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## EXTRAORDINARY

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## PART I : SECTION (I) — GENERAL

### Central Bank of Sri Lanka Notices

#### FINANCE COMPANIES ACT, No. 78 of 1988

THE Direction given by the Monetary Board of the Central Bank of Sri Lanka under Section 9 of the Finance Companies Act, No. 78 of 1988.

NIVARD AJITH LESLIE CABRAAL,

Chairman,

Monetary Board of the Central Bank of Sri Lanka.

Colombo,

29th December, 2006.

#### Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006

1. This Direction may be cited as the Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006 and shall apply to every finance company registered in terms of Section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with effect from 01st April, 2007.
2. Every finance company shall classify accommodations as 'non-performing', in the following circumstances-
  - (i) where payment of principal and/or interest have been in arrears for a period of 6 months or more;
  - (ii) in the case of rescheduled accommodations, when in aggregate, the period of time the payment of installments have been in arrears before rescheduling (if any) and after rescheduling in 6 months or more ; and /or
  - (iii) in the case of an accommodation, where the asset financed under a leasing/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance company and when there still exists a balance to be recovered.
3. (i) Every finance company shall make provision for accommodations classified as nonperforming and the amount of such provision shall at least be the aggregate of -
  - (a) 50 per cent of all accommodations in arrears for a period of 6 months or more but not exceeding 12 months;
  - (b) 100 per cent of all accommodations in arrears for a period over 12 months; and
  - (c) 100 per cent with regard to the portion of the unrecovered amount of an accommodation where the asset.
  - (d) financed under a lease/hire purchase agreement has been repossessed and sold or where the asset taken as collateral has been sold by the finance company.

(ii) A finance company may deduct the value of the following items held as collateral in respect of a particular accommodation in arriving at the amount of the provision required by Subparagraphs (a) and (b) of paragraph 3 (i) hereof-

- (a) Sri Lanka Government Securities, free from any lien or charge;
- (b) Central Bank of Sri Lanka Securites, free from any lien or charge;
- (c) Time deposits in a licensed commercial bank, licensed specialized bank or a registered finance company, free from any lien or charge;
- (d) Time deposit or a balance in a savings account with the company taken as a collateral for the accommodation, for which a right of set - off is available;
- (e) Bank guarantees;
- (f) With regard to vehicles and machinery that have been repossessed by the finance company, 80 per cent of the valuation obtained during the preceding 6 months from a valuer approved by the Director; and
- (g) With regard to land and buildings mortgaged and held as collateral for a particular accommodation, the value decided by a qualified professional valuer at the time of granting the accommodation, on the following basis -
  - (aa) In the case of an accommodation in arrears for a period of 6 months or more but not exceeding 36 months, 100 per cent;
  - (bb) In the case of an accommodation in arrears for a period over 36 months but not exceeding 60 months, 80 percent;
  - (cc) In the case of an accommodation in arrears for a period over 60 months but not exceeding 120 months, 50 per cent;
  - (dd) In the case of an accommodation in arrears over 120 months, no amount shall be deducted;

Provided that in the case of an occupied residential property taken as collateral without an agreement to hand over vacant possession in the event of sale for the recovery of dues, the value of such property shall not be deducted in arriving at the required provision.

4. The Monetary Board of the Central Bank of Sri Lanka may require any finance company to make further specific provision for non-performing accommodations in addition to the provision required in terms of paragraph 3 (i) hereof.

5. (i) Every finance company shall submit to the Director within one month from the end of each quarter, on a format given by the Director, details as the Director may require, of the following categories of accommodations, of which, installments/rentals are in arrears for 3 months or more as at the end of the relevant quarter-

- (a) Accommodations where payments are made in fixed installments/rentals;
- (b) Accommodations where payments are not made in fixed installments/rentals; and
- (c) Operating leases.

(ii) Every finance company shall submit to the Director on a format given by the Director, within one month from the end of each quarter the following-

- (a) A statement of repossessed asset items; and
- (b) An age analysis of accommodations in arrears for 3 months or more.

