

# FINANCIAL INTELLIGENCE UNIT ANNUAL REPORT 2018



FINANCIAL INTELLIGENCE UNIT OF SRI LANKA

# ANNUAL REPORT 2018

Financial Intelligence Unit of Sri Lanka





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**CONTACT US**

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**APPENDIX A: LIST OF RULES/DIRECTIONS/GUIDELINES/CIRCULARS ISSUED DURING 2006 TO 2018**

**APPENDIX B: REPORTING INSTITUTIONS AS AT 31ST DECEMBER 2018**

# LIST OF ACRONYMS

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 US
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 2006
CTRs	- Cash Transaction Reports
DFE	- Department of Foreign Exchange
DNFBPs	- Designated Non-Financial Businesses and Professions
DSNBFI	- Department of Supervision of Non-Bank Financial Institutions
EAG	- Eurasian Group
EFTs	- Electronic Fund Transfers
FATF	- Financial Action Task Force
FCID	- Financial Crimes Investigation Division
FIU	- Financial Intelligence Unit of Sri Lanka
FSRBs	- FATF-Styled 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 Rupee
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
NIC	- National Identity Card
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
RDs	- Restricted Dealers (formerly Authorized Money Changers)
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
CTID	- Countering Terrorist Investigation Division
UNODC	- United Nations Office on Drugs and Crime
UNSCRs	- United Nations Security Council Resolutions
USD	- US Dollar



# YEAR 2018 AT A GLANCE...

**5.7**<sub>mn</sub>

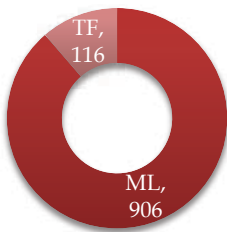
CTRs

**6.3**<sub>mn</sub>

EFTs

**1,022**

STRs



**287**

LankaFIN Users

**3 MOUS**

- Securities and Exchange Commission of Sri Lanka
- Insurance Regulatory Commission of Sri Lanka
- Department of Motor Traffic

**75 Off-Site Examinations**

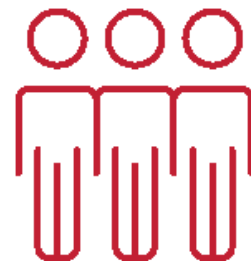
**19 On-Site Examinations**

**29 Progress Review Visits**

Sri Lanka's AML/CFT compliance level was upgraded



Significant increase in Human Resource of the FIU



**61**

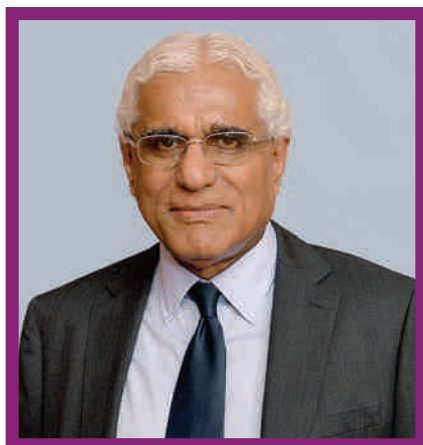
Awareness Programmes



**3,525**

Participants

## NATIONAL COORDINATING COMMITTEE CHAIRMAN'S MESSAGE



As the central agency of the country in combating money laundering (ML), terrorist financing (TF) and other related offences, the Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) has been performing its responsibilities in a timely manner as well as putting in place a proper legal framework, robust systems and procedures that meet the requirements of international standards.

Combating financial crime is a shared responsibility. It is the responsibility of each player in the financial system, law enforcement agencies, prosecutors and the judiciary to cooperate and safeguard against potential abuses, stamp out financial crimes and not let the perpetrators get away. Financial crimes do not occur in isolation. They are a conduit for other forms of serious crimes. Almost all forms of serious crimes, such as the drug trade, human trafficking, and cybercrimes are funded through some form of financial crime. As such, financial crimes are inherently complex, and often will involve multiple enforcement agencies, sometimes even across borders. This reinforces the call for greater shared responsibility through sharing information and collaboration among stakeholders. More pertinently, this means putting in place an effective and mutually reinforcing ecosystem or platform where the relevant parties are able to collectively report and investigate financial crime.

In order to fight financial crime, it is important to have a deep understanding of new and emerging risks and a comprehensive toolkit to effectively identify crime at an early stage. The FIU-Sri Lanka has been improving its information systems and analytical skills and has been working to upgrade the country's financial intelligence to be in line with international standards. Accordingly, the FIU-Sri Lanka is strengthening its legal and regulatory framework and IT infrastructure to perform its core functions in an efficient manner. An equally important element in mitigating the risks of abuse of the financial system, especially financial crime and terrorist financing, is the role played by the compliance function of financial institutions to fulfill their objective. Financial institutions are expected to ensure that the compliance function is independent and has sufficient authority, stature and resources to perform its role effectively.

Accordingly, to ensure a robust financial system in the country it is vital to continuously be at the forefront of the latest developments in the international financial markets and make

necessary amendments to the relevant Acts, Rules and Regulations. The implementation of the Financial Action Task Force (FATF) recommendations will allow more effective actions to be undertaken by ensuring that both equally important aspects of compliance, technical and effectiveness are complied with.

The year 2018 was somewhat challenging for the FIU-Sri Lanka. Whilst carrying on its day-to-day responsibilities, it undertook to coordinate with other stakeholders to achieve the FATF Action Plan to exit the Grey List. The FIU-Sri Lanka did a remarkable job in fulfilling the Action Items well before the prescribed deadlines set by the FATF. Accordingly, at the 4th Face-to-Face meeting held with the Joint Group, in January 2019, it was concluded that “Sri Lanka has made significant progress and has largely addressed its Action Plan. The Joint Group recommends that an onsite visit will take place before the FATF Plenary in October 2019 to assess whether Sri Lanka’s process of implementing the required reforms and actions is fully in place and is being sustained”.

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 legal and institutional frameworks as well as enhance competencies of their staff.

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

**Dr. Indrajit Coomaraswamy**

Governor of the Central Bank of Sri Lanka, Chairman of the Monetary Board and Chairman of the AML/CFT National Coordinating Committee

## DIRECTOR'S MESSAGE



The Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) continued to strengthen the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime of the country to preserve the stability of the financial system. During the year 2018, the FIU-Sri Lanka performed the role of receiving financial information relating to Money Laundering/Terrorist Financing (ML/TF), including Suspicious Transactions Reports (STR), analyzing and disseminating analytic results to the law enforcement agencies, regulators and other relevant entities where necessary. Further, year 2018 was a remarkable year as during the year the FIU-Sri Lanka, with the coordination of other stakeholders, was able to successfully complete the time bound action plan provided to Sri Lanka to address the strategic deficiencies identified in the AML/CFT activities by the Financial Action Task Force (FATF) after listing Sri Lanka in the FATF's "Grey List" in October 2017. As a result of coordinated and continuous engagement in working towards the completion of the FATF's time bound action plan, the FATF at its Plenary, held in February 2019, endorsed the progress made by Sri Lanka and decided to conduct an on-site assessment to verify that the implementation of Sri Lanka's AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation in the future. The FATF's on-site visit is expected to take place in September 2019.

On the operational side, the FIU-Sri Lanka continued to receive Cash Transaction Reports (CTRs) and Electronic Fund Transfers (EFTs -Inward and out wards) exceeding the threshold of Rs. 1.0 million or its equivalent in foreign currencies and Suspicious Transaction Reports (STRs) from reporting institutions. During the year, 5.7 million CTRs and 6.3 million EFTs were reported by reporting institutions. To further streamline this process, the FIU-Sri Lanka introduced the world renowned reporting system, goAML, to replace the existing LankaFin reporting system. Further, 1,022 STRs were received by the FIU-Sri Lanka from reporting institutions, law enforcement agencies and the public during the year. After the analysis and assessment, 317 STRs were referred to law enforcement agencies and regulatory authorities for further investigations. During 2018, the FIU-Sri Lanka signed two new Memorandums of Understanding (MOUs) with the Insurance Regulatory Commission of Sri Lanka and the Securities and Exchange Commission of Sri Lanka which are regulatory and supervisory bodies of the Insurance Sector and Securities Sector, respectively, to share supervisory

findings. Further, with a view to enhance the FIU-Sri Lanka's analysis function, an MOU was signed with the Department of Motor Traffic.

In order to strengthen institutional compliance of Financial Institutions and Designated Non-Finance Businesses and Professions (DNFBPs) with the AML/CFT framework, during the year, the FIU-Sri Lanka conducted 19 risk-based on-site supervision sessions for financial institutions and 29 progress review visits for DNFBPs which were recognized as high risk with respect to ML.

Furthermore, the FIU-Sri Lanka shared information on 24 occasions with foreign counterparts, while on 70 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 continued efforts to enhance the awareness on detecting, analysing and reporting of ML and TF related transactions, 61 awareness/training programmes were conducted during the year, accommodating 3,525 participants from LCBs, LSBs, LFCs and MVTS providers.

We are excited about year 2019 as we strongly believe that Sri Lanka will be able to exit the "Grey List" after the FATF's on-site visit to verify the implementation of the time bound action plan. Although, the environment within which we operate is continuously evolving, I am confident that the FIU-Sri Lanka as a team will continue to work closely with other stakeholders and partners to achieve the goal of a sound AML/CFT regime for the country, in accordance with international standards.

**Mr. D M Rupasinghe**

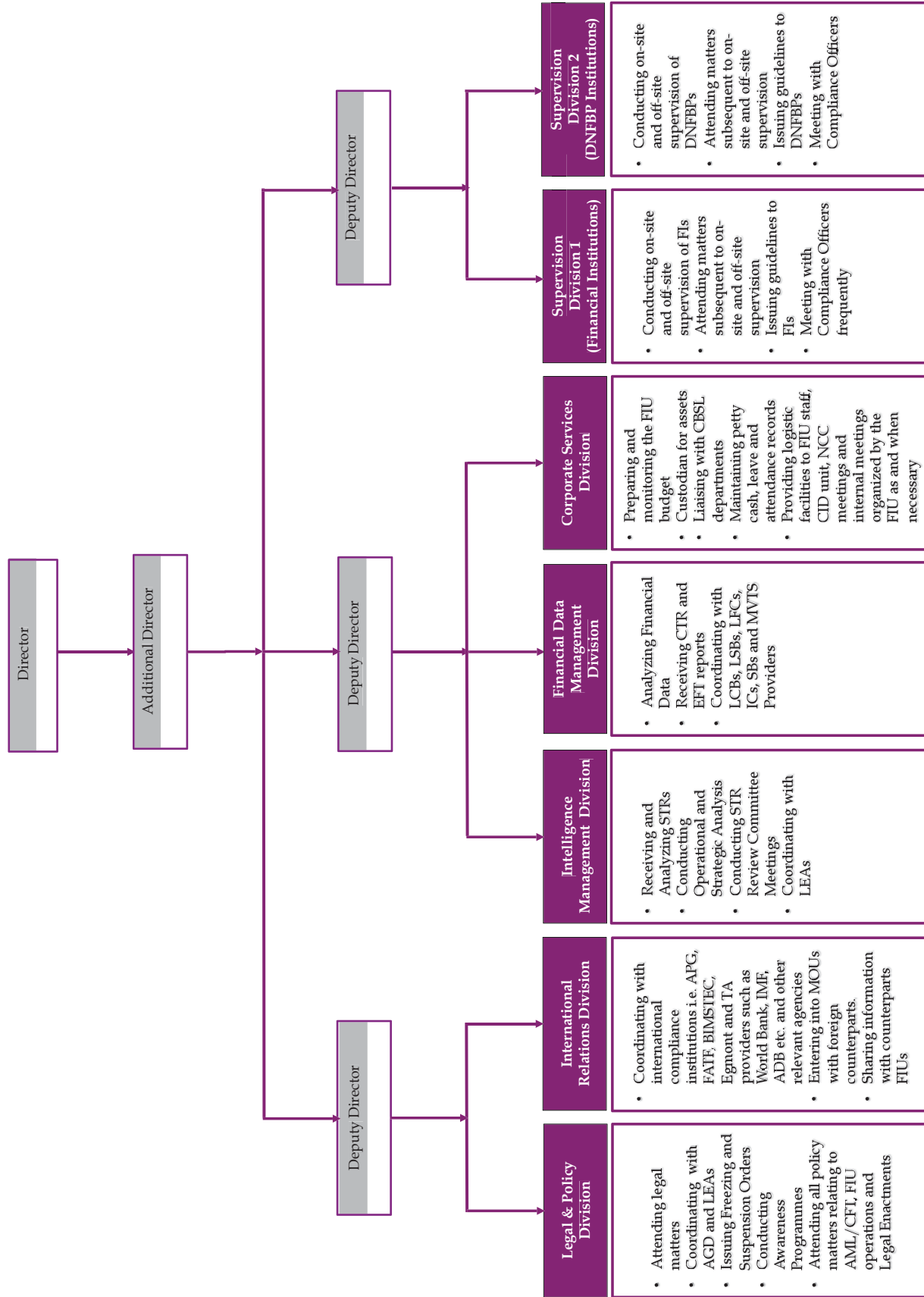
Director

Financial Intelligence Unit of Sri Lanka



FIU-Sri Lanka Staff

# 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, No.6 of 2006 (FTRA) 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.





## MANAGEMENT OF INTELLIGENCE

The Financial Intelligence Unit of Sri Lanka (FIU-Sri Lanka) is the national agency for the receipt and analysis of Suspicious Transaction Reports (STRs) and threshold-based reports relevant to money laundering, associated predicate offences and terrorist financing from institutions, i.e., any person or body of persons engaged in or carrying out any finance business or designated non-finance business, as defined in the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA). During 2018, as one of its core activities, the FIU-Sri Lanka continued to disseminate the findings from the analyses of STRs in a timely manner to relevant Law Enforcement Agencies (LEAs) and Regulatory Authorities (RAs) for necessary action.

### 1.1 Collection of Information

In terms of Sections 6 and 7 of the FTRA, reporting institutions are required to submit three types of mandatory reports to the FIU-Sri Lanka on the following. Section 15(1) of the FTRA empowers the FIU-Sri Lanka to receive such reports;

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

Currently, reporting institutions cover the following businesses and professions.

- Licensed Banks (LBs)
- Licensed Finance Companies (LFCs)
- Stock Brokers (SBs)
- Insurance Companies (ICs)
- Restricted Dealers (RDs) (formerly Authorized Money Changers)
- Money or Value Transfer Services (MVTs)
- Casinos

- Real estate agents
- Dealers in precious metals
- Dealers in precious and semi-precious stones
- Lawyers
- Notaries
- Accountants
- Trust or company service providers.

In addition to the above institutions, LEAs, RAs, and the general public also submit information relating to any suspicion on Money Laundering or Terrorist Financing (ML/TF) to the FIU-Sri Lanka.

### Cash Transactions Reports (CTRs) and Electronic Fund Transfers (EFTs)

Section 6 of the FTRA requires every institution to submit cash transactions and EFTs exceeding a reporting threshold. Currently, the threshold amount is Rs. 1 million or its equivalent in any foreign currency as prescribed by the Minister of Finance in the Extraordinary Gazette No. 1555/9, dated 25 June 2008.

At present, LBs, LFCs, SBs, ICs and MVTS providers submit CTRs and EFTs through LankaFIN, a secured online reporting mechanism.

The number of cash transactions reported as CTRs has increased from 5,627,396 to 5,743,204 and the number of EFTs has also increased from 5,346,084 to 6,384,800 from 2017 to 2018 (refer Table 1.1 and Figure 1.1 below). The steady rise in EFTs shows that the Sri Lankan financial sector is gradually shifting towards electronic transactions.

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

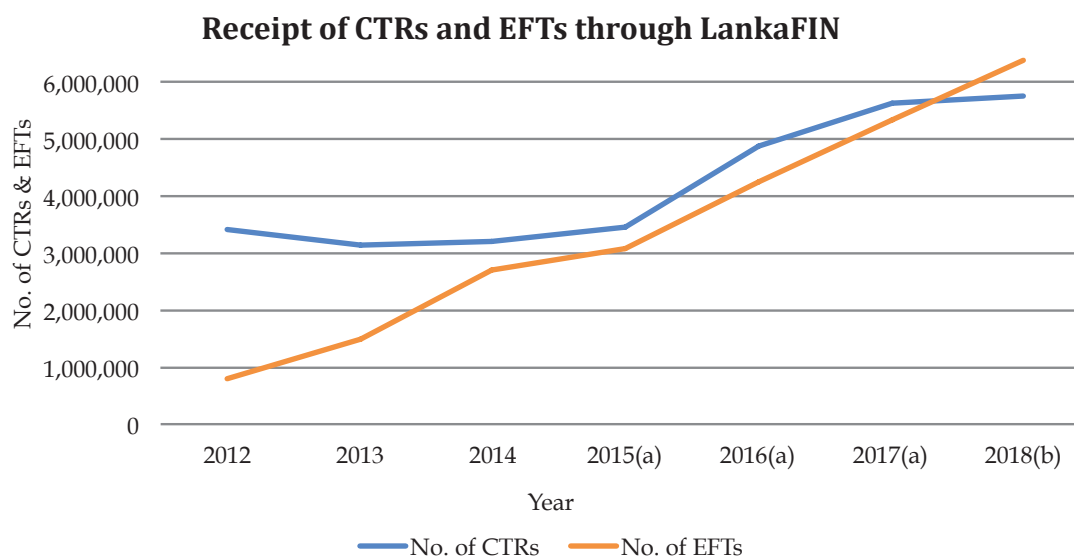
Year	2012	2013	2014	2015(a)	2016(a)	2017(a)	2018(b)
No. of CTRs	3,420,819	3,139,919	3,214,613	3,455,911	4,860,796	5,627,396	<b>5,743,204</b>
No. of EFTs	796,836	1,483,445	2,712,393	3,097,201	4,232,279	5,346,084	<b>6,384,800</b>
<b>Total</b>	<b>4,217,655</b>	<b>4,623,364</b>	<b>5,927,006</b>	<b>6,553,112</b>	<b>9,093,075</b>	<b>10,973,480</b>	<b>12,128,004</b>

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

(a) Adjusted: Amended due to updating the LankaFIN database with rectified EFT data from several FIs.

(b) provisional

**Figure 1.1**



### Suspicious Transaction Reports (STRs)

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 Terrorist Financing Act.
- 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 Prevention of Money Laundering Act and the Convention on the Suppression of Terrorist Financing Act.

The institution is required to report its suspicion to the FIU-Sri Lanka by submitting an STR as soon as practicable, after forming the suspicion or receiving the information, but no later than two working days therefrom through the Compliance Officer.

Presently, LBs, LFCs, SBs, ICs, and MVTs providers use LankaFIN to submit STRs online to the FIU-Sri Lanka. Further, other institutions including Designated Non-Finance Businesses and Professions (DNFBPs) also submit written STRs to the FIU-Sri Lanka.

Guidelines for Financial Institutions on Suspicious Transactions Reporting, No. 06 of 2018 were issued on 06 August 2018. These guidelines provide aid to interpret and apply Suspicious Transaction (Format) Regulations of 2017. The main objective of introducing these guidelines is to assist financial institutions to improve the quality of the STRs submitted.

Further, in terms of Section 5 of the Prevention of Money Laundering Act, No. 5 of 2006 (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.

