

**THE GAZETTE OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA**

Part II of November 01, 2019

SUPPLEMENT

(Issued on 01.11.2019)



CENTRAL BANK OF SRI LANKA

A

BILL

**to provide for the establishment of the Central Bank of Sri Lanka; for the
repeal of the Monetary Law Act (Chapter 422); and to provide for matters
connected therewith or incidental thereto**

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Central Bank of Sri Lanka

L.D.—O. 12/2019

AN ACT TO PROVIDE FOR THE ESTABLISHMENT OF THE CENTRAL BANK OF SRI LANKA; FOR THE REPEAL OF THE MONETARY LAW ACT (CHAPTER 422); AND TO PROVIDE FOR MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO.

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows:—

1. (1) This Act may be cited as the Central Bank of Sri Lanka Act, No. of 2019 and shall come into operation on such date as the Minister may appoint by Order published in the *Gazette* (in this Act referred to as the “appointed date”).

Short title and date of operation.

(2) The appointed date shall be a date not later than a period of six months from the date on which the Certificate is endorsed in respect of this Act in terms of Article 79 of the Constitution.

PART I

ESTABLISHMENT OF THE CENTRAL BANK

2. (1) There shall be established an institution which shall be called and known as the Central Bank of Sri Lanka (in this Act referred to as the “Central Bank”) to be an authority responsible for the administration, supervision and regulation of the monetary, financial and payments system of Sri Lanka.

Establishment of the Central Bank.

(2) The Central Bank shall be a body corporate with perpetual succession and a common seal and may sue or be sued in its corporate name.

3. The Central Bank shall have its principal place of business in Colombo, and may have such branches, agencies, and correspondents in other places in Sri Lanka or abroad, as may be necessary for the proper conduct of its business.

Principal
place of
business.

5 4. (1) The capital of the Central Bank shall be a fully subscribed and paid-up amount as may be determined by the Governing Board from time to time.

Capital of
the Central
Bank.

(2) The capital of the Central Bank shall be held solely by the Government and shall not be transferable or subject to any encumbrance.

(3) The capital of the Central Bank may be increased by such amounts as may be determined by the Governing Board with the concurrence of the Minister from funds allocated from the Consolidated Fund.

15 (4) The capital of the Central Bank shall not be reduced at any time.

5. (1) The Central Bank shall have the administrative and financial autonomy.

Autonomy
and
accountability
of the Central
Bank.

(2) The Central Bank shall be autonomous and accountable as provided for in this Act.

(3) The autonomy of the Central Bank shall be respected at all times and no person or entity shall cause any influence to the members of the Governing Board, Monetary Policy Board and Executive Board or its employees in the exercise, discharge and performance of their powers, functions and duties under this Act or interfere with the activities of the Central Bank.

(4) Except in the exercise, discharge and performance of the powers, functions and duties under this Act, the members of the Governing Board, Monetary Policy Board and

Executive Board, employees of the Central Bank or any person authorized by the Central Bank shall not seek instructions from any person:

5 Provided that nothing in this section shall prevent the Central Bank from seeking professional or expert advice to effectively exercise, discharge and perform its powers, functions and duties under this Act or any other written law.

6. (1) The primary object of the Central Bank shall be to achieve and maintain domestic price stability. Objects of the Central Bank.

10 (2) A core object of the Central Bank shall be to secure the financial system stability.

(3) In pursuing the primary object referred to in subsection (1), the Central Bank shall take into account, *inter alia*, the stabilization of output towards its potential level.

15 (4) In pursuing the core object referred to in subsection (2), the Central Bank shall take into account, *inter alia*, the development and efficiency of the financial system.

7. (1) Subject to the provisions of this Act, the powers, functions and duties of the Central Bank shall be to— Powers, functions and duties of the Central Bank.

- 20 (a) determine and implement the monetary policy;
- (b) determine and implement the exchange rate policy;
- (c) hold and manage the official international reserves of Sri Lanka;
- (d) issue and manage the currency of Sri Lanka;
- 25 (e) administer, supervise and regulate payment systems and to ensure the safety, effectiveness, and efficiency of such payment systems;

- (f) register, license, regulate and supervise financial institutions;
- (g) resolve financial institutions regulated and supervised by the Central Bank;
- 5 (h) adopt and implement macroprudential policy measures;
- (i) collect and produce statistics;
- (j) act as financial advisor and banker to the Government;
- 10 (k) act as fiscal agent of the Government to the extent provided for by or under any written law;
- (l) inform the Parliament, Government, and the public about its policies and operations;
- 15 (m) cooperate with and participate in international organizations, including public international financial institutions, and cooperate with domestic and foreign public institutions, concerning matters related to its objects;
- (n) promote the financial inclusion in Sri Lanka;
- 20 (o) establish deposit insurance and liquidity support schemes as means of securing the financial system stability;
- (p) hold, sell and dispose property, both movable and immovable, and to enter into contracts;
- 25 (q) acquire and hold such assets and incur such liabilities as it may deem necessary; and

(r) generally, do all such acts and things as are necessary for or incidental or conducive to the carrying out or attainment of the objects of the Central Bank.

5 (2) The Governing Board, Monetary Policy Board and Executive Board shall, for the purpose of achieving the objects of the Central Bank, exercise, discharge and perform the powers, functions and duties conferred on, or assigned to, or imposed on, the Central Bank by this Act or any other
10 written law.

PART II

GOVERNING BOARD, MONETARY POLICY BOARD AND EXECUTIVE BOARD

15 **8.** (1) There shall be established a Governing Board of the Central Bank (in this Act referred to as the “Governing Board”) which is charged with the responsibility of overseeing the administration and management of the affairs of the Central Bank and the determination of general policy of the Central Bank other than the monetary policy. Governing Board of the Central Bank.

20 (2) The Governing Board shall consist of the following members:—

(a) the Secretary to the Treasury;

(b) the Governor of the Central Bank who shall be the Chairperson of the Governing Board; and

25 (c) three members who shall have expertise in economics, banking, finance, accounting and auditing, law or risk management.

(3) The Secretary to the Governing Board who shall be an employee of the Central Bank shall be nominated by the
30 Executive Board.

(4) The members of the Governing Board other than the Chairperson, shall discharge supervisory and policy formulation functions of the Central Bank and shall not discharge any executive function of the Central Bank.

5 (5) The powers, functions and duties of the Governing Board shall be to—

- (a) take general policy decisions other than monetary policy;
- 10 (b) take enforcement measures, including issuing instructions to the financial institutions, regulating payment, clearing and settlement systems, and taking remedial actions, and to appoint a receiver for such institutions;
- 15 (c) take administrative measures, as provided by this Act or any other written law;
- (d) formulate corporate strategy of the Central Bank;
- (e) approve the budget of the Central Bank;
- (f) approve annual accounts and financial statements of the Central Bank;
- 20 (g) organize the Central Bank and the general framework regulating the powers, functions and duties of the employees of the Central Bank;
- (h) prepare schemes for appointments, promotions and the exercise of disciplinary control over the employees of the Central Bank;
- 25 (i) appoint Chief Internal Auditor of the Central Bank;
- (j) oversee the financial reporting, risk management, compliance, information technology, security and internal control system of the Central Bank;

- (k) supervise the administration of the Central Bank;
 - (l) adopt policies including accounting policies and procedures of the Central Bank in line with internationally recognized accounting standards;
- 5 (m) approve the internal audit report prepared by the Audit Committee of the Central Bank and monitor implementation of the internal auditor's recommendations in the Central Bank;
- (n) make rules of procedure; and
- 10 (o) generally, do all such acts and things as are necessary for or incidental or conducive to the administration and management of the Central Bank and to give effect to the provisions of this Act.
- 15 (6) The Governing Board may delegate the functions specified in paragraphs (b) and (c) of subsection (5) to the Executive Board established under section 14.
- (7) The Governing Board may establish specialized boards and sub-committees to assist in supervising the
20 administration and management of the Central Bank.
- (8) The Governing Board may make such rules as it may consider necessary in relation to any matter affecting or connected with or incidental to the exercise, discharge and performance of the powers, functions and duties of the
25 Central Bank.
- (9) The Governing Board may utilize the funds of the Central Bank for the purpose of meeting all expenditure incurred by the Central Bank in the administration, management and operation of the Central Bank and in the
30 exercise, discharge and performance of the powers, functions and duties of the Central Bank.

9. (1) The meetings of the Governing Board shall be held at least once a month, and as frequently as is necessary for the purpose of exercising, discharging and performing the powers, functions and duties of the Central Bank.

Meetings of
the
Governing
Board.

5 (2) The Chairperson of the Governing Board shall, if present, preside at every meeting of the Governing Board. In the absence of the Chairperson from any meeting, an appointed member elected by the members present at that meeting shall preside at such meeting.

10 (3) The meetings of the Governing Board shall be convened by the Chairperson or at the written request of any two members of the Governing Board.

(4) The *quorum* for a meeting of the Governing Board shall be three members.

15 (5) Each member of the Governing Board shall have one vote and in the event of an equality of votes at any meeting of the Governing Board, the member presiding at such meeting shall in addition to his vote, have a casting vote.

20 (6) All matters for decisions at any meeting of the Governing Board shall be decided by the votes of the majority of the members present.

25 (7) The Governing Board may make rules of procedure for the exercise, discharge and performance its powers, functions and duties under this Act, and such rules of procedure may provide for the manner in which the meetings of the Governing Board shall be conducted.

30 (8) Subject to the preceding provisions of this section, the Governing Board may regulate the procedure in regard to the meetings of the Governing Board and the transaction of business at such meetings.

(9) No act, decision or proceeding of the Governing Board shall be deemed to be invalid by reason only of the existence of a vacancy in the Governing Board or a defect in the appointment of any member of the Governing Board.

5 **10.** (1) The proceedings of the meetings of the Governing Board shall be confidential. The Governing Board may give publicity to any of its decisions on any matter, if it considers it necessary.

Confidentiality of proceedings of the Governing Board.

(2) The minutes of each meeting of the Governing Board shall be signed by the person presiding at such meeting and the Secretary to the Governing Board.

15 **11.** (1) There shall be a Monetary Policy Board of the Central Bank (in this Act referred to as the “Monetary Policy Board”), which is charged with the formulation of monetary policy of the Central Bank and implementation of flexible exchange rate regime in line with the flexible inflation targeting framework in order to achieve and maintain domestic price stability.

Monetary Policy Board.

20 (2) The Monetary Policy Board shall regulate the supply, availability, and cost of money, taking into account the macroeconomic and financial condition of Sri Lanka.

12. (1) The Monetary Policy Board shall consist of the following members:—

Composition of the Monetary Policy Board.

25 (a) the Governor of the Central Bank who shall be the Chairperson of the Monetary Policy Board;

(b) the Deputy Governors of the Central Bank; and

(c) four experts in economics or finance.

(2) Any member of the Governing Board may be appointed as an expert under paragraph (c) of subsection (1).

(3) The Secretary to the Monetary Policy Board who shall be an employee of the Central Bank, shall be nominated by the Executive Board.

5 **13.** (1) The Monetary Policy Board shall meet at least once in every quarter of the year. Meetings of the Monetary Policy Board.

(2) Every year, the schedule of meetings of the Monetary Policy Board shall be published by the Central Bank prior to the first meeting in that year.

10 (3) The schedule of meetings may be changed, if the Chairperson of the Monetary Policy Board is of the view that an additional meeting or a reschedule of meeting is required due to any exigency. In such circumstances, the revised schedule of meetings shall be published by the Central Bank as soon as practicable.

15 (4) The Chairperson of the Monetary Policy Board shall, if present preside at every meeting of the Monetary Policy Board. In the absence of the Chairperson from any meeting, an appointed member elected by the members present at that meeting shall preside at such meeting.

20 (5) The *quorum* for a meeting of the Monetary Policy Board shall be five members of which one shall be the Governor of the Central Bank or in his absence, the Deputy Governor of the Central Bank in charge of Price Stability.

25 (6) Each member of the Monetary Policy Board shall have one vote and in the event of an equality of votes at any meeting of the Monetary Policy Board, the member presiding at such meeting shall in addition to his vote, have a casting vote.

30 (7) All matters for decision at any meeting of the Monetary Policy Board shall be decided by the votes of the majority of the members present.

(8) The proceedings of the meeting of the Monetary Policy Board shall be confidential.

(9) The Monetary Policy Board shall publish the resolution adopted by it after the conclusion of every meeting of the Monetary Policy Board with an explanation of recent economic developments and economic outlook which underpins such resolution.

(10) The Monetary Policy Board may make rules of procedure for the exercise, discharge and performance of its powers, functions and duties.

(11) The rules of procedure may provide for the manner in which the meetings of the Monetary Policy Board shall be conducted.

(12) The minutes of each meeting of the Monetary Policy Board shall be kept in writing, and retained at least for a period of twelve years.

(13) No act, decision or proceeding of the Monetary Policy Board shall be deemed to be invalid by reason only of the existence of any vacancy in the Monetary Policy Board or any defect in the appointment of any member of the Monetary Policy Board.

14. (1) There shall be an Executive Board of the Central Bank (in this Act referred to as the “Executive Board”) which is charged with the day-to-day operations of the Central Bank.

Executive Board.

(2) The Executive Board shall consist of the Governor of the Central Bank who shall be the Chairperson of the Executive Board, the Senior Deputy Governor of the Central Bank and the other Deputy Governors of the Central Bank.

(3) The powers, functions and duties of the Executive Board shall be to—

5 (a) implement policy decisions adopted by the Governing Board and the Monetary Policy Board; and

(b) discharge such other functions of the Central Bank expressly assigned to it by the Governing Board or the Monetary Policy Board.

10 (4) The Executive Board may establish executive sub-committees to assist in exercising, discharging and performing its powers, functions and duties under this Act.

(5) The Executive Board may make rules of procedure for the exercise, discharge and performance of its powers, functions and duties.

15 **15.** (1) The Governor of the Central Bank shall be the Chief Executive Officer and the principal representative of the Central Bank. Powers of the Governor and the Deputy Governors of the Central Bank.

20 (2) The Governor of the Central Bank shall have the authority to sign any rule, order, direction, notice, contract, promissory note, security, report, balance sheet, statement, or such other document on behalf of the Central Bank.

(3) The Governor of the Central Bank shall devote his full professional time to the business of the Central Bank.

25 (4) The Governor of the Central Bank shall not accept or hold any other office or employment whatsoever, whether public or private, and whether remunerated or not:

Provided, however, that nothing in the provisions of this subsection shall be deemed to prevent the Governor of the Central Bank—

30 (a) from accepting or holding any academic office or position or any office or position in an institution

or organization, established for the purpose of carrying on research in the subjects of economics, money, banking, statistics or finance;

- 5 (b) from being appointed or acting as a member of any commission constituted under the Commissions of Inquiry Act (Chapter 393) for the purposes of any inquiry relating to any monetary, banking, financial or general economic matter or question affecting the national welfare of Sri Lanka; or
- 10 (c) from being appointed or acting as a member of any council, committee, or other body investigating or examining into, or advising upon, any such matter or question.