(iii) Every finance company shall submit to the Director within one month from the end of each quarter, details of action taken by the Board of Directors of the company for the recovery of each outstanding accommodation in arrears for 6 months or more and the progress made on recovery of such accommodations since the end of the previous quarter.

6. For the purpose of this Direction,

(i) "Accommodation" shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes ; or such other financial facility as may be determined by the Diretor.

- (ii) “qualified professional valuer” shall mean -
- (a) A chartered valuation surveyor;
  - (b) A fellow of the Institute of Valuers (Sri Lanka) with a degree or diploma in Valuation and with work experience over 15 years;
  - (c) A graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ; or
  - (d) An associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ; or
  - (e) A Licentiate of the institute of Valuers (Sri Lanka) with work experience over 25 years.
- (iii) “the Director” shall mean the Director of the Department of Supervision of Non Bank financial Institutions of the Central Bank of Sri Lanka.
7. The Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 1 of 1991 and the finance Companies (Provision for Bad and Doubtful Debts) Direction No. 2 of 1991 will cease to be operative with effect from 01st April, 2007.)

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### FINANCE COMPANIES ACT, No. 78 of 1988

THE Direction given by the Monetary Board of the Central Bank of Sri Lanka under Section 9 of the Finance Companies Act, No. 78 of 1988.

NIVARD AJITH LESLIE CABRAAL,  
Chairman,  
Monetary Board of the Central Bank of Sri Lanka.

Colombo,  
29th December, 2006.

### Finance Companies (Single Borrower Limit) Direction No. 4 of 2006

1. This Direction may be cited as the Finance Companies (Single Borrower limit) Direction No. 4 of 2006 and shall apply to every finance company registered in terms of Section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to the restrictions imposed under paragraph 2 of the Finance Companies (Lending) Direction No. 5 of 2006, the maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower, shall not exceed 15 per cent of the capital funds of such finance company as shown in the last audited balance sheet.
3. The maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from any group of borrowers or from subsidiary companies and / or associate companies of such finance company shall not exceed 20 per cent of the capital funds of such finance company as shown in the last audited balance sheet.
4. Single accommodations granted to and outstanding in respect of categories of borrowers referred to in paragraphs 2 and 3 hereof, each of which exceeds 10 per cent of capital funds of a finance company as shown in the last audited balance sheet shall not, when all such outstanding accommodations are aggregated, exceed 50 per cent of the total outstanding accommodations of such finance company as shown in the last audited balance sheet.
5. The maximum of a single unsecured accommodation or the aggregate of unsecured accommodations granted to by a finance company and outstanding at any point of time from a single borrower shall not exceed 1 percent of the core capital of such finance company as shown in the last audited balance sheet. The aggregate of unsecured accommodations

granted to and outstanding at any point of time from all borrowers shall not exceed 5 per cent of the capital funds of such finance company as shown in the last audited balance sheet.

For the purpose of this paragraph, “unsecured accommodation” means accommodation made without a security or any accommodation with security constituting of assets the market value of which is not adequate to cover at least 75 per cent of the accommodation.

Subject to the provisions of paragraph 2 (v) of the Finance Companies (Lending) Direction No. 5 of 2006, for the purpose of this paragraph, “security” shall include guarantees given by third parties.

For the purpose of this paragraph, “Market Value” in respect of motor vehicles and machiner shall mean, a valuation obtained during the proceeding 6 months from a valuer approved by the Director and in respect of the land and building, the value decided by a qualified professional valuer.

6. For the purpose of paragraphs 2, 3 and 4 of this Direction, if accommodations have been granted by a finance company against the security of the items indicated below, the value of such Security may be deducted from the relevant accommodations-

- (i) Sri Lanka government securities, free from any lien or charge;
- (ii) Central Bank of Sri Lanka securities, free from any lien or charge;
- (iii) Time deposits in a licensed commercial bank, licensed specialized bank or a registered finance company, free from any lien or charge;
- (iv) Time deposits or a balance in a savings account with such finance company taken as a collateral for the accommodation, for which a right of set - off is available; or
- (v) Bank guarantees.

