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The Financial  
Intelligence Unit of  
Sri Lanka

**NATIONAL ANTI-MONEY  
LAUNDERING AND  
COUNTERING THE  
FINANCING OF TERRORISM  
(AML/CFT) POLICY  
OF  
SRI LANKA  
2015 - 2020**

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## **Approval of the Cabinet of Ministers**

At the Cabinet meeting held on January 6, 2016 the Cabinet of Ministers has approved the adoption of the National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Policy of Sri Lanka.

## 1. Introduction

Money laundering is a process of converting cash or property, derived from criminal activities, to give it a legitimate appearance. It is a process to clean 'dirty' money in order to disguise its criminal origin. On the other hand, Terrorist financing is the act of providing financial support, funded from either legitimate or illegitimate sources, to terrorists or terrorist organizations.

In response to mounting concern over money laundering globally, the Financial Actions Task Force (FATF), was established by the G-7 countries in 1989, as the global policy setter on Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT). The FATF was given the responsibility, among others, of setting out the measures that needed to be taken to combat Money Laundering (ML). In April 1990, the FATF issued a set of *Forty (40) Recommendations*, providing a comprehensive plan of action needed to fight ML. In October 2001 and June 2003 the FATF issued *Nine (9) Special Recommendations* to deal with the issue of Terrorist Financing (TF). The 40+9 recommendations of the FATF were revised to 40 recommendations in February 2012 and since then, these new recommendations have been the international standards on AML/CFT adopted around the globe. The scope of the revised 40 recommendations expanded beyond ML/TF to deal with new threats such as the financing of the proliferation of weapons of mass destruction as well.

It is important for every country to have a domestic mechanism, ensuring effective implementation of the FATF recommendations in order to prevent/minimise the risk of ML/TF. Further, there are 8 regional monitoring bodies in the world (FATF Styled Regional Monitoring Bodies - FSRBs) which use FATF's 40 recommendations as their principle guideline for the assessment of the effective implementation of AML/CFT standards and measures. Sri Lanka is a member of the Asia Pacific Group (APG) on

Money Laundering, the FSRB set-up for Asia and the Pacific region, based in Sydney Australia. All member jurisdictions of the APG are subject to periodic evaluation by the APG to ensure that they are in compliance with the FATF Recommendations. Accordingly, the APG conducted its 1<sup>st</sup> Mutual Evaluation on Sri Lanka in 2006 and the 2<sup>nd</sup> Mutual Evaluation under the new recommendations of the FATF in 2014/15. The report on the 2<sup>nd</sup> Mutual Evaluation on Sri Lanka was adopted at the APG Plenary, held in New Zealand in July, 2015.

Revised FATF Recommendation 2 requires each country to have a national AML/CFT policy addressing the ML/TF risk of the country. In line with this requirement, the mutual evaluation conducted by the APG during 2014/15 has also suggested that Sri Lanka develop a National AML/CFT Policy based on the findings of the National Risk Assessment (NRA) conducted in 2014.

## **2. AML/CFT Regime in Sri Lanka**

### **2.1 Setting up of the FIU - Sri Lanka and Enactments of Relevant Legislations**

The Financial Intelligence Unit (FIU) of Sri Lanka was established in March 2006, under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), as the authority responsible for implementation of measures to combat ML/TF and related crimes in Sri Lanka, in line with the international standards set out by the FATF. The FIU-Sri Lanka functions as a Unit in the Central Bank, in terms of the order made by H.E the President under the above Act.

Sri Lanka's AML/CFT regime mainly comprises of three pieces of legislations namely,

1. Financial Transactions Reporting Act, No. 06 of 2006 (FTRA)
2. Prevention of Money Laundering Act, No. 05 of 2006 (PMLA)
3. Conventions on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA)

Further, Sri Lanka has also issued KYC/CDD Rules covering Licensed Banks, Licensed Finance Companies, Insurance Companies, Stock Brokering Firms and Authorized Money Changing Companies.

## **2.2 Advisory Board for the FIU - Sri Lanka**

The Advisory Board for the FIU- Sri Lanka was set-up in 2006 and it mainly focuses on policy matters relating to the AML/CFT regime of the country. This Board chaired by the Governor of the Central Bank, comprises of Secretary of Ministry of Finance, Secretary of Ministry of Justice, Secretary of Ministry of Foreign Affairs, Attorney General, Legal Draftsman, Controller General of Department of Import and Export Control, Controller General of Department of Immigration and Emigration, Inspector General of Police, Chairman of Board of Investment of Sri Lanka, Director General of Securities and Exchange Commission of Sri Lanka, Director General of Sri Lanka Customs, Registrar General of Companies, Director General of Accounting and Auditing Standards Board, Chairman of National Dangerous Drug Control Board and the Controller of Exchange.