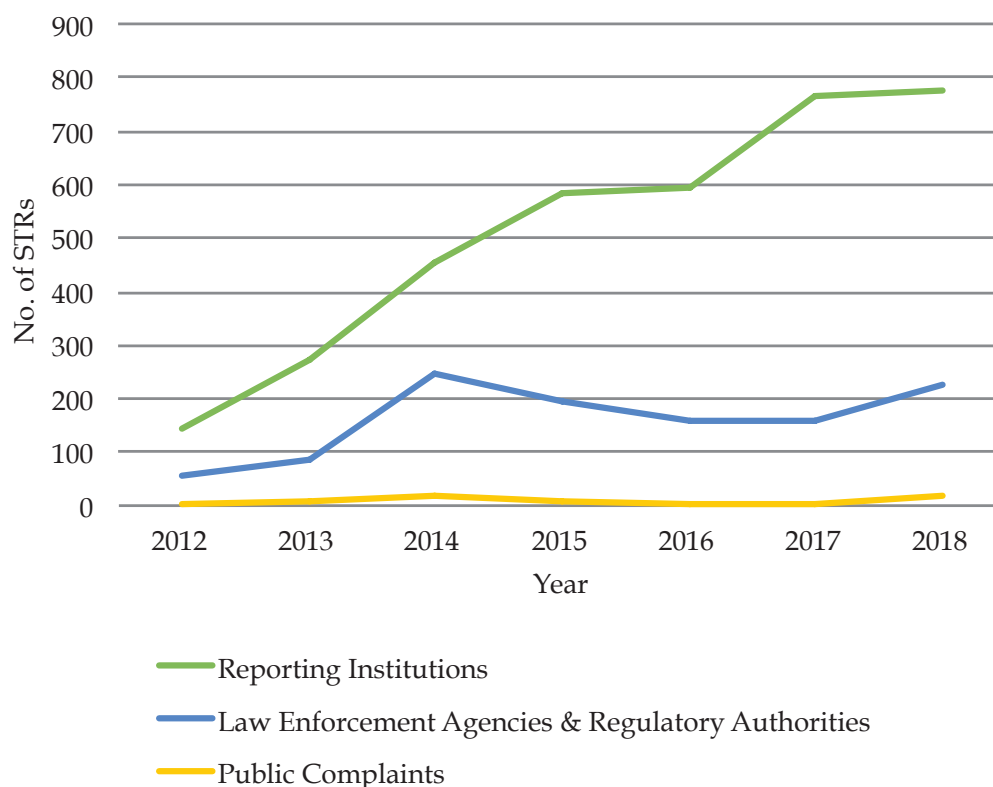
**Table 1.2**  
**STRs Reported by Stakeholders**

Category	2012	2013	2014	2015	2016	2017	2018
Reporting Institutions	144	272	452	583	595	766	775
Law Enforcement Agencies & Regulatory Authorities	56	88	247	193	161	157	227
Public Complaints	3	6	19	7	3	2	20
<b>Total</b>	<b>203</b>	<b>366</b>	<b>718</b>	<b>783</b>	<b>759</b>	<b>925</b>	<b>1,022</b>

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

As shown in Table 1.2 above, total STRs reported to the FIU-Sri Lanka during 2018 has increased to 1,022 from 925 in 2017. The number of STRs received from RIs as well as LEAs and RAs have increased in 2018 (refer Figure 1.2 below)

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

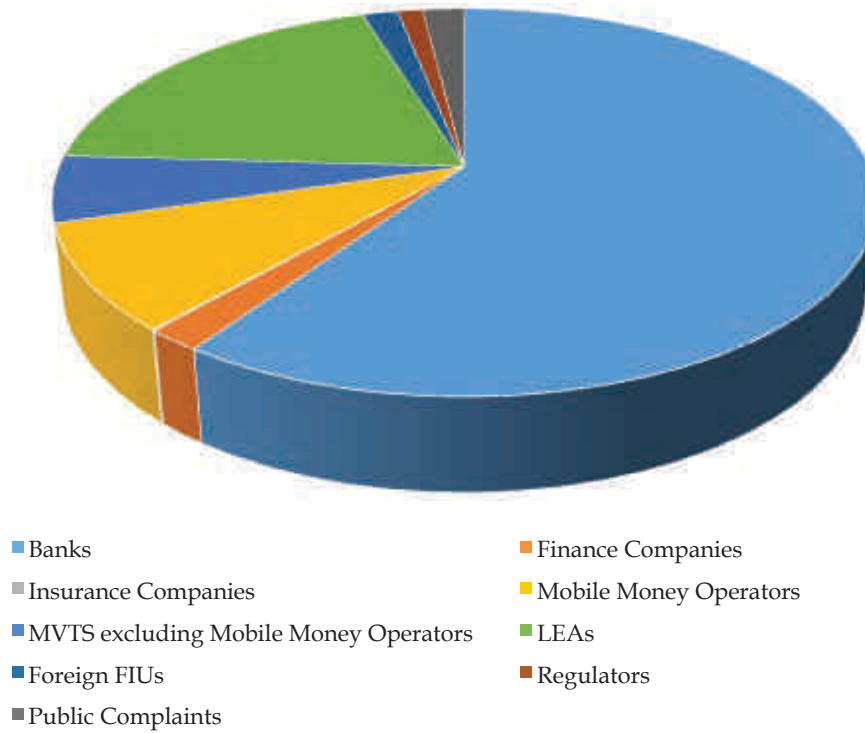


*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

## Analysis of Trends and Patterns of STRs Received

**Figure 1.3**

### STRs Breakup by Reporting Institution Type

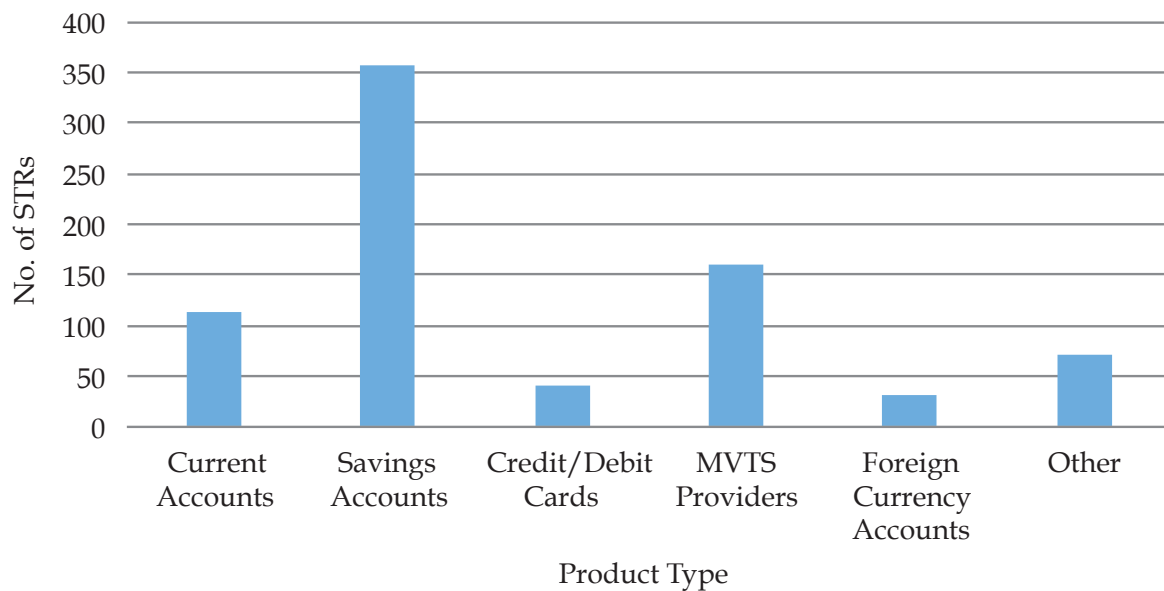


Source: LankaFIN, Financial Intelligence Unit-Sri Lanka

Figure 1.3 indicates that the majority of STRs are reported by banks which constitutes of around 60 per cent.

**Figure 1.4**

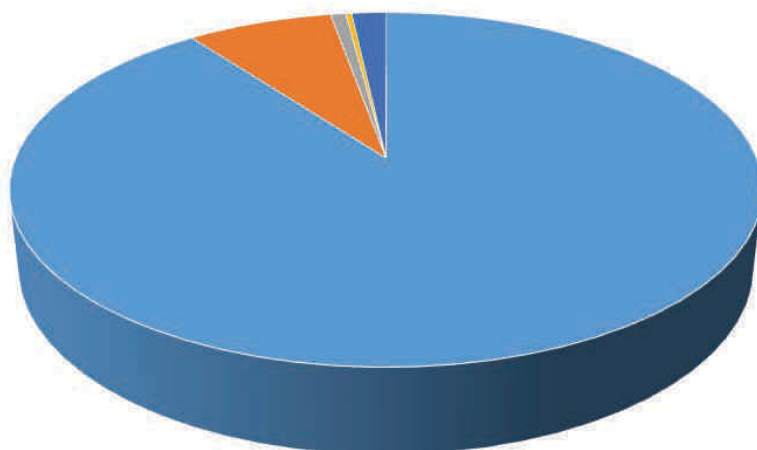
### STRs by Product Type



Source: LankaFIN, Financial Intelligence Unit-Sri Lanka

As shown in Figure 1.4 above, majority of STRs received during 2018 were related to transactions executed through savings accounts. STRs carried out through current accounts and MVTS providers were also relatively high. STRs reported on the use of credit/debit cards and foreign currency accounts were quite low. The other category includes STRs involving fixed deposits, pay orders, safety deposit lockers, etc.

**Figure 1.5**  
**STRS by Customer Type**

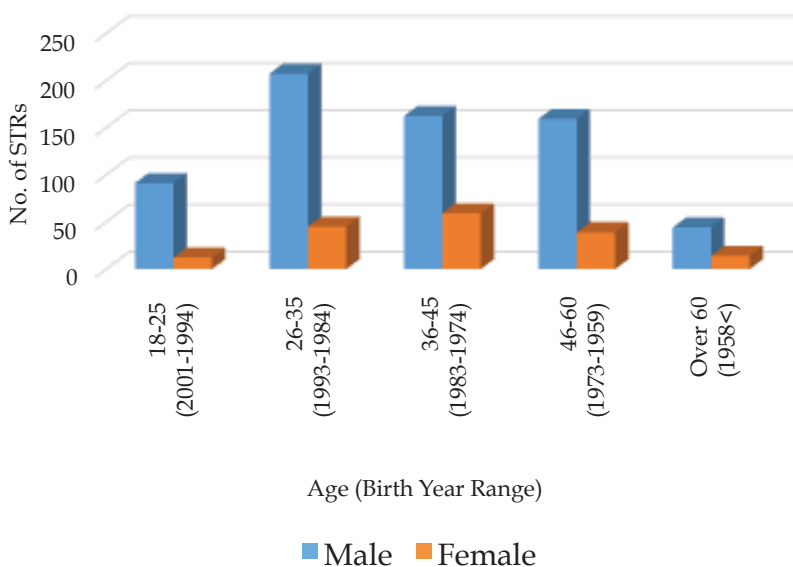


■ Individuals   ■ Local Companies   ■ Foreign Companies  
■ Partnerships   ■ Non-Governmental Organizations, Funds and Societies

Source: LankaFIN, Financial Intelligence Unit-Sri Lanka

Figure 1.5 shows that majority of STRs reported are on individuals which is around 90 per cent.

**Figure 1.6**  
**Age and Gender wise Analysis of STRs on Individuals**

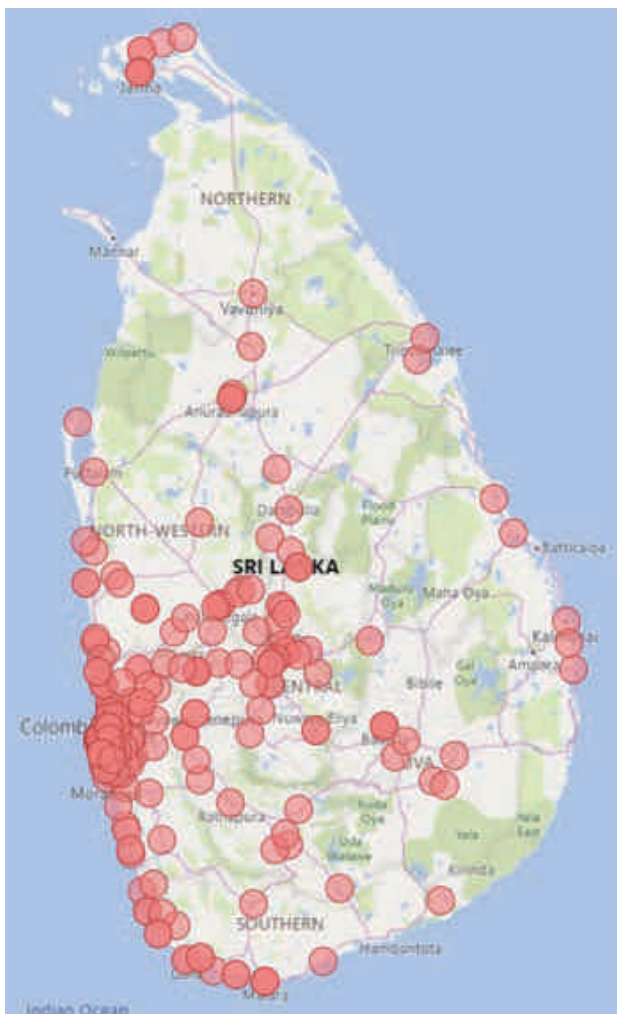


Source: LankaFIN, Financial Intelligence Unit-Sri Lanka

As shown in Figure 1.6, gender wise analysis of STRs on individuals shows that involvement of males in suspicious financial activities is higher than females. Out of the total STRs reported on males, majority are on men in the age category of 26 to 35 years whereas for females, majority are on women in the age category of 36 to 45 years.

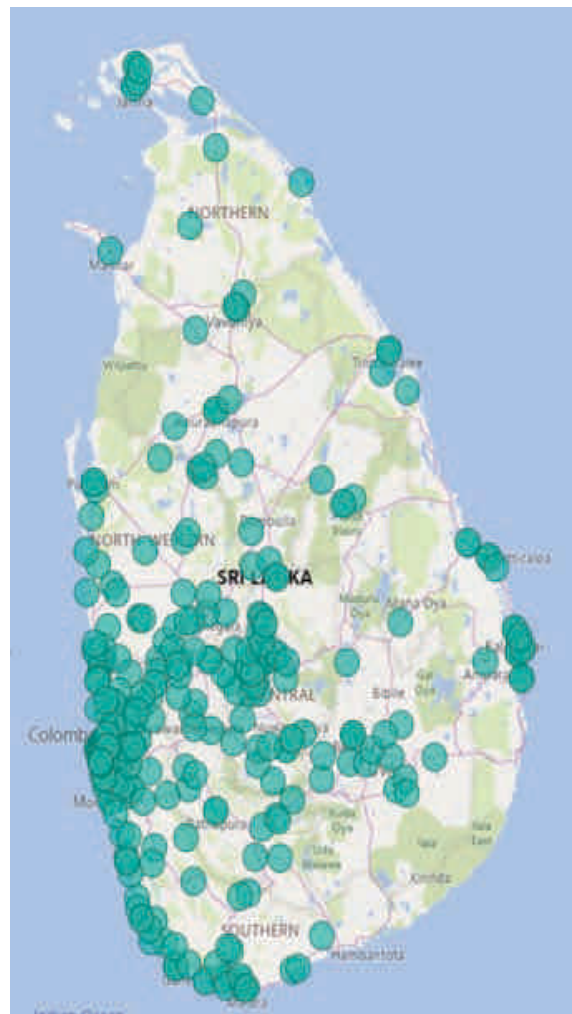
**Figure 1.7**

**STR Originating Branches**



**Figure 1.8**

**STR Customer Locations**



Source: LankaFIN, Financial Intelligence Unit-Sri Lanka

Figures 1.7 and 1.8, respectively depict the locations of STRs based on originating branch of financial institutions and customer locations. Majority of the STRs have been generated from the Western Province, while Central, Southern and Uva Provinces have also generated a considerable number of STRs.

## 1.2 Analysis of Information

The FIU-Sri Lanka performs a preliminary analysis of the STRs received from RIs. Initially, information included in the reported STRs along with CTRs and EFTs reported in the LankaFIN database will be used to obtain a basic overview about the suspicion of the



transactions and to decide on the depth of the analysis the FIU needs to undertake. In addition, all STRs received by the FIU-Sri Lanka will undergo an initial assessment at the Internal STR Review Committee chaired by the Additional Director of the FIU with the participation of relevant FIU Officials.

Thereafter, if further analysis seems necessary, an operational analysis is performed by calling for further information from RIs, RAs and other relevant government agencies such as Sri Lanka Customs, Department of Immigration & Emigration, Registrar of Companies, NGO Secretariat, Department of Registration of Persons, etc. Assistance from foreign counterpart FIUs is also sought, where necessary.

Apart from the operational analysis, the strategic analysis process on STRs is performed by identifying transaction patterns and trends through the analysis of STRs in a holistic manner. For such analysis also CTRs and EFTs reported in the LankaFIN database are used.

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

	2012	2013	2014	2015	2016	2017	2018
No. of STRs on TF	20	7	53	19	43	58	116
No. of STRs on ML	183	359	665	764	716	867	906
<b>Total</b>	<b>203</b>	<b>366</b>	<b>718</b>	<b>783</b>	<b>759</b>	<b>925</b>	<b>1,022</b>

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

### 1.3 Dissemination of Information

The analysis reports prepared after the preliminary investigations based on operational and strategic analyses will be submitted to the STR Review Committee headed by the Director of the FIU- Sri Lanka, along with two senior officials representing the Attorney General's Department and relevant officials of the FIU-Sri Lanka. According to the committee decision, analysis of STRs and related information are disseminated to relevant LEAs and/or RAs for further investigation or regulatory actions. The said committee may decide not to disseminate certain STRs in the event where the specific STRs do not warrant further investigation by LEAs or RAs.

A summary of STRs disseminated is given in Table 1.4 below.

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

	2012	2013	2014	2015	2016	2017	2018
Law Enforcement Agencies (LEAs)	48	55	183	330	342	295	256
Regulatory Authorities (RAs)	8	18	6	95	94	134	61

*Source: Financial Intelligence Unit-Sri Lanka*

Majority of the STRs referred to LEAs during 2018 were on frauds and drug trafficking. Further, STRs relating to suspected scams have also been referred to LEAs for further investigations. Majority of STRs referred to RAs are on possible violations of the Foreign Exchange Act, No. 12 of 2017 and Inland Revenue Act, No. 24 of 2017.

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

### Suspension of Funds

As set out 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, which is suspected of relating to unlawful activities, in order to facilitate further investigations. Accordingly, the FIU- Sri Lanka has issued such suspensions on 16 individuals and 14 entities in respect of funds amounting to LKR 2 bn and USD 1 mn during the year 2018.

### ML Convictions

By the end of 2018, the number of ML convictions increased to 4, which includes the country's first ML conviction for drug trafficking. Table 1.5 below provides the details of these ML convictions.

**Table 1.5**  
**List of ML Convictions**

	2014	2015	2016	2018
	1 <sup>st</sup> Conviction	2 <sup>nd</sup> Conviction	3 <sup>rd</sup> Conviction	4 <sup>th</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)	Payment Card Fraud (Section 3(2) of the PMLA)
Value Confiscated	Rs. 7,028,958 (USD 48,475)	USD 31,300	Rs. 29,000,000 (USD 205,000)	Rs. 1,224,000
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.	The above amount was confiscated and fines of Rs. 4,061,000 and Rs. 4,172,000 were imposed.

*Source: Financial Intelligence Unit-Sri Lanka*



## DOMESTIC AND INTERNATIONAL COOPERATION

Sharing of financial intelligence among government authorities and institutions that are stakeholders of investigations is vital in facilitating the investigations and prosecutions of persons suspected of committing and participating in Money Laundering and Terrorist Financing (ML/TF) related activities. Furthermore, intelligence sharing with foreign FIUs is a key aspect in 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 2018.

### 2.1 Domestic Cooperation

#### Law Enforcement Agencies

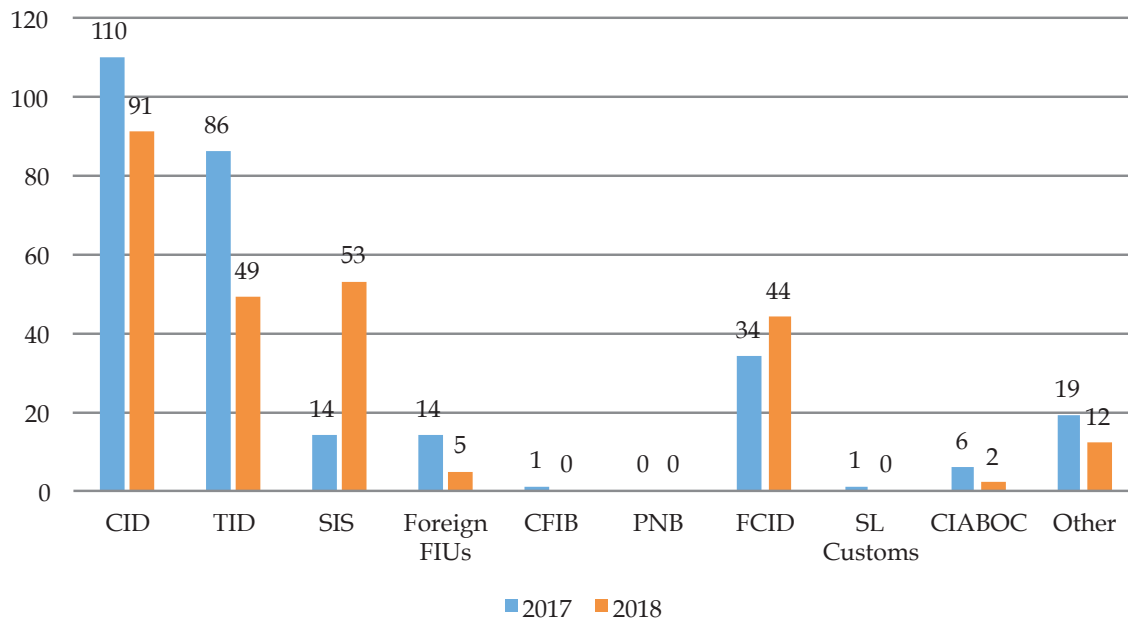
The FIU-Sri Lanka performs the role of receiving financial information relating to ML/TF including Suspicious Transaction Reports (STRs), analyzing and disseminating analytic results to the stakeholders, including Law Enforcement Agencies (LEAs) and Regulatory Authorities (RAs) where necessary. These LEAs include Sri Lanka Police (Criminal Investigation Department - CID, State Intelligence Service - SIS, Police Narcotic Bureau - PNB, Counter Terrorism and Investigation Division - CTID, Colombo Fraud Investigation Bureau - CFIB, Police Central Anti-Vice Striking Unit and Financial Crimes Investigation Division - FCID), Ministry of Defence (MOD), Commission to Investigate Allegations of Bribery or Corruption (CIABOC), and Sri Lanka Customs. 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. Most of the STRs on TF were mainly referred to the SIS and CTID.

**Table 2.1**  
**STRs Referred to LEAs from 2014 to 2018**

	2014	2015	2016	2017	2018
Money Laundering	153	307	264	187	167
Terrorist Financing	30	23	78	98	89
<b>Total</b>	<b>183</b>	<b>330</b>	<b>342</b>	<b>285</b>	<b>256</b>

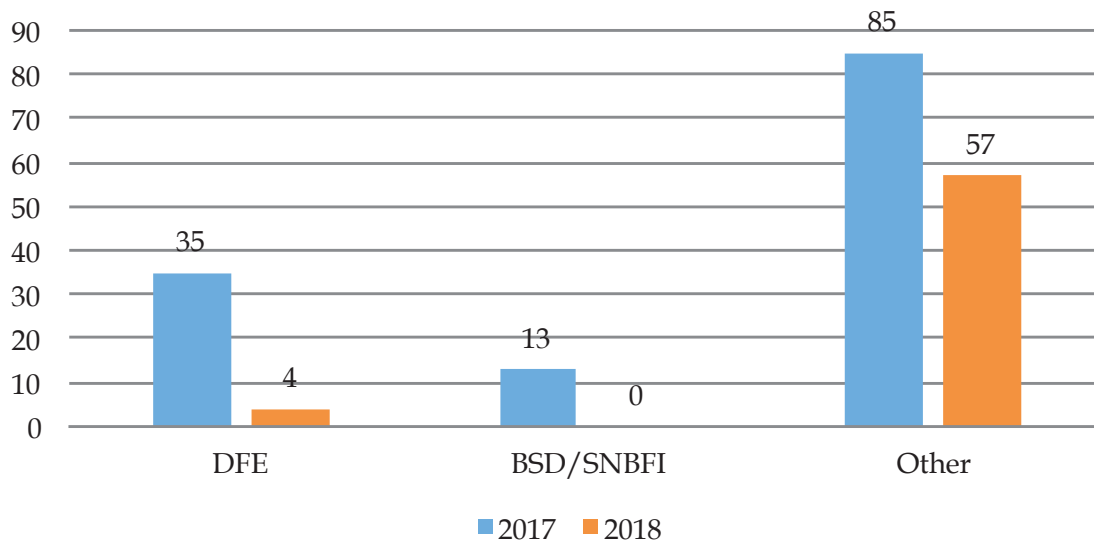
*Source: LankaFIN, Financial Intelligence Unit-Sri Lanka*

**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

The FIU-Sri Lanka referred 61 STRs to RAs such as Bank Supervision Department (BSD), Supervision of Non-Bank Financial Institutions (DSNBFI), Department of Foreign Exchange of the CBSL (DFE), 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 DFE were on the suspicion of the violation of foreign exchange regulations. Additionally, 54 STRs were reported to the Inland Revenue Department (IRD) on the suspicion of tax-related offenses.