7. For the purpose of this Direction,

- (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes ; or such other financial facility as may be determined by the Director.
- (ii) “associate company” shall mean a company in which the finance company hold 20 per cent or more, but less than 50 per cent of the issued ordinary share capital of the investee company.
- (iii) “capital funds” shall have the same meaning as given in the definition in Section 46 of the Finance Companies Act, No. 78 of 1988.
- (iv) “core capital” shall have the same meaning as given in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
- (v) “group of borrowers” shall mean,
  - (a) (i) an individual and his relatives;
  - (ii) an individual and a company in which such individual holds shares exceeding 10 per cent of the issued ordinary share capital ; or
  - (iii) an individual and a company in which his relatives hold shares exceeding 10 per cent of the issued ordinary share capital.
  - (b) a company and one or more of the following:
    - (i) its subsidiary company;
    - (ii) its associate company;
    - (iii) its holding company ; or
    - (iv) a subsidiary company or associate company of its holding company.

- (vi) “individual borrower” shall mean any single company, public corporation, firm, association of persons or an individual.
- (vii) “qualified professional valuer” shall mean-
  - (a) A chartered valuation surveyor ;
  - (b) A fellow of the Institute of Valuers (Sri Lanka) with a Degree or Diploma in Valuation and with work experience over 15 years.
  - (c) A graduate member of the Institute of Valuers (Sri Lanka) with work experience over 18 years ;
  - (d) An associate of the Institute of Valuers (Sri Lanka) with work experience over 20 years ;
  - (e) A licentiate of the Institute of Valuers (Sri Lanka) with work experience over 25 years ;
- (viii) “relative” shall mean the spouse and/or dependent child of an individual.
- (ix) “subsidiary company” shall have the same meaning as contained in Section 150 of the Companies Act, No. 17 of 1982.
- (x) “the Director” shall mean the Director of the Department of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka.

8. The Finance Companies (Single Borrower Limit) Direction No. 1 of 1992 is hereby revoked.

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### FINANCE COMPANIES ACT, NO. 78 OF 1988

THE Direction given by the Monetary Board of the Central Bank of Sri Lanka under Section 9 of the Finance Companies Act, No. 78 of 1988.

Colombo  
29th December, 2006.

NIVARD AJITH LESLIE CABRAAL,  
Chairman,  
Monetary Board of the Central Bank of Sri Lanka.

### Finance Companies (Lending) Direction No. 05 of 2006

1. This Direction may be cited as the Finance Companies (Lending) Direction No. 5 of 2006 and shall apply to every finance company registered in terms of Section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. No finance company shall grant any accommodation-
  - (i) to a director and / or a relative of a director of the finance company;
  - (ii) to its holding company;
  - (iii) on the security of its own shares or on the security of the shares of any of its subsidiary companies;
  - (iv) to purchase its own shares; or
  - (v) on the guarantee or indemnity of a director of the finance company, a relative of a director of the finance company or any employee of the finance company.
3. A finance company may grant accommodation to its subsidiary companies or associate companies subject to the limits specified in the Finance Companies (Single Borrower Limit) Direction No. 4 of 2006, on such terms and conditions as may be applicable to similar facilities granted to other borrowers of the finance company and the particulars of such accommodations including the name of the borrower company, the date of grant of such accommodation, amount granted, repayment programme, security and the rate of interest shall be reported to the Director within 14 days from the date of grant of such accommodation.
4. No finance company shall recover on any accommodation, charges of any description, other than interest, in excess of 5 per cent of the principal amount granted.

5. Every finance company shall submit to the Director within 3 months after the end of each financial year, details of all accommodations outstanding as at the end of the financial year on a format given by the Director.
6. For the purpose of this Direction,
  - (i) “accommodation” shall mean loans; facilities under hire purchase or lease agreements; provision of funds through debt securities such as bonds, debentures, asset backed securities, commercial paper/promissory notes ; or such other financial facility as may be determined by the Director.
  - (ii) “associate company” shall mean a company in which the finance company holds 20 per cent or more, but less than 50 per cent of the issued ordinary share capital of the investee company.
  - (iii) “relative” shall mean the spouse and/ or dependent child of an individual.
  - (iv) “subsidiary company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.
  - (v) “the Director” shall mean the Director of the Department of Supervision of Non Bank financial Institutions of the Central Bank of Sri Lanka.
7. The Finance Companies (Lending ) Direction No. 8 of 1991 and the Finance companies (Lending) (Amendment) Direction No. 2 of 2001 are hereby revoked.

