



**DEPARTMENT OF FOREIGN EXCHANGE
CENTRAL BANK OF SRI LANKA**

DIRECTIONS No. 12 OF 2022 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017

Directions issued to Authorized Dealers on Special Foreign Currency Account – Short Term Foreign Currency Loans from Overseas (SFCA – Short Term Loans)

In terms of the Foreign Exchange (Short Term Foreign Currency Loans from a Company Incorporated Outside Sri Lanka) Regulations No. 2 of 2022 published in the Gazette (Extraordinary) Notification No. 2308/51 dated 02.12.2022 (the regulations) and section 9 read with sections 6 and 7 of the Foreign Exchange Act, No. 12 of 2017 (the FEA), Authorized Dealers (ADs) are hereby permitted to open and maintain **SFCA - Short Term Loans**, in order to facilitate payments for import of raw materials for manufacturing of products, by the companies incorporated in Sri Lanka under the Companies Act, No. 7 of 2007 (i.e., borrower), out of the proceeds of the foreign currency (FCY) loans obtained for a tenure of less than 3 years including a minimum grace period of 1 year (i.e., short-term), from the Parent Company or a Company within the same Group of Companies, incorporated outside Sri Lanka (i.e., lender), subject to the following.

2. Eligible Persons

Companies incorporated in Sri Lanka under the Companies Act, No. 7 of 2007, which import raw materials for manufacturing of their products, subject to the recommendation obtained from the Secretary, Ministry of Industries that the final product manufactured by the company using imported raw materials has a domestic value addition of at least 30%, with a letter of authorization obtained from the Controller General of Imports and Exports, where necessary.

3. Opening and Maintaining the Accounts

- (a) The SFCA – Short Term Loans may be opened and maintained as a sole account in the form of current (without overdraft facility and cheque drawing facility) or saving accounts in any designated foreign currency, out of the proceeds of the short term FCY loan received.
- (b) Eligible persons shall open an SFCA – Short Term Loans in respect of receiving the proceeds of the short-term loan from each lender, and all repayments including interest payments of such loans shall be made through the same SFCA – Short Term Loans.



**DEPARTMENT OF FOREIGN EXCHANGE
CENTRAL BANK OF SRI LANKA**

DIRECTIONS No. 12 OF 2022 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017

(c) Opening of SFCA – Short Term Loans under these Directions shall be valid only within the period of one (1) year as permitted in the regulations and the same account shall be maintained until completion of servicing/ repayment of the said loan.

4. Permitted Credits

- (a) Remittances/transfers of proceeds of the loan obtained by the accountholder from the lender, from an account maintained outside Sri Lanka or an Inward Investment Account (IIA) or an account maintained in the Off-shore Banking Unit (OBU), of such lender.
- (b) Transfers from a Sri Lankan Rupee account of the accountholder, for the purpose of servicing the loan.
- (c) Transfers from another SFCA – Short Term Loans of the same accountholder for the purpose of making payments in respect of paragraph 5 (a) of these Directions.
- (d) Interest earned on the funds held in the account, if any.

5. Permitted Debits

- (a) Outward remittances in respect of payments for imports of raw materials required for manufacturing of products.
- (b) Remittance/transfers of funds to an account maintained outside Sri Lanka or an IIA or an account maintained in the OBU, of the lender, for the purpose of servicing and repayment of the loan obtained under the regulations, in terms of the loan agreement.
- (c) Bank charges, fees, commissions, etc. payable with respect to the short-term loan.
- (d) Transfers to another SFCA – Short Term Loans of the same accountholder for the purpose of making payments in respect of paragraph 5 (a) of these Directions.

6. Other Conditions

- (a) ADs shall obtain adequate documentary evidence to establish the eligibility of the accountholder and the *bona-fide* of transactions made through the SFCA – Short Term Loans and ensure compliance with the regulations and these Directions.
- (b) ADs shall ensure that inward remittances which are subject to other regulatory requirements



**DEPARTMENT OF FOREIGN EXCHANGE
CENTRAL BANK OF SRI LANKA**

DIRECTIONS No. 12 OF 2022 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017

such as export proceeds or other inward remittances subject to any other statutory requirements are not qualified to be credited to an SFCA – Short Term Loans.

- (c) ADs shall exercise all due diligence in executing the transactions in foreign exchange through the SFCA – Short Term Loans, including efficient monitoring of the utilization of the loans as per the regulations in respect of payments for import of goods as raw materials only for manufacturing, value addition and re-export purposes; subject to the trade and tax laws (i.e., import payment term regulations, transfer pricing regulations etc.) of the country.
- (d) ADs may enter into appropriate derivative instruments (in compliance with the relevant Directions issued under the provisions of the Banking Act No. 30 of 1988, as amended) upon the request of the borrower in order to mitigate probable exchange rate risks that may arise from the transactions permitted under these Directions.
- (e) ADs shall maintain the documentary evidence (either in hard copy or in electronic/digital form), in respect of all transactions made through the SFCA – Short Term Loans during the maintenance of the account and up to the statutory record keeping requirements after the closure of such account.

7. Reporting Requirement

- (a) ADs are required to submit the information on opening and maintaining the SFCA – Short Term Loans under these Directions in a format, as prescribed by the Director-Department of Foreign Exchange (D/DFE), to this department on or before the 15th day of the following month, by email to dfem@cbsl.lk.
- (b) ADs are required to implement a system within the bank in order to generate or extract all the required information from the books of accounts of their respective banks, as per the above reporting requirement.

8. Closure of the Account

- (a) ADs shall close the SFCA – Short Term Loans, in the event the borrower has fully settled the respective loan.



**DEPARTMENT OF FOREIGN EXCHANGE
CENTRAL BANK OF SRI LANKA**

DIRECTIONS No. 12 OF 2022 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017

- (b) In the event the borrower requests for a closure of the SFCA – Short Term Loans before the full settlement of the respective loan, for the purpose of continuing the future repayments via an SFCA – Short Term Loans to be opened with another AD, the AD with whom the original SFCA – Short Term Loans is held, may close the account only after forwarding the relevant information/ documents (i.e., confirmation on the details of the receipt of the loan, all documentary evidences collected etc.) for the satisfaction of the AD that wishes to open the new SFCA – Short Term Loans.
- (c) ADs shall inform such closure to the D/DFE via an email to dfem@cbsl.lk within one week from the date of closure.
9. ADs shall require prior permission of the D/DFE, for any transaction or transfer to/from SFCA – Short Term Loans for any purpose which falls outside the purview of these Directions.
- 10. For the purpose of these Directions;**
- a. “**Designated Foreign Currency**” shall include United States Dollar (USD), Euro, Sterling Pound, Australian Dollar, Singapore Dollars, Swedish Kroner, Swiss Franc, Canadian Dollar, Hong Kong Dollar, Japanese Yen, Danish Kroner, Norwegian Kroner, Chinese Renminbi, New Zealand Dollars Thai Baht and Indian Rupees;
- b. “**Remittances**” shall include telegraphic transfers, other interbank transfers, bank drafts, other payment instruments, payments received via other internationally accepted payment mechanisms or platforms and funds received from exchange companies/houses in foreign currency from abroad, other than currency notes.
11. Nothing required by these Directions, shall be construed as exempting or absolving ADs or any person dealing in foreign exchange under these Directions, from the requirement to comply with the provisions of any other law.

Director - Department of Foreign Exchange

09 December 2022