### Memorandums of Understanding with Domestic Agencies

Coordination and cooperation between the FIU - Sri Lanka and relevant domestic agencies are imperative to combat the complex ML/TF activities. In terms of Section 15(1) (r) of the FTRA, the FIU - Sri Lanka is empowered to exchange information relating to ML/TF, by entering into Memorandums of Understanding (MOUs) with domestic agencies. Accordingly, during 2018, the FIU - Sri Lanka entered into MOUs with the Securities and Exchange Commission of Sri Lanka and the Insurance Regulatory Commission of Sri Lanka on June 19, 2018 and August 01, 2018, respectively. These MOUs have established a framework for sharing information on supervisory findings based on comprehensive risk-based supervision focused on AML/CFT in securities and insurance sectors. Further, with a view of enhancing the FIU-Sri Lanka's analysis function, an MOU was signed with the Department of Motor Traffic on November 01, 2018. The FIU-Sri Lanka had already entered into 5 MOUs with domestic agencies by the end of 2017. Accordingly, the total number of MOUs signed with domestic agencies by the FIU-Sri Lanka has increased to 8 as at end 2018.

**Table 2.2**  
**MOUs with Domestic Agencies as at December 31, 2018**

	Domestic Agency	Date of Signing
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
6	Securities and Exchange Commission of Sri Lanka	June 19, 2018
7	Insurance Regulatory Commission of Sri Lanka	August 01, 2018
8	Department of Motor Traffic	November 01, 2018

*Source: Financial Intelligence Unit-Sri Lanka*

## 2.2 International Cooperation

### Exchange of Information with Counterpart FIUs

A country needs to have a comprehensive structure that facilitates information sharing among counterpart FIUs, as criminals, especially, money launders and terrorist financiers are believed to operate across borders. 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 2018, the FIU-Sri Lanka made 70 requests to Egmont Group member FIUs to share information relating to on-going investigations. At the same time, the FIU-Sri Lanka responded to 24 requests from various counterpart FIUs, including FIUs of the United Kingdom, Australia, Netherlands and Singapore to share information. This is a significant increase in requests made compared to the previous year. Some counterpart FIUs facilitated certain investigations of LEAs of Sri Lanka by providing the necessary information. Table 2.3 below shows the information requests made and information requests received by the FIU-Sri Lanka from 2014 to 2018.

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

	2014	2015	2016	2017	2018
Requests Received	10	13	27	50	24
Requests Made	8	19	36	54	70

*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 can enter into agreements for the exchange of information regularly with any institution or agency of a foreign state with the approval of the Minister of Finance. Accordingly, the MOUs signed by the FIU-Sri Lanka with foreign counterparts as at December 31, 2018 are as follows.

**Table 2.4****MOUs with Foreign Counterpart FIUs as at December 31, 2018**

<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

The Asia Pacific Group on Money Laundering (APG) is one of the Financial Action Task Force-Style Regional Bodies (FSRBs) established to ensure effective implementation and enforcement of internationally accepted standards against ML/TF, in countries in the Asia Pacific region. At present, the APG consists of 41-member countries, making it the largest FSRB in the world. Sri Lanka has been a member of the APG since its establishment in 1997. Primary functions of the APG are; to assess the levels of compliance by its member jurisdictions with the global AML/CFT standards through mutual evaluation; coordinate bilateral and donor-agency technical assistance and training in the Asia/Pacific region for its member jurisdictions; research and analysis into ML/TF methods and trends; contribute to international AML/CFT policy development and to actively engage with the global network of FSRBs and private sector financial and non-financial institutions in the prevention of ML/TF.

The FIU-Sri Lanka officers together with other stakeholders participated in the APG Plenary and Technical Assistance Sessions, the main forum where discussions took place concerning compliance of APG member countries with AML/CFT standards of the FATF. The 22<sup>nd</sup> APG Plenary and Technical Assistance Sessions were held in Kathmandu, Nepal in July 2018 where the Director of the FIU-Sri Lanka co-chaired the Plenary. The 3<sup>rd</sup> Follow-up Report on progress made by Sri Lanka was discussed during the Plenary and six recommendations, which were initially rated Non-Compliant (NC) or Partially Compliant (PC), were upgraded to Compliant (C) or Largely Compliant (LC), increasing Sri Lanka's technical compliance level. Officials of the FIU - Sri Lanka also participated in the APG Typologies and Capacity Building Workshop held in Russia in December 2018.

### 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. The Egmont Group currently comprises 159-member FIUs. The FIU-Sri Lanka has been a member of the Egmont Group since May 26, 2009 and continues 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. Accordingly, the officials of the FIU-Sri Lanka participated in the Egmont Group of Financial Intelligence Units' Meetings held in Buenos Aires, Argentina in March 2018 and the Egmont Plenary meeting held in Sydney, Australia in September 2018.

### **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMSTEC)**

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 represented the 10<sup>th</sup> SGAML-CFT meeting of the BIMSTEC held in Kathmandu, Nepal during 19-20 November 2018.

### **Financial Action Task Force (FATF)**

The FATF is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. 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 FATF Plenaries were held in Paris during 21-23 February 2018, 27-29 June 2018 and 17-19 October 2018, respectively. A team of officials representing Sri Lanka headed by the Deputy Governor of the Central Bank and other relevant stakeholders attended the above Plenaries, with a view to present the progress achieved by Sri Lanka in implementing the FATF Action Plan and solicit the support of the FATF members in exiting the FATF Grey List.

## 2.3 Technical Assistance through International Cooperation

During the year 2018, the FIU-Sri Lanka received technical assistance (TA) from several international donors and counterpart FIUs in its effort to strengthen the AML/CFT framework in Sri Lanka.

### International Monetary Fund TA Project

In 2016, the FIU-Sri Lanka made a request for TA from the Legal Department of the International Monetary Fund (IMF) to advise and assist in the further development of Sri Lanka's AML/CFT framework. The request was mainly based on the recommendations made in the 2014/15 MER and focused on three main areas, risk-based AML/CFT supervision, development of the capacity of FIU analysts and support in the legislative amendment process. The IMF accepted Sri Lanka's request for TA and carried out a scoping mission to Sri Lanka during October 2016 led by a team of experts from the Financial Integrity Group of the IMF legal department headed by Senior Counsel Ms. Cecilia Marian.

Subsequent to the scoping mission, the IMF expert team conducted four TA missions to Sri Lanka during the 2017-2018 period. The expert team consisted of Ms. Cecilia Marian, Senior Counsel (Mission Chief), Mr. Patrick O'Sullivan, Senior Financial Sector Expert, Mr. Clive Scott, Regional AML/CFT Adviser and Mr. Andrew Milford, Consultant.

The mission conducted three parallel sessions during each of their visits under Supervisory Working Group (for FIs and DNFBPs), FIU Working Group and Legal Drafting Working Group. The missions also conducted sessions on risk-based supervision for supervisory officers of the Securities and Exchange Commission of Sri Lanka and Insurance Regulatory Commission of Sri Lanka. They also conducted separate sessions for DNFBPs sector real estate dealers and accountants on their AML/CFT responsibilities. The TA received from the IMF experts assisted Sri Lanka in the implementation of the FATF Action Plan, especially relating to Immediate Outcome 3 on AML/CFT supervision.

### US Department of Treasury

Mr. Kevin Whelan, Advisor from the Office of Technical Assistance (OTA) Economic Crimes Team (ECT) of the US Department of Treasury is working as the FIU-Sri Lanka's resident Consultant since May 2017. He is providing his expertise mainly in areas of improving the information technology infrastructure of the LankaFIN system, drafting and reviewing of guidelines, such as identification of beneficial ownership, STR reporting, Politically Exposed Persons (PEPs), etc., assisting in improving the analytical capabilities of the FIU-Sri Lanka and offering expert advice in the areas of mapping AML/CFT legal obligations with improving information technological requirements. Mr. Whelan also conducted several awareness sessions to officers of FIs/DNFBPs and law enforcement officers on the identification and use of beneficial ownership information.

## Department of Home Affairs, Australia

The FIU-Sri Lanka entered into an agreement to receive TA with the Anti-Money Laundering Assistance Team (AMLAT) of the Australian Department of Home Affairs in February 2018. The TA project mainly focused on establishing a targeted financial sanctions regime in Sri Lanka as required in the FATF Action Plan. For this purpose, the experts from the Australian Department of Home Affairs provided their technical expertise in drafting and reviewing the regulation implementing the United Nations Security Council Resolution (UNSCR) on Iran. Accordingly, Sri Lanka issued the United Nations (Sanctions in relation to Iran) Regulations No. 1 of 2018 on July 17, 2018.

Further, the FIU-Sri Lanka organized a three-day workshop on implementations of targeted financial sanctions against proliferation financing during 11 -13 December 2018 with technical expertise from Australia. Ms. Jean Cuthill, Assistant Director, Anti-Money Laundering Assistance Team, Department of Home Affairs, Mr. Evan Gallagher, Manager, Policy and Guidance, Australian FIU (AUSTRAC) and Ms. Rachel Harris, Assistant Director, Sanctions Secretariat of Department of Foreign Affairs and Trade conducted the sessions during the workshop. The workshop covered areas such as 'Introduction to Targeted Financial Sanctions Against Proliferation Financing', 'Sri Lanka's Targeted Financial Sanctions Framework', 'Overview of Sri Lanka's Approach to Supervision' and 'Conducting Private Sector Outreach'.

The three day workshop was attended by officials from the Ministry of Foreign Affairs, Ministry of Defence, Attorney General's Department, Sri Lanka Customs, Department of Import and Export Control, Registrar of Companies, Department of Immigration and Emigration, Sri Lanka Police, all financial sector regulators and officials from licensed banks in Sri Lanka.

### *Workshop on Implementations of Targeted Financial Sanctions Against Proliferation Financing during 11 -13 December 2018*



## Study Visit to FIU Malaysia

The FIU- Sri Lanka made a request from FIU - Malaysia to share their knowledge and experience in risk-based AML/CFT supervision in order to enhance the technical capabilities of the FIU-Sri Lanka's supervisory teams, as a part of the implementation of FATF Action Plan. The FIU - Malaysia organized a three-day programme during 2 - 4 May 2018, covering main areas such as risk-based supervisory framework, supervisory approach to FIs & DNFBPs, enforcement actions and visits to selected DNFBPs. Officials representing FIs and DNFBPs Supervision divisions of FIU-Sri Lanka, Bank Supervision Department and Department of Supervision of Non-Bank Financial Institutions participated the program.

## World Bank

The FIU-Sri Lanka received TA from the World Bank to conduct the first-ever ML/TF National Risk Assessment of Sri Lanka in 2014. Again, Sri Lanka requested TA from the World Bank to update the previous assessment during 2018. Accordingly, a team of officials from the World Bank visited Sri Lanka during 04-06 April 2018 to conduct the initial workshop. As per the World Bank Module requirements, around 120 officials representing more than 30 government sector and private sector institutions participated in the initial workshop.

## INSTITUTIONAL COMPLIANCE

### 3.1 Supervision of Financial Institutions

#### 3.1.1 Legal Background of AML/CFT Supervision of Financial Institutions

In terms of Section 15(1) (e) read with Section 18 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), the FIU-Sri Lanka has the authority 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 Financial Institutions (FIs) such as Licensed Banks (LBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs), Insurance Companies (ICs), and Restricted Dealers (RDs) comply with such Rules, Regulations, Directions and Guidelines issued under the FTRA. Further, the supervisory authorities of these FIs are required by Section 23(a) of the FTRA, to verify, through regular examinations, whether institutions comply with provisions of the Act and if at any instance, identified non-compliance is required to be reported to the FIU-Sri Lanka.

#### 3.1.2 Off-site Risk Assessment

The supervisors should allocate adequate resources efficiently for high risk areas based on the findings of the off-site risk assessment. Sectoral risk assessment will be the starting point of commencing ML/TF risk of individual FIs. The FIU evaluates the risk of ML/TF while considering the risk mitigating measures taken by the FI. The inherent risk of the FI is evaluated in terms of structural factors and business risk.

Size of the FI, corporate structure and the group structure are considered as major components of structural factors. Customers, products and services, delivery channels and geographic locations of operations are considered as main factors of business risk.

Risk mitigates and controls are evaluated using seven variables namely, corporate governance, policies and procedures, risk management, internal controls, compliance function, training and reporting in terms of the provisions of the FTRA. In overall risk assessment, inherent risk was given 60% weight while risk mitigates were given 40% weight.

**Table 3.1**  
**Structural Weights of the Off-site Tool**

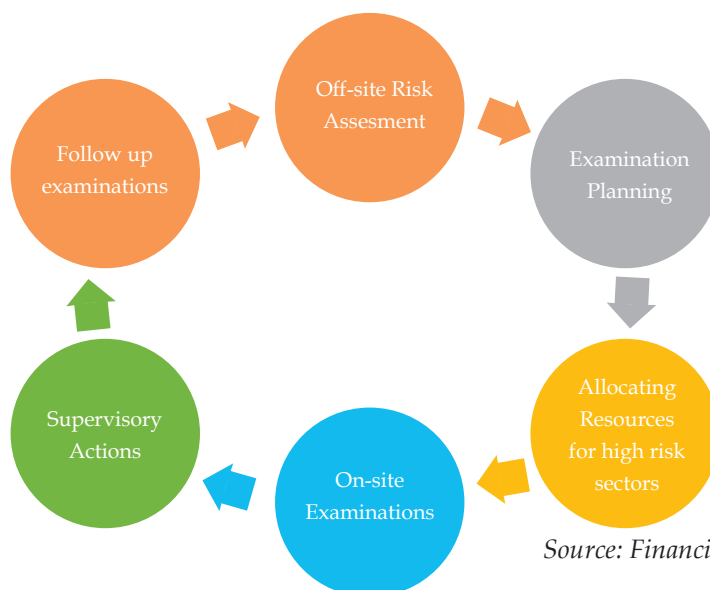
Risk Factor	Main Category Weight (%)	Total Weight (%)
<b>(A) Inherent Risk</b>		<b>60.00</b>
Structural Factors	25.00	15.00
Business Risk	75.00	45.00
<b>(B) Risk Mitigations</b>		<b>40.00</b>
Corporate Governance	25.00	10.00
Policies and Procedures	10.00	4.00
Risk Management	20.00	8.00
Internal Controls	15.00	6.00
Compliance Function	15.00	6.00
Training	5.00	2.00
Reporting	10.00	4.00
<b>Total Weight</b>		<b>100.00</b>

*Source: Financial Intelligence Unit-Sri Lanka*

### 3.1.3 Risk-Based Supervision

Sri Lanka has adopted a risk-based approach (RBA) for AML/CFT supervision of the financial as well as non-financial sectors. Risk assessment is the foundation of an effective risk-based supervision. The assessments set out the specific risks that exist and the basis on which risk mitigation strategies, systems and tools are developed. The FIU-Sri Lanka conducts the ML/TF risk assessments on individual institutions of banking and finance company sectors, while the Securities and Exchange Commission of Sri Lanka (SEC) and Insurance Regulatory Commission of Sri Lanka (IRCSL) conduct the risk assessments on the securities and insurance sectors, respectively.

**Figure 3.1**  
**Process of Risk- Based Supervision**



*Source: Financial Intelligence Unit-Sri Lanka*

Based on the results of the ML/TF risk assessment, the annual examination plan for each sector is prepared and resources allocated accordingly. The Bank Supervision Department (BSD) and Department of Supervision of Non-Bank Financial Institutions (DSNBFI) have released staff to conduct risk-based examinations in banking and finance company sectors, respectively. Risk-based supervision of securities and insurance sectors are conducted by the SEC and IRCSL, respectively and the FIU-Sri Lanka provides technical assistance and staff on their request to conduct examinations. Once the resources are allocated for the on-site examination plan, on-site examinations are conducted based on the identified high-risk areas of the FIs. However, targeted financial sanctions and identification of beneficial ownership are included in each examination, in addition to the identified high-risk areas.

Once an examination is completed, a comprehensive report including the scope and examination findings is submitted to the Director, FIU-Sri Lanka with the recommendations to rectify the deficiencies. The FIU-Sri Lanka takes two kinds of actions for the findings of on-site examinations. If the deficiencies are not significant and they do not breach the provisions of the FTRA, the FIU-Sri Lanka communicates the observations to the Chief Executive Officer (CEO) of the particular FI requesting to take actions to rectify the deficiencies with immediate effect or within the stipulated time frame. If the deficiencies are significant and involve instances of non-compliance with the provisions of the FTRA, the FIU issues a show cause letter requesting the CEO to explain the reasons why the institution has failed to comply with the provisions of the FTRA. If the response is not satisfactory, the FIU-Sri Lanka will take an action in terms of Section 19 of the FTRA.

After the initial examinations are completed, in the second stage, follow up examinations are conducted in addition to the normal risk-based cycle to evaluate the progress made by the FIs on the recommendations made by the FIU-Sri Lanka to rectify the identified deficiencies. The risk-based examination cycle adopted by the country is as follows;

**Table 3.2**  
**Risk-based Examination Cycle**

Risk Category	Frequency of Examinations
High risk	Annually
Medium Risk	Once in two years
Low Risk	Once in three years

*Source: Financial Intelligence Unit-Sri Lanka*

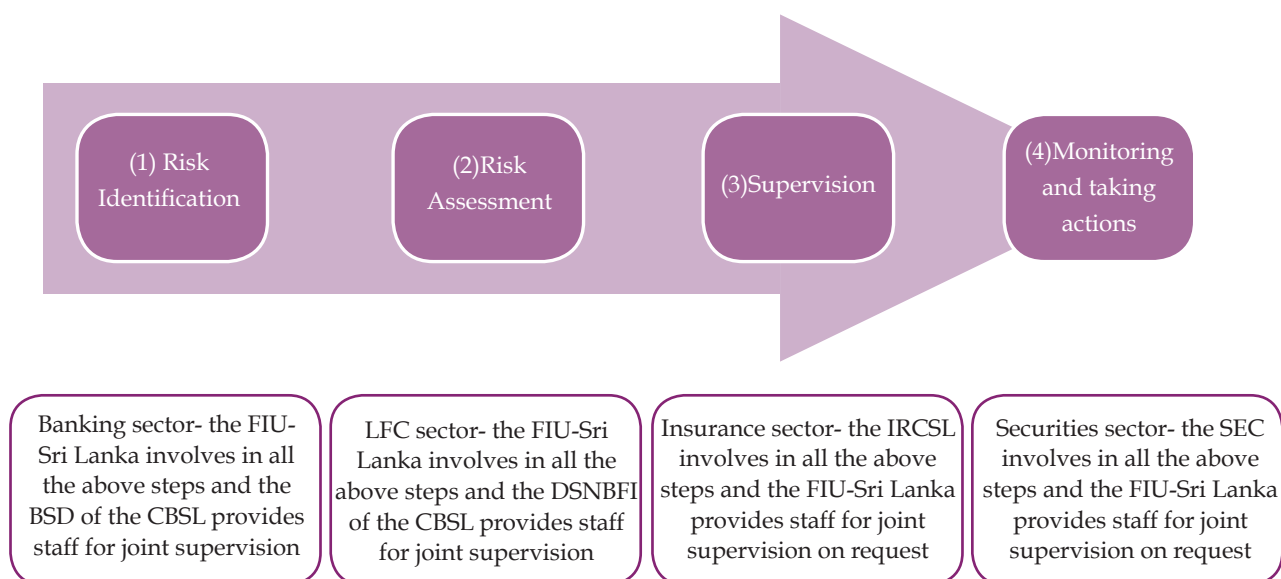
The supervisor of the relevant sector is required to supervise the AML/CFT aspects of respective FIs in addition to performing its prudential supervisory responsibilities. However, as a long-term strategy, the FIU-Sri Lanka expects sectoral supervisors to conduct AML/CFT supervision in terms of a RBA. To facilitate and provide expertise on the AML/CFT



supervision to the sectoral supervisors, the FIU-Sri Lanka initiated a joint supervision mechanism in 2018. Accordingly, officers from respective supervisory authorities and officers from the FIU-Sri Lanka jointly conduct the supervisory activities. During 2018, the FIU with the collaboration of the supervisors of the following sectors, conducted joint supervision:

- Licensed Banks
- Licensed Finance Companies
- Stock Brokers
- Insurance Companies

**Figure 3.2**  
**Mechanism of Joint Supervision**



*Source: Financial Intelligence Unit-Sri Lanka*

### 3.1.4 Off-site assessment done by the FIU-Sri Lanka in 2018

The FIU-Sri Lanka developed an off-site tool for the first time in 2017 to assess the inherent risk and quality of risk mitigates of the FIs as the initial step of risk sensitive AML/CFT supervision. The relevant information required for the tool was collected through an AML/CFT questionnaire. This activity will be carried out on an annual basis to develop the on-site supervisory plan for the next year.

Accordingly, for the year 2018, the FIU-Sri Lanka disseminated AML/CFT Questionnaires in October 2018, to collect data to complete the off-site risk assessment for all LBs and LFCs with the deadline being November 2018.

**Table 3.3****No. of Off-site Examinations conducted during 2017-2018**

<b>Year</b>	<b>No. of Off-site Examinations</b>
2017	78
2018	75

*Source: Financial Intelligence Unit-Sri Lanka*

**3.1.5. On-site Supervision**

When developing the on-site examination strategy for different sectors in the financial system, results of the national risk assessment is considered. The examination plan for the year is prepared, based on the results of the off-site assessment of individual FIs and available resources to the supervisor. Then risk-based on-site examinations will commence.

The strength of the AML/CFT on-site supervision was increased in 2018 as the FIU started joint supervision for the banking and finance companies sector with the participation of officers from the BSD and DSNBFI of the CBSL. Further, the FIU-Sri Lanka started joint supervision for the SEC and IRCSL after signing MOUs with respective entities.

During the year, examiners paid more attention to areas, such as targeted financial sanctions and identification of beneficial ownership, which international evaluators have identified as deficient, and other areas such as systems and controls in place for politically exposed persons, non-profit organizations, wire transfers, non-face to face customers, processing transaction with high risk jurisdictions, etc., which have been identified as high risk according to FATF's standards. The FIU-Sri Lanka expects this would improve the AML/CFT regime of the country in the long run.

At the completion of the on-site examination for each institution, examiners have to compare results of off-site assessment with the on-site examination and update the risk of the institution as a continuous process.

