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இலங்கை மத்திய வங்கி

CENTRAL BANK OF SRI LANKA

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පැරැල්ල පෙරාදා 590,
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ஜனாதிபதி மாவத்தை,
த. பெ. இல. 590,
கொழும்பு - 1, ஸ்ரீ லங்கா
தந்தி: 'மத்தியவங்கி'

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Colombo 1, Sri Lanka.
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Our Ref: 37/03/004/0003/007

Financial Intelligence Unit

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28th December 2007

The Chief Executive Officer

Dear Sir/Madam,

**MANDATORY KNOW-YOUR-CUSTOMER AND CUSTOMER DUE DILIGENCE (KYC/CDD)
RULES FOR THE SECURITIES INDUSTRY IN TERMS OF THE PROVISIONS OF
THE FINANCIAL TRANSACTIONS REPORTING ACT NO. 6 OF 2006 (FTRA)**

Detailed guidance and rules based on international best practices and also where relevant, incorporating recommendations by the Securities and Exchange Commission of Sri Lanka are enclosed herewith.

You are advised to ensure that a proper policy framework and operations guidelines to give effect to the guidance and the rules so prescribed are in place within a specific AML/CFT policy developed by your institution for this purpose.

You are required to submit quarterly reports to the FIU on the last date of the quarterly period using the attached format at annexure 1. You are also required to ensure that your institution, as a securities market participant, is fully compliant with these rules, and inform us of the progress made by 31st January 2008.

These rules are issued under Section 2(3) of the Financial Transactions Reporting Act No.6 of 2006, and any contravention or non-compliance with the rules so prescribed will be liable to penalties as prescribed in the relevant provisions of the Act.

Yours faithfully,

H A Karunaratne
Actg. Director (FIU)

Copy to: Director General, Colombo Stock Exchange,
Level 4-04, World Trade Centre, Colombo 1

**RULES ON
KNOW YOUR CUSTOMER (KYC) & CUSTOMER DUE DILIGENCE (CDD)
FOR THE SECURITIES INDUSTRY**

Introduction

Public confidence in financial institutions, and hence their stability, is enhanced by sound practices that reduce financial risks to their operations. Money laundering and terrorist financing can harm the soundness of a country's financial system, as well as the stability of individual financial institutions, in multiple ways. Customer identification and due diligence procedures also known as "know your customer" rules, are part of an effective AML/CFT regime. These rules are not only consistent with, but also enhance, the safe and sound operation of banking and other types of financial institutions.

While preparing operational guidelines on customer identification and due diligence procedures, institutions are advised to treat the information collected from the customer for the purpose of opening of accounts, as confidential and not divulge any details thereof for cross-selling or for any other purposes, and that the information sought is relevant to the perceived risk, is not intrusive and is in conformity with the rules issued hereunder.

The mandatory rules on KYC/CDD include the following sections:

- Part I - General Rules
- Part II - Specific Rules
- Part III - Specific Customer Identification
- Part IV - Declaration Format
- Part V - Suspicious Transaction Report Format/Instructions

These rules are issued under Section 2(3) of the Financial Transactions Reporting Act No.6 of 2006 and any contravention of, or non-compliance with the same will be liable to the penalties under the relevant provisions of the Act.

**Actg. Director
Financial Intelligence Unit,
Central Bank of Sri Lanka**

28th December 2007

PART I
GENERAL RULES FOR THE SECURITIES INDUSTRY

A. ANTI-MONEY LAUNDERING PROGRAM

1. Introduction

An institution should develop and implement a written program reasonably designed to prevent it from being used for money laundering and terrorist financing. This program should be approved in writing by the directors of the company which carries out the business of broker/dealer/market intermediary or by the trustee/s of a unit trust. It should include:

- the establishment of policies, procedures, and internal controls;
- an ongoing employee training program;
- an independent audit function to test the program for compliance; and
- appropriate compliance management arrangements. The type and extent of measures to be taken for each of these requirements should be tailored with respect to the risk or vulnerability to money laundering and terrorist financing and the size, location, and activities of the business.

2. Policies and Procedures

Written policies and procedures should set forth clearly the details of the program, including the responsibilities of the individuals and departments involved. Policies, procedures, and internal controls should be reasonably designed to detect activities indicative of money laundering and to assure compliance with anti-money laundering legislation. An institution should monitor the operation of its program and assess its effectiveness. Customer identification and verification procedures, as well as procedures regarding the detection and reporting of suspicious activity, should be included as a part of the anti-money laundering program.

3. Employee Training

The training program for employees of the institution should provide both a general awareness of overall anti-money laundering legislation and money laundering issues, as well as more job-specific guidance regarding particular employees' roles and functions in the anti-money laundering program. For employees whose duties bring them in contact with anti-money laundering legislation or possible money laundering activity, training should occur when the employee assumes those duties, with subsequent periodic updates and refreshers.

4. Independent Audit

The institution should conduct periodic independent testing of its program to assess compliance with and the effectiveness of the program, and to assure that the program is functioning as designed. Such testing may be accomplished either by a qualified outside party, or by employees of the institution so long as those same employees are not involved in the operation or oversight of the programme. A written assessment or report should be a part of the review, and any recommendations should be promptly implemented or submitted to the directors of a fund company, general partner of a limited partnership, or trustee of a unit trust for consideration.