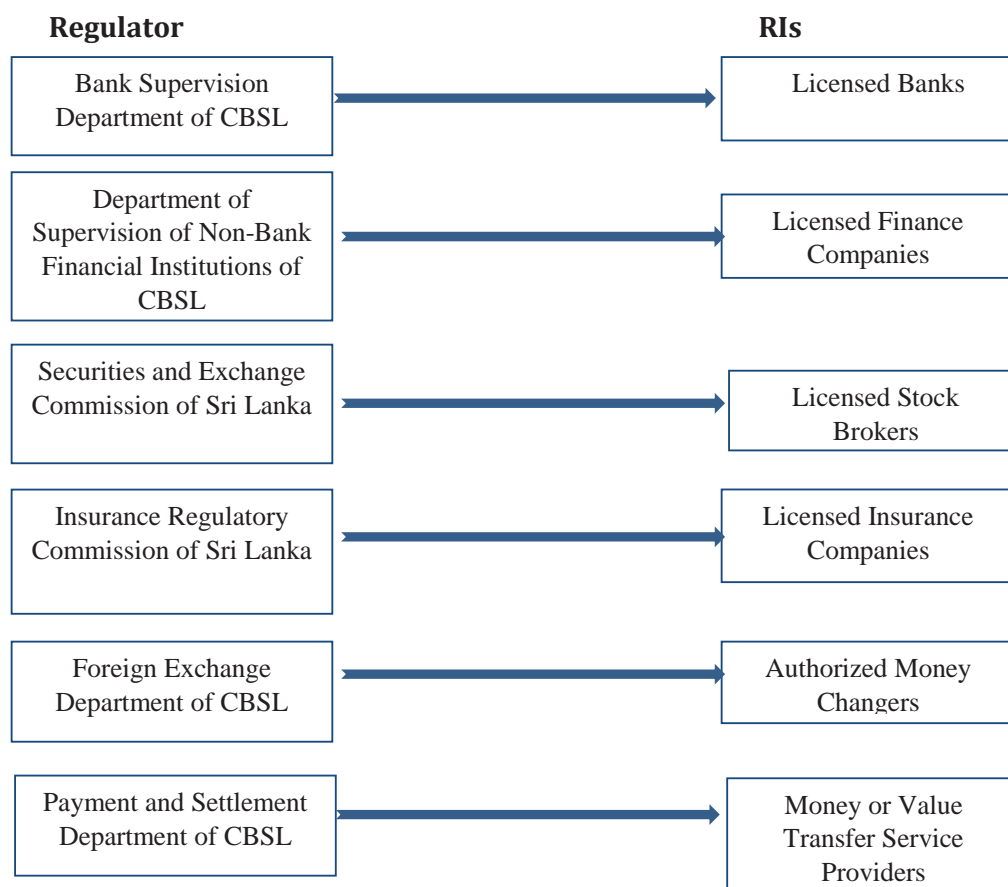
### 3.1 Statutory Provisions for Anti-Money Laundering/Countering the Financing of Terrorism Supervision

The Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) has the authority in terms of Section 15(1) (e) read with Section 18 of the Financial Transaction Reporting Act (FTRA) to verify institutional compliance with the requirements set out in the FTRA. Sections 15 and 18 of the FTRA empower the FIU-Sri Lanka to conduct on-site and off-site supervision to ensure that the Reporting Institutions (RIs) such as Licensed Banks (LBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs), Insurance Companies (ICs) and Authorized Money Changers (AMCs) are complied with such rules, regulations, directions and guidelines issued under the FTRA. The regulatory authorities of these RIs are also empowered by Section 23(a) of the FTRA, to verify, through regular examination, whether institutions comply with provisions of the Act and if any instance of non-compliance is identified, to report the same to the FIU-Sri Lanka.

A regulator of the relevant sector is required to supervise the Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT) aspects of respective RIs in addition to performing its general supervisory responsibilities. However, as a long-term strategy, the FIU-Sri Lanka expects sectoral supervisors to conduct AML/CFT supervision in terms of a Risk-Based Approach (RBA). The sector specific regulators are shown in Figure 3.1.

**Figure 3.1**

**AML/CFT Regulation of Reporting Institutions**



*Source: Financial Intelligence Unit - Sri Lanka*

The RIs have to provide adequate training opportunities to enhance understanding of the staff about the AML/CFT framework of the country in order to support risk-based AML/CFT supervision.

### **3.2 Risk-Based Supervision**

In implementing a comprehensive Risk-Based Supervision (RBS), the supervisors first develop a comprehensive tool to capture exposed inherent risk of FIs and to evaluate the quality of systems and controls in place to mitigate exposed inherent risk. This process is recognized as off-site supervision. Based on the risks identified at the off-site assessment, the supervisors conduct on-site examinations.

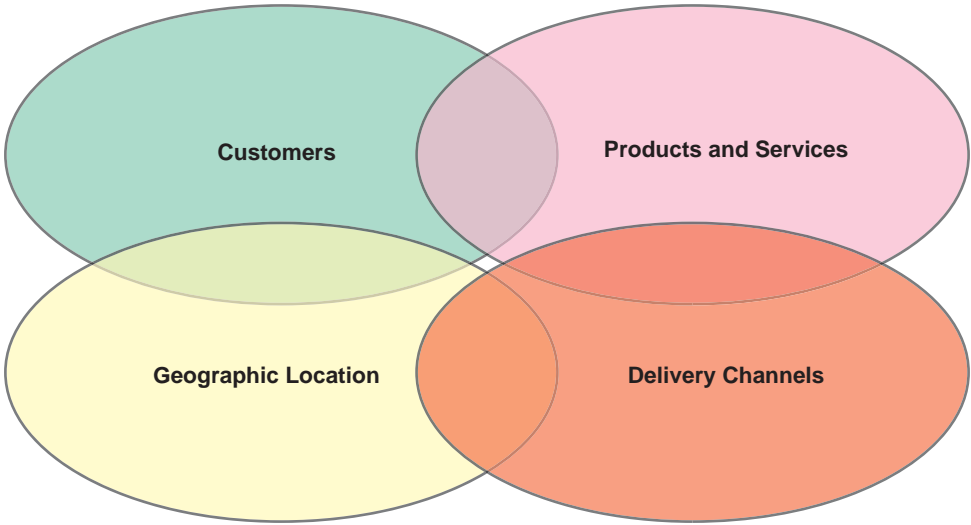
#### **Off-site Risk Assessment**

Off-site risk assessment is the foundation of a comprehensive Money Laundering/Terrorist Financing (ML/TF) risk sensitive supervisory process for which the supervisors have to allocate

supervisory resources efficiently on high risk areas. The sectoral risk assessment will be the starting point of commencing ML/TF risk of individual FIs. An off-site tool has to be developed in order to assess inherent risk and the quality of risk mitigation employed by Financial Institutions (FIs) as first step of risk sensitive AML/CFT supervision. Understanding the structural factors of FIs, the supervisors have to consider the size, corporate structure whether the capital is foreign or local, and group structure of FIs. In assessing inherent risk, the supervisors have to consider the customers, products or services offered by the FI, geographic locations where the FI operates or customers come from, and the methods or delivery channels by which the FI offers its products and services to customers.

**Figure 3.2**

**Common Sources of Inherent ML/TF Risk**



*Source: Financial Action Task Force*

**Off-site Assessment done by the FIU-Sri Lanka in 2017**

In this process, the FIU-Sri Lanka had to consider profiles of customers giving attention to their legal form whether they are natural or legal persons and the residence status whether a local or foreign customer at the preliminary stage. At the secondary level, inherent risk was analyzed using different products and services offered to customers, geographical locations of operations, and delivery channels provided by the FIs. The comprehensive assessment provided the details of the inherent risk pattern of an FI. In addition to the inherent risk, the FIU-Sri Lanka considered risk mitigating and managing systems, and controls in place in FIs. The FIU-Sri Lanka considered corporate governance and risk management practices, AML/CFT policies and procedures, internal controls and compliance function, threshold reporting and suspicious transactions, and training provided, in order to improve awareness of having a sound AML/CFT framework within FIs. Finally, the net risk profile was determined, considering the overall inherent risk and quality of the risk mitigation process.

## On-site Supervision

Risk-Based on-site examinations commence with the results of off-site assessments. At the preliminary level, the examination strategy for the sector is prepared with the results of national risk assessment. The examination plan for the year was prepared, based on the results of the off-site assessment of individual FIs and available resources to the supervisor. In the context of Sri Lanka, supervisors considered incorporating targeted financial sanctions and identification of beneficial ownership in their examination programmes, in order to improve AML/CFT regime of the country. Further, attention is given to the other areas that the Financial Actions Task Force (FATF) has identified as high risk in their standards. In this regard, examiners must consider systems and controls in place for politically exposed persons, non-profit organizations, wire transfers, non face-to-face customers, processing transactions with high risk jurisdictions, etc. At the completion of the fieldwork of on-site examinations, examiners update results of off-site assessment as a continuous process. Supervisory actions are taken where necessary after completing the examination, in order to improve the overall AML/CFT framework of FIs and overall supervisory effectiveness of the country.

**Table 3.1**

**No. of On-site Examinations conducted during 2013-2017**

<b>Year</b>	<b>No. of On-site Examinations</b>
2013	7
2014	4
2015	8
2016	15
2017	21

*Source: Financial Intelligence Unit - Sri Lanka*

## Supervisory Actions

In order to improve overall effectiveness in AML/CFT supervision, a jurisdiction has to develop its AML/CFT legal framework by incorporating requirements of the FATF Recommendations 26, 27, 28, 34 and 35 and implementing the provisions effectively. This involves providing feedback for further improvements and imposing sanctions. The supervisors issue guidelines, and provide feedback, which will assist institutions in applying national measures to combat ML/TF, and, in particular, detect and report suspicious transactions. At the same time, countries have to ensure that there is a range of effective, proportionate and dissuasive sanctions to be imposed on institutions that fail to comply with AML/CFT requirements.

The FIU- Sri Lanka has strengthened the sanctioning regime during the last quarter of the year 2017. As the first step, 30 warning letters were sent to RIs and the process of imposing financial

sanctions was initiated. During the first quarter of 2018, the FIU- Sri Lanka imposed financial sanctions to RIs where the examiners observed violations of the provisions of the FTRA.

### **3.3 Supervision of Designated Non-Financial Businesses and Professions**

#### **Designated Non-Financial Businesses and Professions**

Financial Institutions as well as Designated Non-Financial Businesses and Professions (DNFBPs) are subject to compliance measures on preventing, monitoring and detecting money laundering and terrorist financing. It has been recognized that there is an increasing global trend of misusing DNFBPs for cleaning illicit proceeds of illegal activities. There are three main FATF Recommendations which prescribed the AML/CFT obligations of DNFBPs and Sector Regulators. Sri Lanka as a member Asia/Pacific Group on Money Laundering (APG) the FATF style regional body, is also required to comply with these Recommendations.

Accordingly, DNFBPs in Sri Lanka were brought under the AML/CFT regime with the enactment of the FTRA. However, the effective implementations of these obligations have begun recently with the issuance of the Suspicious Transactions (Format) Regulation of 2017 and the Customer Due Diligence (CDD) Rules for DNFBPs in 2018. Section 33 of the FTRA defines DNFBPs to include:

- (a) casinos, gambling houses or conducting of a lottery, including a person who carries on such a business through the internet when their customers engage in financial transactions equal to or above the prescribed threshold;
- (b) real estate agents, when they are involved in transactions for their customers in relation to the buying and selling of real estate;
- (c) dealers in precious metals and dealers in precious and semi-precious stones, including but not limited to, metals and stones covered by the National Gem and Jewellery Authority Act, No. 50 of 1993 when they engage in cash transactions with a customer, equal to or above the prescribed threshold;
- (d) lawyers, notaries, other independent legal professionals and accountants when they prepare for or carry out transactions for their clients in relation to any of the following activities;
  - (i) buying and selling of real estate;
  - (ii) managing of client money, securities or other assets;
  - (iii) management of bank, savings or securities accounts;

- (iv) organization of contributions for the creation, operation or management of companies; and
  - (v) creation, operation or management of legal persons or arrangements and the buying and selling of business entities;
- (e) a trust or company service provider not otherwise covered by paragraphs (a) to (d), which as a business provides any one or more of the following services to third parties: -
- (i) formation or management of legal persons;
  - (ii) acting as or arranging for another person to act as, a director or secretary of a company, a partner or a partnership or a similar position in relation to other legal persons;
  - (iii) providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or for any other legal person or arrangement;
  - (iv) acting as, or arranging for another person to act as, a trustee of an express trust; and
  - (v) acting as, or arranging for another person to act as, a nominee shareholder for another person.

The FIU-Sri Lanka as the apex institution for monitoring the compliance of AML/CFT requirements of the country has now begun to examine the compliance of AML/CFT obligations among the above businesses and professions.

### **3.4 Money Laundering and Terrorist Financing through DNFBPs**

At the National Risk Assessment (NRA) conducted in 2014, it was revealed that the overall ML/TF risk of the DNFBPs sector in Sri Lanka is at medium-high level. The ML/TF general vulnerability of DNFBPs was also rated at a medium level. However, as there were no control measures taken at that time to prevent ML/TF risks, the overall vulnerability was rated at medium high. The sectoral ML/TF vulnerability levels of DNFBPs, which were rated at the NRA of 2014, are given in Table 3.2 below.

**Table 3.2**  
**The Individual Vulnerability Levels of DNFBPs**

Sector	ML Risk
Casinos	Medium High
Real Estate Agents	Medium High
Dealers in Precious Stones and Precious Metals	Medium High
Lawyers and Notaries	Medium
Accountants	Medium Low
Trusts and Company Service Providers	Medium Low

*Source: National Risk Assessment*

### **Rules, Regulations and Guidelines Relevant to DNFBPs**

In terms of the FTRA, DNFBPs are required to identify the customer(s) and the beneficial owner(s) of the transactions as well as verify their identification through a legally valid document as and when they engage in financial transactions with customers. To carry out these compliance obligations and have effective controls to mitigate the risk of ML/TF, like in the case of FIs, DNFBPs are required to appoint a senior management level officer as the Compliance Officer who is responsible to carry out AML/CFT compliance obligations of such institutions in terms of Section 14 of the FTRA.

Accordingly, every DNFBP is required to assess their ML/TF risk on their customer base, products and services available, delivery channels in operation and the geographical location of their business. With the results of the ML/TF risk assessment, they need to implement suitable risk controlling measures based on the RBA, which have been introduced by the FATF methodology of implementing forty recommendations. Eg. If a DNFBP is dealing frequently with customers such as Politically Exposed Persons (PEPs), legal persons or arrangements or establishing non-face-to-face business relationships, then such DNFBP should have proper ML/TF risk mitigation measures as controls.

Also, the DNFBPs are required to maintain and keep records of all information collected on transactions, documents obtained for the verification of the identity of the customer and the beneficial owner as well as details of any correspondence that have been furnished to the FIU-Sri Lanka for a period of six years from the date of closure of the business relationship under general circumstances, and should be retained further as directed by the relevant authority that it is subject to an on-going investigation.

Further, DNFBPs are required to report the following transactions to the FIU-Sri Lanka;

- Under Section 6 of the FTRA: Cash Transaction Reports (CTRs) exceeding Rs. one million.
- Under Section 6 of the FTRA: Electronic Fund Transfers (EFTs) exceeding Rs. one million.



- Under Section 7 of the FTRA: Suspicious Transactions Reports (STRs) when there is reasonable ground that any transaction or attempted transaction may be related to the commission of any unlawful activities or any other criminal offence.

However, currently there is no facility provided for reporting of cash transactions and electronic fund transfers by DNFBPs to the FIU. Reporting of suspicious transactions to the FIU-Sri Lanka is mandatory and it is examined strictly at the on-site examinations of the FIU-Sri Lanka. The FIU-Sri Lanka has prescribed reporting formats for STRs by Suspicious Transactions (Format) Regulation of 2017 and the Schedule V of these formats is to be used to report details of suspicious transactions.