**Table 3.4****No. of On-site Examinations conducted during 2013-2018**

<b>Year</b>	<b>No. of On-site Examinations</b>
2013	7
2014	4
2015	8
2016	15
2017	21
2018	19

*Source: Financial Intelligence Unit-Sri Lanka*

### 3.1.6. Supervisory Actions

Supervisory actions are vital after completing the examination to improve overall AML/CFT framework of FIs and overall supervisory effectiveness of the country. 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, 34 and 35 and implementing the provisions effectively.

After an on-site examination, the FIU provides feedback through a warning letter for further improvements of the AML/CFT control measures of the FI or impose proportionate and dissuasive sanctions against FIs that fail to comply with AML/CFT requirements.

**Table 3.5**  
**Details of the Financial Penalties Imposed during 2018**

Type of Institution	Failure to comply with	Penalty (LKR)
Licensed Finance company	Section 2 of the FTRA and CDD Rules	4,000,000.00
Licensed Bank	Section 2 of the FTRA and CDD Rules	1,000,000.00
MVTS Provider	Section 7 of the FTRA	500,000.00
Licensed Bank	Section 7 of the FTRA	1,000,000.00
Licensed Bank	Section 7 of the FTRA	1,500,000.00
Licensed Bank	Rule 95 of the CDD Rule	500,000.00

*Source: Financial Intelligence Unit-Sri Lanka*

**Table 3.6**  
**Supervisory Actions taken during 2013-2018**

Year	Penalties (Rs. Mn)	No. of Warning letters
2013	2.9	
2014	-	
2015	9.9	
2016	-	
2017	-	23
2018	8.5	16

*Source: Financial Intelligence Unit-Sri Lanka*

### 3.1.7. Developing Technical Knowledge Related to the RBA

As the FIU-Sri Lanka adopted the RBA related to AML/CFT, stakeholders are required to obtain technical knowledge from financial sector experts. Accordingly, the IMF has provided technical assistance to develop off-site assessment tools for risk based-supervision and implementation of effective supervisory activities. Similarly, when there are new

developments related to AML/CFT, FIs have to provide necessary training opportunities to enhance the knowledge of the staff in order to implement the risk-based approach within the institution and support risk-based AML/CFT supervision for the supervisor.

## 3.2 Supervision of Designated Non-Finance Businesses and Professions

### 3.2.1 Introduction

In terms of the provisions of the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA), Designated Non-Finance Businesses and Professions (DNFBPs) are considered as reporting institutions and therefore, required to undertake due diligence measures to combat Money Laundering and Terrorist Financing (ML/TF). Section 33 of the FTRA interprets real estate agents, dealers in precious metals and precious and semi-precious stones (gem and jewellery dealers), casinos and gambling houses, trusts and company service providers, accountants, lawyers, and notaries as “Designated Non-Finance Business”. Hence, the Financial Intelligence Unit (FIU-Sri Lanka) has the authority to verify institutional compliance of these DNFBPs with the requirements set out under Section 15(1) (e), read with Section 18 of the FTRA.

The FIU-Sri Lanka supervises the institutional compliance of these DNFBPs under a risk-based approach. The first step of the risk-based supervision is to assess the ML/TF risk of DNFBP sectors according to their ML/TF vulnerability levels. The National Risk Assessment (NRA) conducted in 2014 assessed the ML/TF vulnerability of each DNFBP sector and accordingly the FIU-Sri Lanka prioritized three DNFBP sectors in introducing Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures due to their higher risk exposure to ML/TF, compared to other DNFBP sectors and the non-availability of proper risk mitigating measures. The prioritized DNFBP sectors of casinos, real estate agents, and gem and jewellery dealers were rated as ‘Medium High’ vulnerable to ML/TF risk. On the other hand, lawyers and notaries were rated as ‘Medium’ whereas accountants, trusts and company service providers were rated as ‘Medium Low’ vulnerable to ML/TF risk.

Subsequent to the Mutual Evaluation<sup>1</sup>, Sri Lanka was identified as a country with strategic AML/CFT deficiencies and, one of the major deficiencies identified was the non-availability of a proper AML/CFT framework for DNFBPs. Accordingly, as similar to the financial institutions, the FIU-Sri Lanka initiated the process of regulating the DNFBP sector in a phased-out manner.

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<sup>1</sup> The Mutual Evaluation on Sri Lanka was conducted by the Asia Pacific Group on Money Laundering (APG) during 1-12 December 2014, to assess the AML/CFT measures that were in place in Sri Lanka as at the date of the on-site visit conducted by the APG. This was the second Mutual Evaluation of Sri Lanka by the APG; the first Mutual Evaluation was conducted in 2006. The second evaluation has been focused on the level of compliance of Sri Lanka with 40 Recommendations of the FATF, level of effectiveness in Sri Lanka’s AML/CFT system and, recommendations on how the AML/CFT system of Sri Lanka could be further strengthened.

Under the phased-out programme, Phase I was aimed at ensuring an effective approach to identify and be made aware of the DNFBP sectors, through establishment of a dedicated division and conduct of market studies on DNFBP sectors. Phase II was the most challenging stage as it involved introducing and strengthening the AML/CFT requirements for DNFBPs, which included issuing rules and guidelines and introducing them to the relevant DNFBP sectors. Phase III was targeted at commencing risk-based supervision for DNFBPs while further strengthening the AML/CFT legal framework. Details of the activities carried out during the three-phased programme and its progress can be outlined as follows.

### **3.2.2 Phase I - Identifying the DNFBP Sectors**

The following actions were taken by the FIU-Sri Lanka under Phase I, with the view of adopting an effective approach to address the DNFBP sector for AML/CFT compliance.

#### **(a) Establishment of a Supervision Division for DNFBPs in the FIU-Sri Lanka**

The FIU-Sri Lanka established a separate division, namely, Supervision Division for the DNFBPs (SD-2) in 2017, for the regulation and supervision of DNFBPs on AML/CFT. Thereafter, the responsibility of developing a master plan for regulating and implementing supervision of DNFBPs by January 2019 was assigned to the SD (2). The SD (2) is currently employed with 8 qualified officers who are fully engaged with planning and implementing AML/CFT measures for each DNFBP sector. This was an extremely challenging task due to some inherent attributes of DNFBP sectors such as absence of a single regulator or a licensing body, lack of quantitative data relating to size, nature and activities of sectors, unavailability of proper communication channels, informal and unorganized management structures, etc.

#### **(b) A Market Study on DNFBPs**

Under Phase I, the FIU-Sri Lanka conducted a thorough market study on different DNFBP sectors. The study provided many insights including the size and nature of markets and market participants, relevant regulators, licensing bodies, associations, etc., prevailing legal framework relating to DNFBPs and AML/CFT laws and regulations relevant to DNFBPs in other countries.

#### **(c) Identification of DNFBP Stakeholders**

Several challenges in dealing with DNFBPs were encountered during the market study. First, DNFBPs are a collection of different businesses and professions. Second, the sector was not aware of AML/CFT measures. Third, it was difficult to identify a specific body or a regulator to deal with AML/CFT matters applicable to DNFBPs. Hence, the FIU-Sri Lanka, as the AML/CFT regulator for DNFBPs, identified supporting institutions, authorities, licensing bodies and associations that would work closely in implementing AML/CFT measures as depicted in Table 3.7 below.

**Table 3.7**

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

<b>Sector</b>	<b>Institution</b>
Casinos	Ministry of Finance (MoF) Inland Revenue Department (IRD)
Real Estate Businesses	Condominium Management Authority (CMA) Condominium Developers Association of Sri Lanka (CDASL) Registrar General's Department (RGD)
Dealers in Precious Metals and Stones	National Gem and Jewellery Authority (NGJA) Sri Lanka Gem and Jewellery Association (SLGJA) Sri Lanka Jewellers Association (SLJA)
Lawyers/Notaries/Other Independent Legal Professionals	Bar Association of Sri Lanka (BASL)
Accountants	Institute of Chartered Accountants of Sri Lanka (ICASL)
Trust and Company Service Providers	Registrar General's Department (RGD)
All DNFBPs	Regional Offices of the Central Bank

*Source: Financial Intelligence Unit-Sri Lanka*

**(d) Support Extended by DNFBP Stakeholders**

The FIU- Sri Lanka initiated discussions with the above institutions and drew up an AML/CFT compliance framework for DNFBPs. A series of meetings and awareness sessions were conducted for the stakeholders to explain the legal obligations on AML/CFT applicable for DNFBP sectors under the FTRA.

As a result of such meetings and awareness sessions, the following measures have been taken by the institutions, regulators, and associations in order to build a robust AML/CFT regime for DNFBPs in Sri Lanka.

- The Chief Executive Officer of ICASL circulated the *Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018* and a notice on the requirement of appointing Compliance Officers for accounting professions among its members in February and May 2018, respectively.
- The CMA has included the 'obligation of appointing a Compliance Officer for the purpose of AML/CFT compliance' as one of the requirements for every property developer in applying for the "Preliminary Planning Clearance Letter" issued by the CMA. This letter is a mandatory requirement to obtain the approval for the condominium project from the Urban Development Authority of Sri Lanka.

- The CDASL has made an arrangement to provide information of new memberships issued by the association. This arrangement works as an effective way of recognizing leading real estate agents to introduce the compliance requirements on AML/CFT.
- The NGJA has taken steps to insert a new condition to the proposed export license as, *“Dealer Licensee is complying with the rules by a Gazette moderating the above said Gazette No: 2053/20 – Wednesday, January 10, 2018 cited as Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018, under Section 2 of the Financial Transactions Reporting Act, No. 06 of 2006”*.
- The NGJA has allocated some dedicated examiners from the NGJA to assist the FIU-Sri Lanka in supervising gem and jewellery dealers’ compliance of AML/CFT obligations. Therefore, the FIU-Sri Lanka conducts supervision of gem and jewellery dealers jointly with NGJA examiners.

The support and cooperation extended by these institutions, regulators, and associations during 2018 was extremely vital for the FIU-Sri Lanka to perform as the monitoring authority of DNFBPs’ compliance with AML/CFT obligations. With such support, the process of implementing risk-based supervision and introducing the AML/CFT requirements to the market was established. In addition to the above, the assistance provided by the regional offices of the CBSL by coordinating and creating awareness among regional DNFBPs and stakeholders was important to ensure outreach.

### 3.2.3 Phase II- Strengthening the AML/CFT Regime

Under Phase II, the FIU- Sri Lanka initiated to introduce AML/CFT legal obligations for DNFBPs. Accordingly, the following actions were prioritized throughout the phase II.

#### (a) Issuing Rules, Guidelines and Directives for DNFBPs

During 2018, the FIU-Sri Lanka issued rules and guidelines under the provisions of the FTTRA as well as specimens to be used as directives for DNFBPs in implementing AML/CFT policies, procedures and controls. Dates of issuances of such rules, guidelines and specimens issued for DNFBPs are given in Table 3.8 below.

The CDD Rules were issued in January 2018 as an extra ordinary gazette notification and provides a legal framework within which the DNFBPs can adopt a risk-based approach to mitigate ML/TF risks by conducting CDD. While elaborating risk management concepts and virtuous cycle of managing risk, these rules specify thresholds for conducting CDD by DNFBPs, customer identification and verification requirements, enhanced CDD measures, requirements when dealing with non-face-to-face customers, politically exposed persons and various other types of customers, keeping records, other AML/CFT requirements and screening customers against lists on targeted financial sanctions.

**Table 3.8**  
**Rules, Guidelines and Directives issued for DNFBPs**

Name of the Rule/Guideline	Date of Issuance
Designated Non-Finance Business (Customer Due Diligence) Rules No. 1 of 2018 (CDD Rules)	10 January 2018
Guidelines on AML & CTF Compliance Obligations for Casinos and Gambling Houses, No. 02 of 2018	18 April 2018
Guidelines on AML & CTF Compliance Obligations for Dealers in Real Estate and Precious Metals, Precious and Semi-Precious Stones, No. 03 of 2018	18 April 2018
Specimens and Directives on drafting AML/CFT Policies, Appointing of Compliance Officer, Conducting ML/TF Risk Assessment, Identifying Suspicious Indicators and Screening Customers for UNSCR designated persons and entities.	During 2018

*Source: Financial Intelligence Unit-Sri Lanka*

Furthermore, the FIU-Sri Lanka issued two guidelines for DNFBPs as a guidance to implement the AML/CFT measures, such as (i) appointing a Compliance Officer, (ii) having in place proper AML/ CFT policies and procedures, (iii) conducting CDD, (iv) customer risk profiling, (v) conducting enhanced CDD, (vi) suspicious transaction monitoring and reporting, (vii) screening customers against the United Nations Security Council Resolutions (UNSCR) lists, (viii) employee screening, (ix) record keeping and (x) auditing of AML/CFT functions.

In addition to issuing rules and guidelines, specimens on the preparation of institutional AML/CFT policies and procedures, conducting of ML/TF risk assessment were provided to all DNFBPs. Also, different materials with information directing to the appointment of a compliance officer, suspicious transaction indicators as well as screening for designated persons and entities by the UNSCR were issued to the DNFBPs during 2018.

Moreover, the 'DNFBP Supervision Manual' was developed for FIU-Sri Lanka examiners to be used in the supervision of DNFBPs with the assistance of the IMF Technical Assistance Team, with the purpose of commencing risk-based supervision of DNFBPs by 2019.

**(b) Awareness and Capacity Building for DNFBPs**

While strengthening the legal framework for DNFBPs under the AML/CFT regime, the FIU-Sri Lanka conducted a series of awareness programmes, capacity building programmes, meetings and discussions in 2018 for DNFBPs to uplift their knowledge, understanding and capacity developing on AML/CFT requirements. Accordingly, 24 awareness programmes and 17 meetings were held during the year of 2018. Further, the FIU-Sri Lanka published 30 press notices to raise the awareness on AML/CFT obligations among DNFBPs and the



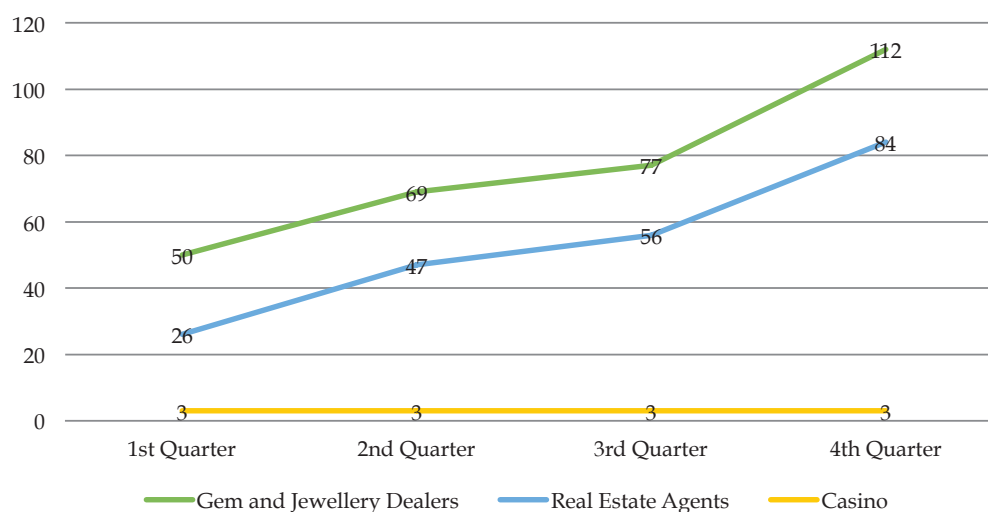
general public. Details of such awareness programmes, meetings conducted, and press notices published are given in Chapter 5 of this Annual Report. In addition to all these efforts, the FIU-Sri Lanka published articles, notices, and presentations in the FIU- Sri Lanka website. These materials are accessible on <http://www.fiusrilanka.gov.lk/training.html>.

### (c) Appointment of Compliance Officers by DNFBPs

Every 'Institution', within the meaning of the FTRA, is required to appoint a Compliance Officer who is responsible for ensuring the Institution's compliance with the obligations of the FTRA. Therefore, the Compliance Officer becomes the coordinator of AML/CFT matters between the Institution and FIU-Sri Lanka after such appointment. Figure 3.3 illustrates the progress of the three sectors; casinos, real estate agents, and gem and jewellery dealers, after the appointment of such Compliance Officers.

**Figure 3.3**

#### **Progress of Appointing Compliance Officers by Casinos, Real Estate Agents and Gem and Jewellery Dealers during 2018**



*Source: Financial Intelligence Unit-Sri Lanka*

Once the Compliance Officer is appointed by the DNFBP, the FIU-Sri Lanka conducts a workshop to make them familiar with the legal obligations on AML/CFT measures that are required to be taken in order to fully comply with the obligations. Accordingly, almost all the Compliance Officers appointed during year 2018 participated in one or more workshops conducted by the FIU-Sri Lanka.

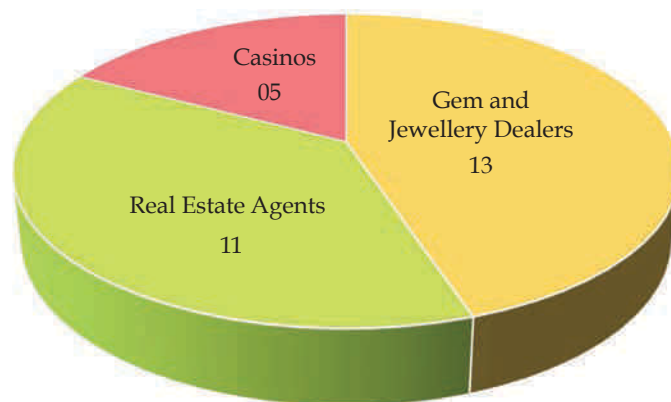
At present, there are only three casinos operating in Sri Lanka and all three have appointed their Compliance Officers as required by the FTRA. Also, most of the large scale DNFBPs in each sector have appointed Compliance Officers as a result of the awareness campaigns launched by the FIU-Sri Lanka during 2018. This progress was further supported by the cooperation given by various DNFBP stakeholders.

#### (d) Progress Review Visits

In order to ensure the AML/CFT compliance level, the FIU-Sri Lanka conducted progress review visits at selected DNFBPs. During these visits, the focus was given to assess the progress of implementing AML/CFT measures by the DNFBPs. Therefore, the implementation processes were observed, and discussions were held with the corporate management and Compliance Officers on practical issues encountered in complying with the requirements. The possible solutions to overcome those issues were also discussed. After the progress review visits, identified weaknesses were communicated, requiring the DNFBPs to attend to the weaknesses with a timebound action plan. The FIU-Sri Lanka examiners followed all the steps of carrying out a risk-based onsite examination, in conducting these progress review visits as these visits were scheduled as a trial to commence real onsite supervision processes for DNFBPs. Details of progress review visits conducted during 2018 are illustrated in Figure 3.4 below.

**Figure 3.4**

#### **Progress Review Visits Conducted during 2018**



*Source: Financial Intelligence Unit-Sri Lanka*

Based on the results of these progress review visits, 08 follow-up visits are scheduled to be conducted during 2019 to verify the effectiveness of the measures taken by those DNFBPs to attend on informed weaknesses.

#### **3.2.4 Phase III- Supervisory Framework for DNFBPs**

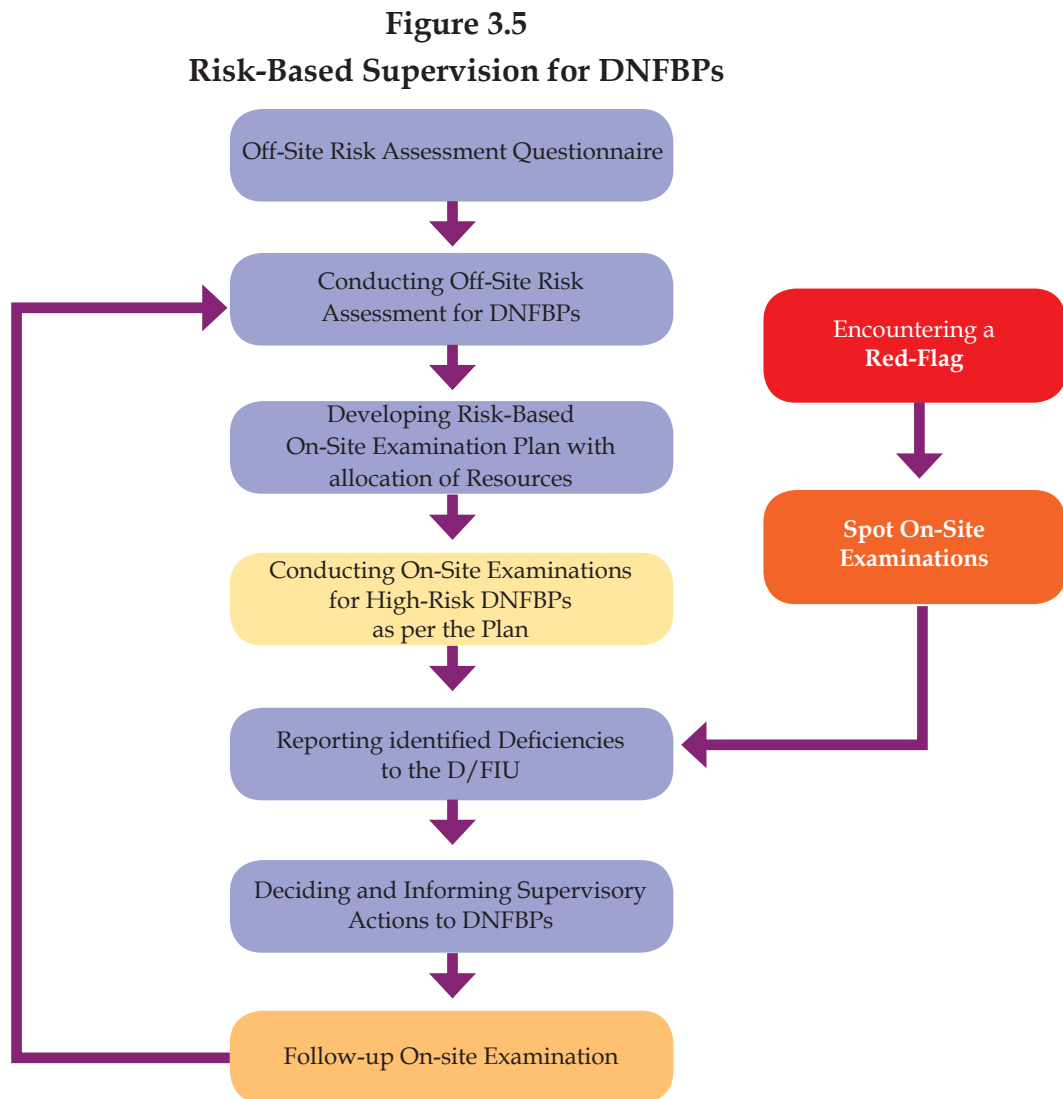
Consequent to the development of the environment that facilitates proper adoption and implementation of AML/CFT legal obligations within DNFBP sectors, SD (2) commenced the offsite risk assessment of DNFBPs in year 2018 under Phase III. Further, specific procedures were developed to execute the proposed risk-based on-site examination plan for the year 2019. Accordingly, the activities described below will be continued in the upcoming years under Phase III of implementing an AML/CFT framework for DNFBPs, in line with the changes in legal and supervisory frameworks and other sectoral trends.