(5) The Governor of the Central Bank may delegate any
15 of his powers, functions and duties to the Senior Deputy Governor of the Central Bank or with the concurrence of the Governing Board to any other Deputy Governor of the Central Bank.

(6) Where the Governor of the Central Bank is temporarily
20 absent from duty or is temporarily unable to exercise, discharge and perform his powers, functions and duties, the Senior Deputy Governor of the Central Bank designated in terms of subsection (2) of section 16 shall act as the Chief Executive Officer of the Central Bank and shall have
25 authority to exercise, discharge and perform the powers, functions and duties of the Governor of the Central Bank.

(7) Where both the Governor of the Central Bank and the
Senior Deputy Governor of the Central Bank are temporarily
absent from duty or are temporarily unable to exercise,
30 discharge and perform their powers, functions and duties, the Governing Board shall appoint a Deputy Governor of the Central Bank to act as the Chief Executive Officer of the Central Bank.

(8) The Deputy Governor of the Central Bank appointed under subsection (7) shall be designated as the acting Chief Executive Officer of the Central Bank.

5 (9) (a) Where the Governor of the Central Bank vacates or ceases to hold office for any reason, the Senior Deputy Governor of the Central Bank appointed in terms of subsection (2) of section 16 shall act as the Chief Executive Officer of the Central Bank.

10 (b) Where the Senior Deputy Governor of the Central Bank referred to in paragraph (a) is unable to act as the Chief Executive Officer for any reason, the acting Chief Executive Officer designated in terms of subsection (8) shall act as the Chief Executive Officer of the Central Bank.

15 (10) The office of the Governor of the Central Bank shall not remain vacant for a period of more than forty-five days.

20 **16.** (1) The President shall, upon the recommendation made to the Constitutional Council by the Minister and with the concurrence of the Constitutional Council, appoint the Governor of the Central Bank and the members of the Governing Board referred to in paragraph (c) of subsection (2) of section 8 and the experts of the Monetary Policy Board referred to in paragraph (c) of subsection (1) of section 12 (in this Act referred to as the “appointed members”).

Appointments of the Governor and other appointed members and the Senior Deputy Governor of the Central Bank.

25 (2) The Governing Board shall, with the concurrence of the Minister—

(a) appoint not more than three Deputy Governors of the Central Bank who shall exercise, discharge and perform such powers, functions and duties assigned to them by this Act or the Governing Board; and

30 (b) designate one Deputy Governor appointed under paragraph (a) as the Senior Deputy Governor of the Central Bank.

(3) Every appointment made under this section shall be subject to the provisions of section 18.

5 (4) The Deputy Governors of the Central Bank shall be employees of the Central Bank and shall be subject to such age of retirement, as may be determined by the Governing Board in line with the criteria applicable in the public sector.

10 (5) The appointment of the Deputy Governors of the Central Bank and the designation of the Senior Deputy Governor of the Central Bank shall be made in a transparent manner.

(6) The appointments referred to in subsection (1) shall be finalized not less than a period of thirty days prior to the expiration of the term of office of the previously appointed member.

15 (7) In the event of the President failing to make an appointment referred to in subsection (1) within a period of thirty days from the date of concurrence of the Constitutional Council, the person recommended by the Minister and concurred by the Constitutional Council under subsection
20 (1), shall be deemed to have been appointed as the Governor of the Central Bank, members of the Governing Board and the experts of the Monetary Policy Board, with effect from the date of expiry of such period.

25 **17.** (1) The term of office of an appointed member shall be a period of six years commencing on the date of his appointment.

Term of office of an appointed member.

30 (2) Where any appointed member vacates office before the expiration of his term of office, another person shall be appointed in terms of section 16 in his place within a period of sixty days to hold office during the unexpired period of the term of office of the appointed member so vacating the office.

(3) Any appointed member who vacates office by effluxion of time shall be eligible for reappointment:

Provided, however, that the aggregate term of office of any such member shall not exceed a period of twelve years.

5 **18.** (1) The persons appointed under section 16 shall be persons of eminence and integrity who have distinguished themselves in public and professional life and who possess professional or academic experience in the fields of economics, monetary policy, banking, finance, accounting and auditing, law or risk management.

Eligibility and disqualifications of Governor and other appointed members and Deputy Governors of the Central Bank.

10 (2) A person shall be disqualified from being appointed or continuing as the Governor of the Central Bank, or an appointed member of any Board established under section 8 or 11, or as a Deputy Governor of the Central Bank, if such person—

- 15 (a) has committed or has been connected with the commission of, any act which involves fraud, deceit, dishonesty or professional misconduct;
- 20 (b) is subject to an investigation or inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity, by any regulatory authority, supervisory authority, professional association, commission of inquiry, tribunal or any other body established by law, in Sri Lanka or abroad;
- 25 (c) has been convicted by any Court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude;
- 30 (d) is an undischarged insolvent or has been declared bankrupt by a court of competent jurisdiction in Sri Lanka or abroad;

- (e) has failed, to satisfy any judgement or order of any court whether in Sri Lanka or abroad, or to repay a debt;
- 5 (f) has been declared by a court of competent jurisdiction in Sri Lanka or abroad, to be of unsound mind;
- (g) has been removed or suspended by an order of a regulatory or supervisory authority from serving as a director, chief executive officer or other officer in
10 any financial institution or corporate body, in Sri Lanka or abroad;
- (h) was a chief executive officer or held any other position of authority in any financial institution–
 - 15 (i) whose license has been suspended or cancelled; or
 - (ii) which has been wound up or is being wound up, or which is being compulsorily liquidated whether in Sri Lanka or abroad;
- 20 (i) is or becomes a member of the Parliament, or a Provincial Council or a local authority;
- (j) is or becomes a public officer or judicial officer or holds any office or position other than an academic position, either by election or appointment, for
25 which salary or other remuneration or benefit other than the superannuation benefit deriving from his previous employment, is payable out of public funds, provincial funds or the funds of any local authority;

30 Provided that nothing in this subsection shall be held to empower the Governing Board, to remove, with the concurrence of the Minister, from office,

any Deputy Governor of the Central Bank who has been temporarily released under subsection (3), by reason only that such Deputy Governor of the Central Bank holds such office or position in such institution:

Provided further, that nothing in this subsection shall be construed to enable a Deputy Governor of the Central Bank who has been temporarily released to serve in an office or position of a public corporation under subsection (3) to take part in the deliberations of the Monetary Policy Board or the Executive Board of the Central Bank while he holds office or position as a public officer;

(k) is an official of a political party; or

(l) is or becomes a director, officer or employee of a financial institution operating through offices in Sri Lanka, a beneficial owner of an equity interest in a financial institution or a beneficial owner of five *percent* or more of an equity interest in any other financial institution.

(3) The Governing Board may, with the concurrence of the Minister temporarily release a Deputy Governor of the Central Bank to serve in an office or position of any ministry, department, public international financial institution or a public corporation which is not a financial institution under this Act.

19. Any person serving any office referred to in subsection (1) of section 16 may resign such office by giving not less than three months' notice in writing to the President.

Resignation
from office.

20. (1) Any person appointed under subsections (1) and (2) of section 16 shall cease to hold such office upon the occurrence of anything referred to in subsection (2) of section 18.

Disqualifications
and removal
from office.

(2) Any person appointed under subsection (1) of section 16 may be removed by the President, upon a written recommendation of the Governing Board, in the event the Governing Board is satisfied, following a hearing of the relevant appointed person that such person—

- (a) is unable to exercise, discharge and perform the powers, functions and duties of such office because of an infirmity of body or mind that has lasted for more than a period of three months;
- 10 (b) has not complied with the relevant code of conduct of the Central Bank;
- (c) has failed to exercise, discharge and perform the powers, functions and duties of such office for a consecutive period of more than three months without approval of the Governing Board; or
- 15 (d) is disqualified in terms of the provisions of subsection (2) of section 18.

(3) Any person appointed under subsection (2) of section 16 may be removed from office, with the concurrence of the Minister, upon a decision of the Governing Board, in the event the Governing Board is satisfied following a hearing of the relevant person that such person—

- (a) is unable to exercise, discharge and perform the powers, functions and duties of such office because of an infirmity of body or mind that has lasted for more than a period of three months;
- 25 (b) has not complied with the relevant code of conduct of the Central Bank; or
- (c) has failed to exercise, discharge and perform the powers, functions and duties of such office for a consecutive period of more than a period of three months without approval of the Governing Board.
- 30

(4) No person appointed pursuant to subsections (1) and (2) of section 16 shall be removed from office on any ground other than the grounds specified in subsection (2) or (3).

5 **21.** Any person who ceases to be a member of the Restriction
on
subsequent
actions.
Governing Board, the Monetary Policy Board or the Executive Board shall not serve in any capacity whatsoever, in or for, any financial institution until the expiration of a period of one year from the date of such cessation.

10 **22.** (1) Notwithstanding anything to the contrary in any Remuneration.
other written law, the remuneration of the Governor of the Central Bank and the allowances payable to the appointed members shall be determined by the Parliament.

15 (2) The amount of remuneration and allowances determined under subsection (1) shall be specified in the letter of appointment issued to such Governor and appointed members, and such remuneration or allowances shall not be reduced during the terms of office of such Governor and appointed members.

20 (3) No remuneration or allowance shall be based on the profits of the Central Bank or any of its revenues.

23. The Governing Board shall adopt such Codes of Code of
conduct.
Conduct applicable to members of the Governing Board, the Monetary Policy Board, and the Executive Board.

PART III

25

EMPLOYEES OF THE CENTRAL BANK

30 **24.** (1) Notwithstanding anything to the contrary in any Appointment
and removal
of employees
of the Central
Bank.
other written law, the Governing Board may, subject to subsection (2) of section 16, appoint and remove employees of the Central Bank, and may prescribe the terms and conditions of their employment, including the remuneration.

(2) No remuneration shall be based on the profits of the Central Bank or any of its revenue.

(3) The Governing Board may establish and regulate pensions or provident funds or schemes for the benefit of employees and their dependents and nominees, and may make contributions to any such fund or scheme.

(4) The Governing Board may, notwithstanding the provisions of subsection (1) of section 114, grant loans and advances, to employees of the Central Bank for such purposes as may be determined by the Governing Board subject to such terms and conditions as may be determined by the Governing Board.

25. (1) The employees of the Central Bank shall devote their professional services to the Central Bank, and shall not accept or hold any other office or employment, whether public or private, or whether remunerated or not, except as a nominee of the Central Bank or for educational or academic purposes, which are not in conflict with or which will not prevent the ability of any employee to devote his professional services to the Central Bank, and are within the limits determined by the Governing Board in that regard.

Employees not to accept any other office.

(2) The Governing Board may, at the request of any ministry, department, public international financial institution or a public corporation which is not a financial institution, temporarily release any officer of the Central Bank with the consent of such officer, to serve any office or position in such ministry, department, public international financial institution or public corporation, subject to such terms and conditions as may be determined by the Governing Board.

(3) Any officer of the Central Bank who is released to serve any office or position in terms of subsection (2), shall be deemed to be removed from such office or position, if such officer is removed from his office in the Central Bank under the provisions of this Act.

26. The Governing Board shall adopt code of conduct applicable to employees of the Central Bank. Code of conduct.

PART IV

INFLATION TARGET

5 27. (1) The Minister and the Central Bank shall sign a monetary policy framework agreement with regard to setting out of inflation target to be achieved by the Central Bank. Inflation target.

(2) The Minister shall publish the monetary policy framework agreement including the inflation target and other parameters relating thereto in the *Gazette* within a period of one week from the date of such agreement. 10

(3) The Minister and the Central Bank may review the inflation target and any other parameters relating thereto, once in every three years or in such other intervals, if exceptional circumstances so warranted. The Minister shall, upon such review, publish in the *Gazette* the inflation target and other parameters relating thereto so reviewed and the exceptional circumstances that warranted such review. 15

(4) If the Central Bank fails to meet the inflation target by a margin determined in terms of subsections (1) and (3) of this section for two consecutive quarters, the Monetary Policy Board shall submit a report to the Parliament through the Minister, which shall also be made available to the public, setting out— 20

25 (a) the reasons for the failure to achieve the inflation target;

(b) remedial actions proposed to be taken by the Central Bank; and

30 (c) an estimate of the time-period within which the inflation target shall be achieved.

5 (5) The Monetary Policy Board shall determine the monetary policy and other instruments relating to the implementation of the monetary policy of the Central Bank and shall have the authority to adjust such instruments for the purpose of implementing the monetary policy.

28. The Central Bank shall publish a report once in six months explaining recent movements in inflation, sources of inflation and medium-term projections for inflation and key risks to such projections. Publication of report on inflation.

10 29. (1) Where the Monetary Policy Board anticipates economic disturbances, that are likely to threaten the domestic price stability in Sri Lanka or there are abnormal movements in the price level that are actually endangering such domestic price stability, it shall be the duty of the Monetary Policy Board— Action to preserve price stability.

(a) to adopt such policies, and to cause such remedial measures to be taken, as are appropriate in the circumstances and authorized by this Act;

20 (b) to submit to the Minister and, if it is not prejudicial to the public interest, publish, a detailed report which shall include, as a minimum, an analysis of—

(i) the causes of the anticipated economic disturbances, or of the actual abnormal movements of the price level;

25 (ii) the probable effects of such disturbances or movements on the level of production, employment, and income in Sri Lanka; and

30 (iii) the measures which the Monetary Policy Board has already taken, and monetary, fiscal, or administrative measures which it proposes to take or recommends for adoption by the Government.

(2) The Monetary Policy Board shall continue to submit further reports periodically so long as the circumstances which occasioned the submission of the first report constitute a threat to domestic price stability.

5

PART V

MONETARY AND OTHER OPERATIONS

30. (1) In the carrying out of its operations, the Central Bank may open and maintain cash, precious metals and securities accounts on its books for—

Opening of accounts.

- 10 (a) financial institutions, foreign banks, and government entities;
- (b) central banks, international organizations including public international financial institutions, foreign governments, and donor organizations.

15 (2) The Central Bank may prescribe the conditions for opening accounts on its books.

(3) The Central Bank may open and maintain cash, precious metals and securities accounts on the books of—

- 20 (a) financial institutions which are subject to the regulation and supervision of the Central Bank;
- (b) central banks, depositories, foreign banks and international organizations including public international financial institutions.

25 **31.** The Central Bank may, subject to the payment of fees in line with market rates and the terms and conditions as may be prescribed by the Governing Board, provide custodial facilities to financial institutions for denominated currency notes and coins as it designates, and for securities, precious metals and any other valuable assets as the Governing Board may determine.

Custodial services of the Central Bank.

30

32. (1) In order to achieve the objects of the Central Bank and to exercise, discharge and perform its powers, functions and duties, the Central Bank may–

Open Market
Operations.

- 5
- (a) operate in the financial markets by buying and selling outright or under a repurchase agreement, and by lending or borrowing claims and marketable instruments, as well as precious metals;
 - (b) conduct credit operations with licensed banks and other market participants operating in Sri Lanka, based on adequate collaterals; or
 - (c) issue securities on such terms and conditions and in such form as may be determined by the Monetary Policy Board.