In order to comply with these legal obligations under the FTRA, every DNFBP is required to have an internal AML/CFT policy and procedure which is to be written and approved by the higher management of the DNFBP. The policies and procedures must be well communicated among all the staff of the DNFBP. The AML/CFT policy and procedures as well as the ML/TF risk assessment should be reviewed by the DNFBP periodically and suitable amendments and alterations to the existing policy and procedures should be made. The AML/CFT compliance obligations of DNFBPs should be audited by the internal or the external auditor of every DNFBP. Further, the FIU-Sri Lanka is planning to issue guidelines to support the DNFBPs, taking into consideration these compliance requirements.

The FIU-Sri Lanka has recognized that some of these businesses and professions already have ethical practices and standards in place, such as application of Accounting and Auditing Standards, and strict customer surveillance. Therefore, it will not be a strange practice for the Sri Lankan DNFBP sector to implement ML/TF risk mitigation measures as required by the relevant laws, rules and regulations.

### **Supporting Institutions in Implementation of AML/CFT Measures for DNFBPs.**

DNFBPs consist of a collection of different businesses and professions in the country. Although FATF requirements highlight the necessity of having a Competent Authority or Self-Regulatory Organization (SRO) for each sector in DNFBPs, there are no such arrangements for each DNFBPs in Sri Lanka. For example, in Real estate property market, most of the property dealers, land sellers, real estate agents and property developers are private limited liability companies that have business registrations under the Registrar of Companies as a business. However, there are no licensing requirement for these companies to act as real estate agents and there is no self-regulatory body for the sector. In addition, there are some businesses which require licensing to carry on business activities, but there is no regulator to monitor business practices. Therefore, the FIU, in order to work as the AML/CFT regulator for these businesses and professions, has identified the following important institutions, authorities, licensing bodies and associations during its market studies, as contacting points for the DNFBPs (Refer Table 3.3).

**Table 3.3****Supporting Institutions, Authorities and Associations in the Implementation of AML/CFT Measures for DNFBPs**

<b>Sector</b>	<b>Institution</b>	<b>Role</b>
Casinos	- Ministry of Finance (MoF)	- Issuing licence.
	- Inland Revenue Department (IRD)	- Regarding tax collection and other information on revenues.
Real Estate Businesses	- Condominium Management Authority (CMA)	- CMA: Issuing final clearance certificates for common elements and common amenities to the effect that building is fit for use.
	- Condominium Developers Association in Sri Lanka (CDASL)	- CDASL: Promoting the interest of condominium developers in Sri Lanka, and working towards the development of the industry.
	- Registrar Generals Department (RGD)	- RGD: Registration of legal documents pertaining to movable and immovable properties and registration of titles in Sri Lanka.
Precious Metals and Stones	- National Gem and Jewellery Authority (NGJA)	- NGJA: Conferred with the task of the development, regulation and promotion of the Sri Lankan Gem and Jewellery Industry.
	- Sri Lanka Gem and Jewellery Association (SLGJA)	- SLGJA and SLJA: To strengthen and promote industry development with special focus on the industry's prime resource, Ceylon sapphires.
	- Sri Lanka Jewellers Association (SLJA)	
Lawyers, Notaries and Other Independent Legal Professional	- Bar Association of Sri Lanka (BASL)	- BASL: Consist of all attorneys-at-Law of Sri Lanka.
Accountants	- Institute of Chartered Accountants (ICA)	- ICA: The Institute is the only accredited authority that formulates Accounting and Auditing Standards in Sri Lanka. The application of these standards is mandatory for all companies enacted under the Companies Act of 2007.
Trust and Company Service Providers	- Registrar General's Department (RGD)	- RGD: registration of legal documents pertaining to movable and immovable properties and registration of titles in Sri Lanka.
All DNFBPs	- Regional Offices of the Central Bank	- To assist in launching awareness programmes for DNFBPs located outside the Western Province.

*Source : Financial Intelligence Unit - Sri Lanka*

With the support of these institutions, the FIU-Sri Lanka acts as the monitoring authority for the compliance of AML/CFT obligations for all institutions that carry on businesses under the DNFB sectors.

### **Awareness and Capacity Building Programmes on Introducing AML/CFT Measures for DNFBPs**

The FIU-Sri Lanka conducted a series of awareness and capacity building programmes for the supporting institutions, licensing bodies, authorities and associations related to DNFBPs in 2017 with the aim of increasing their understanding on AML/CFT requirements for the businesses in their own sectors. Thereafter, the FIU-Sri Lanka conducted awareness programmes for market participants who are directly dealing with the customers in DNFBP sectors. The details of such programmes are given in Table 3.4 below.

**Table 3.4**  
**Details of Awareness Programmes Conducted**

Phase	Participants	Purpose
First Phase 4 programmes	For supporting institutions CDASL, CMA, NGJA, RGD, BA	To identify the relevant market and increase their understanding of AML/CFT laws and regulations in Sri Lanka.
Second Phase 3 programmes	For DNFBPs Casinos businesses, Gem & Jewellery Dealers, Property Market Dealers	To make them aware of the AML/CFT obligations and introducing the potentials of money laundering through casino operations.

*Source : Financial Intelligence Unit - Sri Lanka*

In addition to the above awareness programmes, the FIU-Sri Lanka published several notices and information on AML/CTF to DNFBPs through its website during 2017. Further, press notices were published in Sinhala, Tamil and English languages in leading daily and weekend newspapers in Sri Lanka in June 2017.

**Table 3.5**  
**Awareness Programmes, Capacity Building Workshops Conducted and Press Notices Published during 2017**

Description	Programme	No. of Participants/ Events/ Papers
June 27, 2017	A press notice on STR Reporting Formats	Sinhala-2 Tamil-2 English-2
September 25, 2017	A meeting was conducted with the Chairman of the Condominium Developers Association	01
October 02, 2017	A workshop was conducted for members of the Condominium Developers Association	20
October 10, 2017	A meeting was conducted for senior officials of the Condominium Management Authority	05
October 19, 2017	A meeting with the National Gem and Jewellery Authority of Sri Lanka	07
November 14, 2017	Workshop conducted by the National Gem and Jewellery Authority of Sri Lanka for the FIU	10
November 30, 2017	Awareness programme conducted by the FIU, chaired by Chairman of the NCC/Governor of the CBSL	40
December 08, 2017	A meeting was held with Casino sector representatives	06
December 21, 2017	A meeting was conducted for senior officials of gem and jewellery associations	07

*Source : Financial Intelligence Unit - Sri Lanka*

### **3.5 Risk-Based Supervision and Way Forward**

In 2017, the FIU's attention was mainly given to the activities, such as market studies, to properly identify and understand the relevant DNFBPs and their activities. Secondly, emphasis was given to increase the understanding of the DNFBPs on AML/CFT compliance obligations, in order to ensure the effective implementation of AML/CFT policies and procedures. Further, the FIU-Sri Lanka carried out the following activities targeting the implementation of RBS for DNFBPs in 2018;

1. The FIU-Sri Lanka formed a separate division which is exclusively dedicated for the supervision of DNFBPs, named as "Supervision Division (2)" or SD (2).
2. SD (2) received technical assistance on DNFBP supervision from the International Monetary Fund (IMF) and the US Department of the Treasury.

3. The staff of SD (2) received hands-on foreign training exposure on AML/CFT supervision.
4. The SD (2) commenced sending compliance questionnaires to identify DNFBPs with the aim of conducting off-site risk assessments in three main sectors, namely casinos, dealers of real estate property market, and gem and jewellery businesses, in 2017. These sectors were prioritized based on the outcome of the NRA conducted in 2014.
5. At the awareness programmes conducted by the SD(2), the FIU's powers to monitor these markets for the compliance of AML/CFT obligations was stressed. Having best practices was also highlighted as examinations are planned to be conducted on risk-based supervision from the following year.
6. A risk-based supervision manual that includes the ways and means of conducting off-site and on-site examinations was also drafted during this period.
7. A plan was prepared to individually visit the major market players in DNFBPs, to assist them in the preparation of policies and procedures to comply with AML/CFT obligations.

Accordingly, the SD (2) of the FIU-Sri Lanka plans to commence RBS of the above three sectors of DNFBPs after conducting the off-site risk assessment. To conduct the off-site risk assessment, the SD (2) utilizes the information collected through the compliance questionnaires, which have been returned to the SD (2) by the appointed compliance officers. The risk-based on-site examinations will be started by the third quarter of 2018 based on the off-site risk assessments. Further, spot examinations will be conducted by the SD (2) when and where necessary.

# CHAPTER 04

## CAPACITY BUILDING

With the enhancement of new technologies and the rapidly developing business environment, innovatory products and new business practices were adopted in the financial markets. These new products and practices may pose Money Laundering/ Terrorist Financing (ML/TF) risks. Further, the FIU-Sri Lanka has expanded its operations to Designated Non Finance Businesses and Professions (DNFBP). Accordingly, with the increase of responsibilities vested with the FIU-Sri Lanka, the number of staff officers has also been increased. One of the contributory factors to the successful implementation of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) is the FIU's ability to analyze the information/data received. In this regard, upgrading the capacity of human resources in the FIU-Sri Lanka is necessary, in order to perform its duties effectively and efficiently.

### 4.1 Compliance and Training

The FIU-Sri Lanka consists of skilled officers with an array of expertise such as Accountancy, Banking, Economics, Finance, Law and Information Technology. During 2017 also staff officers were given training opportunities to enhance their knowledge on various aspects and current issues on ML/TF to identify and mitigate emerging ML/TF threats. It is observed that, staff officers were given more opportunities to attend programmes on financial crimes as well as the United Nations Security Council Resolutions on Proliferation of Weapons of Mass Destruction. In addition, the FIU-Sri Lanka officials had opportunities to share their knowledge with Bhutan and Afghanistan on similar issues faced in the region to mitigate ML/TF. Details of international and local training programmes attended by the FIU-Sri Lanka staff officers during 2017 are given in Table 4.1 and 4.2, respectively.

**Table 4.1****International training programmes / workshops / events participated by officers of the FIU-Sri Lanka during the Year 2017**

<b>Month</b>	<b>Training/Workshop/Event</b>	<b>Country</b>
January	Egmont Group of FIU's Meetings	Qatar
April	9 <sup>th</sup> Meeting of the Bay of Bengal Initiative for Multi-Sectoral Technical & Economic Co-operation Sub Group on Combating the Financing of Terrorism	Myanmar
May	Asian/Pacific Group on Money Laundering Assessor Training workshop	Australia
June	Anti-Money Laundering Examination Seminar	USA
July	Egmont Plenary	Macao, China
August	Regional workshop for Asian Insurance Supervisors (Crisis Management, countering fraud and anti-money laundering)	Singapore
September	UN Counter – Terrorism Centre Joint Conference in Promoting Regional Co-operation on Target Financial Sanctions	Bangladesh
October	FATF of Latin America Joint plenary	Argentina
	Workshop on Risk Based Approaches to AML/CFT Supervision	Singapore
November	Counter Financing of Terrorism Summit	Malaysia
December	Global Forum on Asset Recovery	USA
	APG Regional Workshop on Fintech and Risk Based Approach	South Korea

*Source : Financial Intelligence Unit - Sri Lanka*

**Table 4.2****Local training programmes / workshops / conferences attended by officers of the FIU-Sri Lanka during the Year 2017**

<b>Training/Workshop/Conferences</b>	<b>Venue</b>
Programme on Payment and Settlement Infrastructure	CBS, Rajagiriya
Seminar on Non Proliferation	Galle Face Hotel, Colombo
UN Proliferation Seminar	Galle Face Hotel, Colombo
Enhancing Awareness on SLFRS 9 for Financial Institutions	CBS, Rajagiriya
SLFRS 9 – Financial Instruments Implementation Reading Programme	CBS, Rajagiriya
AML Summit 2017/ Fintelekt 3 <sup>rd</sup> Annual Summit	Taj Samudra Hotel, Colombo
Workshop on Fund Management	CBS, Rajagiriya
BASL Seminar	Bar Association of Sri Lanka, Colombo
Workshop on Digital Forensic	CID Office, Colombo

Financial Crimes Seminar	JAIC Hilton Hotel, Colombo
UNODC Workshop	Galle Face Hotel, Colombo
Human Trafficking Workshop	Cinnamon Grand Hotel, Colombo
Programme on Legislation Relating to Banking & Financial Institutions	CBS, Rajagiriya
Programme on Operations of the Central Bank & the Monetary Law Act	CBS, Rajagiriya
Programme on Mitigating Organizational Fraud & Forensic Auditing	CBS, Rajagiriya
E & Y Seminar on AML	JAIC Hilton Hotel, Colombo
Programme on Financial Derivatives – Products & Pricing	CBS, Rajagiriya
ADB Seminar on AML/CFT	JAIC Hilton Hotel, Colombo
National Workshop on CFT & the Proliferation of WMD	Galle Face Hotel, Colombo
Programme with Bhutan National Bank	CBS, Rajagiriya
START Commission Workshop	SEMA Building , Colombo
International Co-operation in Financial Investigations, Money Laundering and Recovery of Assets – UNODC Regional Workshop	The Kingsbury, Colombo

*Source : Financial Intelligence Unit - Sri Lanka*

## 4.2 External Assistance

The FIU-Sri Lanka continues to obtain the services from two senior officers of the Attorney General’s Department, when executing statutory obligations as prescribed in the FTRA and implementing counter measures for ML/TF. The services of the senior officials were also obtained when conducting awareness programmes by the FIU-Sri Lanka.

The Information Technology Department of the Central Bank of Sri Lanka collaborated with the FIU-Sri Lanka to maintain the web based system (LankaFIN) to receive all the electronic reports as prescribed in the FTRA without any interruption.

## 4.3 Anti-Money Laundering and Countering the Financing of Terrorism National Coordinating Committee

The Anti-Money Laundering and Countering the Financing of Terrorism National Coordinating Committee (NCC) provides guidance on policy matters and other strategic issues relating to the AML/CFT regime of the country. It consists of 22 members representing relevant key ministries and institutions of the country. The Governor of the Central Bank of Sri Lanka chairs the NCC meetings.



# CHAPTER 05

## AWARENESS PROGRAMMES

With the issuance of Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016, Suspicious Transactions (Format) Regulations of 2017 and Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018, the statutory obligations of both Financial Institutions and Designated Non-Finance Businesses and Professions have been expanded, requiring these institutions to adopt a Risk Based Approach (RBA) to Anti-Money Laundering/ Countering Financing of Terrorism (AML/CFT) and disclose information relating to any suspicious activity to the FIU-Sri Lanka. In view of the above, the FIU-Sri Lanka continued efforts on increasing awareness among the officials of the above Reporting Institutions (RIs) on reporting obligations and Customer Due Diligence (CDD) obligations to ensure better compliance. The FIU-Sri Lanka continued to build awareness through its website, apart from conducting seminars and workshops. Awareness programmes were organized across the country and the FIU-Sri Lanka further provided resource persons for the seminars and workshops organized by the regulators, RIs and Law Enforcement Agencies (LEAs).

### 5.1 Seminars and Workshops Organized by the FIU-Sri Lanka

The FIU-Sri Lanka conducted 35 workshops and seminars for 2,624 participants from RIs and LEAs during 2017, covering subject areas such as RBA, customer identification, record keeping, reporting requirements and identification of suspicious transactions. Details of these programmes are given in Table 5.1 and Table 5.2.