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### FINANCE COMPANIES ACT, NO. 78 OF 1988

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988

NIVARD AJITH LESLIE CABRAAL,  
Chairman,  
Monetary Board of the Central Bank of Sri Lanka.

Colombo.  
29th December, 2006.

#### **Finance Companies (Business Transactions with directors and their relatives) Direction No. 6 of 2006**

1. This Direction may be cited as the Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 6 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to the provisions of the Finance Companies (Lending) Direction No. 5 of 2006 and the provisions of paragraph 3 hereof, a finance Company shall not, without the approval of the Monetary Board of the Central Bank of Sri Lanka, conduct any business transaction with a director of the company or a relative of a director of the company where the total value of transaction/s exceeds Rupees 50,000 per month or Rupees 500,000 for a financial year.
3. The provisions of paragraph 2 hereof shall not apply to accepting of time and savings deposits from a director of the finance company or a relative/s of a director of the finance company in conformity with the Finance Companies (Deposits)

Direction No. 1 of 2005 and the Finance Companies (Interest) Direction No. 2 of 2005 and on terms and conditions that are, for the time being, applicable to the other depositors of the finance company and to payment of interest on similar deposits.

4. For the purpose of this Direction, “relative” shall mean the spouse and/or dependent child of an individual.
5. The Finance Companies (Business Transactions with Relatives) Direction No. 5 of 1991 is hereby revoked.

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### FINANCE COMPANIES ACT, NO. 78 OF 1988

The Direction given by the Monetary Board of the Central Bank of Sri Lanka under section 9 of the Finance Companies Act, No. 78 of 1988.

NIVARD AJITH LESLIE CABRAAL,  
Chairman,  
Monetary Board of the Central Bank of Sri Lanka.

Colombo.  
29th December, 2006.

### Finance Companies (Investments) Direction No. 7 of 2006

1. This Direction may be cited as the Finance Companies (Investments) Direction No. 7 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. Subject to paragraph 3 and 4 hereof, a finance company may invest in the ordinary shares of any company, provided that-
  - (i) Investment in the issued ordinary share capital of a company shall not at any time exceed 5 percent of the capital funds of the finance company as shown in its last audited balance sheet;
  - (ii) Such investment shall not at any time exceed 40 percent of the issued ordinary share capital of such investee company; and
  - (iii) the aggregate amount so invested in the issued ordinary share capital of companies shall not at any time exceed 25 percent of the capital funds of the finance company as shown in its last audited balance sheet.
3. Notwithstanding the provisions of paragraph 2 hereof, a finance company that has core capital over Rs. 200 million as shown in its last audited balance sheet may, with the approval of the Monetary Board of the Central Bank of Sri Lanka, form a subsidiary company or acquire shares in a company exceeding 50 percent of the issued ordinary share capital of such company.
4. The provisions of paragraph 2 hereof shall not apply to any shares which a finance company acquires in the course of the satisfaction of any debt due to such finance company or as a consequence of the underwriting of a share issue, provided that, where such acquisition of shares results in the finance company holding shares in excess of the percentage limits stipulated in paragraph 2 hereof, such finance company shall dispose such excess shares within 2 years from the date of acquisition or such longer period as may be determined by the Monetary Board of the Central Bank of Sri Lanka.
5. For the purpose of this Direction,
  - (i) “Capital funds” shall have the same meaning as given in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.



- (ii) “core capital” shall have the same meaning as given in the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006
- (iii) “subsidiary company” shall have the same meaning as contained in section 150 of the Companies Act, No. 17 of 1982.