## **2.3 Key Milestones**

During nearly 9 years of its existence, the FIU - Sri Lanka has made gradual and significant progress in implementing FATF recommendations in the country. Introducing AML/CFT measures to financial institutions covering more than 98% of deposit taking institutions, introducing LankaFIN, a web-based reporting system of CTRs/EFTs and STRs for reporting institutions, becoming a member of the Egmont Group, entering into MOUs with 28 FIUs, amending the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 and the Prevention of Money Laundering Act, No. 5 of 2006 to meet recommendations made in the 2006 Mutual Evaluation, promulgating regulations to implement UNSCR 1267 and 1373 and conducting the

country's first NRA on ML are among some of the major accomplishments of the FIU - Sri Lanka.

### **3. National AML/CFT Policy - 2015 to 2020**

#### **3.1 The Current Situation**

Sri Lanka's National AML/CFT strategy has been based on the statutory obligations of the FIU - Sri Lanka, as set out in the FTRA, with the focus on the following two areas,

- Prevention, detection, investigation and prosecution of ML/TF activities through the implementation of provisions of the FTRA.
- Promotion of international cooperation on AML/CFT, in line with international conventions.

The scope of the present AML/CFT strategy of Sri Lanka, needs to be expanded based on the level of ML/TF risk identified by the NRA conducted in 2014, in line with the FATF Recommendation.

#### **3.2 National Risk Assessment (NRA) on ML/TF of Sri Lanka**

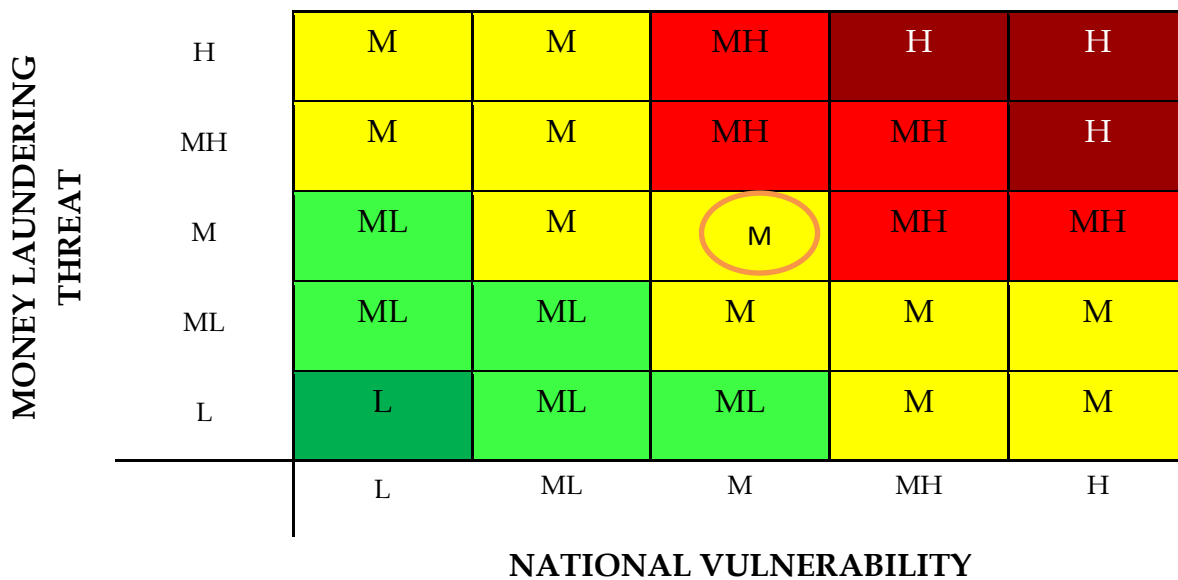
The National Risk Assessment (NRA) on ML/TF of Sri Lanka, which is a self-assessment conducted during 2014, has identified priority areas and made a series of recommendations to strengthen the AML/CFT framework in Sri Lanka. Accordingly, the national AML/CFT policy for 2015-2020 is proposed based on the recommendations of the Sri Lanka's NRA.