**Table 5.1**

**Awareness Programmes Organized by the FIU-Sri Lanka**

<b>Date Conducted</b>	<b>Participating Institution(s)</b>	<b>Venue</b>	<b>Programme</b>	<b>No. of Participants</b>
February 17	Terrorist Investigation Division	Colombo	AML/CFT Awareness	40
March 29	LCBs, LSBs, LFCs, Insurance Companies and Stock brokers	Matara	AML/CFT Awareness	182
March 29	Sri Lanka Police	Matara	AML/CFT Awareness	190
April 01	Staff of People's Merchant Finance PLC	Colombo	AML/CFT Awareness	120
April 22	Investors of SEC	Colombo	Role of FIU & KYC/ CDD Requirements	70

May 08	Branch Managers & Executive officers at North Central Region Branches of Commercial Bank	Anuradhapura	New developments in the FTRA and AML related topics	40
June 01	Corporate and Senior Management, Commercial Bank	Colombo	New Developments in FTRA and AML Matters	87
August 19	MBSL and Finance PLC	Colombo	Compliance knowledge on Fixed Deposits and Savings	175
August 23	National Development Bank	Colombo	Seminar on Legal Implications	40
October 02	Members of the Condominium Developers Association	Colombo	Awareness Program for the Real Estate Sector	29
October 11	Union Bank	Colombo	Awareness for Leadership Team	25
October 19	Senior Officials of the National Gem and Jewellery Authority	Colombo	Awareness Program for the Gem and Jewellery Sector	12
October 31	Dialog Axiata PLC	Colombo	AML/KYC regulations	50
November 15	Alliance Finance Company PLC	Colombo	Training on AML Policy	50
November 22	Insurance Companies and Insurance Brokers	Colombo	Seminar on AML	82
November 25	Amana Bank PLC	Colombo	Rules on Customer Due Diligence	10
November 27	LOLC Group	Colombo	AML/CFT Risk Management for Board of Directors and Senior Managers	100
November 30	Representatives from the DNFBPs	Colombo	Awareness Session on the CDD Rules to be issued for the DNFBP Sector	33
December 08	Representatives from the Casinos	Colombo	Awareness Program for the Casinos Sector	2
December 21	Arpico Finance PLC	Colombo	Awareness on AML/CFT	50
Total No. of Participants				<b>1387</b>

Source: Financial Intelligence Unit-Sri Lanka

**Table 5.2**  
**Awareness Programmes Organized by the Stakeholders during the Year 2017**

Date Conducted	Participating Institution(s)	Venue	Programme	No. of Participants
February 14	Banking and Financial Institutions	CBS Rajagiriya	Best Practices for Bank Tellers	60
March 24	Banking and Financial Institutions	CBS Rajagiriya	Financial Intelligence	60
April 25	Staff of Union Bank PLC	CBS Rajagiriya	Best Practices for Bank Tellers of Union Bank Staff	40

May 03	LBs and FIs in Batticaloa	Batticaloa	Seminar on AML and CFT	68
May 04	LBs and FIs in Trincomalee	Trincomalee	Seminar on AML and CFT	43
June 02	Banks, FIs, CBSL staff	CBS Rajagiriya	Legislations relating to Banking and FIs	40
July 27	Banking and Non-Banking Financial Institutions	CBS Rajagiriya	Financial Intelligence for Banking and Non-Banking Financial Institutions	87
August 14	Bhutan National Bank	CBS Rajagiriya	Financial Intelligence	12
August 30	Undergraduates of University of Sri Jayawardenapura	CBS Rajagiriya	The role of the CBSL	73
September 26	Sri Lanka Police	Nikaweratiya	AML/CFT Awareness	400
October 23	Financial Institutions	CBS Rajagiriya	Best Practices for Bank Tellers	67
November 10	Senkadagala Finance PLC	CBS Rajagiriya	AML /CFT, Security Features of genuine currency notes & identification of counterfeit currency notes	60
December 07	Compliance Staff of FIs	CBS Rajagiriya	Compliance for Financial Institutions	62
December 19	LBs and FIs in Nuwara Eliya	Nuwara Eliya	Awareness on AML/CFT	105
December 19	Sri Lanka Police	Nuwara Eliya	Awareness on AML/CFT and Prohibited Schemes	60
Total No. of Participants				<b>1237</b>

*Source: Financial Intelligence Unit-Sri Lanka*

## 5.2 Demand Driven Awareness Programmes

There has been a rapid increase of the FIU-Sri Lanka's effort to increase awareness of the stakeholders in terms of number of programmes, number of participants and the geographical coverage of the country. This growth was mainly to cater to the increased demand from RIs, with the issuance of CDD Rules for both FIs and Designated Non-Finance Businesses and Professions and Suspicious Transactions (Formats) Regulations of 2017. Details of the depth and the breadth of the awareness programmes that were conducted are given in Table 5.3 below.

**Table 5.3****The Depth and Breadth of Awareness Programmes Conducted during 2014 - 2017**

<b>Year</b>	<b>Number of Awareness Programmes</b>	<b>Number of Participants</b>	<b>Districts Covered</b>
2014	19	1,138	Colombo, Jaffna, Batticaloa, Kalutara
2015	21	1,495	Colombo, Kandy, Trincomalee, Hambantota
2016	30	1,630	Colombo, Matara, Matale, Kurunegala, Galle, Jaffna
2017	35	2,624	Colombo, Batticaloa, Trincomalee, Matara, Anuradhapura, Nuwara Eliya

*Source : Financial Intelligence Unit - Sri Lanka*

# CHAPTER 06

## TYPOLOGY ANALYSIS AND CASE STUDIES

### **Typology 1: Money Laundering through Telegraphic Transfers (Large Value Outward Remittances Followed by High Value Cash Deposits)**

Commercial banks, other financial institutions and designated non-financial institutions in Sri Lanka are required to submit Suspicious Transaction Reports (STRs) to the Financial Intelligence Unit (FIU) of Sri Lanka, on the specified grounds, in terms of Section 7 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA). Accordingly, they are obliged to report any transaction or attempted transaction that is suspected to be related to any illicit activity or any other criminal offence. Hence, if there is any ground to suspect that a transaction is related to any unlawful activity, the institution should take immediate action to report it to the FIU, not later than two working days from when the relevant suspicious transaction occurred or from the time when the suspicion was formed.

When such a STR is received by the FIU, it is subject to an analytic process designed to infer whether there is a true involvement of an unlawful activity relevant to the financial transaction and/or other circumstances described in the STR. First, the STR is reported to the Director of the FIU and a preliminary analysis is carried out to determine the requirement of presenting the STR to further analysis. If it is revealed that a further analysis is required, then it goes to an STR reviewing committee. The committee then decides whether to subject the STR to an advanced analysis that incorporates relevant information from many sources and means. This involves gathering of information relevant to the STR from public databases, other institutions including banks and even foreign sources. At this stage, the FIU uses its connections and contacts to discover relevant links in relation to the suspicious transaction. Then a decision is taken whether to refer the relevant STRs to appropriate Law Enforcement Authorities (LEAs) and regulator. It should be highlighted that this is not the end of the process of handling STRs. The FIU then carries on follow up actions with the LEAs and also delivers its fullest support to LEAs by utilizing all its powers, connections, information resources and analytic capabilities.

The following case is built up from such an STR which was received by the FIU from a leading commercial bank called Bank A on the grounds of “Reluctance to Divulge Identification and Large Unusual Inward/Outward Remittances”. These grounds are itemized in the STR Format prescribed by the FIU. The relevant case according this STR is as follows:

Mr. D the owner of a Sri Lankan based company named ABC has visited the branch K of Bank A to open an account. As per the AML/CFT requirements in Sri Lanka, the Bank Branch K has made the customer due diligence process. According to the Know Your Customer (KYC) information, the account was opened under the company's name as a current account, one that allows the company to withdraw money on demand. The address of the company was given as No. 9, BC Road, Katawala. The business registration number was also provided to the bank. The nature of the business has been declared as import and export of ready-made garments. High valued inward and outward remittances were expected to be exchanged rendering the business nature of the ABC company.

In the three month period after opening this current account, the branch K of the bank A noticed that this account was used primarily for high value money transfers via telegraphs, followed by large volume of cash deposits. The account was opened with an initial deposit of Rs. 25,000 and cash was withdrawn in small amounts several times each month. Thereafter, large amounts of cash were deposited to the current account from time to time and funds were transferred via telegraphic transfers under descriptions of "import fabric and other relevant inputs for producing garments". According to the reports received from the bank branch K, the debit and credit turnover of this current account was reported as Rs. 97.7 million for the initial year of account. Average volumes of cash deposits for the current account per month was between Rs. 100,000 to Rs. 500,000.

If a firm needs to make outward remittances for trading activities through a current account in a commercial bank, the firm should provide related documents to the bank at several stages. First, at the opening of the account the business identity should be proven with documents, such as certificate of incorporation, proof for communication address of the entity, other contact details such as phone numbers and email addresses, details of shareholding partners and directors, and proof of identity and addresses of senior managers. Second, it is required to provide special proof documents for the facility of outward and inward remittances, such as the purpose of transaction, customer requests, purchasing orders or deal orders, letters of credit and advance payment invoices. Third, it is required to submit proofs for delivery of the goods such as shipping terms, transport documents, and other relevant documents from the Customs body regarding the value and the amount of the goods received, including dates of delivery.

The company ABC did not properly provide those documents relevant to outward remittances. As branch K suspected the genuineness of company ABC's transactions and its business relations with the bank on several grounds, the bank made a visit to the given address while submitting an STR to the FIU. At this visit, it was revealed that the Company ABC was not operating at the given communication address. The bank branch K tried to contact the owner of the company, Mr. D who opened the account for the company ABC to get further information regarding these transactions but failed. Meanwhile, it was reported that Mr. D has stopped business transactions with the bank branch K.

Based on the STR filed by the Bank A, the FIU analysis revealed more information regarding the bank transactions of company ABC. The FIU leveraged its links and connections to gather external information about Mr. D and his business operations. During this process, the FIU discovered that the company ABC had other current accounts and records of outward remittance transactions with Bank B and Bank C. The credit/debit turnovers as recorded by those banks were Rs.16.7 million and 9 million, respectively, during the period in which the concerned transactions with Bank A occurred . Purposes of those transactions were similar to the purpose as given to bank branch K with a description of “import of fabric”. These outward remittances were mostly made to addresses in Hong Kong and China. It was also noted that these outward remittances had been made following cash deposits made to the company’s current account as advance payments for importing fabrics. However, the company ABC has not submitted appropriate documentary evidence for these advance payments.

With a rich set of reliable information, the FIU decided to further investigate these transactions on the assumption that the suspicious transactions were part of a money laundering process that exploited the financial institutions in Sri Lanka. It was suspected that these cash deposits were ultimately derived from an illicit activity and placed in the financial system as legitimate funds through bank branch K and subsequently transferred to cross border receiving parties. It is also suspected that to integrate these funds into the legitimate business sector, a fictitious entity has been established as company ABC and disguised as being involved in the trading of garments materials.

As explained at the beginning, the FIU is empowered under Section (15) of the FTRA, to receive reports on money laundering related activities from relevant institutions or agencies, to collect required information for further investigations on those STRs and to request information from any government or supervisory agency in relation to any examination to be conducted on the received STRs.

Accordingly, the FIU communicated with the relevant institutions and regulatory bodies to obtain further information. During this process, it was revealed that a company named ABC was not registered under the Sri Lanka Customs as an importer or exporter. To carry on business activities as an importer or exporter in Sri Lanka, any entity is required to get a business registration under the Sri Lanka Customs. Further, it was revealed that Mr. D, the person who opened the current account for the fictitious company ABC in bank branch K was planning to leave abroad. Consequently, an investigation was solicited from the Criminal Investigations Department. Other relevant institutions, agencies and regulatory bodies were also called for an advanced investigation to disclose the delinquencies involved in this matter.

Red flags:

- Large amount of cash deposits as advance payments for purchasing goods and services.
- Outward remittances straight after cash deposits.

- Failure to submit sufficient and appropriate documents regarding advance payments.
- No proofs for delivering /receiving the goods.
- Provision of false information by the customer (e.g. false address)

## **Typology 2: Suspicious Account Transactions on Inward Remittances**

Shell companies serve as vehicles for business transactions without themselves having any active business operations. Sometimes, these are sub companies that have had operations in the past and have been contracted due to adverse market conditions or any other reason. Sometimes, they have served as start-ups at the beginning of business activities to form funds for business operations and are currently non-operative but not yet ceased. Shell companies are notorious for their use in tax avoidance or tax evasion schemes and for creating a shield of secrecy. Shells are also notorious in the history of money laundering activities as launderers transfer criminal proceeds across borders disguising as investments in those shell companies. Accordingly, there is a possibility of foreign inward remittances received under the prescriptions of “investments in the company shares” or “business activities on firms” being criminal proceeds with the purpose of concealing the criminal origins of funds and making them appear as legitimate investment proceeds of those shell companies. The risk associated with these transactions is that there is no actual requirement of investing funds in real business activities but, the objective is to give them an appearance of proceeds from legitimate investments. There are occasions when the FIU received STRs related to such uncertain transactions that financial institutions cannot reliably ascertain the true purpose of inward remittances. In most of the cases they describe the funds as to be invested in shares or the business activities of an entity. In such cases, banks and other financial institutions are advised to submit an STR describing any suspected involvement of unlawful activity related to such a transaction in order to mitigate ML/TF risks in Sri Lanka.

The following case is an example of a suspicious transaction of inward remittances received on investments and business development activities of two business entities with the same business location, the same address and the same business partners. The uncertainty of investing those foreign remittances in the said two companies raised the possibility of transferring those funds from another country to Sri Lanka under the name of those two business entities with the hidden intention of laundering illegally earned proceeds using two shell companies in Sri Lanka. The case is as follows:

The company S4 (Pvt) Ltd, located at No 80, RST road, Colombo, was incorporated with the business objective of “inbound and outbound tourism”. Directors of this company S4 (Pvt) Ltd are Mr Z and Mr X. Mr Z is a Sri Lankan citizen and Mr X, the Chairman and the Managing Director of the company S4 (Pvt) Ltd, is a citizen of Saudi Arabia. The company had opened a current account in the foreign branch of Bank M. As mentioned above, the business objective of the company according to the Articles of Association of this company, “inbound and outbound tourism” was somewhat different from the business activities indicated in the KYC information



submitted at the opening of bank accounts at bank M. According to the KYC information, the business activities were indicated as “promotion of tourism, real estate activities, activities relating to hotel industry and city development activities”.

Inward remittances have been made to this account from the beginning through a Securities Investment Account (SIA)<sup>1</sup> under the name of Mr X. These remittances were received from a bank in Saudi Arabia. Description of these remittances were indicated as “investing in the company shares”. The required documents for investments had been provided by the company S4 (Pvt) Ltd to the Bank M. The credit and debit turnover during the year of this current account opened was recorded as Rs. 70 mn. This Rs 70 mn has been received through the said SIA and have been withdrawn using cheque transactions within the same month. The same amount of inward remittances was received again during the following year and they also had been withdrawn through cheques during the same year. All these cheques have been encashed at two branches of the bank M. Also, Mr Z, one of the directors of this company has two savings accounts in another branch of the Bank M. Mr. X, the Chairman who was also living in Saudi Arabia, has a savings account at the foreign branch of Bank M. Although the Bank M had this information, the Bank M was not able to verify whether the remittances were genuinely used to carry on the business activities of company S4 (Pvt) Ltd as expressed by the sender of these remittances. There is always a possibility of using these funds for another purpose such as promotion activities of terrorist groups or any other harmful activities.

Further, Bank M noticed another limited liability company called SLB (Pvt) Ltd that was also given as located at the same address, maintaining a company current account with the same purpose of receiving foreign remittances. The credit turnover of this current account was reported as Rs. 389.6mn and the debit turnover was Rs. 423.5mn during the reporting year. This current account was also credited with funds through a SIA maintained under the name of Mr. A, who is the chairman of the company SLB (Pvt) Ltd. Funds to this SIA account has been remitted from Saudi Arabia. The purpose of these remittances was indicated as “investing in the company shares”. The required documents also had been provided to the bank M by SLB (Pvt) Ltd. The withdrawals of these funds had been done by cheques. Most of those cheques had been drawn in favor of Mr R, through his account at the Bank B. Mr R is a person who engages in agriculture business of dairy farming and real estate. These funds were withdrawn within a few days after the realisation of the cheques received from SLB (Pvt) Ltd. Further, it was noticed that one of the directors of the company S4 (Pvt) Ltd, Mr Z was also a director of this company, SLB (Pvt) Ltd. The Chairman of this company was Mr. A, who also was a Saudi Arabian citizen.

According to the Articles of Association of SLB (Pvt) Ltd, the main objective of the company

1. Securities Investment Account (SIA): This is an account that eligible investors open to invest in Government Securities, equity capital of companies incorporated in Sri Lanka and Unit Trusts in Sri Lanka. The eligible investors to open SIA accounts are foreign institutional investors, such as country funds, mutual funds or regional funds, Sri Lankan professionals living in Sri Lanka who receive inward remittances, non - resident Sri Lankans, corporate bodies incorporated outside Sri Lanka, and citizens of foreign states irrespective of being a resident in Sri Lanka.

was the same as company S4 (Pvt) Ltd “inbound and outbound tourism”. However, according to the KYC information provided to the Bank M, the business activities of the company SLB (Pvt) Ltd were indicated as “development of tourism, building hotels and resorts and development of agriculture”.