10

(2) The Monetary Policy Board may make rules specifying–

- 15
- (a) the types of instruments and collateral to be used for open market and credit operations for the purpose of the monetary policy;
 - (b) the conditions under which the Central Bank may enter into transactions for the purposes of paragraph (a).

20

(3) The Governing Board may make rules specifying–

- 25
- (a) the types of instruments and collateral to be used for credit operations other than the monetary policy; and
 - (b) the conditions under which the Central Bank may enter into transactions for the purposes of paragraph (a).

33. (1) The Central Bank shall require–

Regulation of
reserves of
the financial
institutions.

(a) the licensed commercial banks; and

5

(b) such other financial institutions falling under such criteria as may be prescribed by the Monetary Policy Board (in this Act referred to as the “relevant financial institutions”),

10 to maintain reserves against their deposit liabilities and such of their other financial liabilities as the Monetary Policy Board may consider necessary and shall, for that purpose, prescribe the classes of deposit liabilities and the categories of other financial liabilities against which reserves are required to be maintained.

15 (2) The reserves required to be maintained by a licensed commercial bank or a relevant financial institution under subsection (1), shall be proportionate to the volumes of each class of its deposit liabilities and each category of its other financial liabilities and shall, subject to subsection (3), take the form of rupee deposits in the Central Bank.

20 (3) The Monetary Policy Board may, in the interest of the national economy and the banking and financial systems of Sri Lanka, demand the maintenance of any part of the reserves required to be maintained, in the form of assets other than rupee deposits in the Central Bank.

25 34. (1) The Monetary Policy Board shall prescribe the reserve ratios applicable to each class of deposit liabilities and each category of other financial liabilities against which reserves are required to be maintained under subsection (1) of section 33 and may, from time to time, vary such ratios as it may consider necessary.

Monetary
Policy Board
to prescribe
reserve
ratios.

30 (2) Where any licensed commercial bank or relevant financial institution is required to maintain a reserve against

any class of deposit liabilities or any category of other financial liabilities, the Central Bank shall, if so determined by the Monetary Policy Board, in the interest of the national economy and the banking and financial systems of the country, pay to such licensed commercial bank or relevant financial institution, as the case may be, interest at such rate as may be determined by the Monetary Policy Board, on the amount maintained as a reserve or a part thereof.

(3) Where the reserves maintained by any licensed commercial bank or relevant financial institution are below the reserves required to be maintained by such licensed commercial bank or relevant financial institution, such licensed commercial bank or relevant financial institution shall pay to the Central Bank, an interest on the amount of the deficiency at such rate as may be determined by the Monetary Policy Board.

35. Where a licensed commercial bank or a relevant financial institution regularly fails to maintain the reserves required to be maintained by such licensed commercial bank or relevant financial institution under subsection (1) of section 33, the Monetary Policy Board may, in the interest of the national economy, make order—

Consequences of reserve deficiencies.

(a) prohibiting or restricting the making of loans or investments by such licensed commercial bank or relevant financial institution;

(b) prohibiting the application of the whole or any specified part of the net profits of such licensed commercial bank or relevant financial institution for the purpose of payment of a dividend to its shareholders.

36. The Monetary Policy Board may recommend to the Governing Board to adopt such other methods of monetary control as may be authorized by this Act.

Operational methods of monetary control.

37. (1) In exceptional circumstances, the Central Bank may, on such terms and conditions as the Governing Board determines, grant liquidity assistance to a financial institution, or for its benefit—

- 5 (a) under such rate which shall not be below one-year Treasury Bill rate prevailing for the time being; and
- 10 (b) for a period not exceeding a period of ninety-one days that may be renewed following a decision by the Central Bank for another period not exceeding a period of ninety-one days.

(2) The Central Bank shall provide such financial assistance on the basis of a programme specifying the remedial measures:

- 15 Provided, however, that no such commitment shall be made by the Central Bank unless such financial institution, in the opinion of the Governing Board, is solvent and can provide adequate collateral to support the loan, and the request for financial assistance is based on the need to
- 20 improve liquidity.

(3) The renewal of credit facilities granted under subsection (2) shall, after the initial ninety-one days, require a Government guarantee in writing securing their repayment. The maximum renewal period shall be ninety-one days upon

25 which the credit operations shall be repaid.

(4) The Governing Board shall determine the type and minimum value of the collateral to be deposited or provided for to secure credit operations granted or renewed under this section.

- 30 (5) If the Central Bank discovers that the assisted financial institution did not implement the remedial measures specified in subsection (2), or that such measures did not

achieve the results intended, the Central Bank shall take appropriate measures including the administrative measures provided for in section 109.

PART VI

5 FOREIGN EXCHANGE OPERATIONS AND INTERNATIONAL RESERVES

38. (1) The Central Bank may engage in foreign exchange operations by conducting—

Foreign exchange operations of the Central Bank.

(a) foreign exchange auctions;

(b) derivative transactions;

10 (c) direct dealings; or

(d) any other acceptable methods as approved by the Governing Board.

(2) Foreign exchange operations may be transacted by the Central Bank only with—

15 (a) licensed commercial banks operating in Sri Lanka;

(b) the Government and agencies or institutions acting on behalf of the Government, whether established by any written law or otherwise;

20 (c) foreign commercial and investment banks;

(d) foreign central banks;

(e) international financial institutions; and

25 (f) foreign Governments, foreign provincial governments and agencies or institutions acting on behalf of foreign Governments.

39. The Central Bank shall not accept any commission or impose any charge of any description in respect of the purchase or sale of foreign exchange, except telegraphic or other costs which are actually incurred in connection with such purchase or sale.

Central Bank not to accept any commission or impose any charges in foreign exchange operations.

40. (1) The Central Bank may grant collateralized loans to, or take loans from, any institution of any description referred to in paragraphs (c), (d), (e) and (f) of subsection (2) of section 38 and may engage in such other transactions with such institutions as are expedient or desirable in the public interest and are appropriate having regard to the character of the Central Bank.

Loans to and from foreign institutions.

(2) Any loan taken as provided in subsection (1) may be secured by assets held by the Central Bank.

(3) The Central Bank may act as an agent or correspondent of a foreign commercial bank or an investment bank or any institution referred to in paragraphs (b), (d), (e) and (f) of subsection (2) of section 38.

41. (1) The Central Bank shall manage the official international reserves consistent with international best practices and the guidelines issued by the Governing Board having regard to the safety, liquidity and return in that order of priority.

Management of international reserves.

(2) The international reserves of the Central Bank may include the following assets:-

(a) gold including credit balances representing such gold;

(b) assets denominated in freely convertible foreign currencies in the form of-

(i) foreign notes and coins held by or to the credit of the Central Bank;

- 5 (ii) credit balances and interbank deposits that are payable on demand or within a short term held in accounts of the Central Bank, on the books of foreign central and commercial banks, or international financial institutions;
- 10 (iii) readily-marketable debt securities issued by, or supported by foreign governments including provincial governments, foreign central banks, international financial institutions and agencies;
- 15 (c) either the whole, or such maximum percentage of the whole, of the holdings of such drawing rights in the International Monetary Fund as may be determined from time to time by the Governing Board; and
- (d) any other readily-marketable financial assets denominated in freely convertible foreign currencies as determined by the Governing Board.

20 (3) In the event the Central Bank is satisfied that there is a decline or a likelihood of decline in the international reserves, or such reserves may reach to a level that could jeopardize the objects of the Central Bank, and that the Central Bank is unable to remedy such decline by its own measures, the Central Bank shall report to the Minister in
25 writing of such decline including reasons for and recommendations to remedy such decline.

30 **42.** (1) Every licensed commercial bank shall, after the closure of business at the end of such period as may be prescribed by the Executive Board, make a report to the Central Bank setting out the volume and composition of its purchases and sales of foreign exchange during that period, and shall furnish such additional information as the Central

Information on exchange operations.

Bank may require with reference to such purchases and sales and to the movements of its accounts in foreign currencies.

(2) The Executive Board may require any other person to make reports to the Central Bank at specified times or intervals as to all transactions or operations in gold, in any shape or form, and in foreign exchange.

(3) Every report under this section shall be in such form as the Executive Board may prescribe for the purpose.

(4) The Central Bank may make such inspection or examination of or take custody of any of the books and accounts kept by any licensed commercial bank or other person as it may deem necessary for the purpose of verifying the accuracy of any statement set out in any report made by such licensed commercial bank or person.

15 **43.** (1) The Governing Board may determine the manner of determination of the maximum amount of the working balances which licensed commercial banks may hold in foreign currencies generally or in any specified foreign currency or currencies, and may require such banks to sell to
20 the Central Bank all or any specified part of the surpluses in excess of such maximum amount.

Control of
foreign
exchange
holdings of
commercial
banks.

(2) The Governing Board may, having regard to the special needs of any particular licensed commercial bank, permit such bank to hold working balances in any specified
25 foreign currency in excess of the maximum amount determined for such currency under subsection (1).

(3) In ascertaining whether the working balances of any licensed commercial bank in any foreign currency are in excess of the maximum amount determined under subsection
30 (1), there may be deducted from such balances the net liabilities of that bank in currencies into which the first-mentioned currency is freely convertible.

PART VII

CURRENCY AND LEGAL TENDER

5 **44.** (1) The currency of Sri Lanka shall be the Sri Lanka rupee. The Sri Lanka rupee shall be divided into one hundred units each of which shall be called a “cent”.

Currency.

10 (2) Notwithstanding the provisions of subsection (1), where the Governing Board is of the view that it is expedient for the Sri Lanka currency to be a unit currency, it may recommend same to the Minister who may by Order published in the *Gazette* abolish the use of the “cent” in transactions from a date not later than one year after the publication of such Order.

15 **45.** The Central Bank shall have the sole right and authority to issue currency in Sri Lanka.

Issuing power.

20 **46.** (1) No person other than the Central Bank shall draw, accept, make, or issue any bill of exchange, promissory note, or engagement for the payment of money payable to bearer on demand, or borrow, owe, or take up any sum or sums of money on the bills or notes payable to bearer on demand of any such person:

Prohibition against issue of notes by any person other than the Central Bank.

25 Provided that cheques or drafts payable to bearer on demand may be drawn on licensed commercial banks or agents by their customers or constituents in respect of moneys in the hands of such banks or agents held by them at the disposal of the person drawing such cheques or drafts.

(2) Every person who contravenes any provision of this section commits an offence.

30 **47.** (1) Any currency notes and coins issued by the Central Bank shall be liabilities of the Central Bank.

Liability for notes and coins.

(2) The currency notes and coins held in custody of the Central Bank shall not be considered as part of its currency issue and shall not be taken into account in determining the assets and liabilities of the Central Bank.

5 **48.** (1) All currency notes and coins issued by the Central Bank shall be the legal tender in Sri Lanka for the payment of any amount. Currency to be the legal tender.

(2) Any transaction executed or liquidated between or among residents in Sri Lanka shall, unless otherwise authorized by the Central Bank, be in Sri Lanka rupees.

10 **49.** (1) The Central Bank may, with the approval of the Minister and subject to section 50, issue commemorative currency notes or coins. Issue of commemorative currency notes or coins.

(2) Any commemorative currency notes or coins issued under subsection (1) may be sold at a price higher than the denomination specified in such notes or coins and as may be determined by the Minister.

15 (3) The sale of commemorative currency notes or coins issued under subsection (1) at a price higher than the denomination specified in such currency notes or coins shall be deemed not to be a contravention of section 56 or 57.

20 (4) Numismatic items prepared from currency notes or coins other than commemorative currency notes or coins may be sold at a price higher than the denomination specified in such notes or coins with the approval of the Governing Board, and the sale of such items at a price higher than the denomination specified in such currency notes or coins shall be deemed not to be a contravention of section 56 or 57.

25 **50.** (1) The Central Bank shall, with the approval of the Minister prescribe the denominations, dimensions, designs, inscriptions, and other characteristics of currency notes and coins issued by the Central Bank. Characteristics of currency.

30

(2) Every currency note shall bear the signatures in facsimile of the Minister and of the Governor of the Central Bank and shall be stated on the face thereof to be issued on behalf of the Government of Sri Lanka.

5

51. The Central Bank shall have the authority to enter into contracts with any other person in Sri Lanka or abroad for the printing of currency notes and the minting of coins.

Contracts for printing of notes and minting of coins.

52. Upon a request made and subject to such conditions as may be prescribed, the Central Bank shall exchange, without charge or commission, currency notes and coins issued by the Central Bank.

Exchange of currency.

10

53. The Central Bank shall withdraw from circulation and shall cancel all currency notes and coins which for any reason whatsoever are unfit for circulation, and shall, as soon as practicable and subject to such rules as may be made in that behalf by the Governing Board, replace them by the delivery in exchange of fit currency notes and coins.

Replacement of currency unfit for circulation.

15

54. (1) The Governing Board may in its discretion, by notice published in the *Gazette* call in for replacement of currency notes or coins of any issue or denomination.

Redemption of currency.

20

(2) Any currency notes and coins called in for replacement in accordance with this section shall remain legal tender for such period not exceeding one year from the date of call as may be specified by the Governing Board and shall thereafter cease to be legal tender.

25

(3) The Governing Board may determine a period not less than one year within which the Central Bank or any agent authorized by the Governing Board for the purpose, shall, upon surrender of any currency notes or coins so called in for replacement, replace such currency notes or coins, at par and without charge, by the delivery in exchange of fit currency notes or coins.

30

(4) All currency notes and coins called in for replacement and not surrendered as provided in subsection (3) shall cease to be a liability of the Central Bank and the bearer of any such notes or coins shall not be entitled to any compensation.

5 **55.** The Central Bank shall create and administer a currency stock in order to ensure the availability of a regular supply of currency notes and coins. Currency stock.

56. Any person who without the authority of the Governing Board— Mutilation or defacement of currency notes.

10 (a) cuts, perforates, or in any other way whatsoever mutilates any currency note;

(b) prints, stamps, or draws anything upon any currency note, or affixes any seal or stamp to or upon any currency note;

15 (c) attaches or affixes to or upon any currency note anything in the nature or form of an advertisement;

(d) reproduces in any form whatsoever, or makes a facsimile of, any currency note; or

(e) uses otherwise as a legal tender, any currency note,

20 commits an offence.

57. (1) Any person who, without the authority of the Governing Board, melts, breaks up, perforates, mutilates or uses otherwise than as legal tender, any coin which is legal tender in Sri Lanka commits an offence. Use of currency coin otherwise than as legal tender.

25 (2) Any person who knowingly uses, possesses or deals with any metal or article which he knows or has reasonable cause to believe, is derived from any coin which has been dealt with in contravention of subsection (1), commits an offence.

58. (1) Where in any proceedings in any court it has to be determined whether a document purporting to be a currency note is an imitation of a currency note, a certificate under the hand of the Governor of the Central Bank to the effect that such document is an imitation of a currency note and is not a currency note issued or deemed to be issued by the Central Bank shall be received in such proceedings as conclusive evidence of the fact that such document is an imitation of a currency note.

Conclusive evidence of imitation of a currency note.

10 (2) The Governor of the Central Bank who issues a certificate under this section shall not be examined or cross examined with respect to that certificate.