The National ML and TF Risk Assessment Tool developed by the World Bank was adopted in the NRA. The FIU-Sri Lanka took the lead role in coordinating the NRA, under the ambit of the Advisory Board, for the FIU - Sri Lanka. Around 80

representatives from key government and private sector stakeholders participated in the NRA process over a period of nine months from February to October 2014.

As per the World Bank module, the ML risk is considered to be a function of threats and vulnerabilities. The overall threat and vulnerability of Sri Lanka, in respect of ML/TF has been assessed as medium. Accordingly, Sri Lanka’s ML/TF risk can also be assessed as medium as shown in the risk map in Figure I.

**Figure I: ML/TF Risk in Sri Lanka**



L - Low      ML - Medium Low      M - Medium      MH - Medium High      H - High

According to the NRA, the ML threat of predicate offences and the ML risk of the main sectors have been rated as shown in Figure II and Figure III.

**Figure II: ML Threat of Predicate Offences**

Predicate Offence	Threat
Drug trafficking	Medium
Terrorism Financing	Medium



Bribery /Corruption	Medium
Payment Card Devices Fraud	Medium
Human Smuggling/Trafficking	Medium
Fraud	Medium
Possession of weapons	Medium
Robbery	Medium
Counterfeiting of currency	Low
Tax evasion	Low

**Figure III: ML Risk of Main Sectors**

Sector	ML Risk
Other Financial Sector	Medium High
Designated Non Finance Businesses & Professions	Medium High
Banking Sector	Medium
Securities Sector	Medium Low
Insurance Sector	Medium Low

Formulation of the proposed policy is further facilitated by the recommendations made in the 2<sup>nd</sup> Mutual Evaluation on Sri Lanka to address major deficiencies in Sri Lanka’s AML/CFT Framework such as low level of ML investigations, prosecutions and convictions compared with the predicate offence, lack of coordination among law enforcement and other authorities, deficiencies in investigative capabilities and non-coverage of Designated Non Finance Businesses and Professions (DNFBPs) for AML/CFT purposes

### 3.3 National AML/CFT Strategy 2015-2020

In line with the recommendations made in Sri Lanka’s 2014 NRA and the Mutual Evaluation Report 2014/15, Sri Lanka should focus on the following key objectives during the period 2015–2020 in order to mitigate the ML/TF risk.

- Objective 1            Developing a Sound Legal and Institutional Framework to Prevent and Combat ML/TF and Other Financial Crimes**
- Objective 2            Improving Effectiveness of ML/TF Investigations and Prosecution in Sri Lanka**
- Objective 3            Strengthening International and Domestic Cooperation**
- Objective 4            Strengthening Capacity-Building and Awareness Raising (amongst the FIU, Regulators, LEAs, Reporting Institutions, Prosecutors, Judiciary, etc.)**
- Objective 5            Developing and Maintaining a National AML/CFT Database**
- Objective 6            Facilitating the Formation of a National Financial Inclusion Policy Based on the AML/CFT Framework**

Goals and Actions relating to each Objective are described below:

<b>Objective 1 - Developing a Sound Legal and Institutional Framework to Prevent and Combat ML/TF and Other Financial Crimes</b>	
<b>Goal</b>	<b>Action</b>
1. Amending/ introducing relevant legislations to meet international standards.	a) Amend FTRA, PMLA, CSTFA, Trust Ordinance, Company Act, MACMA, NGO Act, etc.
	b) Adopt new UNSCRs (TF and Proliferation)
	c) Introduce new legislation for asset recovery (Proceeds of crimes act, civil forfeiture, etc.).
2. Strengthening AML/CFT preventive measures	a) Revise existing CDD rules in line with Risk Based Approach to be adopted.
	b) Issue new CDD rules covering finance and DNFBPs sectors (Leasing, MVTs, Primary