The Bank M was not in a position to verify the actual use of these remittances. Therefore, with the formed suspicion on the real purpose of sending funds to Sri Lanka, the Bank M filed an STR to the FIU. Soon after receiving the STR the FIU conducted a preliminary examination on the available information to recognize whether these companies are used as shell companies to cross border criminal proceeds. During this preliminary examination, it was decided to conduct further investigations to make sure the doubt is reasonable. Accordingly, the FIU with its vested powers by the FTRA, requested further information from several institutions including Bank B. Then it was decided to refer this case to an advanced investigation by the Terrorist Investigation Range of the Sri Lankan Police to verify whether these funds have been used for any other purposes such as financing terrorist activities or any unlawful conduct. Also, the FIU supports the investigations by the Terrorist Investigation Range at its maximum capacity until the relevant persons are convicted and sentenced if it is a real money laundering related attempt.

**Red flags:**

- Information provided through KYC is different from the proofs of business activities.
- High valued inward remittances on the same type of activities for two different companies located in the same communication address.
- Same Sri Lankan person’s name appeared as one of directors of both companies.
- Funds received from the same country in a same manner using a SIA.
- The Chairmen of both companies are citizens in the same country.
- Funds were withdrawn by the same person in two different branches of the same bank using cheques.

**Typology 3: Money Laundering through Properly Established Bank Relationships**

Money laundering can also be conducted through well-established bank relationships. This is because of the reduced effort that money launderers need to make to distribute criminal proceeds to their expected destinations when they used already established banking relationships. In this regard, launderers use their agents’ bank accounts to lend the appearance of legitimacy to cross border movements of criminal proceeds.

People who have already established banking relationships with finance sector institutions are used to transfer ill-gotten funds to other destinations. For an example, when a customer builds up customer relationships with a financial institution he or she declares the purposes of

maintaining the account. Accordingly, the purposes may have been properly declared in their original mandates submitted to banking institutions such as ‘income from the employment and businesses’. These accounts are being periodically credited by those relevant income providers as stated in the mandates. Therefore, there is no valid reason to suspect and observe the patterns of debit transaction of such accounts.

Accordingly, it is easy if someone needs to mislead the banking officials by using such accounts to transfer their ill-gotten funds from time to time by commingling bad money with good money. Therefore, there is a possibility of using these accounts to launder money by another party by paying a commission to account holders. Then such account holders become money launderers and commit a criminal offense.

It is revealed that illicit funds are deposited to these legitimate accounts in several stages by the same person or several persons. Then the holder of the account acts as a distributor of these funds to a relevant party or parties. He might be willing to get a commission, a payment for this service or get another benefit on doing so. The following case reveals information on such an act, carried out by a person called Mr. N who already had a well-established banking relationship with Bank A.

Mr. N had opened a savings account in Bank A with the purpose of receiving income from his employment in pharmacy C for working as a “sales person” in the pharmaceutical business. He provided this information to the Bank A through a KYC form. The expectation was to receive his earnings from his salary, from work related incentives and from travelling allowances from pharmacy C. As stated, these earnings were recurrently deposited to Mr. N’s savings account by pharmacy C for nearly eight years. Accordingly, Mr. N’s savings account had been operating without any doubt for a long period with Bank A.

Subsequently, Bank A noticed that Mr N’s savings account was credited with a series of foreign inward remittances which were unusual when compared to the patterns of usual deposits. These were contrasted against frequent deposits made by the Pharmacy C for Mr. N’s employment related services. In this instance, the account was credited with a series of e-remittances from many remitters located abroad. However, all these transactions were remitted through one exchange company called AMI Exchange Company, which was located in the middle east. Then all the accumulated funds in this savings account were withdrawn in large transactions by Mr. N through ATMs and over the counters of branches of Bank A. These remittances were unusual as there were 213 inward remittances received within a period of four months in a year, far in excess of Mr. N’s established pattern.

Having observed this peculiar nature of inward foreign remittances, the Bank A submitted a STR to the FIU. Upon preliminary analysis, the FIU confirmed the suspicious nature of Mr. N’s transactions. First, the form of deposits was different from the directives given by Mr. N at the opening of this savings account. Second, multiple inward remittances were received by a single account from many remitters. Third, all these remittances were received from one exchange

company located in a middle east country. Fourth, the source of funds and the purposes of funds were unclear. On all these grounds, the FIU also decided to refer this STR for an advanced analysis on the suspicion that this is an attempt to launder black money using Mr. N's account and using Mr. N as a distributor of these monies among a targeted group of people or to an illegal organization for underground economic activities.

On these grounds, the FIU then started an advanced analysis to determine whether a money laundering or terrorist financing offense was being committed. During its investigations, the FIU found that Mr. N maintained banking relationships with other domestic banks such as Bank B, Bank C and Bank D by holding savings and other types of accounts. It was also noticed that all these accounts were opened in the same month of the same year parallel to opening of the savings account in the Bank A.

It was observed that the Bank B where he maintained another savings account had records of receiving eight foreign inward remittances during a period of four days in a month. The KYC information declared Bank B's records were also different from the information stated in the KYC of Bank A. In the mandate of Bank B, it indicates Mr. N's occupation as an "accountant" instead of "a sales person" as mentioned in Bank A. It was also observed that the account was inactive for a long period prior to these inward remittances. All these inward remittances were withdrawn from the ATMs of Bank B.

Further, it was revealed that Mr. N had maintained another savings and a current account in the Bank C. It was observed that there were no any inward or outward foreign remittances that occurred via these accounts in the Bank C. According to the records of Bank C, Mr. N's occupation was indicated as a "medical representative" engaged in supplying pharmaceutical items.

Mr. N had another savings account in the Bank D. The source of income for this account had been declared as "income from businesses". The expected volume of monthly turnover had been given as less than Rs. 100,000/. However, it was found that there were no foreign inward or outward transactions that occurred through this savings account in the Bank D.

As the outcome of the analysis conducted by the FIU, it was decided to refer this case for investigation with the co-operation of LEAs. Accordingly, this was mainly referred to the Terrorist Investigation Division of the Police as it was suspected that there could be more evidence for laundering of money using Mr. N as an agent who already had developed a business relationship with legitimate domestic banks as a customer of them for eight years.

#### **Red Flags:**

- Real business transactions were different from the declared information.
- Sudden unexplained change in established account behavior.
- Suspicious foreign inward remittances.

- Source of fund of his inward remittances was unclear.
- The account holder maintains several accounts in several banks.
- The occupation indicated in the records of each bank is different.
- The economic rational of those transactions are questionable as opposed to the declared information.

#### **Typology 4: Unorthodox Conducts of Customers Suspicious as Money Laundering**

Customers maintain different types of business relationships with banking and non-banking financial institutions. In terms of Section 2 of the FTRA, all institutions (financial and designated non-financial institutions) are accountable for conducting customer due diligence to identify customers, verify their identities and assess money laundering and terrorist financing risks that can be introduced by customers using those institutions as vehicles to launder illicitly earned money. Accordingly, the banking institutions in Sri Lanka are held responsible for not only collecting, safe keeping and sharing those customers' information with the relevant authorities as and when required by the FIU, but they are also similarly responsible for screening that information to monitor whether the ongoing transactions are in conformity with the declared information by customers. If any nonconformity is observed, the banking institutions should report it to the FIU as soon as possible with all the relevant details. The following is an example of such an observation of suspicious transactions by a banking institution where the real transactions of its customer's account were contrary to the mandated transactions at the beginning of the account.

Ms. R had started a banking relationship with Bank H by opening a savings account. Also, she had opened a current account in the same branch of the Bank H. Ms. R was a "housewife" according to the details of KYC information submitted to Bank H. The purpose of maintaining the savings account was indicated as "savings". The source of funds to the savings account was stated as "family remittances". The purpose of maintaining the current account was given as "Business transactions" and the source of funds to the current account was indicated as "salary/ profit/ income". The proof of identification given to the bank was the national identity card, which indicated a different address to the given residential address. Ms. R had continued banking transactions with bank H for a considerable period prior to the time these transactions of suspected nature arose.

The ambiguity of transactions in Ms. R's savings account started with the surprising third-party deposits into her savings account, which were inconsistent with Ms. R's mandates. Also, her explanation on Bank H's query in this regard was not supported with relevant documents. She explained that she was "exporting some food items to Australia". However, she was unable to provide any proof of documents in this regard as explained by Bank H. The funds were deposited by many third-party depositors. More importantly, the purpose of those deposits and the source

of funds indicated in the receipts of such deposits were not in line with the information given in the mandate. The funds were deposited by third parties on different clarifications of “land sale”, ‘vehicle purchase’, ‘gold purchase’ and ‘agency purpose’, etc.

These third-party deposits were made in large amounts and had been withdrawn by Ms. R immediately after the deposits. The bank suspected these third-party deposits as they were in large amounts transacted in a series of deposits and withdrawals within a short period of time and they were in contradiction of the given mandate by Ms. R. Accordingly, the Bank H submitted an STR to the FIU on the grounds of “irrational transactions of unusual cash deposits by different third parties and withdrawals that were not consistent with the known pattern of transactions”.

The FIU started a preliminary investigation on the particular STR relating to these unusual transactions. It was then revealed Ms. R had banking relationships with some other domestic commercial banks such as Bank X and Bank Y.

In Bank X she had a savings account with over Rs. 6 mn value of debit and credit transactions for the reporting year. Bank X’s KYC information indicated that the purpose of maintaining this savings account was the same as given to Bank H, “family inward remittances”. The expected average volume of deposits into the account was not mentioned. Bank X’s customer risk categorization indicated a low risk for money laundering. The records of account transactions indicated that there are questionable third-party deposits into this savings account which were contrary to the given mandate. The funds were deposited by different third parties on different clarifications such as ‘to purchase fishing nets’, ‘business’, ‘pay for loan’, etc. These monies were also withdrawn by Ms. R immediately after the deposits were made.

Meanwhile, Ms. R has maintained another two savings accounts at Bank Y. The first account was opened eight years before the second account. At the time of investigation, it remained as a dormant account as there were no transactions processed through the account after 2009. The second account was opened with the purpose of ‘saving money’ and source of funds was indicated as same as the mandates of other banks, that is ‘family remittances’. Further, Ms. R was a ‘housewife’ according to the declared information. The credit and debit turnovers of this account were recorded as over Rs. 28 mn for the reporting year. Many third-party deposits were made to this account under different descriptions such as ‘registration of land’, ‘gold business’, ‘lease payment’, ‘loan settlement’ and ‘sales proceeds of vehicle’. These receipts were withdrawn by Ms. R immediately after the receiving these deposits.

Considering these high value deposits by different persons as well as the suspicious way of withdrawing them by Ms. R, the FIU decided to refer this case for further investigations. Accordingly, Ms. R’s banking transactions are now under investigation by the relevant LEAs on the grounds of potential money laundering offenses. The FIU is providing all the required intelligence which were collected from many sources as well as local and international

institutions to support this investigation in an effective way to decide whether there is a real involvement of money laundering activities as suspected. All these efforts are taken according to the international agreements and requirements to mitigate the money laundering and terrorist financing risks in Sri Lanka.

**Red flags:**

- Actual transactions are contrary to the customer's mandate.
- High value deposits by third parties on different explanations.
- Sources of funds are not clear.
- Suspicious way of withdrawing funds straight after the relevant deposits.
- The declared information is different from the information given by the customer at the inquiry of the Bank.
- The customer was not able to provide relevant proof of documents to prove the source of funds.

**Typology 5: Misappropriation of Business Entities**

Misappropriation of local and international business entities can be identified as a common typology used by the money launderers. Key management personnel of business entities use their business organizations to launder funds on a larger scale using the controlling power vested in them. Accordingly, funds are transferred from accounts maintained by business entities to personal accounts maintained by key management personnel providing reasons as consultancy fee, commission, service payments etc. Such proceeds are then transferred to other different accounts giving various reasons to disguise the origin and launder the proceeds.

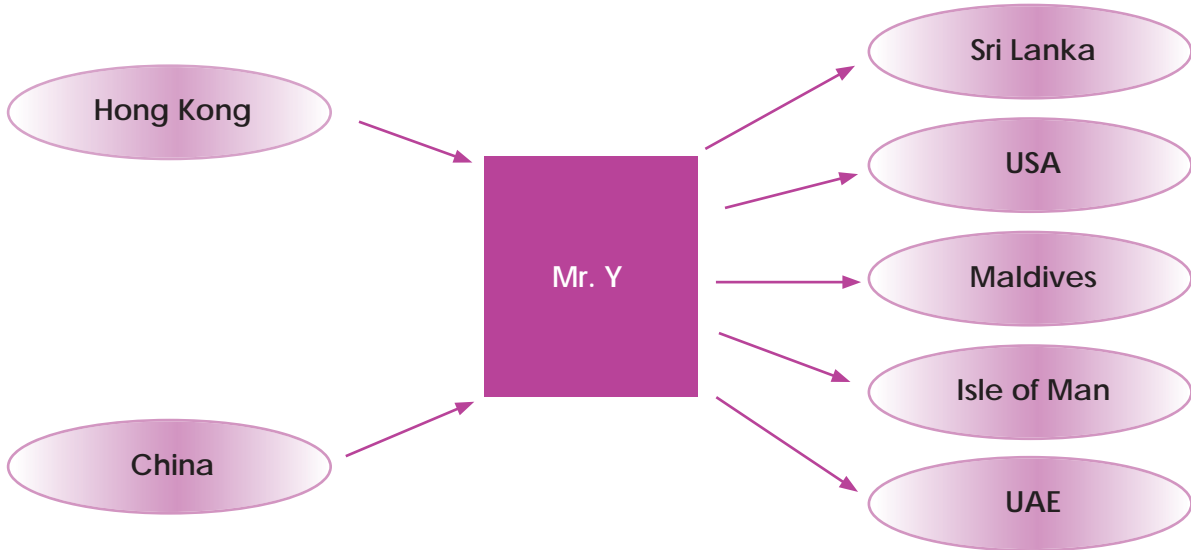
The FIU–Sri Lanka received an STR in 2016 from a leading foreign commercial bank that operates in Sri Lanka. The main ground of suspicion for the bank was the high frequency of inward and outward remittances of one USD denominated savings account. Mr. X, the account holder against whom the above STR is reported, has been a customer of the bank since 1998. He is a Sri Lankan citizen as well as the Managing Director of Company M, which is engaged in the textile business in Maldives. He maintains three savings accounts, two credit cards and one fixed deposit in the bank. Out of them one savings account is maintained in USD and all others are maintained in Sri Lankan Rupees.

During the months of February, March, May and June in 2016, Mr. X received a total of inward remittances amounting to USD 149,907 from Hong Kong and China on 11 occasions. Accordingly, three remittances from Hong Kong in February, three remittances again from Hong Kong in March, two remittances from Hong Kong and two remittances from China in May and a single remittance from Hong Kong in June were observed during that period. The summary of inward remittances is as follows:

Month	Country	Number of Remittances
February	Hong Kong	3
March	Hong Kong	3
May	Hong Kong	2
	China	2
June	Hong Kong	1

The reasons given for the inward remittances were mainly referred to as official matters such as payments against invoices, consultancy fee, commission, service payments, etc. As mentioned in the beginning, the reasons given are suspicious because being the Managing Director of the Company M, Mr. X can misappropriate the proceeds based on his controlling power and transfer them to his personal accounts.

After receiving the funds to his personal accounts, Mr. X has made total of outward remittances amounting to USD 155,290 to various individuals in five different jurisdictions. Mr. X has stated to the bank that these outward remittances were against the settlement of private loans which he had obtained from those individuals on earlier occasions. Therefore, subsequent outward remittances generated the suspicion that business proceeds transferred to the account in question might have been transferred out of the account to disguise the origin, a process similar to the layering process of money laundering used by criminals all over the world.





The FIU–Sri Lanka requested information from all other financial institutions regarding the accounts maintained by Mr. X. Accordingly, it was observed although he had banking relationships with most of the leading commercial banks in Sri Lanka, no significant transactions could be observed as seen in the suspicious account. However, those other banks also confirmed that he was engaged in the textile industry in Maldives.