### (a) Risk-Based Supervision of DNFBPs

Phase III of the implementation of AML/CFT measures for DNFBPs was focused on commencing risk-based supervision of DNFBPs, which mainly includes off-site risk assessment and on-site examinations. Further, spot examinations will be held as per the requirements under Phase III.

It was targeted to commence off-site risk assessment with effect from the latter part of 2018 and the on-site examinations by the beginning of year 2019.

Figure 3.5 below illustrates the process of risk-based supervision for DNFBPs.



Source: Financial Intelligence Unit-Sri Lanka

### (b) Off-Site Risk Assessment and the Risk-Based On-Site Examination Plan

Off-site risk assessment is one of the preconditions in conducting on-site examinations. Usually the off-site risk assessment is held to understand the ML/TF risk factors of DNFBPs and evaluate their mitigation measures and rank DNFBPs as per their level of risk. Hence, information required in conducting the off-site risk assessment was called from the DNFBPs

through the ML/TF Risk Assessment Questionnaire (RAQ)<sup>2</sup>. This process was conducted for the first time in November 2018. The RAQs were sent to all DNFBPs who were registered with the FIU- Sri Lanka as of November 2018, with a deadline to provide information. If a DNFBP was found at higher risk, then such a DNFBP was selected for the on-site examination by the FIU-Sri Lanka examiners.

The collected information through RAQs was analyzed during December 2018 using a risk assessment tool, which was developed with the assistance of the IMF Technical Assistance Team. The Risk-based On-site Examination Plan for 2019 was then prepared based on the results of the assessment. Accordingly, 35 on-site examinations have been scheduled for 2019 covering real estate, gem and jewellery, and casino sectors. Further to the scheduled On-site Examination Plan-2019, spontaneous examinations will be conducted in instances where any risk indicator is identified within a particular DNFBP.

### (c) On-Site Examinations

On-site examinations are scheduled to be carried out sector wise under a team of examiners, which will be led by an Examiner In-Charge. The FIU-Sri Lanka examiners have been well trained on conducting on-site examinations. Further, on-site examinations on gem and jewellery sector is conducted jointly with the appointed examiners from the NGJA. These examiners also have undergone training sessions on AML/CFT supervision and AML/CFT measures for gem and jewellery dealers.

### (d) Supervisory Actions Taken during 2018

Enforcement of supervisory actions is a key element in effective implementation of AML/CFT measures within DNFBPs. Accordingly, the FIU-Sri Lanka undertook several supervisory actions on different aspects during 2018. Further details of such supervisory actions are depicted in Table 3.9 below.

**Table 3.9**  
**No. of Actions Taken during 2018**

Action Taken	Real Estate	Gem and Jewellery	Casinos
Informing to report the actions taken to address the deficiencies identified during progress review visits with a deadline.	09	09	-
Issuing warning letters to DNFBPs on non-appointment of compliance officers.	07	-	-
Issuing warning letters to DNFBPs on non-submission of ML/TF Off-Site Risk Assessment Questionnaire before the due date.	33	47	03

*Source: Financial Intelligence Unit-Sri Lanka*

<sup>2</sup> Separate RAQs were developed as per specific requirements of each DNFBP sector with the assistance of the IMF TA team and they were further developed as per the requirements and suggestions made by DNFBPs to make the RAQs more user friendly.

### 3.2.5 Way Forward

#### a) Rules, Regulations, and Guidelines to be Issued

The FIU- Sri Lanka is planning to issue new rules, regulations, and guidelines to the DNFBP sector in coming years to further strengthen the prevailing legal obligations on AML/CFT. In view of this, the following guidelines are intended to be issued in the near future:

- i. The Guidelines for DNFBPs on Identification of Beneficial Ownership.
- ii. The Guidelines for DNFBPs on Suspicious Transactions Reporting.
- iii. The Guidelines on AML/CFT Compliance Obligations for Accountants, and Trusts and Company Service Providers.
- iv. The Guidelines on AML/CFT Compliance Obligations for Lawyers and Notaries.

In addition to the above, new rules, regulations, and guidelines will be issued as and when required, to streamline matters under the AML/CFT compliance obligations applicable for DNFBPs.

#### b) Strategy to Improve the Number of DNFBP Reporting Institutions

The strategy to improve the number of DNFBP reporting institutions will be formalized with the results of the market research being conducted under Phase I. A dedicated officer in SD (2) has been appointed for each DNFBP sector to identify new market participants through newspaper articles, websites, other publications, timely studies conducted on DNFBPs and other resources. Upon identifying the new market participants, they will be brought under the AML/CFT regime by following a defined procedural framework, including taking regulatory actions on non-appointment of Compliance Officers by such DNFBPs. Moreover, the market trends and improvements will be regularly updated and reviewed by the same dedicated officer.

Further, the mechanism to increase the number of reporting DNFBPs will be further strengthened by creating awareness to DNFBPs, which is planned to be conducted with the assistance of the aforesaid stakeholders.

#### c) Strategy to Conduct More Effective On-Site and Off-Site Supervision

Off-site supervision is mainly conducted through the RAQs submitted by the DNFBPs on which the annual on-site supervision plan will be decided. Hence, it is expected to increase the number of off-site assessments as well as on-site examinations based on the increased number of DNFBPs registered within the year of 2019.

In addition to pre-scheduled risk-based on-site examinations, spot examinations will also be conducted based on situational circumstances and at instances where the FIU-Sri Lanka has reasonable grounds or information to believe that a particular DNFBP has a higher risk exposure for ML/TF activities.

#### **d) Separate Web Space for DNFBPs**

The FIU-Sri Lanka is in the process of developing and introducing a separate space for DNFBPs in the FIU-Sri Lanka website. This web space would include a brief introduction on each DNFBP sector in Sri Lanka, their key AML/CFT legal obligations, ML/TF indicators that are named as red flags, publications relating to DNFBPs and training and information materials relating to DNFBPs as well as special notices relating to the sector. Having a separate web space for DNFBPs will ensure that DNFBPs have a customized platform to be aware of AML/CFT related matters. Further, it would facilitate close communication on relevant matters between the AML/CFT regulator and DNFBPs.

#### **e) Working in Collaboration with Other Stakeholders**

There are many stakeholders currently working in collaboration with the FIU-Sri Lanka for introducing and effectively implementing AML/CFT measures for DNFBPs. To further strengthen these interactions, Memorandum of Understandings (MoUs) between FIU-Sri Lanka and regulators such as NGJA and CMA in the near future are planned to be signed.

## **The Role of Designated Non-Finance Businesses and Professions in Identifying and Reporting Suspicious Transactions**

### *Introduction:*

In the current context of the global Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework, Designated Non-Finance Businesses and Professions (DNFBPs) play an extremely important role similar to financial institutions, in detecting and preventing Money Laundering and Terrorist Financing (ML/TF) activities that may occur through such DNFBPs. It is mostly due to the well-known fact that money launderers and terrorist financiers have often abused DNFBPs in laundering their criminal proceeds as well for financing terrorist activities. Therefore, the role of DNFBPs in identifying and reporting suspicious transactions is an utmost important aspect in developing an effective AML/CFT regime for a country.

According to the international AML/CFT standards, the FATF Recommendations recognize businesses and professions such as casinos, real estate agents, dealers in precious metals and stones, lawyers, notaries, other independent legal professionals, accountants and, trust and company service providers who provide specified services as DNFBPs. Following those international standards, Sri Lanka also has defined the same set of businesses and professions as “Designated Non-Finance Businesses” under Section 33 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA). Accordingly, DNFBPs are required to comply with the provisions of the FTRA and rules, regulations and directions issued thereunder.

### *ML/TF Risks for DNFBPs*

It has been observed that the DNFBP sector possesses several characteristics that make the sector vulnerable to ML/TF. Mainly, DNFBPs provide many opportunities to use cash as the mode of payment to their customers, which provide a great platform to launder illicit proceeds. Secondly, such cash transactions can involve a large sum of money. Thirdly, since DNFBP sectors are not subject to scrutiny in most countries, criminals tend to approach those businesses rather than laundering their proceeds through formal channels, such as the banking sector, which are more restricted for misusing.

Moreover, DNFBP sectors possess unique features that attract criminals. For an example, precious stones are usually easy to carry from one place to another due to their size being small, while the value of those precious stones are enormous. Similarly, a money launderer can purchase a real estate by using cash to hide the source of the illegally earned proceeds, which is safer than depositing those proceeds in a bank account.

### *Minimizing the ML/TF Risks at DNFBPs*

Once the sector risk factors are understood, mitigating such risks using suitable tools is required. Mitigating potential ML/TF risks should be an internal policy of the DNFBP and through its policy the following key tools need to be in place to protect their businesses.

The most important tool to minimize the ML/TF risks of DNFBPs is ‘knowing your customer’. If DNFBPs have systems and procedures to know their customers before entering into a business relationship, it will be extremely challenging for criminals to launder the illicit proceeds or finance terrorist activities through their businesses and professions. Identifying the suspicious nature of transactions and customers would be the next important tool in minimizing the ML/TF risks of DNFBPs. Because a suspicious transaction would be the foundation and the first warning in identifying a money launderer or a financier of terrorism. Reporting of suspicious transactions identified by DNFBPs promptly to the FIU is also integral to prevent DNFBPs being misused by criminals.

### *Legal Obligations for DNFBPs in Sri Lanka in Identifying and Reporting Suspicious Transactions*

Reporting of any suspicion of ML/TF related to transactions of DNFBPs is one of the key obligations under the FTRA. It has been prescribed under Section 7 of the FTRA. It specifies that any transaction or attempted transaction is to be reported to the FIU, as soon as practicable after forming the suspicion or receiving the information, but not later than two working days therefrom.

Those transactions/ attempted transactions must be either relevant to or having a commission of an “Unlawful Activity”<sup>1</sup> or any other criminal offence or, having information that the suspicion is relevant to an offence under the provisions of the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA). Further, any suspicion that is relevant to any investigation or prosecution of a person or persons for an act relating to any Unlawful Activity or the Prevention of Money Laundering Act, No. 5 of 2006 (PMLA) or the CSTFA is also required to be reported by DNFBPs as specified in Section 7 of the FTRA.

In April 2017, the FIU-Sri Lanka issued the “Suspicious Transactions (Format) Regulation of 2017” to all Institutions including DNFBPs, with the objective of prescribing the formats to report suspicious transactions to the FIU-Sri Lanka and DNFBPs were required to report Suspicious Transactions Reports (STRs) using **Schedule V** of the Regulation. Accordingly, the FIU-Sri Lanka has prescribed a reporting format for DNFBPs to fulfill the above legal requirement.

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<sup>1</sup> “Unlawful Activity” is defined under Section 33 of the FTRA and Section 35 of the PMLA. It refers to a series of offences and, any act which constitutes an offence under those offences is considered as an Unlawful Activity.



Further, the internal procedures to be established in this regard have been included as an obligation in the Designated Non-Finance Business (Customer Due Diligence) Rules No. 1 of 2018 (CDD Rules). Rule 6 (g) (ii) and (iii) specify that DNFBPs are required to establish detailed procedures and controls on the detection and internal reporting procedure of unusual or suspicious transactions, and reporting suspicious transactions to the FIU-Sri Lanka. Thereby, the DNFBPs have to establish a procedural mechanism to address the requirements of identifying as well as reporting suspicious transactions.

However, as specified in Rule 14 of CDD Rules, when a DNFBP forms a suspicion of ML/TF, and it reasonably believes that conducting CDD measures would tip-off the customer, the DNFBP can proceed the transaction without conducting CDD measures, but is required to immediately file an STR in compliance with Section 7 of the FTRA.

### *Protection by Law for Submission of STRs*

It is common for any DNFBP to feel anxious about future consequences in submitting information of its own customers and transactions, labeling them as suspicious. However, the FTRA has provided adequate protection for all institutions including DNFBPs on any action carried out under the provisions of the FTRA including submitting of STRs. As prescribed in Section 12 of the FTRA, no civil, criminal or disciplinary proceedings shall lie against an institution or a director, partner, an officer or an employee of an Institution, in relation to any action carried out in terms of the FTRA, in good faith or in compliance with any regulation, rules or directions issued under the FTRA by the FIU-Sri Lanka.

### *Procedures in Identifying and Reporting Suspicious Transactions*

As specified in the CDD Rules, DNFBPs are required to establish its procedures on following aspects in terms of identifying and reporting suspicious transactions.

It is an obvious fact that the employees who transact with the customers will be capable of discovering and tracking suspicious transactions. Accordingly, DNFBPs need to determine the process as to what employees are responsible for identifying suspicious transactions, how the initial suspicion is internally recorded by such employees and how they report those suspicious transactions to relevant officers who are responsible for reporting STRs.

Identifying a suspicious behavior of a customer or a transaction may be challenging for DNFBPs. Such identification may depend on the professional judgment of the employee who transacts with the customer based on his/her experience and knowledge. However, there can be well known and common behavioral and transactional patterns that can be used in identifying a suspicious transaction or a customer. **Table 1** illustrates sector wise ML/TF indicators, commonly known as red flags, which can be used in identifying a possible money launderer or a financier of terrorism. However, a formation of suspicion must not be limited only to these indicators for the same reason being 'suspicious' cannot be pre-defined or interpreted.

As explained previously, the FTRA specifies that an STR must be submitted to the FIU-Sri Lanka within two working days, after forming the suspicion. Therefore, it is essential for DNFBPs to establish internal procedures in terms of reporting STRs, to ensure that the suspicion is promptly reported to the FIU-Sri Lanka. As a practice, the Compliance Officer can first submit the available information through an e-mail or even through fax/telephone however, it should be followed by a duly written and signed STR as per Schedule V of the aforesaid regulation.

### *Procedures on Training Employees on Identifying and Reporting Suspicious Transactions*

Mere establishment of procedures on identifying and reporting suspicious transactions will not ensure effective compliance of DNFBPs towards preventing money laundering and countering the financing of terrorism. For the procedures to be effective, the employees who actually engage with the customers must be well conversant and trained on identifying the suspicious nature of transactions and customers. Therefore, the relevant employees must be given sufficient training and awareness on ML/TF, related laws and legal requirements, emerging global trends in ML/TF, indicators that can be used in identifying a suspicious nature of transaction etc.

It is also a legal obligation to train the officers, employees and agents to recognize suspicious transactions under Section 14 (d) of the FTRA and Rule 6 (g) (vi) of the CDD Rules and therefore, all DNFBPs are bound to provide training on this to all relevant employees.

### *Summary*

As discussed, identifying and reporting suspicious transactions would be a fundamental and critical measure for DNFBPs as well as to financial institutions in preventing misuse of their sectors for money laundering activities and financing of terrorist activities. It has been proven in plenty of instances that identifying and reporting suspicious transactions has inevitably contributed to safeguarding the entire DNFBP sector as well as the financial sector from ML/TF. The ultimate benefit of building a resilient AML/CFT framework by complying with aforesaid legal obligations by DNFBPs will finally support the country in preserving its reputation and thereby achieve significant economic as well as social benefits by being a country with robust AML/CFT measures.

Table 01

Sector Wise ML/TF Indicators for Identifying Suspicious Transactions

Sector	ML/TF Indicators
Real Estate	<ul style="list-style-type: none"> <li>❖ Customer purchases the property without properly inspecting it which shows that he does not worry about the location or any other characteristic of the property.</li> <li>❖ Customer purchases many properties in a short span of time, and seems to have only a few concerns about the location, condition and anticipated repair costs, etc., of each property.</li> <li>❖ Price of the property does not match with the employment or the business activity details given by the customer or known wealth of the customer.</li> <li>❖ Customer suddenly cancels / aborts transaction and requests refund either back to himself / herself / itself or to a third party.</li> <li>❖ Customer pays for the property purchase entirely in cash.</li> </ul>
Gem and Jewellery	<ul style="list-style-type: none"> <li>❖ A frequent customer who buys gem or jewellery products conducts a transaction inconsistent with his usual transaction pattern.</li> <li>❖ Customer is not concerned about the value, size, quality and/or colour of the gem or jewellery.</li> <li>❖ Payments for the purchase of the gem or jewellery product is received from a third-party person without any legitimate business purpose or rationale.</li> <li>❖ Customer purchases the gem or the jewellery at a price well above the market price of the gem or jewellery.</li> <li>❖ Customer pays for the gem or jewellery entirely in cash.</li> <li>❖ Customer conducts numerous gem or jewellery purchases, which seems to avoid the value of reporting threshold.</li> </ul>
Casino	<ul style="list-style-type: none"> <li>❖ Customers purchasing and redeeming chips or depositing and withdrawing funds with no gambling or minimal gambling.</li> <li>❖ Customers requesting multiple payments of winnings to be deposited to an account of a third party.</li> <li>❖ Customers befriending/attempting to befriend of casino employees.</li> <li>❖ Dramatic or rapid increase in size and frequency of transactions for an established customer.</li> <li>❖ Gambling activity that is inconsistent with the financial situation and/or known occupation of the person gambling.</li> </ul>

Lawyers, Accountants and Trust or Company Service Providers	<ul style="list-style-type: none"> <li>❖ Corporate clients that have no employees, which is unusual for the type of business.</li> <li>❖ Client tries to maintain a high degree of secrecy about transactions or business activities. E.g.: requesting not to keep normal business records.</li> <li>❖ Client tries to avoid personal contact when conducting transactions without a good reason. E.g.: always using an agent or an intermediary in conducting transactions.</li> <li>❖ Client refuses or not willing to provide information/ documents required to conduct CDD.</li> <li>❖ Client is willing to pay fees or payments substantially higher than usual rates without any legitimate or justifiable reason.</li> <li>❖ Client has a history of changing lawyers or accountants very frequently.</li> </ul>
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Other Common Indicators	<ul style="list-style-type: none"> <li>❖ Customer avoids answering questions relating to source of funds.</li> <li>❖ Customer is unusually concerned and/or makes inquiries about the AML/ CFT requirements.</li> <li>❖ Customer is known to have a criminal/terrorism background.</li> <li>❖ Customer is suspected to be using forged, fraudulent or false identity documents.</li> <li>❖ Customer attempts to maintain a high degree of secrecy with respect to transactions.</li> </ul>
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## CAPACITY BUILDING

With the new trends in Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) and innovation of novel products and new business practices, it has become necessary to improve the knowledge, capacity and capabilities of the staff of the FIU-Sri Lanka to perform their duties satisfactorily. The FIU-Sri Lanka has expanded its operations into new areas in both sectors of finance businesses and designated non-finance businesses and professions. In the likelihood that the existing and new products and services offered by these sectors may pose ML/TF threats in the medium to short term, the FIU-Sri Lanka has increased the number of staff officers and taken efforts to raise the capacity of staff officers to perform their 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 2018, staff officers were given training opportunities to enhance their knowledge on a number of aspects, and current issues and trends on ML/TF to mitigate and identify emerging threats. Staff officers were provided with greater exposure in areas of AML/CFT/PF-WMD, cybercrime and cybersecurity. Details of international and local training programmes attended by the officers of the FIU-Sri Lanka during 2018 are given in Table 4.1 and Table 4.2, respectively.

**Table 4.1**

**International Training Programmes / Workshops / Events Participated by Officers of FIU-Sri Lanka during the Year 2018**

Month	Training/Workshop/Event	Country
January	1 <sup>st</sup> Face-to-Face Meeting with AP/JG	Australia
	Train-the-Trainer Workshop on Countering the Financing of Terrorism and Proliferation of Weapons of Mass Destruction through Effective Asset Freezing	Singapore
February	FATF Plenary and Working Group Meetings by APG	France
	SEACEN Course on AML and Combating the Financing of Terrorism	Malaysia

March	Workshop on BIMSTEC Human Resources Development and Capacity Building on AML/CFT	Thailand
	Egmont Group of FIU's Meeting	Argentina
	Workshop on Cyber-Crime and Cyber Security for BIMSTEC Member States	Bangladesh
April	Familiarization of goAML and FIU Analysis workshop	Finland
	TF Seminar	France
May	FATF and the FATF Training and Research Institute (TREIN) Joint Experts Meeting and Risk Assessment Workshop	Republic of Korea
	AML/CFT Risk-Based Supervision	Malaysia
	Independent Commission Against Corruption	Mauritius
	2 <sup>nd</sup> Face-to-Face Meeting with the AP/JG	Thailand
June	FATF-MENAFATF Joint Plenary	France
July	Asia Pacific Group on Money Laundering Annual Meeting and Technical Assistance Forum	Nepal
August	APG/EAG Assessor Training Workshop	Malaysia
	FATF Training Course on Counter-Proliferation Financing	Republic of Korea
September	3 <sup>rd</sup> Face-to-Face Meeting with the AP/JG	Indonesia
	25 <sup>th</sup> Egmont Group Plenary Meeting	Australia
October	Programme on International Anti-Proliferation and Threat Training	USA
November	4 <sup>th</sup> Regional Counter Terrorism Finance Summit 2018	Thailand
	AML/CFT Considerations and Approaches for Financial Inclusion	Malaysia
	Training Programme on Computer Forensics by BIMSTEC	India
	10 <sup>th</sup> meeting of the BIMSTEC Sub-Group on AML and Combating TF	Nepal
December	BIMSTEC Conference on Regional Cyber Security Cooperation	India
	Workshop on International Cooperation in Criminal and Financial Investigations of Corruption Crimes (1762)	India
	EAG/APG Typologies and Capacity Building Workshop	Russia
	Combating Money Laundering – Course Level II	Germany
	Egmont Group's Securing an FIU Train-the Trainer Course	Taiwan
	Workshop for South and South East Asian Countries on Countering the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction by UNODC and INTERPOL	Singapore
BIMSTEC Conference in Regional Cyber Security Cooperation	India	

**Table 4.2**

**Local Training Programmes / Workshops / Events Participated by Officers of FIU-Sri Lanka during the Year 2018**

Month	Training/Workshop/Event	Venue
January	“Non- Bank Financial Institutions Supervision” in collaboration with the Reserve Bank Staff College	Center for Banking Studies (CBS), Rajagiriya
	Foreign Exchange Regulations	CBS, Rajagiriya
February	Afghanistan-Sri Lanka Information Exchange Tour on AML/CFT	Hilton, Colombo
March	VISA Security Forum	Shangri-la Hotel, Colombo
May	Workshop of Finance Fraud	CBS, Rajagiriya
	Lecture on Annual Report	CBS, Rajagiriya
June	Code of Ethics to Central Bankers	CBS, Rajagiriya
	Research in Economics	CBS, Rajagiriya
July	Foreign Exchange Regulations for Financial Institutions	CBS, Rajagiriya
August	CIMA Business Leaders’ Summit 2018	Chartered Institute of Management Accountants
	Bankers’ Evening Forum: Blockchain & Cryptocurrency	Bank of Ceylon, Colombo
September	Code of Ethics to Central Bankers	CBS, Rajagiriya
	Certificate Programme in Forensic Accounting and Financial Frauds	Institute of Certified Management Accountants of Sri Lanka (CMA)
October	Workshop on Cyber Security	CBS, Rajagiriya
	Monetary Policy and Monetary Operations	CBS, Rajagiriya
	Security Features in Genuine Foreign Currency Notes & Identification of Forged Notes	CBS, Rajagiriya
December	Targeted Financial Sanctions Workshop	CBS, Rajagiriya

#### **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, from time to time, during awareness programmes conducted 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 electronic reports as prescribed in the FTRA without any interruption. Further, the FIU-Sri Lanka has taken steps to shift to the goAML system to increase analyses capabilities and capacity of the FIU-Sri Lanka.