(3) Every certificate issued under this section shall be in a form as may be determined by the Governing Board.

15 59. (1) Where in any proceedings in any court, it has to be determined whether an article purporting to be a coin or a current coin is an imitation of such coin or current coin, a certificate under the hand of the Governor of the Central Bank to the effect that such article is an imitation of a coin or a current coin, as the case may be, and is not a coin or a current coin issued or deemed to be issued by the Central Bank, shall be received in such proceedings as conclusive evidence of the fact that such article is an imitation of a coin or current coin.

Conclusive evidence of imitation of a coin or current coin.

25 (2) The Governor of the Central Bank who issues a certificate under this section shall not be examined or cross-examined with respect to that certificate.

(3) Every certificate issued under this section shall be in a form as may be determined by the Governing Board.

30 (4) In this section, the expression "current coin" shall have the same meaning as in the Penal Code.

PART VIII

PAYMENT AND SETTLEMENT SYSTEMS

60. (1) The Central Bank may establish and operate one or more systems—

- 5 (a) for the transfer of funds by and between the Central Bank, licensed commercial banks and such other institutions or persons that maintain a settlement account with the Central Bank and who are admitted as participants to such system by the Central Bank;
- 10 (b) for the transfer and settlement of scripless securities by and between the Central Bank and direct participants;
- 15 (c) for the settlement of payment obligations in respect of transfer and settlement of scripless securities under paragraph (b);
- 20 (d) for the maintenance of a depository for recording of title to scripless securities of the Central Bank, of direct participants, in the case of dealer direct participants, of their customers. The Central Bank may make such rules as it may consider necessary in relation to the depository.

Establishment of systems for transfer of funds and transfer and settlement of scripless securities.

(2) A system established under subsection (1) may be linked to another system in Sri Lanka or elsewhere for the clearing or settlement of payment obligations or securities, and the Central Bank may enter into agreements with the operators of any of such systems.

(3) (a) The Central Bank shall provide facilities for clearance transactions among licensed commercial banks operating in Sri Lanka or any other financial institutions as may be approved by the Governing Board.

(b) The reserves maintained by licensed commercial banks in the Central Bank or the funds maintained in the Central Bank by any financial institution as may be approved by the Governing Board shall serve as a basis for the clearance
5 of cheques and the settlement of balances among such banks and financial institutions in accordance with such rules as may be made in that behalf by the Central Bank.

(4) The Central Bank may enter into agreements with the participants of a system established under subsection (1)
10 and issue in writing to the participants of the system, rules for the operation of the system.

(5) Without prejudice to the generality of subsection (4), such rules may provide–

15 (a) for the provision of intra-day credit against the collateral of securities to the participants and the conditions attaching to the provision of such credit;

20 (b) for the appointment of the Central Bank as a certification authority for the purpose of issuing certificates to participants under any law applicable to the appointment of certification authorities in respect of electronic signatures;

(c) for the formulation and adoption of a code of conduct for participants;

25 (d) for the authentication of transactions carried out electronically;

30 (e) for the Central Bank, if it considers necessary in the interest of the system, to cease or suspend the operation of the system, or to withdraw or suspend the privileges or rights of any participant or category of participants or to suspend or revoke the membership in the system of a participant;

- (f) for the appointment of auditors or inspectors for the auditing or inspection of the operating systems of participants in respect of the settlement system; and
- 5 (g) for the payment of charges and fees to the Central Bank by the participants.
- (6) A payment or transfer made through a system established under subsection (1), is final and irrevocable—
- 10 (a) in the case of a transaction involving a funds transfer only, upon the settlement account of the participant requesting the funds transfer being debited;
- 15 (b) in the case of a transaction involving a securities transfer only, upon the securities account of the participant requesting the securities transfer being debited;
- 20 (c) in the case of a transaction involving both a funds transfer and a securities transfer, upon debiting the settlement account or the securities account of a participant requesting the funds transfer or the securities transfer as the case may be, whichever occurs earlier,
- 25 and notwithstanding anything to the contrary in any other written law, such payment or transfer shall not be required to be reversed, repaid or set aside and no court shall order such payment or transfer to be rectified or stayed.
- (7) (a) Any scripless securities issued under this Act or the Local Treasury Bills Ordinance (Chapter 417) or the Registered Stock and Securities Ordinance (Chapter 420)
- 30 shall be transferred, pledged, encumbered, lent, borrowed or transacted in only as provided by or under the rules made

under this Act or regulations made under the Local Treasury Bills Ordinance or the Registered Stock and Securities Ordinance, as the case may be.

(b) A transfer, pledge, encumbrance, loan, borrowing or
5 transaction effected under paragraph (a) shall be valid and
effectual notwithstanding anything in any other written law,
and the claim of a participant of the system on any scripless
securities posted as collateral in accordance with those rules
or regulations as may be applicable shall have priority over
10 the claims on such scripless securities of a person who is not
a participant of the system.

(8) Nothing in subsections (5) and (6) shall affect any
other legal right or remedy available to a person who has
suffered any loss or damage by a payment, transfer or
15 settlement effected through a system established under
subsection (1).

(9) Notwithstanding the provisions of any written law
relating to the winding up of companies, if proceedings for
the winding up of a participant of a system have
20 commenced—

- (a) the Central Bank may do anything permitted or
required by the rules of the system in order to net
obligations incurred on or before the day on which
the proceedings commenced;
- 25 (b) the obligations that are netted under the rules of
the system shall be disregarded in the proceedings;
and
- (c) the netting made by the Central Bank and any
payment made by the participant under the rules of
30 the system shall not be voidable in the proceedings.

(10) If proceedings for the winding up of a participant
is commenced and a payment or settlement owed by such

participant has been made as referred to in subsection (6) or (9), and if a payment or settlement of such funds or securities would have been void or voidable under any other written law if made outside the system, the liquidator of such
5 participant may recover from the person to whose benefit such payment or settlement was made such amount as would have been recoverable, if such payment or settlement had been made outside the system.

(11) Where any transaction effected through a system
10 established under subsection (1) is carried out electronically, such transaction shall not be denied legal effect, validity or enforceability solely on the ground that such transaction is carried out electronically or that the information relating to such transaction is maintained in the form of an electronic
15 record, and notwithstanding anything to the contrary in any other written law, such record may be tendered in evidence in proceedings before any court or tribunal.

(12) Any or all of the functions referred to in subsection (1) or (2) may be carried out by a body corporate authorized
20 for the purpose by the Governing Board, subject to such terms and conditions as may be imposed by the Governing Board.

(13) The Central Bank shall provide facilities—

25 (a) for financial institutions other than licensed commercial banks, as may be approved by the Governing Board, to maintain accounts at the Central Bank for the purpose of settling securities transactions; and

30 (b) for financial institutions other than licensed commercial banks, as may be approved by the Governing Board to maintain accounts at the Central Bank for the purpose of holding scripless securities or clearing and settling transactions in scripless securities among
35 direct participants.

(14) (a) Any or all of the functions referred to in paragraph (d) of subsection (1), paragraph (a) of subsection (3) and subsection (13) may be carried out by a body corporate authorized for the purpose by the Governing Board, subject
5 to such terms and conditions as may be imposed by the Governing Board.

(b) The body corporate referred to in paragraph (a) may maintain an account with the Central Bank for the purpose of carrying out such functions.

10 **61.** (1) The Central Bank shall be responsible for the regulation, licensing, registration and oversight of payment, clearing and settlement systems as further specified in the Payment and Settlement Systems Act, No. 28 of 2005 or any
15 other written law relating to regulation, licensing, registration and oversight of payment, clearing and settlement systems.

Licensing
and
oversight.

(2) The Central Bank may, by rules—

- (a) require the registration or licensing of any payment, clearing and settlement system or the operator of such system;
- 20 (b) require any payment, clearing and settlement system or the operator of such system to observe such conditions and requirements as may be prescribed by the Central Bank; and
- 25 (c) regulate and oversee the issuance of payment instruments.

(3) Any employee of the Central Bank or any other qualified person nominated by the Central Bank, may conduct periodic examinations over payment, clearing and settlement systems and the participants of such systems, to
30 examine such accounts, books, documents and other records, or to obtain such information or records of such systems and participants or to take such other action as the Central Bank may direct.

(4) The payment, clearing and settlement systems, and their operators and participants, shall furnish the Central Bank with such information and records as the Central Bank may require.

- 5 (5) The Central Bank may disclose information and data obtained under subsection (3) or (4) in whole or in part in accordance with section 80.

PART IX

SUPERVISION AND RESOLUTION OF FINANCIAL INSTITUTIONS

- 10 **62.** (1) The Central Bank shall be exclusively responsible for the regulation, licensing, registration and supervision of financial institutions. Such responsibility shall include the imposition of administrative measures within the meaning of section 109. Supervisory authority of the Central Bank.
- 15 (2) Any employee of the Central Bank or any other qualified person authorized by the Central Bank shall examine the books and accounts of financial institutions, at least once in each examination period, and shall make such further examinations in respect of any financial institution,
- 20 whenever required so to do by the Governor of the Central Bank.
- (3) A report on the results of each examination under this section shall be furnished to the Governing Board.
- (4) Any person authorized by the Central Bank may—
- 25 (a) administer oaths or affirmations, in accordance with the Oaths and Affirmations Ordinance (Chapter 17), to any director, officer, or employee of any financial institution;

5 (b) require any director, officer, or employee to furnish such information as such person may consider necessary for the purpose of ascertaining the true condition of the affairs of any such financial institution; or

 (c) require any director, officer, or employee to produce for inspection any book, record, or other document in his possession containing or likely to contain any information.

10 (5) It shall be the duty of every director, officer or employee of any financial institution to afford to the Central Bank or to any person authorized by the Central Bank an opportunity to examine books and records and its cash, assets,
15 liabilities and general condition, whenever so requested by the Central Bank.

 (6) The Central Bank may, for the purpose of the continuous supervision of financial institutions—

20 (a) require any such financial institution, to furnish from time to time and within such period as may be specified, such statement and information relating to the business or affairs of such financial institution, as it may consider necessary to obtain for the purpose of ascertaining the true condition of the affairs of such financial institution;

25 (b) require the auditor of any such financial institution, to furnish to it within such period as may be specified, any information in relation to an audit carried out by such auditor of such financial institution, as it may consider necessary to obtain
30 for the purpose referred to in paragraph (a); and

 (c) examine the books and accounts kept by any such financial institution as it may deem necessary for

the purpose of verifying the accuracy of any statement or information so furnished.

5 (7) Any employee of the Central Bank or any other qualified person authorized by the Central Bank shall examine the books and accounts of any subsidiary or agency of any financial institution including the overseas operations of such financial institution, if directions in that behalf are given by the Central Bank.

10 (8) The Central Bank may exchange information and data obtained under subsection (4) or (6), in whole or in part or aggregate form, from the classes of financial institutions determined in accordance with the nature of their business with competent authorities in or outside Sri Lanka that are entrusted with—

- 15 (a) the supervision of other financial institutions;
- (b) the supervision of financial markets;
- (c) maintaining the stability of the financial system through the use of macroprudential policy; and
- 20 (d) the reorganization or resolution of financial institutions,

and may enter into agreement with any of such authorities for determining the procedure for the exchange of information and data and specifying their respective roles and duties.

25 (9) The Central Bank may disclose information and data obtained under subsection (4) or (6), in whole or in part or aggregate form, from the classes of financial institutions determined in accordance with the nature of their business in accordance with section 80.

(10) In this section—

”examination period” means a period of such duration as may be specified for the purpose by the Central Bank; and

5 “qualified person” means a person who possesses an academic or professional qualification and extensive knowledge and experience in the field of banking, finance, accounting, auditing, law, risk management or any other similar field.

10 **63.** (1) Notwithstanding anything to the contrary in any other written law, the Central Bank shall be exclusively responsible for the resolution of financial institutions provided that there is no material risk to public funds arising from a potential crisis. Resolution authority of the Central Bank.

15 (2) The Central Bank may enter into agreements with foreign supervisors and resolution authorities for the exchange of information and cooperation in resolution planning and in the implementation of resolution measures.

20 (3) The Central Bank may exercise supervisory authority specified in section 62 to carry out resolution planning and implement resolution measures on financial institutions.

PART X

MACROPRUDENTIAL AUTHORITY

25 **64.** (1) The Central Bank shall be the macroprudential authority in Sri Lanka. Macroprudential objectives of the Central Bank.

30 (2) The Central Bank shall develop and periodically update the overall approach to the use of macroprudential tools, and publish such approaches with a view to informing the public of the role of the Central Bank in macroprudential policy.

(3) In order to achieve the financial stability, the Central Bank shall pursue the following intermediate macroprudential objectives–

- 5 (a) to maintain the resilience of the financial system, in a manner that supports the provision of financial services even under adverse economic and financial conditions;
- (b) to contain risks from unsustainable increases in credit and leverage; and
- 10 (c) to contain risks from interconnectedness within the financial system and control the risk of failure of individual systemically important institutions.

(4) (a) Without prejudice to the provisions of sections 5 and 6, the Central Bank shall, on the request of the Minister, 15 provide the Minister with information regarding the exercise, discharge and performance of the powers, functions and duties of the Central Bank.

(b) Any specific information relating to supervised or overseen entities may be provided only for the purpose of 20 the Government's functions with respect to financial stability, including crisis prevention and crisis management.

(c) Notwithstanding the confidentiality requirements specified in this Act, the supply of such information shall be 25 subject to such limitations as the Central Bank may deem appropriate to preserve confidentiality.

(5) In the achievement of financial stability under subsection (3), the Central Bank shall consider the interests of depositors.

30 **65.** (1) The Central Bank, as the macroprudential authority may– Macroprudential powers of the Central Bank

- (a) monitor, identify or assess the build-up of risks and vulnerabilities in the financial system;

- (b) request, collect, compile, analyze or publish data, information and statistics in order to achieve the macroprudential objectives;
- (c) conduct stress testing and simulation exercises;
- 5 (d) designate systemically important financial sector participants under section 69;
- (e) adopt and apply the macroprudential instruments indicated in section 67 to financial institutions regulated and supervised by the Central Bank;
- 10 (f) adopt and apply enhanced macroprudential oversight to systemically important financial sector participants;
- (g) identify gaps in regulation that could pose systemic risks;
- 15 (h) formulate strategies and policies to mitigate or address identified systemic risks;
- (i) monitor domestic and international financial regulatory developments and advise on legislative or regulatory measures that will enhance financial stability;
- 20 (j) develop and propose prudential standards to be applied by relevant financial sector authorities in respect of financial sector participants regulated and supervised by such authorities;
- 25 (k) facilitate information sharing and cooperation among relevant financial sector authorities; and

(l) propose to the Financial System Oversight Committee established under the provisions of section 72 the recommendations to be issued to public or financial sector authorities.

5 (2) The Governing Board shall meet at least quarterly for the purpose of deciding any matter in relation to macroprudential authority under this section.

(3) The Central Bank shall, without prejudice to its autonomy communicate to the Financial System Oversight
10 Committee, such information as may be necessary for the exercise, discharge and performance of powers, functions and duties under this section.