As per the unlawful activities listed in the FTRA No. 06 of 2006, violations of laws, regulations, rules or orders relating to foreign exchange or transnational organized crime can be identified as main offences where any money laundering charges can be brought in against Mr. X. Having conducted the preliminary analysis and assessment, the FIU–Sri Lanka, as per the decision of the STR Review Committee, referred the details of Mr. X to the Exchange Control Department of the Central Bank of Sri Lanka and the Criminal Investigation Department of Sri Lanka Police to ascertain whether he has violated any exchange control regulations, enabling the FIU to proceed with the Money Laundering offence. Based on the scope of the investigation carried out by the CID, the FIU has the power to request more information from the countries where Mr. X has been involved in receiving and sending funds as an extended support mechanism to establish links to any foreign parties.

Red flags:

- High frequency of inward and outward remittances
- Transfer out the funds immediately after transfer in

### **Typology 6: Fraudulent Inward Remittances through Cyber Attacks**

With the technological advancement that can be seen in the world today, many business processes have become automated and information technology has become a necessity. Although, most of such systems are secured, criminals in certain instances breach such information technology security measures. Accordingly, criminals hack business systems and log into personal accounts of individuals in an unauthorized manner. After obtaining the control of such accounts, they transfer out funds to accounts that they control and immediately withdraw funds.

FIU – Sri Lanka received two separate STRs on the same customer within a 30-day period in the last quarter of 2015. STRs originated from two leading commercial banks namely Bank C and Bank P, which operate in Sri Lanka. The main reason for sending the STRs was the fraudulent inward remittances received to the accounts. The origin of the inward remittances were suspected to be from hacking business systems or through unauthorized access. Two STRs were reported against Company E, which was a limited liability company with a sole director, Ms. K. The company was incorporated in the beginning of the year 2015 and was purportedly engaged in exporting ready-made garments, as per the information provided in the account opening mandate.

Company E had opened the suspected current account at Bank C on April 08, 2015 with an initial deposit of Rs. 30,000. After about four months, a sum of Rs. 28,000 had been withdrawn from

that account through a cash cheque. On September 18, 2015, an inward remittance amounting to Euro 55,894.65 was received to the said account. On the same day, officials from the Bank of America of USA, which was the corresponding bank for the above transaction, had contacted Bank C and informed that this was a fraudulent transaction and had requested to return the funds back. They had mentioned that one of their customer's email account had been intercepted and payment instructions in the email had been changed in a way that the payment would be received to the above-mentioned account with Bank C. As Bank C had not credited the customer account at the time the officials from the Bank of America contacted Bank C, it was possible to remit the funds back. Accordingly, Bank C had reasonable grounds to report this matter to the FIU and they sent the STR against the account maintained by Company E.

Similarly, Company E had opened the suspected current account at Bank P on April 02, 2015 with an initial deposit of Rs. 25,000. Similarly, after four months Rs. 24,000 out of that has been withdrawn. On August 18, 2015, a similar large inward remittance amounting to USD 34,223.20 was received to the said account. Bank P credited the funds to the customer account two days later and funds were withdrawn by the customer on August 24, 2015. Bank P did not receive any notice from the correspondent bank until, on September 14, 2015 officials from the Deutsche Bank, the corresponding bank for the above transaction informed Bank P that this was a fraudulent transaction. The officials from the Deutsche Bank also requested to return the funds. The reason given was that an unidentified person had given similar instructions. As the customer account had been credited and, the customer had withdrawn the funds, Bank P was unable to return the money. Bank P also submitted an STR against the account maintained by Company E. Ms. K maintains a personal savings account also in Bank C since 2005 and no suspicious nature was seen in the pattern of transactions except receiving inward remittances for a third party employed in a ship as a welder.

As per the unlawful activities listed in the FTRA No. 06 of 2006, violations of laws, regulations, rules or orders relating to payment devices, fraud or transnational organized crime can be identified as main offences where any money laundering charges can be formulated against Company E. After having conducted the preliminary assessment and after the matter been reviewed by the STR Review Committee, the FIU-Sri Lanka referred the details of Company E, to the Criminal Investigation Department of Sri Lanka Police. Based on the scope of the investigation carried out by the CID, the FIU has the power to request more information from the two countries where Company E had received funds or freeze the funds lying in the accounts of Company E with immediate effect as an extended support mechanism.

#### Red flags:

- Sudden high value transactions that do not match with the account profile
- Immediate withdrawal after the high value inward remittance
- Notices from outside parties suspecting the account/transactions

# CHAPTER 07

## IT INFRASTRUCTURE FOR REPORTING

### 7.1 LankaFIN System

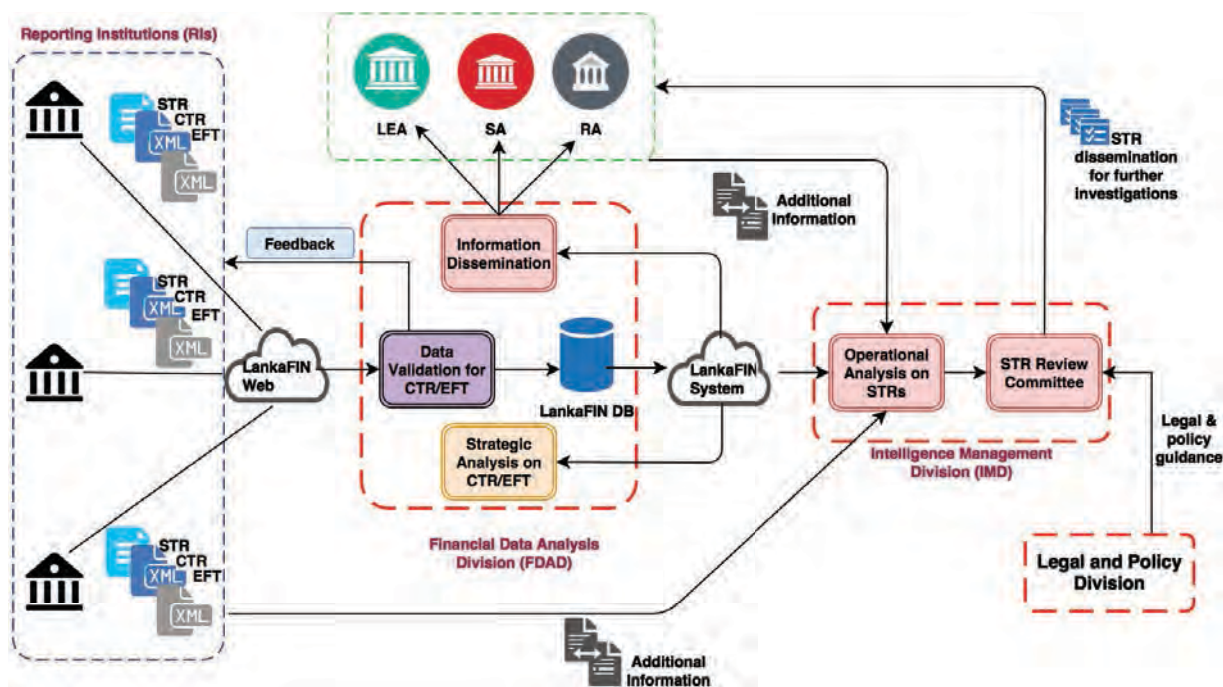
Since 2009, the LankaFIN system, a web based solution developed in-house by the IT Department of the Central Bank of Sri Lanka (CBSL) has been facilitating the FIU-Sri Lanka to receive Suspicious Transaction Reports (STRs) and mandatory threshold reports, i.e, Cash Transaction Reports (CTRs) and Electronic Fund Transfers (EFTs) over LKR 1 million from Reporting Institutions (RIs). The CTRs and EFTs are reported on a fortnightly basis by the Licensed Banks and Licensed Finance Companies, and on a monthly basis by other RIs.

The core functions of the LankaFIN system include;

- a) Receipt of mandatory threshold reports (CTRs and EFTs),
- b) Receipt of STRs from RIs,
- c) Analysis of CTRs/EFTs,
- d) STR case management,
- e) Statistical reporting,
- f) Information management of Compliance Officers and RIs and ,
- g) Collection/ Dissemination of financial information for Law Enforcement Agencies (LEAs).

Figure 7.1

Collection, Analysis and Dissemination of Information using LankaFIN



Source: Financial Intelligence Unit-Sri Lanka

The LankaFIN system facilitated 142 RIs to submit mandatory reports and STRs to the FIU-Sri Lanka during 2017. Further, the Intelligence Management Division of the FIU-Sri Lanka uses the transactional data, alerts and other information available in the LankaFIN system to conduct operational analysis.

The STR submission by RIs to the FIU-Sri Lanka is primarily done via the LankaFIN system. Therefore, all the Compliance Officers and Compliance Assistants of RIs are provided with access to the LankaFIN system. By the end of 2017, the total number of LankaFIN users from Financial Institutions (FIs) grew to 272 from last year's 262.

**Table 7.1**  
**LankaFIN Users as at End 2017**

<b>Sector</b>	<b>No. of Compliance Officers</b>	<b>No. of Compliance Assistants</b>	<b>Total No. of LankaFIN Users</b>
Licensed Commercial Banks	25	44	69
Licensed Specialized Banks	7	8	15
Licensed Finance Companies	45	49	94
Licensed Insurance Companies	28	13	41
Stock Brokers	34	14	48
Money or Value Transfer Service Providers	3	2	5
<b>Total</b>	<b>142</b>	<b>130</b>	<b>272</b>

*Source: Financial Intelligence Unit-Sri Lanka*

### **Feedback on LankaFIN Reporting**

The Financial Data Analysis Division of the FIU-Sri Lanka provides feedback to RIs on the submission of CTRs/EFTs for continuous improvements on the completeness and accuracy of reports. This includes the conduct of awareness programmes and one-on-one meetings on KYC/CDD and improving the quality of data submissions.

When the RIs submit CTR or EFT files through the LankaFIN system, the Financial Data Analysis Division examines these reports, focusing on the mandatory fields and the quality of the CDD details. In this regard, the Financial Data Analysis Division of the FIU-Sri Lanka has provided feedback to the RIs for further improvements on 1,330 instances where deficiencies have been observed in reporting.

### **Upgrading the IT Systems**

The Resident Advisor from the Economic Crimes Team, Office of Technical Assistance of the United States Department of the Treasury to the FIU-Sri Lanka conducted a review of the LankaFIN system with a view of identifying areas for improvement. Considering this particular review, recommendations of the Mutual Evaluation Report (MER), and prioritizing the country compliance, the senior management of the CBSL principally approved the procurement of goAML offered by the UNODC. The goAML application is a United Nations Office on Drugs and Crime (UNODC) strategic response to financial crime including money laundering and terrorist

financing. It is an integrated database and intelligent analysis system intended for use by FIUs worldwide.

## **7.2 Access to other Sources of Information**

The Financial Action Task Force (FATF) Recommendation 29 requires FIUs to have access to a wide range of information sources for a better analysis of STRs. In this connection, the FIU-Sri Lanka has entered into MOUs with domestic institutions such as the Sri Lanka Customs, Inland Revenue Department, Department of Immigration and Emigration, Department for Registration of Persons and Sri Lanka Police to exchange/receive required information to facilitate the investigations on Money Laundering and Terrorist Financing (ML/TF). The FIU-Sri Lanka has initiated a programme to establish online links with relevant stakeholders such as government agencies and LEAs. Under this programme, online access to Immigration and Emigration Department's System was obtained in 2017. Furthermore, infrastructure arrangements are being finalized to establish two more links with the Sri Lanka Customs and Department for Registration of Persons. This programme will continue to expand the network for the inclusion of more institutions in the future.

## **7.3 Future Challenges**

The FIU-Sri Lanka initiated the process to on-board the Financial Intermediaries, Unit Trusts and Non-Bank Primary Dealers as RIs to the LankaFIN system. Further, the FIU-Sri Lanka is considering the options of on-boarding a selected set of Designated Non Financial Business and Professions (DNFBPs) (Real Estate Dealers, Casinos, Gem and Jewellery Dealers, etc.) as RIs with due consideration given to the FATF requirements, the risks identified in the National Risk Assessment (NRA) on ML/TF in 2014, the MER on Sri Lanka by the Asia/Pacific Group on ML (APG) adopted in 2015 and the obligations as identified in the CDD Rules for the DNFBPs sector. Given the diversity and the informal nature of the DNFBPs sector, extended reach out to the sector has been prioritized to raise awareness on the mandatory AML/CFT obligations including reporting of STRs and mandatory threshold reports of CTRs and EFTs.

## **7.4 FIU Website**

The official website of the FIU-Sri Lanka (<http://fiusrilanka.gov.lk>) was launched on January 01, 2014 and since then it has become a primary source of information for both domestic and international stakeholders.

The website provides information on recent events, new legislations and amendments, circulars, publications, notices and updates on the relevant United Nations Security Council Resolution sanctions, etc.

A list of documents made available on the website during the year 2017 is given below.

- a) Suspicious Transactions (Format) Regulations of 2017 – Gazette Extraordinary No. 2015/56

- b) United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017 – Gazette Extraordinary No. 2039/32 (1718)
- c) Amendment to the list of designated persons under Regulation 4(7) of the United Nations Regulation No. 01 of 2012 (1373)
- d) Amendments to the consolidated list under regulation 4(2)(b) of the United Nations Regulations No. 02 of 2012 (1267)
- e) Circular – 01/17 - Onsite Examinations in terms of Risk-Based Approach - Examination Plan 2017
- f) Circular – 02/17 - Guidelines on AML / CFT Compliance Obligations for Money or Value Transfer Service Providers, No. 01 of 2017
- g) Re-establishment of Link between Banks of Iran and Sri Lanka
- h) Annual Report of the FIU-Sri Lanka 2016
- i) The FATF public statement on high risk and non-co-operative jurisdictions.
- j) Press releases/ notices by the FIU-Sri Lanka on the following
  - i. MOU with the Department for Registration of Persons
  - ii. Obligation of Reporting Suspicious Transactions to the FIU
  - iii. 20th Annual Meeting of the APG, in Colombo, Sri Lanka during July 17-21, 2017 and July 13, 2017 – Pre-meeting press release
  - iv. 20<sup>th</sup> Annual Meeting of the APG, in Colombo, Sri Lanka during July 17-21, 2017 - Aug. 01, 2017 – Post-meeting press release
  - v. MOU with the FIU of the Kingdom of Bhutan and China AML Monitoring and Analysis Centre
  - vi. MOU with the Sri Lanka Police

# CHAPTER 08

## POST – APG MUTUAL EVALUATION AND ICRG REVIEW ON SRI LANKA

### 8.1 Asia/Pacific Group on Money Laundering Mutual Evaluation

In accordance with membership rules of the Asia/Pacific Group on Money Laundering (APG), the FATF-Style Regional Monitoring Body (FSRB) for the Asia and Pacific region, joining members are committed to a mutual peer review system to determine the levels of compliance with the Financial Action Task Force (FATF) standards every six years. These peer reviews are referred to as Mutual Evaluations (ME).

The APG has completed two rounds of evaluations since 1997. The third round of ME commenced in 2014 under revised 2012 standards and the methodology of the FATF. Unlike the previous methodology, the 2013 rules combine an assessment of:

- **Technical Compliance (TC):** Assess the status of the relevance of legal and institutional frameworks of the country and the powers and procedures of the competent authorities to comply with the FATF 40 Recommendations.
- **Effectiveness:** Assess the extent to which the legal and institutional framework is capable of producing the expected results. The effectiveness assessment is based on 11 immediate outcomes stated in the FATF Methodology.

### 8.2 APG Mutual Evaluation on Sri Lanka

As a founding member of the APG, Sri Lanka had its first ME by the APG in 2006 soon after the establishment of the FIU – Sri Lanka in March 2006. A series of recommendations were made in the first MER, in order to rectify the gaps identified therein, including the requirement to amend several Acts and promulgate regulations on the implementation of the United Nations Security Council Resolutions (UNSCRs). Sri Lanka was able to fully implement the said recommendations in the first Mutual Evaluation Report (MER) by 2013.