### **4.3 Anti-Money Laundering and Countering the Financing of Terrorism National Coordinating Committee (NCC)**

The NCC provides guidance and facilitates the policy matters of the FIU-Sri Lanka. 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. In 2018, the Cabinet of Ministers approved the expansion of the representation of the NCC with the inclusion of the Commissioner-General of Inland Revenue, the Commissioner-General of the Department of Excise, Director General of the Commission to Investigate Allegation of Bribery or Corruption, Secretary to the Ministry of Defence and Secretary to the Ministry of National Policies and Economic Affairs as new members to the AML/CFT National Coordinating Committee.

## AWARENESS PROGRAMMES

With the purpose of ensuring that RIs are conversant with the new guidelines and circulars issued in relation to the AML/CFT/PF-WMD regime of Sri Lanka and to improve the effectiveness in identifying and reporting STRs, the FIU-Sri Lanka conducted a number of local training programmes, workshops and awareness programmes during the year 2018 throughout the island.

Several sector-specific awareness programmes were organized by the FIU-Sri Lanka in order to enhance the knowledge of DNFBPs on AML/CFT compliance obligations. Further, the FIU-Sri Lanka facilitated seminars in collaboration with other agencies and stakeholders with the view to enhancing their capacity and to ensure better compliance by providing resource persons.

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

The FIU-Sri Lanka conducted 61 workshops and seminars for 3,412 participants represented from RIs and LEAs during 2018, covering subject areas such as risk-based approach, beneficial ownership, and customer identification, PF-WMD, compliance obligations, reporting requirements and identification of suspicious transactions. Details of these programmes are given in Table 5.1

**Table 5.1**

**Local Training Programmes / Workshops / Awareness Programmes conducted by Officers of FIU-Sri Lanka during the Year 2018**

Training/Workshop/ Awareness programmes	Stakeholder	Venue	No. of participants
Session on risk management for banks	Janata Bank- Bangladesh	CBS, Rajagiriya	15
Awareness programme on obligations of CDD under AML/CFT measures to be taken in terms of FTRA	Members of the Sri Lanka Gem and Jewellery Association and Sri Lanka Jewellers Association	CBSL	27
Best practices for bank tellers	NDB Bank	CBS, Rajagiriya	23
KYC and ML for NBFIs	Officers of LFCs	Excel World	88

Role of the FIU in combating drug related organized crime and crime related to internet trafficking	National Dangerous Drugs Control Board, Sri Lanka Customs, Sri Lanka Police (CID, TID, PNB)	National Dangerous Drugs Control Board	15
Securities and Exchange Commission: Continuous Development Programme - Module on AML/CFT	Securities and Exchange Commission of Sri Lanka, Colombo Stock Exchange, Registered Investment Advisors	Securities and Exchange Commission of Sri Lanka	95
Best practices for bank tellers	Tellers of licensed FIs	CBS, Rajagiriya	70
Workshop for CEOs and Compliance Officers of the real estate sector	Members of the Condominium Developers Association and appointed Compliance Officers	Chamber of Commerce	17
Training session on Risk Based Approach	Compliance Officers of securities firms	Securities and Exchange Commission of Sri Lanka	80
Awareness programme on Sri Lanka's AML and CFT Regime	Apprentices from the Attorney-at-Law final examination in April, 2017	Sri Lanka Law College	256
Seminar on AML/CFT	Police Officers in Trincomalee District	Trincomalee	100
Training session on AML/CFT compliance obligations	Compliance Officers of gem and jewellery and real estate sector	CBSL	17
Awareness programme on AML/CFT compliance obligations	Leading real estate sector representatives	FIU	6
Responsibilities under the FTRA	Professional Accountants, Company Secretaries, Practicing members of CA	The Institute of Chartered Accountants in Sri Lanka	220
Awareness programme on AML	Branch Second Officers-Sanasa Development Bank	Sanasa Development Bank, Battaramulla	54
Awareness programme on AML	Branch Second Officers-Sanasa Development Bank	Sanasa Development Bank, Battaramulla	51
Awareness Programme on AML/CFT	DNFBP sectors	Chamber of Commerce	54
Awareness programme on AML	Tellers - Sanasa Development Bank	Sanasa Development Bank, Battaramulla	45
Awareness programme on AML	Tellers- Sanasa Development Bank	Sanasa Development Bank, Battaramulla	48

Awareness programme on AML	CEOs of LCBs and LSBs	CBSL	68
Training session on AML/CFT compliance obligations	Compliance Officers of real estate sector	CBSL	23
Training session on AML/CFT compliance obligations	Compliance Officers of gem and jewellery sector	CBSL	29
Awareness programme on LankaFIN system	SBs and LFCs	CBSL	48
FIs obligations under FTRA with special attention to implementation of UNSCRs, Risk Based Approach, STR Reporting and enforcement actions	Sampath Bank	Sampath Bank – Head Office	15
Training session on AML/CFT compliance obligations	Compliance Officers of Gem and Jewellery and Real Estate sector	CBSL	12
Awareness session on beneficial ownership	Monetary Board	CBSL	10
Awareness programme on AML/CFT/CPF	Softlogic Finance	CBS	60
Awareness programme on PF-WMD	Compliance Officers of LCBs and LSBs	CBSL	90
Training session on CDD requirements and STRs	Staff of the Casino Marina	Casino Marina, Colombo 03	12
Training session on CDD requirements and STRs	Senior Management, Branch Managers and Hotel outlet Managers of Sifani Jewellers	Sifani Jewellers	11
Awareness session on AML/CFT compliance obligations	Senior partners of leading audit firms in Sri Lanka	Central Bank of Sri Lanka	12
Meeting on AML/CFT obligations to lawyers and notaries	President of the Bar Association of Sri Lanka	Bar Association of Sri Lanka	6
LankaFIN demonstration and PF-WMD awareness	Compliance Officers of Insurance Companies	CBSL	48
Awareness programme on beneficial ownership and PF-WMD	Compliance Officers of RFC, SB and MVTS sectors	CBSL	100
Awareness programme on beneficial ownership	Compliance Officers of LCB and LSB	CBSL	67
Training Session on CDD requirements and STRs	Staff of the Bellagio (Pvt) Ltd and Bally's (Pvt) Ltd	CBSL	11
Meeting with the Condominium Management Authority	Chairman of the Condominium Management Authority	Condominium Management Authority	4
Training Session on how to develop AML/CFT policy	Representatives from Indocean Developers Pvt Ltd	FIU	6
Best practices for bank tellers	NDB Bank PLC	CBS	35

AML/CFT regional workshop	Branch officials of FIs in Kandy and Matale Districts	Regional Office Matale	130
Awareness programme on AML/CFT	Officers of Singer Finance PLC	Singer Finance PLC	22
Awareness on AML/CFT compliance obligations for DNFBPs	Real Estate Agents, Gem and Jewellery Dealers, Lawyers, Accountants and TCSPs in North Central Province	Regional Office Anuradhapura	100
Regional AML/CFT awareness programme	LCBs, LSBs, RFCs, SBs, ICs	Regional Head Office of People's Bank, Matara	97
Special awareness programme on key AML/CFT measures including identification of beneficial ownership	CEOs and the Compliance Officers of Real Estate Sector, Accountants and TCSPs	CBSL	81
Practical training programme for legal apprentices - September 2018	Apprentices of Sri Lanka Law College	Sri Lanka Law College	250
Training session on AML/CFT compliance obligations	Compliance Officers of Gem and Jewellery and Real Estate	CBSL	10
Awareness session on AML/CFT	Participants of the certificate programme on "Forensic Accounting and Financial Frauds" by CMA jointly with Gujarat Forensic Sciences University	Renuka City Hotel, Colombo	50
Awareness of CTR guideline	LBs	CBSL	100
Awareness session on AML/CFT and role of supervisors	Officers appointed by the NGJA for joint supervision and legal officers of NGJA	CBSL	4
AML/CFT obligations of FIs	Branch Officials of FIs - Anuradhapura District	CBSL Regional Office - Anuradhapura	155
Awareness on AML/CFT	Director Board of Dialog Axiata	Dialog Axiata	15
Training session on customer risk profiling	Compliance officers of FIs	CBSL	36
New payment methods and AML regulatory expectations	2nd Correspondent Banking Academy hosted by Standard Chartered Bank	Kingsbury Hotel	80
Awareness on AML/CFT obligations of FIs	Branch officials of FIs - Trincomalee District	Hotel Green Garden	150
Awareness session on AML/CFT	Gem and Jewellery Dealers in Central Province	CBSL Regional Office - Anuradhapura	15
Awareness session AML/CFT obligations to Accountants	Compliance officers of audit firms	CBSL	12

Awareness on AML/CFT for FIs	FIs	CBS	105
Awareness on AML/CFT	Senior Management	Dialog Axiata	45
Awareness on CPF-WMD	Stakeholders of CPF-WMD Implementation, Regulators, Supervisors, Banks	CBS	35
Awareness on CPF-WMD	Stakeholders of CPF-WMD Implementation, Regulators, Supervisors, Banks	CBS	15
Awareness on CPF-WMD	Stakeholders CPF-WMD Implementation, Regulators, Supervisors, Banks	CBS	70

The FIU-Sri Lanka conducted a knowledge sharing workshop on request made by the Janata Bank - Bangladesh, on 'Risk Management for banks' for 15 representatives of Janata Bank at the Centre for Banking Studies, Sri Lanka. The workshop was targeted at enhancing the knowledge of officers of Janata Bank - Bangladesh in order to improve the efficiency of their services in AML/CFT.

## 5.2 Demand Driven Awareness Programmes

The FIU-Sri Lanka, in its continuous efforts to increase awareness among the RIs and stakeholders to be vigilant on the new ML/TF/PF trends, conducted a greater number of programmes compared to last year covering a wide range of participants, in different geographical areas of the country. Details of the depth and the breadth of the awareness programmes that were conducted are given in Table 5.2 below.

**Table 5.2**  
**Depth and Breadth of Awareness Programmes Conducted during 2014-2018**

Year	Number of Awareness Programmes	Number of Participants	Districts Covered
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
2018	61	3,412	Colombo, Trincomalee, Matale, Anuradhapura, Matara



## TYPOLOGY ANALYSIS AND CASE STUDIES

### Typology 1: Identity Theft and Scams

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. Sri Lanka has observed a rising trend in new forms of scams such as lottery scams, scam baiting, email spoofing, phishing and request for help. These scams have emerged using social media, text messages, emails, online advertising websites, and instant messaging apps.

An emerging trend of identity theft in relation to scams have been identified by the FIU. Majority of the fraudsters have started to use a victim's name and national identity card to commit these scams. They are able to gain these details in the following methods:

1. These victims have previously lost their wallets along with their identification documents.
2. Via methods of social engineering including phishing through electronic media, text messaging and voice calls.

The FIU-Sri Lanka received two Suspicious Transaction Reports from two commercial banks operating in Sri Lanka on an individual, Mr. K for receiving frequent third-party deposits. Both banks had received complaints by third parties claiming Mr. K's accounts were used to collect cash as a payment to sell a product via a classified advertisements website operating in Sri Lanka.

One of the aforementioned banks had received a complaint from Mr. K stating that his National Identity Card (NIC), had been used to open accounts by a fraudster/ fraudsters. Mr. K had lost his wallet along with his NIC and he had made a Police Complaint and obtained a new NIC from the Department for Registration of Persons but he got visits from Police about the fraudulent activities carried out using his old NIC. The FIU-Sri Lanka has handed over the case to the Criminal Investigation Department for investigation.

### Typology 2: E-mail Scam

Fraudulent wire transfers initiated by fraudulent email instructions has increased in the recent past. This method of fraudulent email instructions sent via compromised emails is



identified to be one of the main methods that is used to initiate fraudulent wire transfers around the world.

The steps involved in such a fraudulent transaction can be listed as follows;

1. The hackers will hack the email account to get access.
2. Hackers will monitor the inbox until they receive the wire transfer instructions and the hacker will hide it from the intended recipient i.e., the owner of the email account (move the email to a different folder, forward it to a different email and erase the trace of the receipt of the email, etc.)
3. Hacker will then change the wire transfer information and include the account information of their own and send the message to the intended recipient for the funds to be wired

The hackers use various methods to get access to the email accounts. Among the various methods used by the hackers, the following methods are worth analysing, to gain an understanding of such methods.

### **Phishing**

This is one of the main methods used to get login information. The hackers will send out links in emails to intended targets and ask the user to login to their email accounts using their credentials using the link.

Ex: "A" has an email account with T-mail that he uses to conduct business transactions. He will receive an email from a hacker asking to log into his T-mail account to confirm his address, telephone number, etc. The link will take "A" to a login page that is identical to T-mail login page. The unsuspecting "A" will try to login using his credentials to T-mail account and the hacker will record these credentials to hack the Mr. A's T-mail account.

### **Malware**

This refers to any software that is designed to cause harm to a computer, server, client or computer network i.e., malicious software. Types of malware can include computer viruses, worms, Trojan horses and spyware.

A person can receive malware via email, fake websites and text messages, etc. Once a user clicks on these links the software will install in the computer and start to record every activity conducted by the user and transmit them to the hacker and this will include email login information of the user.

## Preventative Measures:

1. Avoid using email services which has a past record of compromise
2. Change your email login credentials frequently (Don't use same passwords, similar passwords, only letter or number passwords) to something hard to guess.
3. Use commercial Antivirus software for protection
4. Be vigilant of requests for approval or to verify transactions you did not initiate
5. Implement IT and Financial security procedures
6. Use mechanisms like forwarding an email when you want to reply to an email. When you use the forwarding option, you have to re-type the email address you intend to send it to, unlike in reply
7. Use multi-factor authentication (ex: when you log in to your email, apart from the password, you have to enter a one-time password that is sent to your mobile number)
8. "Know the counterparties you deal with", so you can detect anything that is not normal in the emails they send.
9. If you see changes in payment instructions, discuss it with the counterparty not only via email but using other communication methods as well. It is a good practice to always assume that your email is hacked and validate information on all occasions.
10. If you are not expecting an attachment, verify it before opening.
11. Learn to suspect the links or attachment received via email. If you want to go to a particular website, type it yourself and find it, rather than relying on links sent.
12. Get educated on proper IT practices, to keep yourself from being a victim of such a crime.

## Typology 3: Typologies related to National Identity Card

Several cases of using the National Identity Card (NIC) fraudulently are observed. It is observed that most of these cases are due to either weak security features of the National Identity Card or shortcomings of the CDD process in institutions.

As observed, major types of fraudulent use of NICs are

1. Using someone else's NIC
2. Using a fake / forged NIC

Using someone else's NIC can be in several ways:

1. Using a stolen or lost NIC
2. Using a family member's NIC
3. Using a deceased person's NIC

It is observed that criminals use someone else's NIC to open accounts either to be used for collecting scam proceedings or for obtaining loans. Sri Lankan NICs are not updated. Hence, it is not uncommon for the NIC to carry a photo taken 20 - 30 years ago. Hence, it is not possible to visually verify the person using the photograph. When using a family member's NIC, this situation is worsened due to the physical similarities of family members.

Using fake / forged NICs can be in several ways:

1. Creating a fake NIC
2. Altering a genuine NIC
3. Using a fake NIC to get another genuine identity document such as passport or driving license

Several occasions of the same person using a number of fake NICs with different numbers, yet with the original name are observed. This is mainly done for obtaining credit facilities as a way of hiding bad credit history records in CRIB.

Instances of altering a genuine NIC is mostly done by either changing one or more digits of the NIC or inserting a new photo. As the base NIC used for altering is a genuine NIC, detecting the alteration can be challenging.

Criminals using a fake NIC to obtain a genuine passport or a driving license is observed as well. As the resulting passport or driving license is genuine, it is nearly impossible to detect such instances by an Institution. Irregularities and shortcomings in the process of issuing passports and driving licenses seem to be the reason behind this.

The following is suggested as remedies for observed fraudulent practices:

1. Strengthening the security features of the NIC

The New Smart NIC is expected to introduce new security features. But a considerable amount of old NICs are in use. Hence, old NICs which are in use must be replaced in an orderly manner.

2. Providing a procedure to check the authenticity of NICs

An online facility for banks and other financial institutions to verify the authenticity of a NIC needs to be introduced. This facility must include a database of lost and stolen NICs as well.

3. Interconnecting different government institutions that issue identity documents

The Department of Immigration and Emigration and the Department of Registrar of Motor Vehicles needs to be interconnected. Accordingly, prior to issuing a passport or a driving license, the authenticity of the submitted NIC can be cross checked.

4. Strengthening CDD procedures in Institutions

It is observed that many of the cases of using someone else's NIC could have been prevented if financial institutions were vigilant enough or had robust internal controls. Hence a proper CDD procedure is of high importance.



## IT INFRASTRUCTURE FOR REPORTING

### 7.1 Introduction

Under Section 6 of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), an institution shall report to the FIU-Sri Lanka any cash transaction or an electronic funds transfer of a customer, exceeding a threshold prescribed by the Minister, by Order published in the Gazette, in such form, manner, and within such period prescribed by the FIU-Sri Lanka. The threshold amount as prescribed by the Extraordinary Gazette No. 1555/9 dated June 25, 2008 is Rupees one million or its equivalent in any foreign currency.

Since September 15, 2006, Licensed Commercial Banks, Licensed Specialized Banks and Licensed Finance Companies reported Cash Transaction Reports (CTRs), Electronic Fund Transfers (EFTs) and Suspicious Transaction Reports (STRs) to the FIU-Sri Lanka as printed paper copies, Compact Disks (CDs) and Floppy Disks. During the 2007-2009 period, the Central Bank's Information Technology Department (ITD) initiated a project with the FIU-Sri Lanka to develop a web-based system for the Reporting Entities to report the CTRs, EFTs and STRs online to the FIU-Sri Lanka. As a result, the "LankaFIN" web-based reporting system was developed in 2009, where each Reporting Entity was given a user account in the system to log in and submit their CTR, EFT and STR files to the FIU-Sri Lanka through LankaFIN. The FIU-Sri Lanka mandated the reporting through LankaFIN with effect from July 1, 2009 and issued instructions on the format of the reports and procedure for submitting the same. Since then, Reporting Entities have been submitting their CTRs, EFTs and STRs to the FIU-Sri Lanka through LankaFIN. The FIU-Sri Lanka's Financial Data Management Division (FDMD) is overseeing the administration and data reception of the LankaFIN web-based system, while the Central Bank's ITD is in charge of the technical maintenance of the system.

The adoption of an online reporting mechanism in 2009 replacing the printed paper copies and other low-level electronic mediums used for 3 years, enhanced the reporting procedure for Reporting Entities. It also enhanced the data collection, storing and analysis procedure for the FIU-Sri Lanka.

At the end of the year 2018, there were 26 Licensed Commercial Banks (LCBs), 7 Licensed Specialized Banks (LSBs), 43 Licensed Finance Companies (LFCs), 26 Insurance Companies (ICs), 33 Stock Brokers (SBs) and 3 Money or Value Transfer Service (MVTs) providers reporting to the LankaFIN system.

## 7.2 LankaFIN Web-Based Reporting System

Since the commencement of receiving CTRs, EFTs and STRs from Reporting Entities in 2006, the FIU-Sri Lanka worked with the ITD to develop a system that would facilitate fast and secure report submission by the Reporting Entities, and provide efficient and secure data collection, storing and analysing facilities to the FIU-Sri Lanka. In the meantime, the United Nations Office on Drugs and Crime (UNODC) had developed an online reporting and analysis system, i.e., goAML, specifically for the FIUs worldwide. The ITD and FIU-Sri Lanka analysed the functionality of goAML and developed the LankaFIN web-based system in 2008 which had the basic functionality of collecting the CTRs, EFTs and STRs from Reporting Entities online, and analysing the data in the reports.