66. (1) The Central Bank shall monitor, analyse, and assess— Monitoring,
analysis and
assessment of
risks.

15 (a) vulnerabilities of the financial sector, including the risks arising from the developments in the financial sector;

(b) risks to the financial system, including those arising from financial developments in the household and
20 non-financial corporate sectors;

(c) risks to the financial system arising from the broader economic context, in or outside Sri Lanka; and

(d) any risk to the financial system stability, the nature and extent of such risk, including any risk
25 contemplated in any matter raised by members of the Financial System Oversight Committee or reported by a financial sector authority in terms of this Act or communicated by a public authority.

(2) The Central Bank shall determine the methodology
30 and indicators to be used in the assessment of systemic risks, at an early stage.

67. (1) In order to mitigate or eliminate identified systemic risks, the Central Bank shall issue qualitative and quantitative macroprudential instruments, which include –

- (a) countercyclical capital buffers;
- 5 (b) capital conservation buffer;
- (c) dynamic provisioning;
- (d) caps on leverage ratios;
- (e) caps on interest rates and credit growth;
- (f) sectoral capital requirements;
- 10 (g) caps on loan-to-value ratios;
- (h) caps on debt-service-to income ratio;
- (i) caps on loan-to-income and debt-to-income ratios;
- (j) exposure caps;
- (k) liquidity tools;
- 15 (l) capital surcharges;
- (m) liquidity surcharges;
- (n) control of inter-linkages in funding or derivatives markets; and
- (o) margin deposit requirements.

20 (2) The Central Bank may apply macroprudential instruments in respect of any financial sector participant or class of such financial sector participants regulated and supervised by the Central Bank.

68. (1) The Central Bank may exercise the following powers upon financial institutions: -

Powers of the Central Bank upon financial institutions.

(a) to directly collect relevant data or information;

5 (b) to apply a macroprudential instrument according to section 67;

(c) to conduct on-site inspections to verify data and information collected under paragraph (a), and verify compliance with the rules made under this Act; and

10 (d) to enforce such rules by applying the administrative measures indicated in section 109 of this Act to any financial sector participant that is not compliant; and ordering a financial sector participant to take, or refrain from taking, actions
15 that are necessary to restore compliance.

(2) The Central Bank shall have the power to collect relevant data or information directly from any person or institution in order to achieve its macroprudential objectives.

69. (1) The Central Bank shall prescribe the criteria that are used to designate financial sector participant as systemically important.

Designation of systemically important financial sector participants.

(2) Nothing provided for in subsection (1) shall be construed so as to entitle any financial sector participant
25 guarantee or credit or other support from any public authority.

70. The Central Bank shall, if it considers necessary to prevent or mitigate a systemic risk with powers other than macroprudential instruments as provided for in subsection
30 (1) of section 67, or if such risk is likely to be arising from the behavior of any class of financial sector participants outside of the Central Bank's regulatory or supervisory authority, propose to the Financial System Oversight

Central Bank to propose recommendations to the Financial System Oversight Committee.

Committee, recommendations to be issued to relevant public authorities or to financial sector authorities, under section 76.

5 **71.** (1) The Central Bank shall prepare and publish an assessment of the stability of the financial system (in this Act referred to as the “Financial Stability Review”) on or before the thirty-first day in the month of October of each year. Financial
Stability
Review.

(2) The Financial Stability Review shall include -

- 10 (a) the Central Bank’s assessment of financial system stability;
- (b) the identification of, and assessment of, the risks and vulnerabilities of the financial system;
- 15 (c) an overview of measures taken by the Central Bank and the other financial sector authorities to identify and manage risks, vulnerabilities or disturbances in the financial system; and
- 20 (d) an overview of recommendations made by the Financial System Oversight Committee during the period under review and the progress made in implementing the recommendations.

PART XI

25 FINANCIAL SYSTEM OVERSIGHT COMMITTEE

72. (1) There shall be a Financial System Oversight Committee. Establishment
of the
Financial
System
Oversight
Committee.

(2) The objective of the Financial System Oversight Committee shall be to contribute to secure the stability of the financial system in line with the macroprudential policy. Committee.

30

- 73.** The Financial System Oversight Committee shall- Powers, duties and functions of the Financial System Oversight Committee.
- (a) examine macroprudential policy to mitigate identified building-up of systemic risks affecting the financial system;
- 5 (b) coordinate the implementation of macroprudential policy;
- (c) upon a proposal of the Central Bank under section 70, issue recommendations to relevant public authorities and financial sector authorities on corrective action in response to the risk identified and, making those recommendations public, if it deems necessary; and
- 10 (d) monitor compliance with its recommendations.
- 74.** (1) The Financial System Oversight Committee shall consist of – Composition of the Financial System Oversight Committee.
- 15 (a) the Governor of the Central Bank, who shall be the Chairperson;
- (b) the Deputy Governor of the Central Bank in charge of macroprudential policy;
- 20 (c) the Deputy Governor of the Central Bank in charge of regulation and supervision;
- (d) a Deputy Secretary to the Treasury nominated by the Secretary to the Treasury;
- 25 (e) the Chief Executive Officer of the Insurance Regulatory Commission of Sri Lanka;
- (f) the Chief Executive Officer of the Securities and Exchange Commission of Sri Lanka; and

(g) another person who may be appointed by the Governing Board.

5 (2) The Financial System Oversight Committee may invite representatives from any other public authority to the meetings of the Committee to express their opinions.

(3) The *quorum* for a meeting of the Financial System Oversight Committee shall be four voting members, including the members referred to in paragraph (a) and (b) or (c) of subsection (1).

10 (4) Every voting member of the Financial System Oversight Committee shall have one vote and in the case of an equality of votes, the Chairperson shall be entitled to a second or casting vote.

15 (5) The Financial System Oversight Committee shall, in the case of paragraph (c) of section 73, vote by ordinary resolution.

20 (6) A meeting of the Financial System Oversight Committee shall be convened at least quarterly. Any extraordinary meeting may be convened by the Chairperson, at his discretion or at the written request of at least two voting members.

(7) The Financial System Oversight Committee may make rules regarding the procedures to be followed at its meetings.

25 (8) The minutes of each meeting of the Financial System Oversight Committee shall be kept at least for a period of twelve years.

30 **75.** The Central Bank shall establish a Secretariat of the Financial System Oversight Committee, which shall be responsible for high-quality analytical, statistical, administrative, logistical and financial support to the Secretariat of the Financial System Oversight Committee.

Financial System Oversight Committee, under the direction of the Chairperson of the Financial System Oversight Committee.

5 **76.** (1) Any recommendation under paragraph (c) of section 73 may be of either general or a specific nature and may be addressed to all or one or more public authorities, according to the mandate of the authority receiving the recommendation.

Recommendations to public authorities and financial sector authorities.

10 (2) The recommendation shall include a specified timeline for the policy response.

15 (3) The recommendation may be addressed to financial sector authorities in order to request the adoption of specific actions by exercising its regulatory, supervisory, enforcement, or resolution powers, according to the mandate of the authority receiving the recommendation.

(4) The recommendation shall be deemed to be fully implemented when the authority receiving it adopts all the actions within the timeline specified in the recommendation.

20 (5) (a) Where the receiving authority does not intend to fully implement the recommendation, it shall communicate the reasons therefor to the Secretariat of the Financial System Oversight Committee.

25 (b) Where the receiving authority implements only a part of the recommendation within the specified timeline, it shall communicate the reasons for not implementing the rest of the recommendation to the Secretariat of the Financial System Oversight Committee.

30 (6) Where the Financial System Oversight Committee decides not to implement the recommendation in full, it shall make public such decision.

(7) Notwithstanding the provisions of subsection (6), where a recommendation is issued on a financial sector participant designated as systemically important, the Financial System Oversight Committee shall be convened
5 immediately and shall determine whether to re-issue the recommendation subject to a detailed explanation. If any recommendation is re-issued and if it is not fully implemented by the financial sector participant, the Financial System Oversight Committee shall publish the decision taken.

10 (8) (a) The Financial System Oversight Committee shall, in appropriate circumstances, decide whether a recommendation shall be published.

(b) If the Financial System Oversight Committee decides to make a recommendation public, it shall inform the
15 receiving authority in advance.

(c) The authority receiving a recommendation that has been made public by the Financial System Oversight Committee may make its views and reasoning public in response thereto.

20

PART XII

INFORMATION EXCHANGE WITH FINANCIAL SECTOR AUTHORITIES

25 **77.** (1) Notwithstanding anything to the contrary in any other written law, the financial sector authorities shall cooperate with the Central Bank regarding its macroprudential authority and shall provide the Central Bank with all the data and information necessary in the exercise of its macroprudential authority.

Information exchange with regard to macroprudential issues.

30 (2) Upon a request for data or information or statistics is made by the Central Bank under this Part, a financial sector authority shall provide the Central Bank with any such data, information or statistics in its possession within a period specified in such request or within a reasonable period.

78. (1) For the implementation of the provisions of this Part, the Central Bank shall, as soon as practicable, enter into agreement with each financial sector authority, for determining the procedure for such implementation and specifying their respective roles and duties.

(2) The agreement shall, as a minimum include provisions on-

- (a) collection and sharing of information; and
- (b) notification and consultation on macroprudential policy measures to be taken by financial sector authorities.

(3) The Central Bank may, for the implementation of the provisions of this Part enter into agreement with any public authority.

(4) The agreement entered into under subsection (1) may be reviewed and updated as appropriate, at least once in every three years.

PART XIII

STATISTICS AND INFORMATION

79. The Central Bank, in order to achieve its objects and for the effective exercise, discharge and performance of its powers, functions and duties under this Act or any other written law, may-

- (a) collect, compile, analyze, abstract and publish relevant statistics and information;
- (b) prescribe the statistical information so required and the form in which such information is to be provided to the Central Bank, the persons subject to reporting requirements, the applicable confidentiality regime

Collection of statistics and information.

and the administrative measures that may be imposed in case of breach of such requirements; and

5 (c) coordinate with bi-lateral and multilateral agencies in the adoption of internationally accepted statistical methodologies and data dissemination standards with a view to achieving consistency and efficiency in the organization of statistics and information.

10 **80.** The Central Bank may publish statistics, information and the methodology applied in compilation of statistics and information, subject to the rules on the confidentiality referred to in section 120. Dissemination of statistics and information.

PART XIV

15 RELATIONSHIP WITH PARLIAMENT, THE GOVERNMENT AND THE PUBLIC

20 **81.** (1) The Central Bank shall, once in every six months and at such additional times as it deems necessary, inform the public regarding the implementation of its monetary policy, and the achievement of its objects. Accountability.

(2) The Governor of the Central Bank may, at the request of Parliament or on his own initiative, be heard by Parliament or any of its committees periodically, regarding the functions of the Central Bank.

25 (3) The Central Bank shall, within a period of four months after the close of each financial year, publish, and lay before Parliament through the Minister, a report approved by the Governing Board, on the state of the economy during such financial year emphasizing its policy objectives and
30 the condition of the financial system. The report shall include a review and an assessment of the policies of the Central Bank followed during such financial year.

82. (1) The Central Bank shall act as the financial advisor to the Government.

Financial
advisor to,
fiscal agent
of, and
banker to,
the
Government.

(2) The Central Bank may, on such terms and conditions as it shall agree with the Government, act as fiscal agent of the Government to the extent provided for by or under any written law and banker to the Government.

(3) In the discharge of its functions as the fiscal agent of and banker to the Government, the Central Bank may engage the services of banks or other institutions in places, whether in or outside Sri Lanka, where the Central Bank does not have offices or agencies adequately equipped to perform such functions.

(4) The Central Bank shall, on request of the Government, provide the Government with data on funds received by the Central Bank, acting as the fiscal agent of the Government.

(5) The Government shall, on request of the Central Bank, provide the Central Bank with such information and documents as the Central Bank may request for the purpose of coordinating the functions of the Central Bank with the fiscal policy of the Government.

(6) The Central Bank may represent the Government of Sri Lanka in any dealing, negotiation, or transaction with the International Monetary Fund, the International Bank for Reconstruction and Development or any other international financial institution of which Sri Lanka is a member, and shall maintain such accounts as may result from Sri Lanka's membership in, or operations with, such International Monetary Fund, International Bank for Reconstruction and Development or such other international financial institution. The Central Bank may be authorized by the Government to represent it in any dealing, negotiation, or transaction with foreign Governments, institutions, or agencies.

(7) The Central Bank may operate a registry for securities issued by the Government.

5 **83.** (1) The Central Bank shall be the official Depository for the Government.
depository, and may accept deposits in any currency from,
or on behalf of the Government:

Provided, however, that the Central Bank may authorize one or more licensed commercial banks operating in Sri Lanka to accept Government deposits, subject to such rules as the Governing Board may prescribe.

10 (2) As the depository, the Central Bank shall receive and disburse moneys, keep records thereof, and provide other financial services related thereto to the Government.

(3) The Central Bank shall not pay any interest on any deposit held by the Government in Sri Lankan rupees.

15 **84.** (1) There shall be a Council for the Coordination of Coordination of
Fiscal, Monetary and Financial Stability Policies of the Council.
Central Bank, (in this Act referred to as the "Coordination
Council") consisting of the following members:—

- (a) the Minister, who shall be the Chairperson;
- 20 (b) the Governor of the Central Bank;
- (c) the Secretary to the Treasury; and
- (d) the Secretary to the Ministry of the Minister assigned the subject of Economic Policy, in the event that such subject is assigned to a Minister other than the Minister of Finance.
- 25

(2) The Coordination Council shall hold its meetings quarterly to share information and exchange views on recent macroeconomic developments, outlook, and risks.

(3) The Chairperson of the Coordination Council or the Governor of the Central Bank shall call for an emergency meeting to share information and exchange views on any event or circumstance that poses a significant risk to financial stability, or that is expected to have a substantial adverse effect on economic activity, in Sri Lanka, with contagion effects among financial sector participants.

(4) The Central Bank shall place before the Coordination Council—

- 10 (a) data relevant for the purpose of subsection (2);
- (b) the assessment of the Central Bank regarding the impact of economic policies of the Government on inflation, monetary conditions and fiscal operations.

15 (5) For the avoidance of doubts, the Coordination Council shall have no authority to make decisions over the fiscal, monetary and financial stability policies.

85. (1) Without prejudice to the provisions of sections 5 and 6, the Central Bank shall- Cooperation with the Government.

- 20 (a) cooperate with the Government and any other public authority; and
- (b) exchange views with the Government and any other public authority on policies relating to monetary, foreign exchange operations, financial system stability, crisis prevention and crisis management and fiscal matters.
- 25

(2) The Central Bank and the Minister shall keep each other fully informed of all matters that affect the functions of the Central Bank and the Ministry.

(3) The Central Bank may advise the Government on any matter which, in its opinion, is likely to affect the achievement of the objects of the Central Bank under this Act.

5 **86.** The Central Bank may, in order to achieve its objects and in the exercise, discharge and performance of its powers, functions and duties under this Act, cooperate with domestic or foreign regulatory, supervisory, or monetary authorities, or with public international financial institutions, 10 with a view to sharing information, coordinating activities, or arranging any other form of cooperation as it may deem necessary.