The second ME on Sri Lanka was conducted in 2014/15 by a panel of evaluators representing Australia, Bhutan, Hong Kong, Malaysia, Singapore and the APG Secretariat. The MER was adopted at the 18<sup>th</sup> Annual Plenary and Technical Assistance Forum of the APG held in New Zealand in July 2015.



Sri Lanka was rated compliant or largely compliant for 12 Recommendations out of 40 Recommendations on TC, and substantially and moderately effective in two immediate outcomes out of 11 immediate outcomes. Based on the above compliance level, Sri Lanka was placed under the “Expedite Enhanced Follow-up Process”, requiring the country to provide the progress achieved in implementing the actions recommended in the MER to the APG on a biannual basis.

### 8.3 Major Follow-up Actions Taken to Address AML/CFT Deficiencies

In response to the deficiencies highlighted in the MER, the FIU–Sri Lanka together with other relevant stakeholders implemented a series of actions to improve the country’s compliance with the FATF standards, as indicated in Table 8.1 below.

**Table 8.1**  
**Major Actions Taken since the Adoption of the MER**

a)	Adoption of the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) National Policy for 2015 -2020 with the approval of the Cabinet of Ministers
b)	Formulation of a Cabinet approved institution-wise action plan based on recommendations of the MER
c)	Recommending amendments to the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) and Prevention of Money Laundering Act No 5 of 2006 (PMLA) by a reconstituted Legal Review Committee
d)	Issuing Customer Due Diligence Rules, No. 1 of 2016 covering every institution engaged in finance business as defined in the FTRA
e)	Assessing of financial sector risk and introduction of risk-based AML/CFT supervision
f)	Finalizing Customer Due Diligence Rules for the Designated Non-Financial Businesses and Professions (DNFBPs)
g)	Issuing risk-based AML/CFT Guidelines for Money Value Transfer Service (MVTs) providers
h)	Obtaining technical assistance from the World Bank on the simplification of Customer Due Diligence Rules
i)	Obtaining technical assistance from the IMF and the US Department of Treasury mainly to enhance technical capabilities relating to AML/CFT risk-based supervision, analytical capabilities of the FIU-Sri Lanka and to review relevant Acts
j)	Finalizing the amendments to the Trust Ordinance on the inclusion of the beneficial ownership requirement for legal arrangements by the Ministry of Justice
k)	Providing training opportunities for the officials of LEAs and Attorney General’s Department
l)	Signing of Memorandums of Understanding (MOUs) with domestic agencies and foreign counterparts to share/receive information to facilitate investigations
m)	Developing and implementing a comprehensive case management system to facilitate mutual legal assistance
n)	Issuing regulation promulgating UNSCR 1718 on DPRK
o)	Increasing the numbers of Money Laundering (ML) prosecutions and convictions

*Source: Financial Intelligence Unit-Sri Lanka*

## 8.4 Upgrading the Ratings due to the Progress made

Sri Lanka submitted the 1<sup>st</sup> follow-up report to the APG on January 31, 2016. The progress report was presented at the APG Annual Plenary held in San Diego, United States in September 2016 and there was a consensus among members that Sri Lanka had made considerable progress on TC in relation to 9 recommendations initially rated as non-compliant or partially compliant. Accordingly, Sri Lanka's AML/CFT compliance level was upgraded with effect from September 2016.

**Table 8.2**

### **Technical Compliance After the Re-rating in September 2016**

<b>Level of Compliance</b>	<b>At the Adoption of the MER in July 2015</b>	<b>Re-rating in September 2016 with the Progress Achieved</b>
Compliant (C)	5	5
Largely Compliant (LC)	7	16
Partially Compliant (PC)	16	13
Non-Compliant (NC)	12	6

*Source: Financial Intelligence Unit-Sri Lanka*

With the re-rating of the AML/CFT compliance, Sri Lanka was upgraded to the APG 'Enhanced Follow-up Process' from 'Expedite Enhanced Follow-up Process', requiring the country to report AML/CFT progress annually to the APG instead of biannually. Sri Lanka submitted the 2<sup>nd</sup> progress report on January 31, 2017, which was adopted at the APG Plenary held in Colombo.

## 8.5 A Review on Sri Lanka by the International Cooperation Review Group

### **The International Cooperation Review Group Process**

The FATF continually identifies and reviews jurisdictions with strategic AML/CFT deficiencies that pose a risk to the international financial system and closely monitors their progress through the International Co-operation Review Group (ICRG). The ICRG process began in 2007 and was enhanced in 2009. It was further updated in 2015 to take into account the revised FATF standards and mutual evaluation process, which assess the effective implementation of AML/CFT measures.

The FATF reviews jurisdictions based on threats, vulnerabilities, or particular risks arising from the jurisdiction. Specifically, a jurisdiction will be reviewed when:

1. It does not participate in a FSRB or does not allow mutual evaluation results to be published in a timely manner; or

2. It is nominated by a FATF member or an FSRB. The nomination is based on specific money laundering, terrorist financing, or proliferation financing risks or threats identified by delegations; or
3. It has achieved poor results on its mutual evaluation, specifically:
  - a) it has 20 or more non-Compliant (NC) or Partially Compliance (PC) ratings for technical compliance; or
  - b) it is rated NC/PC on 3 or more of the following Recommendations: 3, 5, 6, 10, 11, and 20; or
  - c) it has a low or moderate level of effectiveness for 9 or more of the 11 Immediate Outcomes, with a minimum of two lows; or
  - d) it has a low level of effectiveness for 6 or more of the 11 Immediate Outcomes.

A jurisdiction that enters the ICRG review process as a result of its mutual evaluation results has a one-year observation period to work with the FATF or its FSRB to address deficiencies before possible public identification and the formal review by the FATF. The FATF then prioritizes the review of those countries with more significant financial sectors – e.g. USD 5 billion or more in financial sector assets.

During the review process, the FATF considers the strategic AML/CFT deficiencies identified both in terms of technical compliance and effectiveness of measures in place, and any relevant progress made by the jurisdiction. If the FATF deems the progress insufficient to address its strategic deficiencies, the FATF develops an action plan with the jurisdiction to address the remaining strategic deficiencies.

For all countries under ICRG review, the FATF requires a high-level political commitment that the jurisdiction will implement the legal, regulatory, and operational reforms required by the action plan.

Four regional Joint Groups of the ICRG carry out the reviews, covering Africa/Middle East, the Americas, Asia/Pacific, and Europe/Eurasia. Each jurisdiction under review has the opportunity to participate in a face-to-face meeting to discuss the analysis of the Joint Group in advance of the FATF plenary meetings.

### **Public Identification**

The FATF publishes two statements at the end of each plenary meeting, in February, June, and October. These statements provide a short summary of the recent actions taken in accordance with each jurisdiction's action plan, as well as a list of the strategic deficiencies remaining to be addressed. The two statements reflect the different levels of risk posed at any given time by the deficiencies in the jurisdictions under review.

### **a. Improving Global AML/CFT Compliance: Ongoing Process Statement**

This statement identifies those jurisdictions with strategic deficiencies in their AML/CFT regimes that are undergoing review by the FATF according to the agreed milestones and timelines. The FATF encourages its members to consider the Money Laundering, Terrorist Financing and Financing of Proliferation (ML/TF/PF) risks arising from the strategic deficiencies of these jurisdictions. If a jurisdiction fails to make sufficient or timely progress, the FATF can decide to increase its pressure on the jurisdiction to make meaningful progress and protect the international financial system from these risks emanating from the jurisdiction by moving it to the FATF Public Statement.

### **b. FATF Public Statement**

The FATF Public Statement identifies two groups of jurisdictions:

1. Jurisdictions for which the FATF calls on its members and non-members alike to apply enhanced due diligence measures, which should be proportionate to the risks arising from the deficiencies associated with those jurisdictions. Enhanced due diligence measures include obtaining additional information on the customer, obtaining information on the source of funds and source of wealth of the customer, and enhanced monitoring of the business relationship.
2. For jurisdictions with such serious, longstanding strategic deficiencies that have still failed to make progress after the FATF calls for enhanced due diligence, the FATF calls on its members and non-members alike to apply, in addition to enhanced due diligence, counter-measures in order to protect the international financial system from the ML/TF/PF risks emanating from those jurisdictions. Counter-measures range from specific elements of enhanced due diligence and systematic reporting of transactions involving the jurisdiction, to a limitation or prohibition of financial transactions with the jurisdiction.

## **8.6 Removal from FATF Review**

In order to be removed from FATF monitoring, a jurisdiction must substantially address all the components of its action plan. Once the FATF has determined that a jurisdiction has done so, it will organise an on-site visit to confirm that the implementation of the necessary legal, regulatory, and/or operational reforms is underway and there is the necessary political commitment and institutional capacity to sustain implementation. If the on-site visit has a positive outcome, the FATF will decide on removing the jurisdiction from public identification at the next FATF plenary. The concerned jurisdiction will then continue to work with the FATF or the relevant FSRB, through its normal follow-up process, to improve its AML/CFT regime.

## 8.7 ICRG Review on Sri Lanka

In October 2015, the FATF decided to include Sri Lanka in the ICRG process under the new automatic referral based on the MER results, as it satisfied three out of four referral criteria on rating for technical compliance (28 recommendations rated NC/PC) and immediate outcomes (low or moderate level of effectiveness for 10 Immediate Outcomes). Accordingly, Sri Lanka entered into a one-year observation period from October 2015. With the application of new prioritization criteria introduced in June 2016 where financial sector assets of the country stood at USD 97.6 bn as at December 31, 2015 (*Source: CBSL Annual Report 2015*), the ICRG determined that Sri Lanka would be included in the ICRG process at the end of the observation period.

Accordingly, at the end of the observation period in October 2016, Sri Lanka was required to report the progress made towards increasing the effectiveness on each Immediate Outcome that was rated as low or moderately effective. The review was conducted by the Asia Pacific joint Group (AP-JG), co-chaired by India and Philippines with other members from the FATF, the APG, Australia, USA and South Korea. Further, Sri Lanka also had to conduct face-to-face meetings with the AP-JG to discuss the progress made.

Sri Lanka provided the 1<sup>st</sup> progress report on December 15, 2016 and had the face-to-face meeting with the AP-JG in Sydney, Australia during January 16–18, 2017. However, at the FATF Plenary in February 2017, it was decided to defer the decision on Sri Lanka to the FATF Plenary in June and Sri Lanka was again requested to report the progress in April 2017. Accordingly, Sri Lanka provided the 2<sup>nd</sup> progress report to AP-JG on April 19, 2017 and a team of officials visited Laos to attend the 2<sup>nd</sup> face-to-face meeting with the AP-JG team during April 26-27, 2017. However, the decision on Sri Lanka was again postponed to the FATF meeting scheduled for October 2017 and Sri Lanka was requested to submit a 3<sup>rd</sup> progress report.

Accordingly, Sri Lanka submitted the 3<sup>rd</sup> progress report to AP-JG on August 15, 2017 and a team of officials visited Thailand to attend the 3<sup>rd</sup> face-to-face meeting with the AP-JG team during September 18-19, 2017. The AP-JG recommendations on Sri Lanka, based on the progress reports and face-to-face discussions, were submitted to the ICRG Working Group held during the FATF October Plenary. After the deliberations in the ICRG Working group, Sri Lanka was recommended to the FATF Plenary to be included in its “Improving Global AML/CFT Compliance: On-going Process” a.k.a “Gray List”, identifying Sri Lanka as a country having strategic AML/CFT deficiencies.

Upon listing, the FATF issued a time bound action plan for Sri Lanka, which required to be implemented within the next 12- 18 months. Further, Sri Lanka is required to regularly submit reports on the progress of implementation to each FATF Plenary scheduled to be held in February, July and October 2018. Sri Lanka will have to implement the FATF Action Plan effectively within the given time frame in order for the country to be delisted from the “Gray List”.

### ***Sri Lanka***

In October 2017, Sri Lanka made a high-level political commitment to work with the FATF and APG to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. Sri Lanka will work to implement its action plan to accomplish these objectives, including by: (i) enacting amendments to the MACMA to ensure that mutual legal assistance may be provided on the basis of reciprocity; (2) issuing the CDD Rule for DNFBPs, issuing any necessary guidance, and ensuring implementation of this Rule has begun, by way of supervisory actions; (3) enhancing risk-based supervision and outreach to FIs, and high risk DNFBPs, including through prompt and dissuasive enforcement actions and sanctions, as appropriate; (4) providing case studies and statistics to demonstrate that competent authorities can obtain beneficial ownership information in relation to legal persons in a timely manner; (5) issuing a revised Trust Ordinance and demonstrating that implementation has begun; and (6) establishing a TFS regime to implement the relevant UNSCRs related to Iran, demonstrating that implementation has begun, and demonstrating that implementation has begun on the UN Regulation related to the DPRK.

*Source: <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-november-2017>*

Considering the scope of the action plan set out by the FATF, a sound framework is now in place, led by the AML/CFT National Coordinating Committee, to bring the commitment and coordination of all the stakeholders in the country to enhance the AML/CFT Standards. Thus, there is no doubt of the successful completion of the action plan within the given time frame for Sri Lanka to improve its compliance and the country rating.

## **Box Article 1:**

### **The Anti-Money Laundering/Countering the Financing of Terrorism Framework for Designated Non-Finance Businesses and Professions in Sri Lanka**

#### **Introduction**

It has been observed that the non-financial businesses and professions are commonly used for Money Laundering and Terrorist Financing (ML/TF) similar to Financial Businesses. Therefore, Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures are evenly applied globally to both financial businesses as well as non-financial businesses and professions, in order to prevent criminals from concealing their laundered proceeds and revenues of crimes.

As ML/TF is a severe threat to the global financial system, the Financial Action Task Force (FATF), which was established to develop and promote policies against ML/TF, has recognized casinos, real estate agents, dealers in precious metals and dealers in precious stones, lawyers, notaries, other independent legal professionals and accountants, trusts or company service providers as “Designated Non-Finance Businesses and Professions” (DNFBPs), which are required to apply AML/CFT measures due to their high exposure to ML/TF, as they carry out transactions on behalf of their clients.

#### **AML/CFT International Requirements in relation to DNFBPs**

The FATF has introduced “The FATF Recommendations”, which are recognized as the global standards against ML/TF. At the moment, there are 40 FATF Recommendations that have been globally adapted. Out of these 40 Recommendations, there are three Recommendations which are directly applicable to DNFBPs.

- Recommendation 22: Customer Due Diligence for DNFBPs (under this Recommendation(R), DNFBPs are required to comply with the other Recommendations such as R10:CDD, R11:Record Keeping, R12:Politically Exposed Persons, R15:New Technologies, and R17:Reliance on Third Party)
- Recommendation 23: Other Measures for DNFBPs (under this Recommendation, DNFBPs are required to comply with the other Recommendations such as R18: Internal Controls, R19: High Risk Countries, R 21: Tipping Off and Confidentiality are also to be complied with)

- Recommendation 28: Regulation and Supervision of DNFBPs (under this Recommendation, DNFBPs are also required to comply with the Recommendation 35: Sanctions)

Sri Lanka, as a member country of the Asia/Pacific Group on Money Laundering (APG), which is one of the FATF styled regional bodies has to comply with the above mentioned international Recommendations for DNFBPs.

## **AML/CFT Measures for DNFBPs in Sri Lanka**

### **Who are the DNFBPs?**

In terms of Section 33 of the Financial Transactions Reporting Act, No.6 of 2006 (FTRA), casinos, gambling houses or conducting of a lottery, real estate agents, dealers in precious metals and dealers in precious and semi-precious stones, lawyers, notaries, other independent legal professionals and accountants, a trust or company service provider are identified as DNFBPs in Sri Lanka.

Accordingly, casinos, gambling houses or conducting of a lottery, including a person who carries on such a business through the internet are required to comply with AML/CFT measures when their customers engage in financial transactions equal to or above the prescribed threshold. Also, real estate agents when they are involved in transactions for their clients in relation to the buying and selling of real estate are required to comply with specified AML/CFT measures. Similarly, dealers in precious metals and dealers in precious and semi-precious stones, including but not limited to, metals and stones covered by the National Gem and Jewellery Authority Act, No. 50 of 1993 are required to comply with AML/CFT measures when they engage in cash transactions with a customer, equal to or above the prescribed threshold.