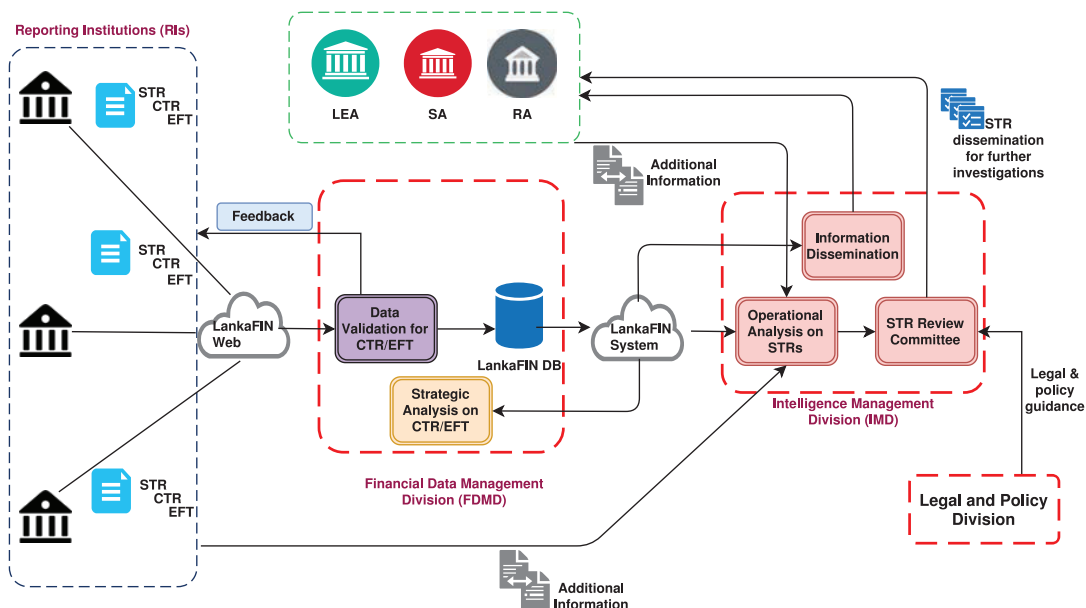
The core functions of the LankaFIN system include;

- (a) Receipt of mandatory threshold reports (CTRs and EFTs),
- (b) Receipt of STRs,
- (c) STR case management,
- (d) Statistical reporting,
- (e) Information management of Compliance Officers and Reporting Entities

Figure 7.1 below illustrates the information reporting, analyzing and dissemination mechanism in the FIU-Sri Lanka, and the role of LankaFIN within this mechanism. It should be emphasized that the LankaFIN system was designed to be used more as a reporting system, than an analyzing system.

Figure 7.1

### Reporting, Analyzing and Dissemination of Information in the FIU-Sri Lanka



Source: Financial Intelligence Unit-Sri Lanka

### 7.2.1 Reporting through LankaFIN

LankaFIN went live on July 1, 2009 with the mandate by the FIU-Sri Lanka for the Reporting Entities to report CTRs, EFTs and STRs to the FIU-Sri Lanka through the system. At the same time, FIU-Sri Lanka issued instructions to the Reporting Entities on the form, manner and frequency of submission of the reports, as provided in Section 6 of the FTRA.

Each Reporting Entity has to register with LankaFIN by sending required documentation to the FIU-Sri Lanka. The FDMD creates a user account for the Reporting Entity, and provides login details to the Compliance Officer and Assistant Compliance Officers. After login, the users can submit CTRs, EFTs and STRs to the FIU-Sri Lanka. By the end of 2018, the total number of LankaFIN users from Reporting Entities grew to 287 from previous year's 272 (View Table 7.1 below).

**Table 7.1**

**LankaFIN Users as at End of Year 2018**

<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	26	48	74
Licensed Specialized Banks	7	12	19
Licensed Finance Companies	43	51	94
Licensed Insurance Companies	26	21	47
Stock Brokers	33	14	47
Money or Value Transfer Service Providers	3	3	6
<b>Total</b>	<b>138</b>	<b>149</b>	<b>287</b>

### 7.2.2 Submitting CTRs and EFTs through LankaFIN

The format of CTR and EFT files are of type 'XML', which is a file type commonly used in web-based data transfer systems. Reporting Entities should prepare XML files for the CTRs and EFTs as per the format (XML Schema) and guidelines provided by the FIU-Sri Lanka, and submit to the FIU-Sri Lanka through LankaFIN system. LCBs, LSBs and LFCs are required to submit CTR and EFT files fortnightly, while ICs, SBs and MVTs providers are required to report monthly.

Once the reports are submitted by the Reporting Entities, the Financial Data Management Division (FDMD) validates the reports for the accuracy of both the structure of the report (XML schema validation), and content of the data. If the reports are not in the required format or the contents are invalid, the reports will be rejected by the FDMD. The Reporting Entity



receives a message about the rejection and should rectify the issues and resubmit the reports immediately. When the reports are in correct order, the FDMD accepts the reports and the content in the reports are then uploaded to the LankaFIN database. These data are then used in the analysis process of the Intelligence Management Division (IMD) investigations. Currently, the reports are validated by the FDMD, and feedback is provided to the Reporting Entities about the reason for rejection, if any. This helps the Reporting Entities to rectify the issues in their CTR and EFT files, and re-submit accurate details to the FIU-Sri Lanka. Furthermore, the FDMD conducts awareness programmes and one-on-one meetings on reporting requirements, which facilitate to improve the quality of report submission.

### **7.2.3 Submission of STRs through LankaFIN**

Under Section 7 of the FTRA, every institution shall report any suspicious transaction or attempted transaction to the FIU-Sri Lanka within 2 working days, which should be followed up in writing within 24 hours. The FIU-Sri Lanka mandated the Reporting Entities to submit STRs to the FIU-Sri Lanka using the LankaFIN web-based system from July 1, 2009. Since then, Reporting Entities have been submitting STRs to the FIU-Sri Lanka, by filling in the details to the LankaFIN web interface (as opposed to creating XML files in the case of CTR and EFT files). As soon as an STR is submitted to LankaFIN, the system alerts the FIU-Sri Lanka users by email and the Intelligence Management Division (IMD) of the FIU-Sri Lanka attends to analysing the STR. Any additional information required from the Reporting Entity will be obtained through emails or fax, as and when necessary.

### **7.2.4 Analysis using LankaFIN**

There is limited analysis functionality built into the LankaFIN system, which is mainly used for the operational analysis (analysis of STRs) by the IMD. The transaction details and CDD details reported by the Reporting Entities are stored in the LankaFIN database, and can be retrieved to provide additional details about a person, entity or an account related to an STR being investigated. Because the LankaFIN database has transaction details reported by all Reporting Entities, it is relatively easy for the FIU-Sri Lanka to do link analysis of the transactions. This link analysis reveals other individuals, entities and accounts associated with a primary suspected case, which may not be apparent in the initial investigations.

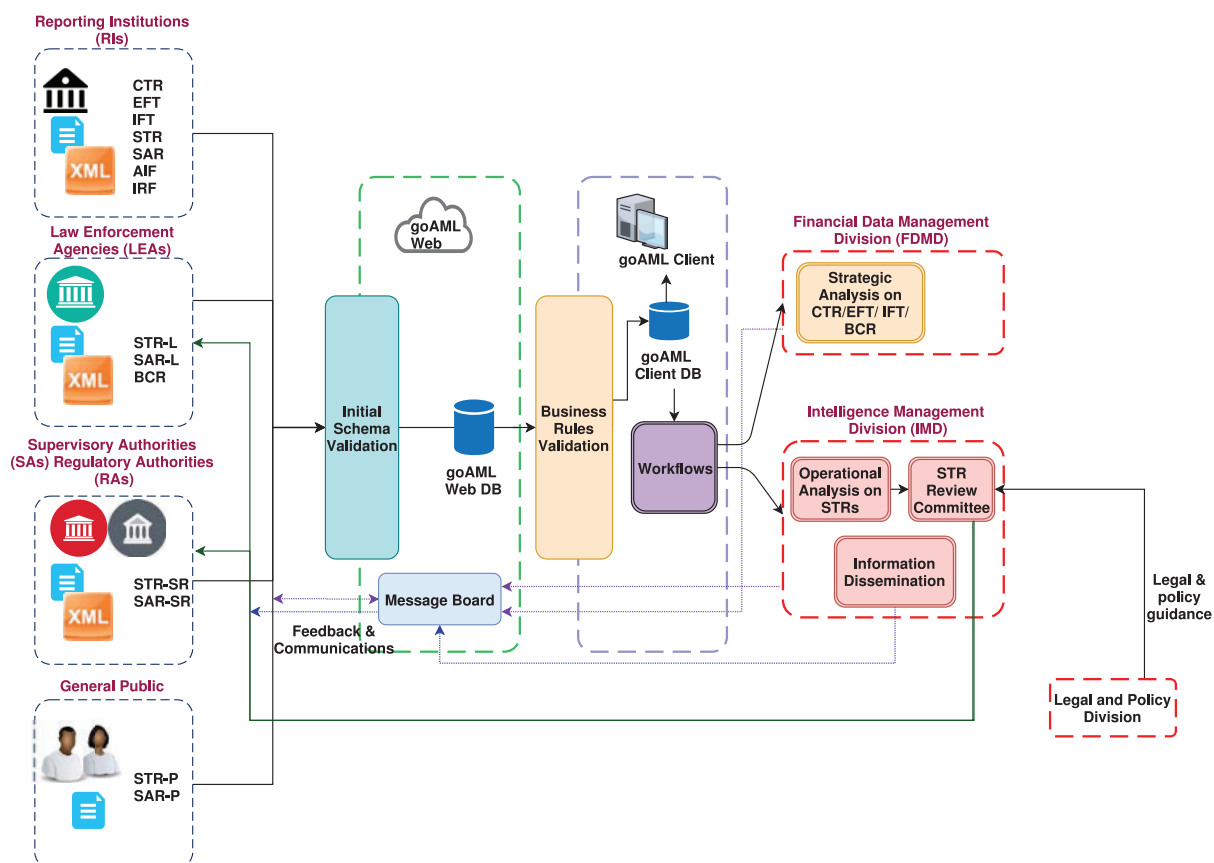
However, the analysis functions built into the LankaFIN system have not been updated since its inception in 2009. As a result, the analysis done by the LankaFIN system is limited to performing the link analysis as described above, whereas the stored data has potential to do much more effective operational analysis as well as strategic analysis. In 2015, the FIU-Sri Lanka initiated a programme to procure a suitable AML/CFT reporting and analyzing system. After extensive reviews and considerations, The FIU-Sri Lanka decided to procure the goAML system designed by the United Nations Office on Drugs and Crime (UNODC).

## 7.3 goAML Software System

The goAML software system is the UNODC's strategic response to financial crimes including money laundering and terrorist financing. The goAML software system has been developed by the Information Technology Service of UNODC in partnership with the UNODC Global Programme against Money Laundering. It is a web and client-based, integrated database and intelligent analysis system intended for use by FIUs worldwide. The goAML software system has a similar reporting mechanism to the LankaFIN for the Reporting Entities to submit reports to the FIU-Sri Lanka, which makes it relatively easy for them to migrate from LankaFIN to the goAML. The report structure (XML schema) of goAML software system is quite comprehensive and it requires Reporting Entities to include more details about a transaction in a more structured manner, making the data available in the goAML database more analytical friendly than LankaFIN. However, the same comprehensiveness and structuring of CTR and EFT files make the reporting process more challenging for the Reporting Entities, as well as for the FIU-Sri Lanka to implement the system effectively.

Figure 7.2

### Functionality of goAML Software System



Source: Financial Intelligence Unit-Sri Lanka

The goAML software system is available in two releases, namely, Standard Edition (SE) and Enterprise Edition (EE). The FIU-Sri Lanka was able to complete the procurement process and obtain the goAML Standard Edition from the UNODC on August 15, 2018 with the

signing of Service Level Agreement (SLA) with the UNODC. Considering the complexity of the goAML software system, readiness of Reporting Entities, and resources available at the FIU-Sri Lanka, a two-year implementation plan was developed for the goAML software system to go live with the LCBs and LSBs in mid-2020.

#### **7.4 Access to Other Sources of Information**

The FATF Recommendation 29 requires FIUs to have access to a wide range of information sources for a better analysis of STRs. Furthermore, Section 15 (1) (r) of the FTRA provides for the FIU-Sri Lanka to enter into any agreement with any domestic government institution or agency regarding the exchange of information. In these connections, the FIU-Sri Lanka has entered into MOUs with domestic institutions such as Sri Lanka Customs, Inland Revenue Department, Department of Immigration and Emigration, Department for Registration of Persons, Sri Lanka Police and Department of Motor Traffic to exchange/receive required information to facilitate the analysis on ML/TF. On the practical implementation of information sharing, the FIU-Sri Lanka has established online links with Department of Immigration and Emigration, Sri Lanka Customs, and Department for Registration of Persons. Through these links, The FIU-Sri Lanka can obtain information online with regard to border currency declarations, import/export proceedings, and NIC details. Furthermore, FIU-Sri Lanka initiated a programme to establish an online link with the Interpol database through the National Central Bureau (NCB), which is located within the CID. The FIU-Sri Lanka expects to establish this link during 2019.

#### **7.5 Online Name Screening System**

During 2018, the FIU-Sri Lanka took steps to procure an online name screening system to check for any negative news available in online sources with regard to individuals and entities in concern. Evaluation of online name screening systems was completed in the last quarter of 2018 and a suitable name screening system was procured in the first quarter of 2019.

#### **7.6 FIU-Sri Lanka Website**

The official website of the FIU-Sri Lanka was launched on January 01, 2014 and since then it has become a primary source of information for both domestic and international stakeholders on the FIU-Sri Lanka operations and related activities.

Visit; <http://fiusrilanka.gov.lk>

The website broadly provides information on recent events, new legislation and amendments, circulars, publications, notices, and updates on the United Nations sanctions, etc.

A list of documents made available on the website during the year 2018 is given below:

- Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018. - Extraordinary Gazette No 2053/20 dated January 10 of 2018
- Guidelines on ML & TF Risk Management for Financial Institutions, No. 01 of 2018 dated January 11, 2018
- Guidelines on AML & CTF Compliance Obligations for Casinos and Gambling Houses, No. 02 of 2018 dated April 18, 2018
- Guidelines on AML & CTF Compliance Obligations for Dealers in Real Estate and Precious Metals, Precious and Semi-Precious Stones, No. 03 of 2018 dated April 18, 2018
- Guidelines for Financial Institutions on Identification of Beneficial Ownership, No. 04 of 2018 dated April 19, 2018
- The Procedure of Conducting Risk-Based Onsite Examinations, Circular No. 01 of 2018 dated April 26, 2018
- Guideline, No. 5 of 2018 on Implementing United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017 dated May 18, 2018
- Guidelines for Financial Institutions on Suspicious Transactions Reporting, No. 06 of 2018 dated August 06, 2018
- Guidelines, No. 7 of 2018 on Implementing United Nations (Sanctions in relation to Iran) Regulations No. 1 of 2018 dated September 10, 2018
- Amendments to the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 - Extraordinary Gazette No 2092/02 dated October 08 of 2018
- The FATF public statements on high risk and non-co-operative jurisdictions on February 23, May 31, June 29 and October 19, 2018
- Update notifications for the UN Sanctions lists pursuant to
  - i. UNSCR 1267, 1988, 1989, 2253 and subsequent resolutions on Al-Qaeda, ISIL and Taliban terrorists
  - ii. UNSCR 1718 and subsequent resolutions on North Korea nuclear proliferators
- 2017 Annual Report of the FIU-Sri Lanka
- Press releases/notices by the FIU-Sri Lanka on the following
  - i. Notice to the Customers of Designated Non-Finance Businesses and Professions - February 06, 2018

- ii. Sri Lanka listing in the Financial Action Task Force and measures initiated by Sri Lanka to improve Global AML/CFT Standards - February 15, 2018
- iii. Important Notice to Designated Non-Finance Businesses and Professions - April 15, 2018
- iv. The FIU-Sri Lanka enters into an MOU with Securities and Exchange Commission of Sri Lanka - June 26, 2018
- v. Notice to the Customers of Financial Institutions - July 29, 2018
- vi. The FIU-Sri Lanka enters into an MOU with Insurance Regulatory Commission of Sri Lanka - August 27, 2018
- vii. The FIU-Sri Lanka enters into an MOU with Department of Motor Traffic - November 13, 2018
- viii. Notice to Designated Non-Finance Businesses and Professions (Real Estate/ Gem and Jewellery) - November 16, 2018
- ix. Notice on Scams - November 26, 2018
- x. Special Notice to Real Estate and Gem and Jewellery Businesses - December 14/16, 2018

## 7.7 Future Challenges

The main challenge for the FIU-Sri Lanka in 2019 with regard to the IT infrastructure for reporting is switching the CTR/EFT/STR reporting of LCBs and LSBs from the LankaFIN system to the goAML software system. Even though the two systems have similar functionality in terms of the underlying technology, the goAML software system is far more comprehensive and requires additional data to be reported. As LCBs and LSBs have more resources and experience, the FIU-Sri Lanka decided to divide the implementation plan into phases focusing on the LCBs and LSBs in the first phase. Nevertheless, reporting through the goAML software system will be a challenge for the LCBs and LSBs, as they will need to make changes to their reporting systems to collect additional data from their core systems and create reports. The FIU-Sri Lanka will work closely with the LCBs and LSBs throughout the implementation process to provide necessary guidance and assistance in making those changes. In addition to that, the FIU-Sri Lanka faces the challenge of configuring the goAML software system at the FIU-Sri Lanka and design workflows in line with goAML's functionality. The UNODC will provide assistance to the FIU-Sri Lanka in this process by way of training missions (visits) and continuous online support.

Once the reporting by LCBs and LSBs is successfully implemented, the FIU-Sri Lanka expects to focus on the inclusion of other Reporting Entities (LFCs, ICs, SBs and MVTs providers)

in goAML reporting. The experience gained by the implementation of LCB/LSB reporting will be useful in this process. At the same time, the FIU-Sri Lanka expects to use the goAML software system to share information with stakeholders like supervisory/regulatory bodies, LEAs and foreign counterparts. Depending on the outcome of the above implementations, the FIU-Sri Lanka will consider including DNFBPs for goAML reporting. However, considering the complexity, informality and vast spread of the DNFBP sector, this will be a huge challenge for the FIU-Sri Lanka.



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

### 8.1 APG Mutual Evaluation

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

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

- **Technical Compliance (TC):** Assesses the status of the relevance of legal and institutional framework of the country and the powers and procedures of the competent authorities to comply with the FATF 40 Recommendations.
- **Effectiveness:** Assesses 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.

#### 8.1.1 APG Mutual Evaluation on Sri Lanka

Sri Lanka had its first ME by the APG in 2006, soon after the establishment of the FIU-Sri Lanka in March 2006. The second ME on Sri Lanka was carried out in 2014/15 by a panel of assessors representing the FIUs of Australia, Bhutan, Hong Kong, Malaysia, Singapore and the APG Secretariat. The Mutual Evaluation Report (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.

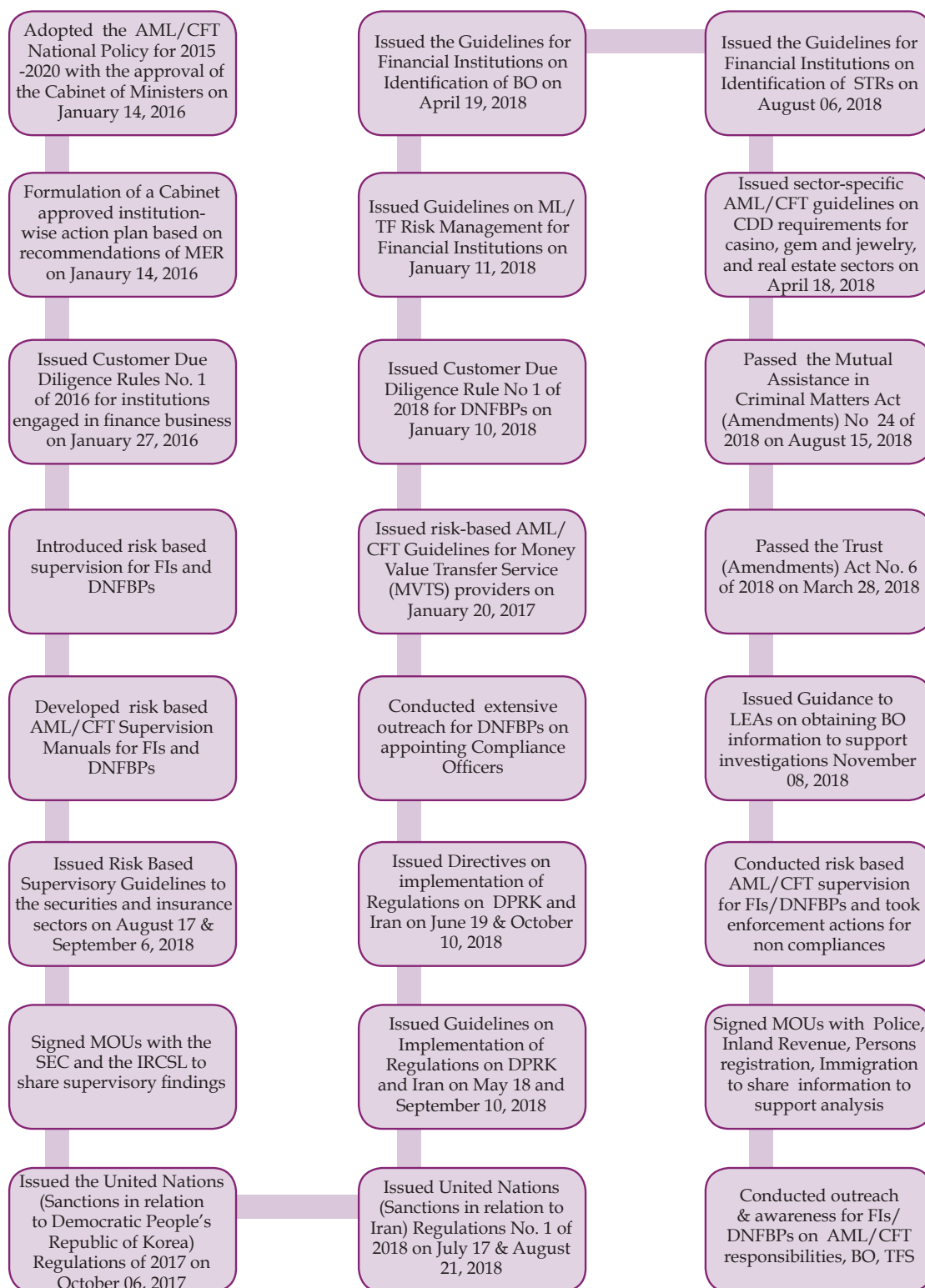
Sri Lanka was rated compliant (C) or largely compliant (LC) for 12 Recommendations out of 40 Recommendations on technical compliance and substantially and moderately effective in two immediate outcomes out of 11 immediate outcomes. Based on the above compliance level, Sri Lanka was placed under the “Expedited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



## 8.1.2 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 compliance with the FATF standards, as indicated in Figure 8.1 below.

**Figure 8.1**  
**Major Actions Taken during 2016 -2018**



### 8.1.3 Upgrading the Ratings due to the Progress made

Sri Lanka submitted three follow-up reports to the APG in January each year since 2016. These progress reports were presented to the APG Annual Plenaries held in respective years and there was a consensus among members that Sri Lanka had made considerable progress on TC in relation to several recommendations initially rated as non-compliant or partially compliant. Accordingly, Sri Lanka's AML/CFT compliance level was upgraded subsequent to membership approval as follows.