Inter-institutional cooperation.

15 **87.** (1) The Central Bank shall not, directly or indirectly, grant credits to the Government or any public authority owned by the Government or to any other public entity.

Prohibition on monetary financing.

20 (2) The Central Bank shall not incur any cost on behalf of the Government, except for expenses related to the functions of the Central Bank under subsection (2) of section 113 of this Act.

(3) The prohibition laid down in subsection (1) shall not apply to such Government-owned or publicly-owned banks and other financial institutions as may be determined by the Governing Board.

25 (4) The Central Bank shall not purchase securities issued by the Government, by any Government-owned entity, or any other public entity in the primary market. The Central Bank may purchase such securities in the secondary market provided that such purchases do not circumvent the 30 prohibition laid down in subsection (1).

PART XV

PUBLIC DEBT MANAGEMENT AND CREDIT OPERATIONS

35 **88.** (1) The Central Bank shall, as agent of the Government, be responsible for the management of the public debt.

Public debt management.

(2) The issue of securities of the Government shall be made through the Central Bank, which shall act as agent of the Government, and for the account of the Government:

5 Provided, however, that the Central Bank shall not subscribe to any issue of such securities or agree to purchase the unsubscribed portion of any such issue.

89. (1) The Central Bank may, as the agent of the Government- Credit operations with credit institutions.

- (a) disburse and recover any loan or advance;
- 10 (b) issue guarantees, pay indemnity payments, recover any post claim recoveries and write off any unrecoverable balance; or
- (c) disburse grants and interest subsidy,

15 out of the funds of the Government with a view to implementing refinance loan schemes and interest subsidy loan schemes under such terms and conditions as may be determined by the Government.

(2) Any loan or advance granted to such institution shall be made against a promissory note or such other security
20 as may be determined by the Government subject to the following conditions-

- (a) that the loan or advance is repayable within such period not exceeding fifteen years as may be determined by the Government;
- 25 (b) that the repayment to the Central Bank of the loan or advance is secured by the assignment to the Central Bank, by way of pledge, of debts owed to such institution by its borrowers in respect of such purpose; and
- 30 (c) such other conditions including the rate of interest on such loan or advance, as determined by the Government.

(3) The Central Bank may, in consultation with the Minister prescribe the terms and conditions subject to which loans or advances will be made available to credit institutions out of the funds provided by the Government, for the purposes for which their loans in general are destined, or relating to any other matters affecting or connected with the credit policy of such institutions.

(4) An assignment of debts to the Central Bank under this Part of this Act shall be effected by an instrument which shall be in such form as may be determined by the Governing Board.

(5) The Central Bank shall, on the execution of an assignment, have a first charge on the debts so assigned.

(6) The provisions of this Part of this Act shall have effect notwithstanding anything to the contrary in any other provision of this Act.

90. No Stamp Duty shall be chargeable or payable on or in respect of any instrument of assignment of debt by way of pledge to the Central Bank under this Part of this Act. Stamp duty.

91. No instrument of assignment to the Central Bank under this Part of this Act shall require registration under the Registration of Documents Ordinance (Chapter 117). Registration of instrument of assignment.

92. No assignment shall require execution before a licensed notary public and witnesses as provided for by section 2 of the Prevention of Frauds Ordinance (Chapter 70). Applicability of the Prevention of Frauds Ordinance.

93. In this Part of this Act— Interpretation.

“assignment” means an assignment by way of pledge;

“credit institution” means any bank licensed under the Banking Act, No. 30 of 1988; and

5 “productive purpose” means any purpose connected with or relating to the promotion or development of agriculture, industry, trade, commerce or business, as determined, from time to time, by the Government.

PART XVI

FINANCIAL PROVISIONS

10 **94.** The financial reporting framework, and accounting policies and procedures shall be in line with the internationally recognized financial reporting framework, as approved by the Governing Board. Accounting standards.

95. The financial year of the Central Bank shall be the calendar year. Financial year.

15 **96.** (1) The Central Bank shall establish and maintain a general reserve account. Reserve accounts.

(2) The general reserve account shall not be used for any other purposes, except for the purposes of transferring to retained earnings if it becomes negative.

20 (3) The Central Bank shall establish special reserve accounts to record unrealized gains and losses arising from exchange rates and unrealized gains arising from market price revaluation due to its positions in foreign currencies, gold, financial instruments, and other financial assets recorded in the income statement in line with the
25 internationally recognized financial reporting framework as approved by the Governing Board, prior to distribution of profits.

30 **97.** (1) Before the expiration of forty-five days after the end of each financial year, the Central Bank shall determine its net profits or losses, and distributable earnings. Profits, losses and distributable earnings.

(2) (a) The earnings available for distribution shall be determined by deducting from the net profits after tax the total amount of unrealized revaluation gains arising from price revaluations and unrealized revaluation gains and losses arising from exchange rates, and by allocating an equivalent amount to the respective unrealized revaluation reserve accounts.

(b) Unrealized revaluation losses arising from exchange rates shall be transferred to the respective unrealized revaluation reserve account until such revaluation reserve account has a zero balance, after which the losses shall be covered by the retained earnings.

98. (1) Before the expiration of sixty days after the end of each financial year, the Governing Board shall, based on the income statement, statement of financial position, statement of cash flows and statement of changes in equity of such financial year, allocate the distributable earnings in accordance with the following provisions –

Allocation of distributable earnings.

(a) Firstly - the Central Bank may establish special reserves for such purposes as the Governing Board may deem fit;

(b) Secondly - an amount equivalent to hundred percent of distributable earnings remaining after allocation to special reserves pursuant to the previous provision shall be credited to the general reserve account until the sum of the paid-up capital and general reserve is at least six percent of the total monetary liabilities of the Central Bank;

(c) Thirdly - any remaining distributable earnings after compliance with the preceding provisions shall, in consultation with the Minister, either be applied in liquidation of any outstanding Government obligations to the Central Bank due as at the end of the financial year or be paid and credited to the Consolidated Fund.

(2) No distribution shall be made except as provided for in subsection (1).

99. In the event, the audited annual financial statements of the Central Bank reflect that the value of its assets falls below the sum of its monetary liabilities and its paid-up capital -

Coverage of shortfall in capital.

(a) the Central Bank shall, within a period not exceeding thirty days, assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation;

(b) in the event that the Governing Board approves the report prepared under paragraph (a), the Central Bank shall request the Minister for a capital contribution to be made by the Government to remedy the deficit with a view to restoring the capital to an unimpaired level; and

(c) the Minister may, upon the request made under paragraph (b), seek the approval of Parliament to transfer to the Central Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at prevailing market-related interest rates.

100. The Central Bank shall publish a general balance sheet showing the volume and composition of its assets and liabilities as at the last day of each month before the last day of the succeeding month.

Balance sheet of the Central Bank.

101. (1) The Central Bank shall prepare financial statements for a financial year.

Annual financial statements.

(2) Within four months after the close of each financial year, the Central Bank shall submit to the Minister, financial statements approved by the Governing Board, signed by the Governor of the Central Bank and the Chief Accountant and audited by the Auditor-General.

(3) The financial statements shall be laid before Parliament within fourteen days after the receipt thereof by the Minister, if Parliament is then in session, or, if Parliament is not in session, within fourteen days after the commencement of the next ensuing session.

(4) Upon completion of the requirements under subsection (2), the Central Bank shall publish the financial statements.

102. (1) Prior to the commencement of each financial Budget.
10 year, the Governing Board shall approve the annual budget of the Central Bank.

(2) All revenue and income projected to be generated by the Central Bank or granted to the Central Bank from any source together with projected expenditures, including depreciation and provisions for losses, shall be included in the annual budget.

(3) The Governing Board may make rules for the implementation of the annual budget.

PART XVII

INTERNAL AND EXTERNAL AUDITS

103. (1) The accounts of the Central Bank shall be Auditing of
audited by the Auditor-General. the accounts
of the Central
Bank.

(2) The Auditor-General or any officer of the National Audit Office established under the National Audit Act, No. 19 of 2018, authorized in that behalf by the Auditor-General, or any other auditor appointed by the Auditor-General shall at all times have the right of access to and examination of the accounts of the Central Bank and of all books and documents containing information with respect to matters connected with such accounts.

(3) The Auditor-General shall report to the Governor of the Central Bank on main concerns arising from the audit and in particular on material weaknesses in internal controls relating to the financial reporting process.

5 (4) The Auditor-General shall submit an opinion on the accounts of the Central Bank to the Minister who shall lay such opinion before Parliament. The opinion of the Auditor-General shall be published together with the annual audited financial statements of the Central Bank.

10 **104.** (1) A Chief Internal Auditor of the Central Bank (in this Act referred to as the “Chief Internal Auditor”) shall be appointed by the Governing Board. Appointment of Chief Internal Auditor.

(2) The Chief Internal Auditor shall be a person with substantive professional experience in the field of accounting or audit.
15

(3) The Chief Internal Auditor shall be appointed for a term of five years and shall be eligible for reappointment for such period as may be determined by the Governing Board:

20 Provided that no person shall serve as the Chief Internal Auditor for more than ten years.

(4) The Chief Internal Auditor shall be removed by a decision of the Governing Board, if the Governing Board is satisfied that such Chief Internal Auditor is subject to any disqualification referred to in subsection (2) of section 18 and subsection (2) of section 20.
25

(5) The Governing Board shall define the scope, terms and conditions of the Internal Audit in the Audit Charter of the Central Bank in line with the international professional practices framework.

30 (6) The Chief Internal Auditor or an officer of the Internal Audit Department authorized in that regard shall, in the

exercise, discharge and performance of his powers, functions and duties under this Act or as may be specifically directed by the Governing Board be entitled to have access to, take into custody or obtain copies of any document, information
5 or record of any activity or transaction undertaken by the Central Bank including any document, information or record provided to or obtained by the Central Bank from any external party or entity, and unless otherwise decided by the Governing Board, it shall be the duty of all officers and
10 employees of the Central Bank to comply with the requirements communicated by the Chief Internal Auditor or a person authorized in that behalf.

105. (1) There shall be an Audit Committee of the Central Bank (in this Act referred to as the “Audit Committee”) consisting of the members of the Governing Board other than the Governor of the Central Bank. Audit Committee.

(2) (a) In the absence of at least one member of the Governing Board with extensive experience in the field of accounting or auditing, an expert with extensive experience
20 in such field shall be appointed as an additional member of the Audit Committee.

(b) The provisions of section 16 shall apply to the appointment of the expert.

(c) The expert shall not have been a member of the
25 Governing Board or an employee of the Central Bank during the period of three years immediately preceding the date of his appointment as a member of the Audit Committee.

(3) An expert appointed under paragraph (a) of subsection (2) shall be removed by a decision of the
30 Governing Board if the Governing Board is satisfied that such expert is subject to any of the disqualifications referred to in subsection (2) of section 18 and subsection (2) of section 20.

(4) The powers, functions and duties of the Audit Committee shall include-

- (a) overseeing the internal audit function;
- 5 (b) monitoring compliance with the findings and recommendations issued by the Chief Internal Auditor;
- (c) meeting with the Auditors to discuss their findings; and
- 10 (d) reviewing with the auditors the annual financial statements.

(5) The Audit Committee shall periodically report to the Governing Board.

15 (6) Subject to subsection (2), the Governing Board shall define the composition, and powers, functions and duties of the Audit Committee in the Audit Charter of the Central Bank.

PART XVIII

GENERAL PROVISIONS

20 **106.** The Central Bank shall, without prejudice to the provisions of section 6, support the economic policy of the Government with a view to encouraging and promoting the development of the productive resources of Sri Lanka.

Duty of the Central Bank to support the economic policy of the Government.

25 **107.** (1) The Central Bank shall have the power to make such rules or issue such directions as it may consider necessary for exercising, discharging and performing the powers, functions and duties entrusted to the Central Bank by or under this Act or any other written law.

Regulatory instruments.

30 (2) A rule made by the Central Bank shall have general application. It shall be binding in its entirety and directly applicable.

(3) A direction issued by the Central Bank shall be binding on the addressee only.

5 **108.** (1) The rules made by the Central Bank shall be published in the *Gazette* and shall take effect on the date of such publication or on such later date as such rules shall specify. Publication of rules.

(2) The Central Bank may decide on the publication of its directions.

10 (3) The Central Bank shall maintain a public register of its published rules and directions.

109. (1) The Central Bank may take administrative measures on any person who contravenes any of the provisions of this Act or any rule, direction or decision made or issued thereunder. Administrative measures.

15 (2) The Central Bank shall, before taking any administrative measures against a person, afford such person an adequate opportunity to be heard providing all material facts pertaining to the contravention referred to in subsection (1).

20 (3) (a) The Central Bank may make rules specifying the procedure to be followed in respect of the imposition of administrative measures.

(b) In the case of administrative fines, the amount of administrative fines shall be prescribed by the Governing Board.

(4) In determining whether to impose administrative measures, and the extent of such measures, the Central Bank shall take into consideration-

30 (a) the severity of the contravention and whether such contravention is recurring;

- (b) whether any loss or damage is caused to the depositors or any other person due to such contravention;
- 5 (c) whether the person against whom a penalty is to be imposed is unduly benefitted from such contravention;
- (d) the financial resources of such person;
- (e) any mitigating factors; and
- (f) such other matters as it considers to be relevant.

10 (5) Notwithstanding anything in any written or other law, no person shall be liable or subject to any action or proceedings in any court in respect of any loss or damage suffered or incurred or alleged to have been suffered or incurred by any other person by reason of any act or thing
 15 done or omitted to be done by such person in carrying out or complying with any provision of this Act or any rule, order or direction made or given under this Act.

(6) For the purpose of this section, “administrative measures” includes administrative fines, written warnings
 20 or orders, suspension and dismissal of administrators of financial institutions, revocation of licences and other measures, as specified in this Act, or in any other relevant law.

110. (1) Where an employee of the Central Bank or a
 25 qualified person authorized by the Central Bank is satisfied, after examination by himself or any examiner of the affairs of any banking institution, or upon information received from the institution, that the institution is insolvent or is likely to become unable to meet the demands of its
 30 depositors, or that its continuance in business is likely to involve loss to its depositors or creditors, the employee of the Central Bank or the qualified person authorized by the Central Bank shall make a report accordingly to the Governor of the Central Bank for submission to the Central Bank.

Power of Central Bank to suspend or restrict business of a banking institution.

(2) Where the Central Bank, upon review of the facts and circumstances, is of opinion that action should be taken as hereinafter provided, the Central Bank may make order directing the institution forthwith to suspend business in Sri Lanka and directing an employee of the Central Bank or a qualified person authorized by the Central Bank to take charge of all books, records and assets of the institution and to take such measures as may be necessary to prevent the continuance of business by the institution.

(3) Notwithstanding anything in any written or other law, no action or proceeding may be instituted in any court for the purpose of securing the review or revocation of any order made under subsection (2) or in respect of any loss or damage incurred, or likely to be or alleged to be incurred, by reason of such order.