6. The Finance Companies (Investments) Direction No. 12 of 1991 and the Finance Companies (Investments) (Amendment) Direction No. 3 of 2001 are hereby revoked.

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### FINANCE COMPANIES ACT, NO. 78 OF 1988

Rule made by the Monetary Board of the Central Bank of Sri Lanka under section 33 (2)(c) of the Finance Companies Act, No. 78 of 1988.

NIVARD AJITH LESLIE CABRAAL,  
Chairman,  
Monetary Board of the Central Bank of Sri Lanka.

Colombo.  
29th December, 2006.

### Finance Companies (Advertisements) Rule No. 1 of 2006

1. This Rule may be cited as the Finance Companies (Advertisements) Rule No. 1 of 2006 and shall apply to every finance company registered in terms of section 2 of the Finance Companies Act, No. 78 of 1988 and shall come into operation with immediate effect.
2. (i) Every advertisement published in print media (excluding hoardings, bill boards and banners) directly or indirectly soliciting deposits from the public by a finance company (except those companies that have not been in operation long enough to obtain a credit rating for the entity) shall contain-
  - (a) that such company has been registered by the Monetary board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
  - (b) the date of incorporation of the company;
  - (c) credit rating for the entity assigned to the company by a credit rating agency acceptable to the central bank of Sri Lanka;
  - (d) periodicity of payment of interest and the annual effective rate of interest in respect of all maturities; and
  - (e) terms and conditions subject to which deposits are accepted by such finance company.
- (ii) Every finance company shall forward to the Director a copy of any advertisement to be published under paragraph 2(i) hereof, at least 2 working days prior to the publication of such advertisement.
3. (i) Every advertisement published in print media (excluding hoardings, bill boards and bannres) directly or indirectly soliciting deposits from the public by a finance company which has not been in operation long enough to obtain a credit rating for the entity shall contain -
  - (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
  - (b) the date of incorporation of the company;
  - (c) the names of its Directors;



- (d) shareholders' funds, deposits liabilities, borrowings and profit/(loss) as appearing in its financial statements which are certified by its external auditor;
      - (e) periodicity of payment of interest and the annual effective rate of interest in respect of all maturities; and
      - (f) terms and conditions subject to which deposits are accepted by such finance company.
    - (ii) Every finance company shall forward to the Director for approval a copy of any advertisement to be published under paragraph 3(i) hereof, at least 3 working days prior to the publication of an advertisement.
  4. (i) Every advertisement transmitted or broadcast through audio or audio-visual media (including websites posted on the internet) directly or indirectly soliciting deposits from the public shall contain-
    - (a) that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act, No. 78 of 1988;
    - (b) credit rating for the entity assigned to the company by a credit rating agency acceptable to the Central Bank of Sri Lanka; and
    - (c) if interest rates are indicated, the annual effective rates of interest.
  - (ii) Every finance company shall forward to the Director through electronic means a copy of any advertisement to be transmitted under paragraph 4(i) hereof, at least, 3 working days prior to the first transmission or broadcast of such advertisement.
5. (i) Every advertisement displayed by a finance company through hoardings, bill boards and banners soliciting deposits directly or indirectly from the public shall stated the fact that such company has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act , No. 78 of 1988.
  - (ii) Every finance company shall prior to the display of an advertisement on a hoarding, bill board or banner under paragraph 5(i) hereof, inform the Director the contents of such advertisement and the locations of such hoardings or billboards.
6. Where the Director is of the opinion that any advertisement published/transmitted/broadcast/displayed under paragraphs 2, 4 or 5 hereof, does not comply with the provisions of those paragraphs or contain information which is likely to mislead the public, the Director may direct the finance company to publish/transmit/broadcast/ display a revised version of such advertisement in the manner specified by the director within a reasonable period of time.
7. In this Rule,
  - (i) "Annual effective rate" shall mean the amount of interest expressed as a percentage , a deposit account would earn in a year at a stated interest rate after taking into account the effects of compounding of interest.
  - (ii) "the Director" shall mean the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
8. The Finance Companies (Advertising) Rule No. 1 of 2001 is hereby revoked.

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