Not only these businesses, the professional service providers such as lawyers, notaries, other independent legal professionals and accountants are required to comply with AML/CFT measures when they prepare for or carry out transactions for their clients in relation to any of the following activities :

- i. buying and selling of real estate ;
- ii. managing of client money, securities or other assets;
- iii. management of bank, savings or securities accounts ;
- iv. organization of contributions for the creation, operation or management of companies ; and
- v. creation, operation or management of legal person or arrangements and the buying and selling of business entities ;



Similarly, trusts or company service providers not otherwise covered by any of the above definitions, which as a business, provides one or more of the following services to third parties are also required to comply with the AML/CFT obligations;

- i. formation or management of legal persons;
- ii. acting as or arranging for another person to act as, a director or secretary of a company, a partner or a partnership or a similar position in relation to other legal persons;
- iii. providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or for any other legal person or arrangement ;
- iv. acting as or arranging for another person to act as a trustee of an express trust ;
- v. acting as or arranging for another person to act as a nominee shareholder for another person;

### **AML/CFT Legal Framework for DNFBPs**

AML/CFT measures for the above mentioned DNFBPs are covered within the below described AML/CFT Legal Framework which mainly consists of 03 Legal Enactments and, subsequently issued Rules, Regulations and Directions by the Financial Intelligence Unit of Sri Lanka.

### **Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005**

The Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA) was enacted in order to give effect to Sri Lanka's obligations under the International Convention on the Suppression of Terrorist Financing adopted by the United Nations, to which Sri Lanka became a signatory on January 10, 2000. The Act prohibits the financing of terrorist acts, terrorists and terrorist organizations. Further, the CSTFA provides for the freezing of terrorist financing related assets and forfeiture of such assets. CSTFA has been further strengthened through the amendments brought in to the Act in 2011 and 2013.

#### **I. Prevention of Money Laundering Act, No.5 of 2006**

The Prevention of Money Laundering Act, No.5 of 2006 (PMLA) prohibits ML in Sri Lanka and sets out the necessary measures to combat money laundering. The Act includes provisions for freezing, property tracking and forfeiture of assets related to money laundering. The PMLA was further amended in 2011.

#### **II. Financial Transactions Reporting Act, No.6 of 2006**

This Act provides for the setting up of the FIU-Sri Lanka as a national agency to collect data/information relating to suspicious financial transactions, to facilitate the prevention, detection,

investigation and prosecution of the offence of money laundering and the financing of terrorism. It also requires mandated institutions to undertake due diligence measures to combat money laundering and the financing of terrorism.

In addition to the above three Legislations, following Regulations/Rules/Guidelines issued by the FIU-Sri Lanka are also directly applied for the DNFBPs.

### **III. Suspicious Transactions (Format) Regulations of 2017**

This Regulation specifies the formats to submit Suspicious Transactions Reports (STRs) for each sector under the AML/CFT purview. The DNFBPs are required to use the 'Schedule V' in the Suspicious Transactions (Format) Regulations when submitting STRs to the FIU-Sri Lanka.

### **IV. Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 (CDD Rules) - Extraordinary Gazette No 2053/20, January 10 of 2018**

These Rules specify the measures that every DNFBP should adopt for the purpose of identifying, assessing and managing ML/TF risks posed by its customers, by conducting Customer Due Diligence (CDD) based on a "Risk Based Approach". Further, under Rule 9.2, it defines threshold limits to conduct CDD for two DNFBP sectors as follows;

- a. Casinos, gambling houses or conducting of a lottery, including a person who carries on such a business through the internet when a customer engages in financial transactions in Sri Lankan Rupees or in any foreign currency equivalent to or above United States Dollars 3,000.
- b. Dealers in precious metals and dealers in precious and semi-precious stones, including but not limited to, metals and stones covered by the National Gem and Jewellery Authority Act, No. 50 of 1993 where the respective dealer engages in any cash transaction with a customer in Sri Lankan Rupees or in any foreign currency equivalent to or above United States Dollars 15,000.

**V. Guidelines on Anti-Money Laundering and Countering the Financing of Terrorism Compliance Obligations for Casinos and Gambling Houses, No. 2 of 2018.** These Guidelines were issued detailing the AML/CFT obligations, which are to be complied by the Casinos and Gambling Houses in Sri Lanka.

**VI. Guidelines on Anti-Money Laundering and Countering the Financing of Terrorism Compliance Obligations for Dealers in Real Estate and Precious Metals, Precious and Semi-Precious Stones, No. 03 of 2018.** These Guidelines were issued detailing the AML/CFT obligations that are to be complied with by the real estate dealers as well as the dealers in precious metals and stones in Sri Lanka.

## **VII. Regulations on United Nations Security Council Resolutions on Terrorism, Terrorism Financing and Proliferation of Weapons of Mass Destruction.**

- a) The United Nations Regulations No. 02 of 2012** issued by the Minister of Foreign Affairs promulgating the United Nations Security Council Resolution 1267 (1999), and the modifications and strengthening of the Resolution's sanctions regime by subsequent resolutions require countries to immediately freeze funds, financial assets or other economic resources of individuals and entities who are designated by the United Nations Security Council based on such person's / entity's connections with terrorism and terrorist financing. Further, countries should ensure that no funds, financial assets or economic resources are made available to or for the benefit of such designated persons or entities or their beneficiaries. Freezing is effective as and when the United Nations Security Council announces the names of such designated persons and entities and such freezing shall be in force until such time the person or entity is delisted from the design designated list.
- b) The United Nations Regulations No. 01 of 2012** issued by the Minister of Foreign Affairs promulgating the United Nations Security Council Resolution 1373 (2001) and its successor resolutions require immediate freezing of funds, financial assets or other economic resources of designated individuals and entities related to terrorism and terrorist financing on a national level.
- c) United Nations (Sanctions in relation to Democratic People's Republic of Korea(DPRK)) Regulations of 2017** issued by the Minister of Foreign Affairs promulgating the United Nations Security Council Resolution 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), 2321 (2016) and successive Resolutions require immediate freezing of funds, financial assets or other economic resources of designated North Korean individuals and entities who are involved in the proliferation of weapons of mass destruction.

Accordingly, DNFBPs are obliged to have measures in place to identify and freeze funds, financial assets or other economic resources of such designated persons or entities or their associates and beneficiaries. Further, the DNFBPs should ensure that no funds, financial assets or economic resources are made available to or for the benefit of such designated persons, entities or their beneficiaries.

Further to these Rules, Regulations, Directions and Guidelines, the FIU has issued following awareness documents to DNFBPs in support of their successful implementation of AML/CFT measures. (These documents can be downloaded from the FIU-Sri Lanka website: <https://www.fiusrilanka.gov.lk>)

- i. Notice to the customers of the DNFBPs.
- ii. Notice on appointing compliance officials for businesses and professions in the designated non-financial sector
- iii. Training materials on guidance to AML/CFT for real estate, dealers in precious metals and stones, casinos and accountants

Furthermore, the FIU-Sri Lanka is also in the process of creating awareness on the AML/CFT requirements for the DNFBPs through various awareness programmes/workshops, training programmes, as well as through one to one discussions.

### **AML/CFT Compliance Obligations of DNFBPs**

All DNFBPs are required to comply with AML/CFT compliance obligations as required by the above described Legal Enactments, Rules and Regulations. Among others, following are the main AML/CFT compliance obligations for DNFBPs in Sri Lanka.

- a. Appoint a Compliance Officer: a senior management level officer who has direct access to the higher management/ Board of Directors should be appointed as the Compliance Officer. This appointment should be informed to the FIU-Sri Lanka through the Compliance Officer Declaration Form, which is available on the FIU-Sri Lanka website. The Compliance Officer is responsible for ensuring the DNFBP's AML/CFT compliance under the requirements of the FTRA.
- b. Establish an AML/CFT Policy and procedures: every DNFBP should establish, monitor and maintain an effective AML/CFT Policy and procedures to prevent potential abuse of the DNFBP for ML/TF activities. The AML/CFT Policy and procedures should be written and approved by the management. Also, these should be well communicated to all relevant employees and higher management/Board of Directors. Among others, the following AML/CFT requirements should be mainly addressed in the AML/CFT Policy and procedures of the DNFBP.

**-ML/TF Risk Assessment -Customer Due Diligence Measures**

**-Record Keeping**

**-Development of training and awareness**

**-Employee screening**

**-Reporting STRs and other reporting requirements**

**-Compliance with UNSCR**

- c. Establish ongoing employee training programmes: DNFBPS should ensure that all relevant employees are kept informed of AML/CFT requirements as well as new developments including awareness on ML/TF risks, techniques, methods and trends.
- d. Establish an independent audit function: the AML/CFT function of the DNFBP should be independently audited.

- e. Implement employee screening procedures: all DNFBPs should establish suitable employee screening measures to make sure that they are not engaged in ML/TF related activities.

### **Challenges in Implementing AML/CFT Practices for DNFBPs**

Unlike the Financial Institutions, DNFBPs are of different types and businesses. The number of institutions of some DNFBP categories are massive and scattered all over the country. Therefore, applying a resilient AML/CFT framework for DNFBPs is a great challenge for the FIU.

Following the above-mentioned initiatives, the FIU intends to carry out more outreach with regard to the AML/CFT compliance obligations of DNFBPs in Sri Lanka. Along with the measures that are already being taken by the FIU to make the DNFBP sector compliant towards AML/CFT obligations, the FIU-Sri Lanka intends to commence AML/CFT supervision of DNFBPs in the near future. In this effort, the FIU-Sri Lanka expects to receive the support and the cooperation of all relevant institutions, regulatory bodies and associations in order to establish a sustainable AML/CFT regime for DNFBPS.

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- IV. Suspicious Transactions (Format) Regulations of 2017
- V. Rules for Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 - Extraordinary Gazette No 2053/20, January 10 of 2018
- VI. <https://www.fiusrilanka.gov.lk>

## **Box Article 2 :**

### **Common Scams Operating in Sri Lanka using Social Media**

A scam is a fraudulent scheme performed by an individual, group, or company in an attempt to dishonestly receive benefits in cash or in-kind. A rising trend in new forms of scams such as lottery scams, scam baiting, email spoofing, phishing and request for help has emerged using social media, text messages, emails and instant messaging apps in Sri Lanka and around the world.

The most common scams used in Sri Lanka are of two types:

#### **i. Investment and Emotional Scams**

Scammers contact the victim via email or social media, appealing to emotions (romance, sympathy, etc.) or an offer of unbelievably good investment opportunity. Over time they build a relationship with the victim until the victim is convinced and willingly start sending them money. Scammers send out thousands of spam emails or messages on social media knowing that just a small percentage would be successful where the victims are convinced to send money. These scams are of low volume and high value where the scammer must invest a significant amount of time grooming the victim, for the higher pay-off.

#### **ii. Advance Fee Scam**

Advance fee scams are one of the most common scams which involve the scammer making a request/a demand for an up-front fee for a gift, a prize or a large package of money. For example, the scammer inform that the victim has won a phone, a car or a lottery, but has to pay a fee in advance to receive it. If the victim pays the fee either the victim would never receive the gift or the scammer might ask for additional payments for postage fees, legal fees, shipping cost, customs duty or delivery cost, etc. The scammer develop the scenario over time capitalizing the victim's willingness to pay in the hope of recovering previous losses.

Example: Nigerian 419 Scams

Nigerian scams involve someone overseas offering the victim a share in a large sum of money or a payment on the condition that the victim helps them to transfer money out of their country. These scams originated in Nigeria and are known as the 'Nigerian 419' scams because the first wave of them came from Nigeria. The '419' part of the name comes from the Section of Nigeria's Criminal Code that outlaws the practice. These scams are spreading across the world now.

The scammer will develop an elaborate story about large amounts of their money trapped in banks during events such as civil wars or coups, often in countries currently in the news or they may tell about a large inheritance that is 'difficult to access' because of government restrictions

or taxes in their country. The scammer will then offer the victim a large sum of money to help them transfer their personal fortune out of the country.

Scammers may ask for the bank account details to ‘help them transfer the money’ and use this information to later steal the victim’s funds. Or they may ask the victim to pay fees, charges or taxes to ‘help release or transfer the money out of the country through the victim’s bank. These fees may even start out as quite small amounts. If paid, the scammer may make up new fees that require payment before the victim can receive the reward. They will keep asking for more money as long as the victims are willing to be a part of it. But the victim will never be sent the money that was promised.

### Case Study of Advance Fee Scam

The FIU-Sri Lanka received two Suspicious Transaction Reports (STR) from two commercial banks operating in Sri Lanka on an individual, Ms. JN for receiving frequent third-party deposits. Both banks had received complaints by third parties claiming Ms. JN’s accounts were used to collect cash to clear a foreign parcel. While these STRs were under investigation, the FIU-Sri Lanka received a complaint directly from another third-party as well.

According to the complaint by the third party, Ms. K, the proprietor of a small sewing business in the north of Sri Lanka, had uploaded details of her company on a social media website. Two individuals claiming to be from an European country, Mr. JK and Mr. RJB have contacted Ms. K through an Instant messaging service via two European mobile numbers after seeing the above said advertisement. These two individuals offered to sell instruments required for Ms. K’s factory.

After three days, another individual, Mr. F contacted Ms. K using a Sri Lankan number through an instant messaging service to arrange payment for the instruments. Ms. K made the following payments into bank accounts using details provided by Mr. F, including an account belonging to Ms. JN:

Reason	Bank	Amount Deposited (LKR)	Date of Transactions	Account Holder
To remove the parcel from cargo	Bank C	85,000	10/08/2017	Ms. JN
Fine to be paid to the Customs as they have mistakenly placed money in the parcel	Bank N	250,000	12/08/2017	Mr. P
The money to be paid to the Ministry of Finance to convert Sterling Pounds to Sri Lankan Rupees.	Bank H	200,000	15/08/2017	Mr. M
	Bank H	79,000	15/08/2017	Mr. KK
	Bank H	200,000	20/08/2017	Mr. C

The victim was also requested to pay a sum of LKR 969,450 as Income Tax according to a fake certificate issued to her under the name of the Central Bank of Sri Lanka, at which she made a complaint to the FIU-Sri Lanka via a letter, in which she attached copies of all the cash deposit slips and the fake certificate.

**A summary of instances Ms. JN has defrauded the public as reported by banks is given below:**

- A third party complained that Ms. JN defrauded the victim of LKR 70, 000 that was deposited in cash to her account to clear a foreign parcel. The third party failed in his attempts to contact Ms. JN for an explanation after depositing the money. The money was withdrawn via ATM on the same day as the deposit.
- Another third party was requested by Ms. JN to deposit cash to her account to facilitate customs clearance and delivery to the third party of an overseas package. After the deposit was made, no package was delivered and the customer complained to Ms. JN's bank.
- Ms. JN was collecting money from people by promising lottery draws and gifts.
- Ms. JN opened a savings account at a bank branch in January, 2017. Shortly, multiple cash deposits were made to the account which were immediately withdrawn via ATMs and branch cash withdrawals.
- A complaint was made about Ms. JN's account being used for fraudulent purposes. The bank was not able to verify that Ms. JN is living at the address provided when the account was opened. Most withdrawals from Ms. JN's account were made at the ATMs of other banks.
- Ms. JN requested third parties to deposit funds into her account in order to claim a parcel sent from abroad. Subsequent to the deposits, the funds have been withdrawn from the account immediately.
- Multiple cash deposits have been made to Ms. JN's account from branches around Sri Lanka which have been followed by immediate withdrawals via ATMs and the depositors have stated that they were asked to deposit the money in order to be eligible for a gift scheme.

After the FIU-Sri Lanka analysis, the STRs were referred to the Criminal Investigations Division (CID) of Sri Lanka with the suspicion of defrauding the public in an organized manner. Subsequently, Ms. JN and her accomplices were arrested and are now facing trial under the offence of defrauding public via social media.