(4) An order made by the Central Bank under subsection (2) in respect of any banking institution shall cease to have effect upon the expiration of a period of six months from the date on which it is made, and it shall be the duty of the Central Bank, as soon as practicable and in any event before expiration of the said period—

(a) to make order permitting the institution to resume business, either unconditionally or subject to such conditions as the Central Bank may consider necessary in the public interest or in the interest of the depositors and other creditors of the institution; or

(b) to cause an employee of the Central Bank or a qualified person authorized by the Central Bank to make application to the competent court under such written law as may be applicable in that behalf for the winding up of the institution; or

(c) to cause an employee of the Central Bank or a qualified person authorized by the Central Bank to make application to the competent court to wind up the affairs of a branch of an institution incorporated outside Sri Lanka.

(5) Where an order has been made by the Central Bank under subsection (4) permitting the resumption of business by any banking institution subject to such conditions as may be specified in the order, the competent court may, on application made to it in that behalf by the banking institution at any time while the order is in force, make an order permitting the institution to resume business unconditionally, or varying or altering, in such manner as the court may determine, any or all of the conditions specified by the Central Bank; and any such order shall have effect notwithstanding anything in the order made by the Central Bank under subsection (4).

(6) The employee of the Central Bank or the qualified person authorized by the Central Bank shall be named respondent to any such application and shall be entitled on behalf of the Central Bank to be heard and to adduce evidence at the hearing thereof.

(7) Where application is made by an employee of the Central Bank or a qualified person authorized by the Central Bank as provided for in subsection (4) for the winding up of any banking institution-

(a) the institution shall not carry on business during the pendency of the application unless it is authorized so to do by the court and except in accordance with such conditions, if any, as may be specified by the court; and

(b) the court, if it is of opinion after such inquiry as it may consider necessary, that the institution is not insolvent, may make an order permitting the institution to resume business either unconditionally or subject to such conditions as the court may consider necessary in the public interest or in the interest of the depositors and other creditors of the institution.

(8) Every order made by a competent court under this section shall be subject to an appeal to the Court of Appeal and the provisions of the Civil Procedure Code relating to appeals in civil actions shall apply *mutatis mutandis* in the case of any such appeal:

Provided that an order under paragraph (a) of subsection (7) shall be final and shall not be subject to appeal.

(9) Every application to a competent court under this section shall be deemed to be an action of the value of rupees five thousand.

(10) In this section, “competent court”, in relation to any banking institution, means the District Court of Colombo or, of the district in which the principal office in Sri Lanka of the institution is maintained.

(11) Where the business of a banking institution has been suspended under subsection (2), the Central Bank may—

(a) require such banking institution to forthwith take any action or to do any act or thing which the Central Bank may consider necessary for carrying on the business of such banking institution;

(b) appoint a fit and proper person to advise such banking institution with regard to the proper conduct of the business of such banking institution;

(c) assume control of, and carry on the business of such banking institution or delegate to another person, the carrying on of the business of the banking institution;

(d) reorganize such banking institution by increasing its capital and arranging for new share holders and by the reconstitution of its board of directors; and

- (e) make such arrangements as are necessary for the amalgamation of such banking institution with any other banking institution that consents to such amalgamation.

5 (12) (a) Where an order has been made by the Central
Bank under subsection (1) of section 76m of the Banking
Act, No. 30 of 1988 in respect of a licensed specialised bank,
the provisions of subsections (4), (5), (7), (8), (9), (10) and
10 and (11) of this section shall, notwithstanding subsections (3)
and (4) of section 76m of the Banking Act and subject to
paragraph (ii) of this subsection, apply, *mutatis mutandis*, to
such bank as if it were a banking institution.

15 (b) Where under paragraph (i) of this subsection, the
application of the provisions of subsection (3) of this section
requires -

20 (i) the winding up of a licensed specialised bank,
the Central Bank shall cancel the licence
issued to such bank under Part IXa of the
Banking Act and, the provisions of Part VIII
of that Act shall apply to such winding up as
if it were a compulsory winding up of the
bank, in the case of a bank incorporated or
established within Sri Lanka or a compulsory
winding up of the affairs or closure of the
25 business of the bank, in the case of a bank
incorporated outside Sri Lanka;

30 (ii) the resumption of business of a licensed
specialized bank, the Central Bank may
exercise the powers conferred on it under
section 76n of the Banking Act;

(c) In this subsection “licensed specialised bank” shall
have the same meaning as in the Banking Act, No. 30 of
1988.

5 **111.** The Central Bank shall promote and sponsor the training of technical personnel on the subjects which are relevant to the operations of the Central Bank, and for that purpose, the Central Bank is hereby authorized to defray the costs of study, in Sri Lanka or abroad, of employees of the Central Bank who are of proven merit, or of any other qualified persons selected by the Central Bank. Training.

10 **112.** (1) Any person who contravenes or fails to comply with any provision of this Act or any rule, order or direction made or issued thereunder commits an offence under this Act. Offences under this Act.

15 (2) Where an offence under this Act is committed by a body corporate, then every person who at the time of the commission of the offence was a director or an officer of such body corporate shall be deemed to have committed that offence unless such person proves that the offence was committed without such person's knowledge, or that such person exercised all due diligence to prevent the commission of such offence.

20 **113.** (1) The Governing Board may, having regard to the circumstances in which the offence under this Act was committed, compound such offence for a sum of money as may be determined by the Governing Board which shall not exceed rupees ten million. Compounding offences.

25 (2) The compounding of any offence under this section shall have the effect of an acquittal of the accused.

30 **114.** (1) The Central Bank may collect fees or charges for the services which it renders in the exercise, discharge and performance of powers, functions and duties under this Act. Fees and charges

(2) The Central Bank shall publish such fees or charges in its official website.

35 (3) The Central Bank shall be reimbursed at market rates for the services rendered by it to the Government in terms of the provisions of this Act.

115. (1) Except as otherwise specifically authorized by this Act or any other written law, the Central Bank shall not-

Prohibited activities.

(a) grant any credit, except as authorized under this Act or make any monetary or financial gain;

5 (b) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking except where such interest is acquired in satisfaction of any of its claims:

10 Provided that all such interest shall be disposed of at the earliest possible opportunity;

(c) purchase the shares of any other bank or financial institution or of any company, or grant loans or advances upon the security of any such shares;

15 (d) grant loans or advances on the mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto; or

20 (e) acquire by purchase, lease, or otherwise any right in or to real property, except as it may consider necessary or expedient for the provision of premises for the conduct of its administration and operations or such other requirements incidental to the discharging of its functions.

(2) Notwithstanding the provisions of subsection (1), the Central Bank may-

25 (a) make adequately secured loans to, or have an ownership share or otherwise participate in, any organization that is engaged in activities that are required for the proper discharge of the functions of the Central Bank and including an ownership share or otherwise participate in any company

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5 which, in the opinion of the Governing Board, was formed for the advancement and promotion of human resources and technological development in the banking and financial sector in Sri Lanka, or to provide for all or any of the facilities;

(b) grant credit to any employee of the Central Bank, in accordance with the rules made by the Governing Board;

10 (c) establish employee retirement funds or similar arrangements for the benefit or protection of the employees of the Central Bank and their dependents and nominees, and manage such funds or arrangements; and

15 (d) lease out any property that is not immediately required for the purposes of the Central Bank.

(3) Any activity referred to in paragraph (a) of subsection (2) shall be published by the Central Bank in the report referred to in subsection (3) of section 81.

20 **116.** Subject to the provisions of subsection (6) of section 120, the provisions of this Act shall have effect notwithstanding anything to the contrary in any other written law and accordingly in the event of any inconsistency or conflict between the provisions of this Act and such other written law, the provisions of this Act shall prevail.

Provisions of this Act to prevail over other written law.

25 **117.** Notwithstanding anything in any other written law –

Tax exemption.

(a) the Central Bank shall be exempt from the payment of income tax;

30 (b) all goods of any description imported or purchased out of bond by the Central Bank shall be exempt from customs duty; and

- (c) the Central Bank shall be exempt from the payment of stamp duty on any instrument executed by, or on behalf of, or in favour of the Central Bank in cases where, but for this exemption, the Central Bank would be liable to pay the duty chargeable in respect of such instrument.

118. (1) The Central Bank shall have the first priority and an unconditional preferential right against all other claims to satisfy each of its claims arising from the discharge of its functions from any cash balances, securities and other assets that it holds for the account of the debtor concerned, whether as collateral to secure its claims or otherwise, at the time such claim becomes due and payable.

(2) The Central Bank may exercise its preferential right only by appropriating the cash balances by way of compensation and by selling securities and other assets without undue delay in a commercially reasonable manner and paying itself from the proceeds of the sale after deducting therefrom the costs associated with the sale.

(3) No action from any court of law or from any public entity shall be required for the Central Bank to exercise its preferential right under subsection (2), and no other claim shall be permitted to delay the exercise by the Central Bank of its preferential right in accordance with subsection (2).

119. (1) No attachment or execution shall be issued against the Central Bank or its property, including gold, special drawing rights, currency, credits, deposits or securities, and any proceeds thereof, before the issuance of a final judgment by any court of law established in Sri Lanka.

(2) The Central Bank may, at its discretion, waive the protection either in whole or in part, explicitly and in writing, except with respect to its gold and the special drawing rights.

120. (1) No person who serves or has served as a member of the Governing Board, Monetary Policy Board, Executive Board, Financial System Oversight Committee, or as an employee of the Central Bank or in any other capacity under the authority of the Central Bank shall, except in the exercise, discharge and performance of such person's powers, functions and duties under this Act or any other written law, permit access to, disclose or publicize any non-public information which he has obtained in the performance of his duties or use such information, or allow such information to be used, for personal gain. Confidentiality.

(2) Notwithstanding the provisions of subsection (1), any person referred to in that subsection may disclose non-public information outside the Central Bank, in accordance with procedures established by the Governing Board, if such disclosure-

- (a) is made in accordance with the written consent of the natural or legal person to whom such information relates;
- (b) is made as required by a court of law or to comply with any other provisions of this Act or any other written law for the time being in force;
- (c) is made to the external auditors of the Central Bank to such extent as is necessary to conduct the audit of the Central Bank;
- (d) is made to provide information to domestic or foreign regulatory, supervisory, or monetary authorities, or to public international financial institutions, in the exercise of their duties in relation to the Central Bank; or
- (e) is required in the interests of the Central Bank in any legal proceedings.

(3) The Governing Board shall be entitled to determine the classification and accessibility of information held by or drawn up by the Central Bank.

5 (4) Where, in any legal proceedings, a certified copy of any book or document of the Central Bank or of any entry in such book or document is produced, such certified copy shall be received as *prima facie* evidence of the existence of such book, document or entry, as the case may be, and shall
10 be admitted as evidence of the matters, transactions or accounts therein recorded in every case where, and to the same extent as, the original book, document or entry is now by law admissible, but not further or otherwise.

(5) In this subsection, “certified copy” in relation to any book, document or entry, means a copy of such book,
15 document or entry, together with a certificate written at the foot of such copy-

(a) that it is a true copy of such book, document or entry;

20 (b) that such book or document is still in the custody of the Central Bank; and

(c) that such entry is contained in one of the ordinary books of the Central Bank, and was made in the usual and ordinary course of business,

25 and such certificate being dated and subscribed with the name and official title of such officer as may be authorized for the purpose by the Governor of the Central Bank.

(6) The provisions of the Right to Information Act, No. 12 of 2016 shall have effect notwithstanding anything to the contrary in this Act, and accordingly in the event of
30 any inconsistency or conflict between the provisions of the Right to Information Act and this Act, the provisions of the Right to Information Act shall prevail in relation to any information of the Central Bank.

5 **121.** No member of the Governing Board, the Monetary Policy Board, the Executive Board or any employee of the Central Bank, including a person who previously held such a position, shall be liable for any damage or otherwise liable for any act or omission done pursuant to and in the course of the exercise, discharge and performance of the powers, functions and duties on behalf of the Central Bank unless it has been proved that such damage, act or omission has been done without good faith or has constituted intentional wrongful misconduct or willful default.

Judicial
review.

15 **122.** (1) Every member of the Governing Board, the Monetary Policy Board and the Executive Board and employees of the Central Bank and every person who has been a member of any such Board or an employee of the Central Bank shall be indemnified by the Central Bank for all losses and expenses incurred by him in or about the exercise, performance and discharge of his powers, duties and functions under this Act, other than such losses and expenses as the Governing Board may deem to have been constituted due to his misconduct or willful default.

Indemnification
for costs in
legal
proceedings.

25 (2) For the purpose of subsection (1), every person who has the benefit of such indemnity shall be entitled to seek legal advice or obtain legal representation in respect of any inquiry or investigation conducted by any statutory authority or any legal proceedings instituted against such person. The Central Bank shall pay such cost as may be reasonably incurred in respect of such inquiry or investigation or proceedings, as and when such cost is incurred:

30 Provided however, where it is held that a person is not entitled to be indemnified by the Central Bank due to misconduct or willful default on the part of such person, he shall be forthwith required to reimburse the Central bank on demand, the total cost so incurred by the Central Bank. The amount so demanded shall constitute a debt due from such person to the Central Bank until reimbursed.

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5 **123.** Every member of the Governing Board, Monetary Policy Board and Executive Board and the employees of such Boards and the employees of the Central Bank shall be deemed to be public servants within the meaning and for the purpose of the Penal Code (Chapter 19). Members and employees deemed to be public servants.

124. The Central Bank shall be deemed to be a Scheduled Institution within the meaning of the Bribery Act (Chapter 26) and the provisions of that Act shall be construed accordingly. Central Bank deemed to be a Scheduled Institution.

10 **125.** In this Act, unless the context otherwise requires— Interpretation.