	Dealers, Casinos, Real Estate, Precious metal dealers, Lawyers, Accountant, Company service providers etc).
	c) Establish the AML/CFT compliance function by respective institutions.
3. Strengthening AML/CFT supervision	a) Introduce Risk Based supervision guidelines (FIU, DBS, SEC, etc.).
	b) Introduce a monitoring mechanism for AML/CFT supervision
<b>Objective 2 - Improving Effectiveness of ML/TF Investigations and Prosecution in Sri Lanka</b>	
1. Increasing ML/TF investigations & prosecutions	a) Conduct parallel investigations
	b) Increase technical expertise and forensic skills in financial investigations and assets recovery
	c) Enhance the quality of the FIU operational Analysis
	d) Increase the staff strength of law enforcement authorities, prosecutors and the FIU
	e) Introduce a mechanism to share information among law-enforcement authorities
	f) Increase the use of CSTFA to prosecute terrorist financiers
	g) Enhance technical expertise to improve the effectiveness of terrorist financing prosecutions and asset confiscation proceedings under the CSTFA
2. Enhancing AML/CFT Supervision	a) Increase onsite and offsite supervision by the FIU and respective regulatory authority
	b) Share supervisory findings with the FIU
	c) Take effective enforcement actions to ensure

	compliance
	d) Introduce AML/CFT Supervision for DNFBPs sector
3. Restructuring the Advisory Board for the FIU	a) Appoint new members and re-name it as the "AML/CFT National Coordinating Committee"
4. Reviewing ML/TF national risk assessment on a continuous basis	a) Conduct a review of the NRA in every 2 years by the National Risk Assessment Working Group.
<b>Objective 3 - Strengthening International and Domestic Cooperation</b>	
1. Promoting international cooperation	a) Sign MOUs with foreign counterparts (FIUs, Regulators/Supervisors, and LEAs).
	b) Develop a case management system for Mutual Legal Assistance
	c) Conduct international events on AML/CFT
	d) Improve relationships with other international organizations
2. Promoting Domestic Cooperation	a) Form an AML/CFT operational task force (Responsible for the National Coordinating Committee).
	b) Sign MOUs between domestic agencies
<b>Objective 4 - Strengthening Capacity Building and Awareness Raising (FIU, Regulators, LEAs, Reporting Institutions, Prosecutors, Judiciary, etc.)</b>	
1. Enhancing staff strength to match with responsibilities of each institution	a) Increase the staff strength by each institution
2. Developing skills related to AML/CFT (analytical, investigative, supervisory, etc).	a) Conduct training programs with technical assistance from international organizations/ counterpart FIUs
3. Raising awareness on ML/TF (all stakeholders including general public)	a) Conduct regular awareness programs
	b) Publish newspaper advertisements, pamphlets, web announcements etc.

<b>Objective 5 - Developing and Maintaining a National AML/CFT Database</b>	
1. Developing/ upgrading databases	a) Develop a criminal database accessible by the FIU and other investigatory authorities
	b) Upgrade the FIU database management system
	c) Develop databases of other stakeholders (Department of Company Registrar, Registrar General Department, NGO Secretariat, Judiciary, Attorney General's Department)
	d) Connect existing/ new databases of the FIU, Customs, Immigration, Persons Registration, and Inland Revenue with each other
<b>Objective 6 - Facilitating the formation of a National Financial Inclusion Policy Based on AML/CFT Framework</b>	
1. Introducing simplified CDD framework for financial inclusion products/low-risk groups	a) Issue Rules on Simplified CDD
2. Identifying low risk financial inclusion products and target groups	a) Establish a Working Group on Financial Inclusion
3. Encouraging the launching of financial inclusion products to low-risk groups	a) Conduct awareness programs to promote financial inclusion

## LIST OF ACRONYMS

AML	- Anti-Money Laundering
APG	- Asia Pacific Group
CDD	- Customer Due Diligence
CFT	- Countering Financing of Terrorism
CSTFA	- Convention on the Suppression of Terrorist Financing
CTRs	- Cash Transaction Reports
DBS	- Department of Bank Supervision
DNFBP	- Designated Non-Financial Business or Profession
EFTs	- Electronic Fund Transfers
FATF	- Financial Actions Task Force
FIU	- Financial Intelligence Unit
FSRB	- FATF Styled Regional Monitoring Bodies
FTRA	- Financial Transactions Reporting Act
KYC	- Know Your Customer
LEA	- Law Enforcement Authority
MACMA	- Mutual Assistance on Criminal Matter Act
ML	- Money Laundering
MOU	- Memorandum of Understanding
MVTS	- Money Value Transfer Service
NRA	- National Risk Assessment
PMLA	- Prevention of Money Laundering Act
SEC	- Securities Exchange Commission of Sri Lanka
STRs	- Suspicious Transaction Reports
TF	- Terrorist Financing
UNSCRs	- United Nations Security Council Resolutions