**Table 8.1**  
**Technical Compliance After the Re-ratings received**

Level of Compliance	At the adoption of the MER in July 2015	Re-rating after progress reported in January 2016	Re-rating after progress reported in January 2018
Compliant (C)	5	5	6
Largely Compliant (LC)	7	16	21
Partially Compliant (PC)	16	13	8
Non-Compliant (NC)	12	6	5
Total	40	40	40

The progress achieved in 2016 enabled Sri Lanka to progress to the APG 'Enhanced Follow-up Process' from 'Expedited Enhanced Follow-up Process'.

## 8.2 A Review on Sri Lanka by the International Cooperation Review Group (ICRG)

### 8.2.1 The ICRG Process

The FATF continuously identifies and reviews jurisdictions with strategic AML/CFT deficiencies that present a risk to the international financial system and closely monitors their progress through the International Co-operation Review Group (ICRG). The first ICRG process began in 2007 and was enhanced in 2009. It was further updated in 2015 (second ICRG process) 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 especially the ML/TF risks arising from the jurisdiction. Specifically, a jurisdiction will be reviewed when:

1. it does not participate in a FATF-styled regional body (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 coming to the attention of delegations/members; 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 the outcome of its mutual evaluation has a one-year observation period to work with the FSRB to address deficiencies before possible public identification and a formal review by the FATF. The FATF then prioritizes the review of countries that has a significant financial sector – 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 FATF plenary meetings.

### **8.2.2 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.

## 1. Improving Global AML/CFT Compliance: Ongoing Process Statement (Grey List)

This statement identifies 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 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.

## 2. FATF Public Statement

The FATF Public Statement identifies two groups of jurisdictions:

- a) 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 (**Dark Grey List**).
- b) 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 (**Black list**).

### 8.2.3 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 within the FATF or the relevant FSRB, through its normal follow-up process, to improve its AML/CFT regime.

## 8.3 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 billion as at 31.12.2015 (*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.

At the end of the observation period in October 2016, Sri Lanka was required to report the progress made towards increasing 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 required conducting face-to-face meetings with the AP-JG to discuss the progress made.

Sri Lanka provided three progress reports on actions taken to increase the effectiveness of all Immediate Outcomes, which were rated low or moderate in the MER on December 15, 2016, April 19, 2017 and August 15, 2017. Further, officials held a face-to-face meeting with the AP-JG in January, April and September 2017. The FATF deferred the decision on Sri Lanka

**Table 8.2**  
**Action plan for the FATF dated November 1, 2017**

<b>Recommendation / Immediate Outcome</b>	<b>Action Item</b>	<b>Timeline</b>
Recommendation 37	Pass amendments to MACMA to ensure that mutual legal assistance may be provided on the basis of reciprocity.	<b>September 2018</b>
Immediate Outcome 3: <i>Supervision</i>	Issue the CDD Rule for DNFBPs, issue any necessary guidance, and ensure implementation of this Rule has begun, by way of supervisory actions.	<b>May 2019</b>
	Enhance risk-based supervision and outreach to FIs, and high risk DNFBPs, including through prompt and dissuasive enforcement actions and sanctions, as appropriate. This equally applies to supervision and outreach to ensure the effective implementation of targeted financial sanctions.	<b>May 2019</b>
Immediate Outcome 5: <i>Legal persons &amp; arrangements</i>	Provide statistics or case studies to demonstrate that competent authorities can obtain beneficial ownership information in a timely manner.	<b>January 2019</b>
	Revise the Trust Ordinance and demonstrate that implementation has begun.	
Immediate Outcome 11: <i>Targeted Financial Sanctions (TFS)</i>	Establish a TFS regime to implement the relevant UNSCRs related to Iran, and demonstrate that implementation has begun. Also demonstrate that implementation has begun on the UN Regulation related to the DPRK.	<b>January 2019</b>

in two Plenaries held in February and June 2017 and based on the 3<sup>rd</sup> progress report and a face-to-face meeting, the ICRG working Group of the FATF decided that Sri Lanka has not made sufficient progress in several areas.

Accordingly, during October 2017 Plenary, the FATF decided to include Sri Lanka in its “Improving Global AML/CFT Compliance: On-going Process” a.k.a “Grey 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 as indicated in Table 8.2 above, to be implemented within the given timeframe. Further, Sri Lanka was required to regularly submit reports on the progress of implementation and hold face-to-face discussions with AP-JG members. The AP-JG was consisted of members representing Australia, Italy, Germany, UK, USA, APG, and FATF, while representatives from India and China acted as co-chairs.

Since the listing in November 2017, the FIU-Sri Lanka together with other stakeholders has taken a series of effective and tangible steps to implement the FATF Action Plan. Major actions taken by Sri Lanka are summarized in Figure 8.1. Sri Lanka reported the progress achieved and conducted face-to-face discussions with the AP-JG as indicated in Table 8.3 below.

**Table 8.3**  
**Progress reported to AP-JG**

	<b>Progress Reported</b>	<b>Face-to-Face discussion</b>
1 <sup>st</sup>	08.01.2018	16.01.2018
2 <sup>nd</sup>	19.04.2018	23.05.2018
3 <sup>rd</sup>	17.08.2018	11.09.2018
4 <sup>th</sup>	04.01.2019	13.01.2019

Acknowledging the actions taken by Sri Lanka in implementing the FATF action plan within the given time frame, at the Plenary held in February 2019, the FATF has made the initial determination that Sri Lanka has completed its action plan and warrants an on-site assessment to verify that the implementation of Sri Lanka’s AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation in the future. Accordingly, an on-site examination was scheduled to be held during May 13-14, 2019 but was postponed due to the Easter Sunday attack. Hence, Sri Lanka’s status in the FATF compliance Statement issued after June Plenary remains unchanged. It is proposed to conduct the on-site prior to the FATF Plenary in October 2019.

Accordingly, a team of evaluators will be visiting Sri Lanka during 16- 17 September, 2019 and the team will meet all relevant stakeholders, including the private sector and the highest political authorities to verify the implementation of the FATF Action Plan and to ascertain

Sri Lanka's political commitment towards the implementation of AML/CFT. The on-site team will make their recommendations to the FATF Plenary scheduled to be held in October, 2019 which could result in Sri Lanka exiting the Grey List in October 2019.

**Table 8.4: FATF Compliance Statement on Sri Lanka dated June 21, 2019**

*In November 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. In February 2019, the FATF made the initial determination that Sri Lanka has completed its action plan and warrants an on-site assessment. Specifically, Sri Lanka has made the following key reforms: (1) 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. However, due to the terrorist attack that occurred on 21 April 2019, the FATF was unable to conduct an on-site visit to confirm whether the process of implementing the required reforms and actions has begun and is being sustained. The FATF will conduct an on-site visit prior to its October 2019 Plenary.*

*Source: <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions>*

## **8.4 Possible Impact of FATF Listing on Sri Lanka**

With the listing by the FATF, Sri Lanka face negative consequences in several fronts as summarized below,

- a) **Impact on correspondence banking relationships** - the FATF listing has led to the re-evaluation of corresponding banking relationships maintained by Sri Lankan banks with international banks and other financial institutions and possible withdrawal/extra scrutiny of correspondence banking relationships after such evaluation.
- b) **Extra Scrutiny/Due Diligence** - Sri Lankan institutions/individuals including financial institutions have been subjected to extra scrutiny or enhance due diligence to continue with existing relationships.
- c) **Subsequent listing by other organizations** - following the listing by the FATF, EU treated Sri Lanka as a blacklisted country, which would bring negative consequences for Sri Lankan exporters

- d) **Higher cost of borrowings** – Sri Lanka as a developing country highly depends upon foreign borrowings. It has become harder and more expensive for Sri Lanka to borrow from international debt markets since the FATF listing has added an additional risk premium.
  
- e) **Negative impact on the country image** – Even though FATF has not called upon its members to take any action, public identification of Sri Lanka as a country with “strategic AML/CFT deficiencies” may have some negative impact on the country’s image in the international financial market. It may also have a negative impact on investor confidence for foreign direct investments and country rating.



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Meeting with DNFBP Sector Representatives





At the 39th National Conference of Chartered Accountants





Signing of MOU with SEC





Signing of MOU with IRCSL



Conducting an awareness for DNFBP Sector Representatives

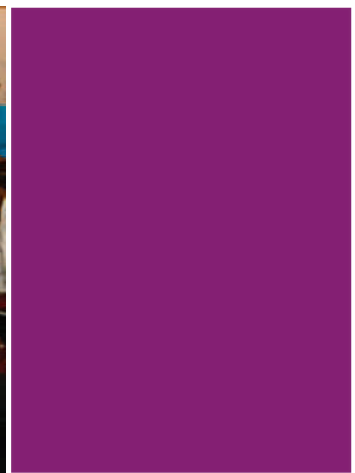
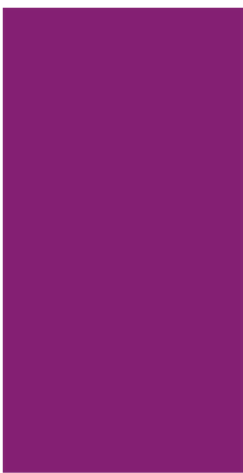






Conducting an awareness for DNFBP Sector Representatives





Conducting an awareness for DNFBP Sector Representatives







Conducting an Awareness Programme for Real Estate and Gem & Jewellery Sector Representatives



Attending a meeting at Casino Marino



Conducting an Awareness Programme for Officers of Accounting and Audit Firms





## Appendix A : List of Rules/Directions/Guidelines issued during 2006 to 2018

### Year 2018

1. Rules for Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 - Extraordinary Gazette No. 2053/20, January 10, 2018
2. Amendments to the Rules for Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 - Extraordinary Gazette No.2092/02, October 08, 2018
3. Procedure of Conducting Risk Based Onsite Examinations, Circular No. 01 of 2018
4. Guidelines on ML & TF Risk Management for Financial Institutions, No. 1 of 2018
5. Guidelines on AML & CFT Compliance Obligations for Casinos and Gambling Houses, No. 02 of 2018
6. Guidelines on AML & CFT Compliance Obligations for Dealers in Real Estate and Precious Metals, Precious and Semi-Precious Stones, No. 03 of 2018
7. Guidelines for Financial Institutions on Identification of Beneficial Ownership, No. 04 of 2018
8. Guideline, No. 5 of 2018 on Implementing United Nations (Sanctions in relation to Democratic People's Republic of Korea Regulations of 2017)
9. Guidelines for Financial Institutions on Suspicious Transactions Reporting, No. 06 of 2018
10. Guidelines, No. 7 of 2018 on Implementing United Nations (Sanctions in relation to Iran) Regulations No. 1 of 2018

### Year 2017

1. Circular on on-site examination in terms of risk-based approach examination plan 2017 to CEOs of all Licensed Banks and Licensed Finance Companies
2. Guidelines on AML/CFT Compliance Obligations for Money or Value Transfer Service 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. 1 of 2016

## Year 2015

1. Reporting of Foreign Inward Remittances

## Year 2014

1. Prevention and Suppression of Terrorism and Terrorist Financing Obligations of Reporting Institutions - Authorized Money Changers
2. Prevention and Suppression of Terrorism and Terrorist Financing Obligations of Reporting Institutions (UNSCR 1373) - Licensed Banks and Licensed Finance Companies
3. Prevention and Suppression of Terrorism and Terrorist Financing (UNSCR 1373) - Obligations of Insurance Companies
4. Prevention and Suppression of Terrorism and Terrorist Financing (UNSCR 1373) - Obligations of Stock Brokers

## Year 2013

1. Circular to Directors of All Authorized Money Changing Companies, January 31, 2013
2. Public Statement by the Financial Action Task Force (FATF)
3. Prevention and Suppression of Terrorism and Terrorist Financing Obligation of Reporting Institutions - All Licensed Banks & Licensed Finance Companies
4. Prevention and Suppression of Terrorism and Terrorist Financing Obligation of Reporting Institutions - Insurance Companies
5. Prevention and Suppression of Terrorism and Terrorist Financing Obligation of Reporting Institutions - Stock Brokering Companies

## Year 2012

1. Revisions to 40+9 Recommendations of the FATF
2. Notification from the FIU of 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

## Year 2011

1. KYC/ CDD Rules for Licensed Banks and Licensed Finance Companies - Extraordinary Gazette No 1699/10, March 28, 2011
2. Auditor's Declaration on Establishment of Audit Functions
3. Compliance with the Reporting Requirement under Section 7 of the FTRA
4. Revisions to Extraordinary Gazette Notification No. 1699/10 - KYC/CDD Rules, No. 01 of 2011

## Year 2010

1. Web based Information Reporting System to the Insurance Companies
2. Web based Information Reporting System to the Stock Brokers

## Year 2009

1. Compliance with the Section 2 of the FTRA - (for LBs)
2. Compliance with the Section 2 of the FTRA - (for RFCs)
3. Inclusion of the Tamil Foundation among the list of Terrorist Organizations in US
4. AML/CFT Compliance Functions of the Insurance Industry
5. Web Based Reporting System for LCBs & LSBs
6. Web Based Reporting System RFCs

## Year 2008

1. KYC/ CDD Rules for the Insurance Industry
2. Compliance with Rules on CDD for Financial Institutions
3. Compliance with Reporting Requirement (Amended)
4. Inclusion of the World Tamil Movement among the list of Terrorist Organizations in Canada
5. Use of Banking System by Institutions and Persons not Authorised to Accept Deposits
6. Compliance with Reporting Requirement of FTRA-Securities Industry
7. Compliance with Reporting Requirement of FTRA-Insurance Industry

## Year 2007

1. KYC/ CDD Rules for the Securities Industry
2. Compliance with KYC/CDD Rules for New Customers and existing Customers
3. Compliance with the Reporting Requirements under the FTRA
4. Light a Million Candles Campaign - Offences against Children
5. Mandatory Reporting Requirements - Electronic Fund Transfers

## Year 2006

1. Compliance with the Reporting Requirement under the FTRA
2. Section 312 & Section 319 of the Patriot Act.
3. FTRA No. 06 of 2006 Submission of Data
4. Financial Transactions Reporting Act, No. 06 of 2006 (FTRA)
5. CDD for Inward Remittance

### Licensed Commercial Banks

1. Amana Bank PLC
2. Axis Bank Ltd
3. Bank of Ceylon
4. Bank of China Ltd
5. Cargills Bank Ltd
6. Citibank, N.A.
7. Commercial Bank of Ceylon PLC
8. Deutsche Bank AG
9. DFCC Bank PLC
10. Habib Bank Ltd
11. Hatton National Bank PLC
12. ICICI Bank Ltd
13. Indian Bank
14. Indian Overseas Bank
15. MCB Bank Ltd
16. National Development Bank PLC
17. Nations Trust Bank PLC
18. Pan Asia Banking Corporation PLC
19. People's Bank
20. Public Bank Berhad
21. Sampath Bank PLC
22. Seylan Bank PLC
23. Standard Chartered Bank
24. State Bank of India
25. The Hongkong & Shanghai Banking Corporation Ltd
26. 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. Bimpuh Finance PLC
8. Central Finance Company PLC
9. Citizens Development Business Finance PLC
10. Commercial Credit and Finance PLC
11. Commercial Leasing and Finance Ltd
12. Dialog Finance PLC
13. ETI Finance Ltd
14. Fintrex Finance PLC
15. HNB Finance PLC
16. Ideal Finance Ltd
17. Kanrich Finance Ltd
18. Lanka Credit & Business Finance PLC
19. LOLC Development Finance PLC
20. LOLC Finance PLC
21. LB Finance PLC
22. Merchant Bank of Sri Lanka & Finance PLC



23. Mercantile Investments and Finance PLC
24. Multi Finance PLC
25. Nation Lanka Finance PLC
26. Orient Finance PLC
27. People's Leasing & Finance PLC
28. People's Merchant Finance PLC
29. Prime Finance PLC
30. Richard Pieris Finance Ltd
31. Sarvodaya Development Finance Ltd
32. Senkadagala Finance PLC
33. Serendib Finance Ltd
34. Singer Finance (Lanka) PLC
35. Sinhaputhra Finance PLC
36. Siyapatha Finance PLC
37. Softlogic Finance PLC
38. Swarnamahar Financial Services PLC
39. T K S Finance Ltd
40. The Finance Company PLC
41. Trade Finance & Investments PLC
42. UB Finance Company Ltd
43. 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 Life Ltd
5. Amana Takaful PLC
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. Life Insurance Corporation (Lanka) Ltd
17. LOLC General Insurance Ltd
18. LOLC Life Assurance Ltd
19. MBSL Insurance Company Ltd
20. National Insurance Trust Fund
21. Orient Insurance Ltd
22. People's Insurance Ltd
23. Sanasa Insurance Co. Ltd
24. Softlogic Life Insurance PLC
25. Sri Lanka Insurance Corporation Ltd
26. Union Assurance PLC

### Licensed Stockbrokers

1. Acuity Securities Ltd
2. Acuity Stockbrokers (Pvt) Ltd
3. Asha Phillip Securities Ltd
4. Asia Securities (Pvt) Ltd
5. Assetline Securities (Pvt) Ltd
6. Bartleet Religare Securities (Pvt) Ltd
7. Candor Equities Ltd
8. Capital Alliance Ltd
9. Capital Alliance Securities (Pvt) Ltd
10. Capital Trust Securities (Pvt) Ltd
11. Claridge Stockbrokers (Pvt) Ltd
12. CT CLSA Securities (Pvt) Ltd
13. Enterprise Ceylon Capital (Pvt) Ltd

14. First Capital Equities (Pvt) Ltd
15. First Capital Markets (Pvt) Ltd
16. First Guardian Equities (Pvt) Ltd
17. J B Securities (Pvt) Ltd
18. John Keells Stockbrokers (Pvt) Ltd
19. Lanka Securities (Pvt) Ltd
20. LOLC Securities Ltd
21. Nation Lanka Equities (Pvt) Ltd
22. Natwealth Securities Ltd
23. Navara Securities (Pvt) Ltd
24. NDB Securities (Pvt) Ltd
25. NSB Fund Management 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

### Restricted Dealers

1. A.O.Lakshmi Jewels (Pvt) Ltd
2. Abdeen Money Changers (Pvt) Ltd
3. Ariyawansa Enterprises (Pvt) Ltd
4. Arrujina Jewellery (Pvt) Ltd
5. Aruna Forexc (Pvt) Ltd
6. Asia Asset Finance PLC
7. Asian Money Exchange (Pvt) Ltd
8. Bimpuh Finance PLC
9. Brescia Grameen (Pvt) Ltd
10. Bullion Money Exchange (Pvt) Ltd

11. Capital Exchange (Pvt) Ltd
12. Carlo International (Pvt) Ltd
13. Citizens Development Business Finance PLC
14. City Exchange (Pvt) Ltd
15. Colombo Money Exchange (Pvt) Ltd - Head Office - Colombo 06  
- Branch - Colombo 01
16. Crown Money Exchange (Pvt) Ltd
17. Dadigama Group (Pvt) Ltd
18. Data Exchange International (Pvt) Ltd
19. Daya Authorized Money Changer (Pvt) Ltd
20. Delta Sarath Holdings (Pvt) Ltd
21. Devi Forex (Pvt) Ltd
22. Galle Money Exchange (Pvt) Ltd
23. George Michael Holdings (Pvt) Ltd
24. Global Village Exchange (Pvt) Ltd
25. Golden Money Changers (Pvt) Ltd
26. International Exchange (Pvt) Ltd
27. Jayes Investments Ltd
28. Jewel Lanka Money Exchange (Pvt) Ltd
29. Kamal Enterprises (Pvt) Ltd
30. Keyser Exchange (Pvt) Ltd
31. Kudamadu Money Exchange (Pvt) Ltd
32. L B Finance PLC
33. Lanka Credit and Business Finance Limited
34. LOLC Finance PLC
35. M.P. Money Changer (Pvt) Ltd
36. Majestic Jewellery (Pvt) Ltd
37. Mandarina Colombo
38. Maruthi Money Exchange (Pvt) Ltd - Head Office - Colombo 06  
- Branch - Jaffna
39. Mayurie Money Changers (Pvt) Ltd

40. Metro Forex (Pvt) Ltd
41. Midna Mini Market (Pvt) Ltd
42. Milano Money Exchange (Pvt) Ltd
43. Monte Carlo Exchange (Pvt) Ltd
44. Narmatha Gold Centre (Pvt) Ltd
45. New Natasha (Pvt) Ltd
46. New Regal's Money Changer (Pvt) Ltd
47. Pearl City Hotel
48. Pearl Exci (Pvt) Ltd
49. Prasanna Money Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch - Colombo 06
50. Pushpa Money Changer (Pvt) Ltd
51. Rafeek's Gems (Pvt) Ltd
52. Ravi Forexae (Pvt) Ltd
53. Rimha Jewellery (Pvt) Ltd
54. Rivindu Enterprises (Pvt) Ltd
55. Royal Money Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch - Colombo 06
56. Royal Money Mart (Pvt) Ltd - Head Office - Aluthgama  
- Branch - Colombo 01
57. S S D D Money Exchanging (Pvt) Ltd
58. Salaka Trust Investment (Pvt) Ltd
59. Senkadagala Finance PLC
60. Shangri-La Hotel Colombo
61. Shangri-La's Hambantota Resort & Spa
62. Sharanga Money Exchange (Pvt) Ltd
63. Shifaz Money Exchange (Pvt) Ltd
64. Sigiriya Jungles
65. Singer Finance (Lanka) PLC
66. Sinhaputhra Finance PLC
67. Swiss Money Exchange (Pvt) Ltd - Head Office - Colombo 01  
- Branch-Colombo06

68. Thomas Cook Lanka (Pvt) Ltd - Head Office - Bandaranaike International Airport
- Branch-Colombo03
  - Branch -Kandy
  - Branch -Galle Fort
69. Unic Forex (Pvt) Ltd
70. Vasanthas Intl. Money Exchange (Pvt) Ltd
71. Western Money Exchange (Pvt) Ltd
72. Windsor Money Exchange (Pvt) Ltd
- \* Licensed Finance companies are permitted to engage in the money changing business only at the branches authorized by DFE.

### Money or Value Transfer Services

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



CENTRAL BANK OF SRI LANKA

Printed at Central Bank Printing Press, 58, Sri Jayewardanapura Mw., Rajagiriya, Sri Lanka

ISBN 978-955-575-394-4