 “bank” means any commercial bank or specialized bank licensed under the Banking Act, No. 30 of 1988;

 “banking institution” means –

 (a) any commercial bank;

15 (b) any agency or institution acting on behalf of the Government (whether established by any written law or otherwise) which grants or makes loans, advances or investments or accepts deposits of money from the public;

20 (c) the Co-operative Federal Bank of Ceylon Limited; and

25 (d) any other person or body of persons declared by the Minister in charge of the subject of Finance, by Order published in the *Gazette*, to be a banking institution for the purposes of the Monetary Law Act (Chapter 422);

 “commemorative currency note or coin” means a currency note or coin issued to commemorate any person or special event;

“currency” means all currency issued and in circulation in accordance with the provisions of this Act;

5 “dealer direct participant” and “direct participant” shall have the respective meanings assigned to them in the Local Treasury Bills Ordinance (Chapter 417) and the Registered Stock and Securities Ordinance (Chapter 420);

10 “deposit liabilities” means all those liabilities of a licensed commercial bank being demand deposits, special deposits, savings deposits, time deposits, placements made by any institution other than a licensed commercial bank in the inter-bank call money market, margins against letter of credit and special deposit schemes including pension funds,
15 children’s deposit schemes and other schemes of a similar nature, and funds held in trust or on behalf of its constituents consequent to deposits, but does not include inter-commercial bank deposits;

“financial institution” means -

20 (a) any licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988;

(b) any licensed specialized bank within the meaning of the Banking Act, No. 30 of 1988;

25 (c) any licensed finance company within the meaning of the Finance Business Act, No. 42 of 2011;

(d) any registered finance leasing establishment within the meaning of the Finance Leasing Act, No. 56 of 2000;

30 (e) any money broker within the meaning of the Money Brokering Regulations issued or deemed to have been issued under this Act;

- (f) any primary dealer within the meaning of the Registered Stock and Securities Ordinance (Chapter 420) or the Local Treasury Bills Ordinance (Chapter 417);
- 5 (g) any authorized or restricted dealer within the meaning of the Foreign Exchange Act, No. 12 of 2017; or
- (h) any other financial institution as may be assigned to the Central Bank by any written law for the time being in force,
- 10 regulated and supervised by the Central Bank;
- “financial market” means an organized institutional structure or mechanism for creating and exchanging financial assets;
- 15 “financial market infrastructure” includes a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions;
- 20 “financial sector authority” means any authority established by law for the regulation or supervision of a financial sector participant;
- “financial sector participant” means –
- 25 (a) any licensed commercial bank within the meaning of the Banking Act, No. 30 of 1988;
- (b) any licensed specialized bank within the meaning of the Banking Act, No. 30 of 1988;
- (c) any licensed finance company within the meaning of the Finance Business Act, No. 42
- 30 of 2011;

- (d) any registered finance leasing establishment within the meaning of Finance Leasing Act, No. 56 of 2000;
- 5 (e) any money broker within the meaning of the Money Brokering Regulations made or deemed to have made under this Act;
- 10 (f) any primary dealer within the meaning of the Registered Stock and Securities Ordinance (Chapter 420) or the Local Treasury Bills Ordinance (Chapter 417);
- (g) any authorized or restricted dealer within the meaning of the Foreign Exchange Act, No. 12 of 2017;
- 15 (h) any insurance company within the meaning of the Regulation of Insurance Industry Act, No.43 of 2000;
- (i) any insurance broker or loss adjuster within the meaning of the Regulation of Insurance Industry Act, No.43 of 2000;
- 20 (j) any institutional agent within the meaning of the Regulation of Insurance Industry Act, No.43 of 2000;
- 25 (k) any stock exchange within the meaning of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;
- (l) any stock broker or stock dealer within the meaning of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;
- 30 (m) any managing company operating a unit trust within the meaning of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;

- (n) any person who carries on business as a market intermediary within the meaning of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987; or
- 5 (o) any other financial institution as may be assigned to the Central Bank by any written law for the time being in force;
- 10 “financial system” means a network of financial institutions and markets dealing in a variety of financial instruments that are engaged in money transmission and lending and borrowing of funds through financial market infrastructure;
- “Government” means the Government of the Democratic Socialist Republic of Sri Lanka;
- 15 “Insurance Regulatory Commission of Sri Lanka” means the Insurance Regulatory Commission of Sri Lanka established under the Regulation of Insurance Industry Act, No. 43 of 2000;
- 20 “Minister” means Minister assigned the subject of Finance;
- 25 “monetary liabilities” means the reserve money including currency in circulation, deposits held by licensed commercial banks and government agencies in the Central Bank and such other liabilities as may be determined by the Central Bank from time to time, having regard to all types of liabilities available at the Central Bank and the analytical use of the monetary base;
- 30 “money supply” means all currency, demand deposits, time and savings deposits and such other financial assets as may be prescribed by the Central Bank from time to time and are owned by persons other

than the Government, (commercial) banks and such financial institutions or categories of financial institutions as may be prescribed by the Central Bank;

5 “note” means a currency note issued by the Central Bank, including a currency note issued or deemed to be issued by the Board of Commissioners under the Currency Ordinance, No. 21 of 1941;

10 “other financial liabilities” in relation to a financial institution, means liabilities (other than deposit liabilities) incurred by such financial institution by the acceptance of money in any form from the public, in the course of its business, by the issue of bills of exchange, promissory notes, bonds,
15 certificates, notes, commercial paper or any other similar instrument by means of which money is raised from the public;

20 “person” includes any officer of any department of the Government and any body of persons, corporate or unincorporate, whether established or constituted by or under any written law or otherwise;

“prescribed” means prescribed by rules;

25 “public authority” or “public entity” includes a Ministry, Department, Provincial Ministry, Provincial Department, local authority, public corporation and a company in which the Government or a public corporation or a local authority holds fifty *per centum* or more of the shares of that company;

30 “public corporation” means any corporation, board or other body which is or was established by or under any written law other than the Companies Act, No. 07 of 2007, with funds or capital wholly or partly provided by the Government, by way of grant, loan
35 or otherwise;

“public international financial institution” includes the Asian Development Bank, International Bank for Reconstruction and Development, and the International Monetary Fund;

5 “resident” means -

(a) a citizen of Sri Lanka residing in Sri Lanka;

(b) an individual who has been in Sri Lanka for a period not less than one hundred and eighty-three days in aggregate in any twelve months period;

10

(c) a company incorporated in Sri Lanka or a body corporate established by or under any written law, or any firm, partnership or other organization in Sri Lanka; or

15

(d) a branch, subsidiary, affiliate, extension, office or any other unit of a company or other legal person established by or under the law of any foreign country and operating in Sri Lanka.

20 “scripless securities” means securities issued in scripless form;

“Secretary to the Treasury” means the Secretary to the Ministry of the Minister assigned the subject of Finance;

25 “securities” includes –

(a) treasury bills issued in accordance with the provisions of the Local Treasury Bills Ordinance (Chapter 417), whether issued in scripless form or otherwise;

5 (b) registered stock or securities issued in accordance with the provisions of the Registered Stock and Securities Ordinance (Chapter 420), whether issued in scripless form or otherwise; and

(c) any security of the Central Bank, whether issued in scripless form or otherwise, except for the purpose of paragraph (a) of subsection (5) of section 60;

10 “securities account” means an account maintained by a participant with the Central Bank;

15 “Securities and Exchange Commission of Sri Lanka” means the Securities and Exchange Commission of Sri Lanka established under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987;

20 “settlement account” means an account maintained by a participant with the Central Bank under this Act and used for the purposes of the system with the approval of the Central Bank; and

“special deposits” means all those deposit liabilities of a commercial bank arising out of monies deposited in any special account.

PART XIX

25 REPEALS AND SAVINGS

126. The Monetary Law Act (Chapter 422) is hereby repealed. Repeal of the Monetary Law Act (Chapter 422).

127. (1) The Governor of the Central Bank appointed under the provisions of the Monetary Law Act (Chapter 422) and holding office on the day immediately prior to the appointed date shall be deemed to be and continue to be the
 5 Governor of the Central Bank under this Act, and shall continue to serve in such office until the expiration of the term of his office.

Continuation
of terms of
office.

(2) The members of the Monetary Board appointed under the provisions of the Monetary Law Act (Chapter 422),
 10 except the Secretary to the Treasury appointed under that Act and holding office on the day immediately prior to the appointed date shall be deemed to be the members of the Governing Board under this Act, and shall continue to be members of the Governing Board under this Act until the
 15 expiration of the term of their respective offices.

(3) The persons who continue to be the Governor of the Central Bank or the members of the Governing Board in terms of the provisions of subsections (1) and (2) shall be eligible for reappointment to any office under this Act:

20 Provided that any such person shall not serve for a term exceeding twelve years including the period such person served as the Governor of the Central Bank or an appointed member, under the provisions of the Monetary Law Act (Chapter 422).

25 128. (1) Notwithstanding the prohibition in section 87 of this Act, the Central Bank may make new direct
 provisional advances to the Government to finance
 expenditures authorized to be incurred out of the
 Consolidated Fund within the first month of the financial
 30 year:

Provisional
advances.

Provided, however, that every such new advance shall be repaid within a period of not exceeding six months and the total amount of such advances outstanding shall not

5 exceed ten per centum of the revenue of the first four months of the preceding financial year as reported in the half yearly report published by the Ministry of the Minister under the Fiscal Management (Responsibility) Act, No. 3 of 2003 for the relevant period.

(2) Such new advances shall bear interest at prevailing market-related rates as determined by the Central Bank.

10 (3) Such new advances shall not be made to refinance the outstanding credit of the Central Bank to the Government on the appointed date.

(4) The provisions of subsections (1), (2) and (3) of this section shall be effective until such time provisions are made by law for the Government to finance its immediate fiscal requirements.

15 **129.** (1) Notwithstanding the prohibition in subsection (1) of section 87, any outstanding credit of the Central Bank to the Government as at the appointed date may be maintained. Transitory credit to the Government.

20 (2) The Central Bank shall, in consultation with the Minister, convert any outstanding credit of the Central Bank to the Government as at the appointed date, over a period of ten years immediately succeeding such date, into negotiable debt instruments with a specified maturity period issued at prevailing market-related interest rates, on which the Central Bank shall, as much as possible sell such debt instruments under its monetary policy.

30 **130.** Notwithstanding the provisions of paragraph (a) of subsection (1) of section 115, any outstanding credit granted to credit institutions pursuant to section 88a of the Monetary Law Act (Chapter 422) and any credit guarantee given under section 108 or 108a of the said Act shall be maintained under this Act subject to the terms and conditions as agreed. Transitory credit to credit institutions in respect of lending operations carried out for productive purposes.

5 **131.** (1) Any right or obligation attributed to the Monetary Board under the Monetary Law Act (Chapter 422) or any other written law prior to the appointed date shall be assumed by the Central Bank under this Act, except as provided otherwise.

Rights and obligations of the Monetary Board.

10 (2) Any action, regulation or decision taken or issued or made by the Monetary Board under the Monetary Law Act (Chapter 422) or any other written law prior to the appointed date, shall be deemed to have been taken or issued or made by the Central Bank under this Act, except as provided otherwise.

132. (1) With effect from the appointed date, notwithstanding any provision in any other written law-

Savings.

15 (a) the capital of the Central Bank under the Monetary Law Act (Chapter 422) (hereinafter referred to as the "repealed Act") on the day immediately preceding the appointed date shall be deemed to be the capital of the Central Bank under this Act as at the appointed date;

20 (b) the employees of the Central Bank under the repealed Act, holding office on the day immediately preceding the appointed date shall be deemed to be the employees of the Central Bank under this Act with effect from the appointed date and such employees shall continue to hold office in the Central Bank under this Act on terms and conditions not less favourable than the terms and conditions attaching to the respective office held by them on the day preceding the appointed date;

25 (c) all currency notes and coins including commemorative notes and coins issued by the Central Bank and the holding of its own notes and coins as part of its currency issue under the repealed Act and subsisting on the day immediately preceding the appointed date, shall be deemed to be the currency notes and coins issued and held by the Central Bank as the case may be under this Act;

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- 5 (d) all payment, clearing and settlement systems established and operated by the Central Bank under the repealed Act or any other written law, and existing on the day immediately preceding the appointed date shall be deemed, with effect from the appointed date, to be payment, clearing and settlement systems established and operated by the Central Bank under this Act;
- 10 (e) all examinations, audits, inquiries or investigations initiated by the Central Bank or any of its officers under the repealed Act and pending on the day immediately preceding the appointed date shall be deemed, with effect from the appointed date, to be examinations, audits, inquiries or investigations
- 15 conducted or being conducted, as the case may be, initiated by the Central Bank or such officer under this Act;
- 20 (f) all contracts, deeds, bonds, agreements, guarantees, powers of attorney, grants of legal representation and other instruments of whatever nature entered into by the Central Bank, the Monetary Board or any other officer of the Central Bank authorized by the Monetary Board under the repealed Act, and subsisting and having effect on the day immediately preceding the appointed date and to which the Central Bank or the Monetary Board or any authorized officer is a party or which are in favour of the Central Bank shall be deemed with effect from the appointed date to be contracts, deeds, bonds, agreements, guarantees, powers of attorney, grants of legal representation and other instruments entered into by or granted in favour of the Central Bank under this Act;
- 25
- 30
- 35 (g) unless specifically suspended or cancelled or withdrawn in the manner provided for in this Act or in any other written law, all licences, registrations,

- 5 rules, regulations, directions, determinations, orders, approvals or refusals, notices, circulars, operating instructions or any other written communication made or issued by the Central Bank or the Monetary Board or any officer of the Central Bank authorized by the Monetary Board under the repealed Act, and subsisting or having effect on the day immediately preceding the appointed date shall be deemed with effect from the appointed date to
- 10 be licences, registrations, rules, regulations, directions, determinations, orders, approvals or refusals, notices, circulars, operating instructions or any other written communication made or issued by the Central Bank under this Act;
- 15 (h) all applications, actions, proceedings or appeals of whatever nature instituted under the provision of any written law by or against the Central Bank, the Monetary Board, its members or any officer of the Central Bank under the repealed Act and pending
- 20 on the day immediately preceding the appointed date shall be deemed as from the appointed date, to be applications, actions, proceedings or appeals instituted by or against the Central Bank or any officer thereof under this Act and may be continued accordingly;
- 25
- (i) all judgments, decrees or orders entered in favour of, or against the Central Bank or the Monetary Board or any officer of the Central Bank under the repealed Act by any court or tribunal in any action
- 30 or proceeding shall be deemed with effect from the appointed date, to be judgments, decrees or orders entered in favour of, or against the Central Bank or such other officer of the Central Bank under this Act;
- 35 (j) all reserves maintained by the Central Bank for the purposes of the provisions of the repealed Act or

5 any other written law or any regulatory requirement issued thereunder or otherwise, on the day immediately preceding the appointed date shall be deemed with effect from the appointed date to be reserves of the Central bank under this Act, held for such purpose;

10 (k) (i) all property immovable and movable of the Central Bank (including cash balances, reserve funds, investments, intellectual properties, and deposits);

(ii) all liabilities, including deposits and contingent liabilities, of the Central Bank;

15 (iii) all rights, powers, privileges, authorities, obligations, duties and interests arising in or out of, such property and such liabilities; and

(iv) all books, accounts and documents relating or appertaining to the Central Bank or to any property of the Central Bank,

20 under the repealed Act, and subsisting on the day immediately preceding the appointed date, shall be deemed as from the appointed date to be property, liabilities, rights, powers, privileges, authorities, obligations, duties, interests, books, accounts and documents of the Central Bank under this Act;

25 (l) all exemptions, refunds, losses, concessions, reliefs, benefits of taxes, duties, levies or any other monetary benefit entitled or enjoyed by the Central Bank under the repealed Act and subsisting on the day immediately preceding the appointed date shall be deemed as from the appointed date, exemptions, refunds, losses, concessions, reliefs, benefits of taxes, duties, levies or any other monetary benefit entitled to or enjoyed by the Central Bank under this Act;

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- (m) with effect from the appointed date, every reference to the Central Bank, the Monetary Board or any officer of the Central Bank under the repealed Act given in any Act, regulation, notification, contract, instrument, record, share certificate, document, deed, bond, agreement, guarantee, power of attorney, grant of legal representation and other instruments of whatever nature shall be deemed to be a reference to the Central Bank or any such officer of the Central Bank under this Act to give effect to the provisions thereof.

133. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

Sinhala text to prevail in case of inconsistency.