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# Photo Gallery

Signing of MOU with Qatar FIU



The IMF Visit to Sri Lanka



Meeting with stakeholders of the FIU



Meeting with Condominium Property Developers



Signing of MOU with Department of Registration of Persons



Signing of MOU with Sri Lanka Police



3<sup>rd</sup> Counter-Terrorism Financing Summit - Malaysia



Egmont Group Meeting Qatar



Signing of MOU with Thailand Financial Intelligence Unit



Awareness Programme for FIs and Sri Lanka Police in Matara



NCC Meeting



Visit of Qatar Financial Intelligence Unit



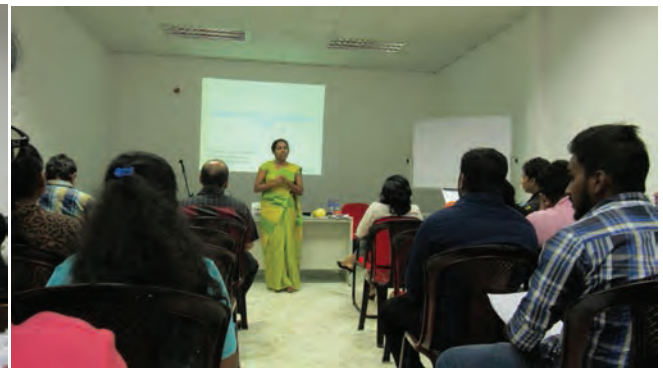
Participating at the 9th BIMSTEC Summit in Myanmar



Resourcing Awareness Programmes in Trincomalee and Batticaloa



Resourcing Awareness programme in People's Leasing & Finance PLC



Meeting with the DNFBP Sector











# Appendix A : List of Regulations/Rules/Directions/ Guidelines/Circulars issued from 2006 to 2017

## Year 2017

1. Circular on onsite examination in terms of Risk-Based Approach examination plan 2017 to CEOs of all Licensed Banks and Licensed Finance Companies.
2. Guidelines to MVTs providers on AML/CFT compliance obligations for Money Value Transfer Providers, No. 1 of 2017
3. Suspicious Transactions (Format) Regulations of 2017 - Extraordinary Gazette No. 2015/56, March 30, 2017.
4. Regulations promulgating the implementation of UNSCR 1718 on DPRK (Democratic People's Republic of Korea) - Extraordinary Gazette No. 2039/32 dated October 06, 2017.
5. Regulations promulgating the implementation of UNSCR 1540 on Proliferation of Weapons of Mass Destruction (WMD) - Extraordinary Gazette No. 2039/31 dated October 06, 2017.

## Year 2016

1. KYC/ CDD Rules for Financial Institutions - Extraordinary Gazette No. 1951/13, January 27, 2016
2. Circular on definitions/clarifications for Financial Institutions (Customer Due Diligence) Rules No. 01 of 2016

## Year 2014

1. Circular on implementation of UNSCR 1373 - Obligations of Authorized Money Changers
2. Circular on implementation of UNSCR 1373 - Obligations of Licensed Banks and Licensed Finance Companies
3. Circular on implementation of UNSCR 1373 - Obligations of Insurance Companies
4. Circular on implementation of UNSCR 1373 - Obligations of Stock Brokers

## Year 2013

1. Circular to Directors of All Authorized Money Changing Companies
2. Circular on public statement by the Financial Action Task Force (FATF)
3. Circular on implementation of UNSCR 1267 - Obligation of All Licensed Banks and Licensed Finance Companies
4. Circular on implementation of UNSCR 1267 - Obligation of Insurance Companies
5. Circular on implementation of UNSCR 1267 - Obligation of Stock Brokering Companies

## Year 2012

1. Circular on revisions to 40+9 Recommendations of the FATF
2. Circular on notification from the FIU of the St. Vincent and the Grenadines
3. Amendments to the KYC/ CDD Rules, No.1 of 2011 for the Licensed Banks and Licensed Finance Companies - Extraordinary Gazette No 1756/27, May 04, 2012
4. Circular on Sections 7, 12(1) and 14(1) of the FTRA for Licensed Banks
5. Circular on Sections 7, 12(1) and 14(1) of the FTRA for Licensed Finance Companies
6. Circular on Sections 7, 12(1) and 14(1) of the FTRA for Insurance Companies
7. Circular on Sections 7, 12(1) and 14(1) of the FTRA for Stock Brokers

## Year 2011

1. KYC/ CDD Rules for Licensed Banks and Licensed Finance Companies - Extraordinary Gazette No 1699/10, March 28, 2011
2. Circular on Auditor's declaration on establishment of audit functions
3. Circular on compliance with the reporting requirement under Section 7 of the FTRA
4. Circular on revisions to Extraordinary Gazette Notification No. 1699/10 - KYC/ CDD Rules, No. 01 of 2011

## Year 2010

1. Circular on web based information reporting system to the Insurance Companies
2. Circular on web based information reporting system to the Stock Brokers

## Year 2009

1. Circular on compliance with Section 2 of the FTRA for Licensed Banks
2. Circular on compliance with Section 2 of the FTRA for RFCs
3. Circular on inclusion of the Tamil Foundation among the list of Terrorist Organizations in US
4. Circular on web based reporting system for LCBs and LSBs
5. Circular on web based reporting system for RFCs

## Year 2008

1. KYC/ CDD Rules for the Insurance Industry
2. Circular on compliance with Rules on CDD for Financial Institutions
3. Circular on the revision of reporting threshold to Rs. 1,000,000
4. Circular on inclusion of the World Tamil Movement among the list of Terrorist Organizations in Canada
5. Circular on use of banking system by institutions and persons not authorised to accept deposits
6. Circular on compliance with reporting requirement of FTRA for Securities Industry
7. Circular on compliance with reporting requirement of FTRA for Insurance Industry
8. Extraordinary Gazette No. 1555/9, June 25, 2008 on cash and electric fund transfer threshold of Rs. 1,000,000

## Year 2007

1. KYC/ CDD Rules for the Securities Industry
2. Circular on compliance with KYC/CDD Rules for new customers and existing customers
3. Circular on compliance with the reporting requirements on fortnightly basis under the FTRA
4. Circular and Instructions as per Section 33 on offences against children under the FTRA
5. Circular on mandatory reporting requirements - Electronic Fund Transfer

## Year 2006

1. Circular on compliance with the reporting requirement under Sections 6 and 7 of the FTRA No. 6 of 2006
2. Circular on Section 312 and Section 319 of the Patriot Act.
3. Circular on submission of data under the FTRA No. 06 of 2006
4. Circular on Section 14 of the FTRA No. 06 of 2006
5. Circular on CDD for inward and outward remittance of customer accounts
6. Extraordinary Gazette No.1437/24, March 23, 2006 on designation of the Financial Intelligence Unit of Sri Lanka
7. Extraordinary Gazette No.1437/25, March 23, 2006 on cash and electronic fund transfer threshold of Rs.500,000

# Appendix B: Reporting Institutions as at 31st December 2017

## Licensed Commercial Banks

1. Amana Bank PLC
2. Axis Bank Ltd
3. Bank of Ceylon
4. Cargills Bank Ltd
5. Citibank, N.A.
6. Commercial Bank of Ceylon PLC
7. Deutsche Bank AG
8. DFCC Bank PLC
9. Habib Bank Ltd
10. Hatton National Bank PLC
11. ICICI Bank Ltd
12. Indian Bank
13. Indian Overseas Bank
14. MCB Bank Ltd
15. National Development Bank PLC
16. Nations Trust Bank PLC
17. Pan Asia Banking Corporation PLC
18. People's Bank
19. Public Bank Berhad
20. Sampath Bank PLC
21. Seylan Bank PLC
22. Standard Chartered Bank
23. State Bank of India
24. The Hongkong & Shanghai Banking Corporation Ltd
25. Union Bank of Colombo PLC

## Licensed Specialized Banks

1. HDFC Bank of Sri Lanka
2. Lankaputhra Development Bank Ltd
3. National Savings Bank
4. Regional Development Bank
5. Sanasa Development Bank PLC
6. Sri Lanka Savings Bank
7. State Mortgage and Investment Bank

## Registered Finance Companies

1. Abans Finance PLC
2. Alliance Finance Company PLC
3. A M W Capital Leasing and Finance PLC
4. Arpico Finance Company PLC
5. Asia Asset Finance PLC
6. Associated Motor Finance Co. Ltd
7. Bimputh Finance PLC
8. Brac Lanka Finance PLC
9. Central Finance Company PLC
10. Central Investments & Finance PLC
11. Citizens Development Business Finance PLC
12. City Finance Corporation Ltd
13. Colombo Trust Finance PLC
14. Commercial Credit and Finance PLC
15. Commercial Leasing and Finance Ltd
16. ETI Finance Ltd
17. HNB Grameen Finance Ltd
18. Ideal Finance Ltd
19. Kanrich Finance Ltd
20. LOLC Finance PLC
21. LB Finance PLC
22. Merchant Bank of Sri Lanka & Finance PLC
23. Melsta Regal Finance Ltd
24. Mercantile Investments and Finance PLC

25. Multi Finance PLC
26. Nation Lanka Finance PLC
27. Orient Finance PLC
28. People's Leasing & Finance PLC
29. People's Merchant Finance PLC
30. Prime Finance PLC
31. Richard Pieris Finance Ltd
32. Sarvodaya Development Finance Ltd
33. Senkadagala Finance PLC
34. Serendib Finance Ltd
35. Singer Finance (Lanka) PLC
36. Sinhaphuthra Finance PLC
37. Siyapatha Finance PLC
38. Softlogic Finance PLC
39. Swarnamahala Financial Services PLC
40. T K S Finance Ltd
41. The Finance Company PLC
42. The Standard Credit Finance Ltd
43. Trade Finance & Investments PLC
44. UB Finance Company Ltd
45. Vallibel Finance PLC

### **Licensed Insurance Companies**

1. AIA Insurance Lanka PLC
2. Allianz Insurance Lanka Ltd
3. Allianz Life Insurance Lanka Ltd
4. Amana Takaful PLC
5. Amana Takaful Life Ltd
6. Arpico Insurance Ltd
7. Ceylinco General Insurance Ltd
8. Ceylinco Life Insurance Ltd
9. Continental Insurance Lanka Ltd
10. Co-operative Insurance Co. Ltd
11. Cooplife Insurance Ltd
12. Fairfirst Insurance Ltd



13. HNB Assurance PLC
14. HNB General Insurance Ltd
15. Janashakthi Insurance PLC
16. Janashakthi General Insurance Ltd
17. Life Insurance Corporation (Lanka) Ltd
18. LOLC General Insurance Ltd
19. LOLC Life Assurance Ltd
20. MBSL Insurance Company Ltd
21. National Insurance Trust Fund
22. Orient Insurance Ltd
23. People's Insurance Ltd
24. Sanasa Insurance Co. Ltd
25. Softlogic Life Insurance PLC
26. Sri Lanka Insurance Corporation Ltd
27. Union Assurance PLC

## Licensed Stockbrokers

1. Acuity Stockbrokers (Pvt) Ltd
2. Asha Phillip Securities Ltd
3. Asia Securities (Pvt) Ltd
4. Assetline Securities (Pvt) Ltd
5. Bartleet Religare Securities (Pvt) Ltd
6. Candor Equities Ltd
7. Capital Alliance Ltd
8. Capital Alliance Securities (Pvt) Ltd
9. Capital Trust Securities (Pvt) Ltd
10. Claridge Stockbrokers (Pvt) Ltd
11. CT CLSA Securities (Pvt) Ltd
12. Enterprise Ceylon Capital (Pvt) Ltd
13. First Capital Equities (Pvt) Ltd
14. First Capital Markets Ltd
15. First Guardian Equities (Pvt) Ltd
16. J B Securities (Pvt) Ltd
17. John Keells Stockbrokers (Pvt) Ltd

18. Lanka Securities (Pvt) Ltd
19. LOLC Securities Ltd
20. Nation Lanka Equities (Pvt) Ltd
21. Natwealth Securities Ltd
22. Navara Securities (Pvt) Ltd
23. NDB Securities (Pvt) Ltd
24. NSB Fund Management Ltd
25. Perpetual Treasuries Ltd
26. Richard Pieris Securities (Pvt) Ltd
27. S C Securities (Pvt) Ltd
28. SMB Securities (Pvt) Ltd
29. Softlogic Stockbrokers (Pvt) Ltd
30. Somerville Stock Brokers(Pvt) Ltd
31. Taprobane Securities (Pvt) Ltd
32. TKS Securities (Pvt) Ltd
33. Wealth Trust Securities Ltd

**Authorized Money Changers (In terms of the Foreign Exchange Act. No. 12 of 2017, generic name of the companies engaged in the money changing business has been changed as Restricted Dealers)**

1. Asia Asset Finance PLC
2. Bimputh Finance PLC
3. Citizens Development Business Finance PLC
4. LOLC Finance PLC
5. L B Finance PLC
6. Senkadagala Finance Company PLC
7. Sinhaputhra Finance PLC
8. Singer Finance (Lanka) PLC
9. SMB Leasing PLC
10. Pearl City Hotel
11. Shangri-La's Hambantota Resort & Spa
12. Sigiriya Jungles
13. A.O.Lakshmi Jewels (Pvt) Ltd
14. Abdeen Money Changers (Pvt) Ltd

15. Ariyawansa Enterprises (Pvt) Ltd
16. Arrujina Jewellery (Pvt) Ltd
17. Aruna Forexc (Pvt) Ltd
18. Asian Money Exchange (Pvt) Ltd
19. Brescia Grameen (Pvt) Ltd
20. Bullion Money Exchange (Pvt) Ltd
21. Capital Exchange (Pvt) Ltd
22. City Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch - Colombo 07
23. Colombo Money Exchange (Pvt) Ltd
24. Crown Money Exchange (Pvt) Ltd
25. Dadigama Group (Pvt) Ltd
26. Data Exchange International (Pvt) Ltd
27. Daya Authorized Money Changer (Pvt) Ltd
28. Delta Sarath Holdings (Pvt) Ltd
29. Devi Forex (Pvt) Ltd
30. George Michael Holdings (Pvt) Ltd
31. Global Village Exchange (Pvt) Ltd
32. Golden Money Changers (Pvt) Ltd
33. International Exchange (Pvt) Ltd
34. Jayes Investments Ltd
35. Jewel Lanka Money Exchange (Pvt) Ltd
36. Kamal Enterprises (Pvt) Ltd
37. Keyser Exchange (Pvt) Ltd
38. Kudamadu Money Exchange (Pvt) Ltd
39. M.P. Money Changer (Pvt) Ltd
40. Majestic Jewellery (Pvt) Ltd
41. Maruthi Money Exchange (Pvt) Ltd
42. Mayurie Money Changers (Pvt) Ltd
43. Metro Forex (Pvt) Ltd
44. Midna Mini Market (Pvt) Ltd
45. Milano Money Exchange (Pvt) Ltd
46. Monte Carlo Exchange (Pvt) Ltd
47. Narmatha Gold Centre (Pvt) Ltd
48. New Natasha (Pvt) Ltd

49. New Regal's Money Changer (Pvt) Ltd
50. Pathfinder (Pvt) Ltd
51. Pearl Exci (Pvt) Ltd
52. Prasanna Money Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch - Colombo 06
53. Pushpa Money Changer (Pvt) Ltd
54. Rafeek's Gems (Pvt) Ltd
55. Ravi Forexae (Pvt) Ltd
56. Rimha Jewellery (Pvt) Ltd
57. Rivindu Enterprises (Pvt) Ltd
58. Red Ruby Jewellers (Pvt) Ltd
59. Royal Money Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch - Colombo 06
60. Royal Money Mart (Pvt) Ltd
61. Salaka Trust Investment (Pvt) Ltd - Head Office -Colombo 02  
- Branch - Nugegoda
62. Sharanga Money Exchange (Pvt) Ltd
63. Shifaz Money Exchange (Pvt) Ltd
64. S S D D Money Exchanging (Pvt) Ltd
65. Swiss Money Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch -Colombo 06
66. Thomas Cook Lanka (Pvt) Ltd - Head Office -Bandaranaike International Airport  
- Branch -Colombo 03  
- Branch – Kandy  
- Branch -Galle Fort
67. Unic Forex (Pvt) Ltd
68. Vasanthas Intl. Money Exchange (Pvt) Ltd
69. Western Money Exchange (Pvt) Ltd
70. Windsor Money Exchange (Pvt) Ltd

### **Money or Value Transfer Services**

1. Dialog Axiata PLC
2. Mobitel (Pvt) Ltd
3. MMBL Money Transfer (Pvt) Ltd





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