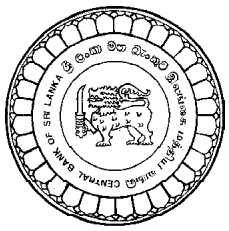

MONETARY LAW ACT

(Chapter 422)

(Incorporating Amendments up to 31st December 1998)

Printed by the Central Bank of Sri Lanka

MONETARY LAW ACT

(Chapter 422)

(Incorporating Amendments up to 31st December, 1998)

MONETARY LAW ACT
(CHAPTER 422)

Owing to the numerous amendments made to the Monetary Law Act, it has become necessary to publish a reprint of that Act. This reprint which incorporates all amendments made to that Act up to 31st December, 1998 is, however, not a statutory reprint. It is only issued for purposes of convenience.

Governor,
Central Bank of Sri Lanka

Disclaimer

As no amendments were introduced to the Monetary Law Act No. 58 of 1949 between December 1998 and December 1999, the following text is a representation of the law as at 31st December 1999. It is an unofficial version and does not constitute a statutory reprint.

Every effort has been made to ensure the accuracy of the text but the Central Bank of Sri Lanka does not hold itself responsible for any errors or omissions.

TABLE OF SECTIONS

CHAPTER I

ESTABLISHMENT OF THE MONETARY UNIT

Section		Page
1.	Short title	1
2.	The unit of monetary value	1
3.	The par value of the rupee	1
4.	The use of the rupee	3

CHAPTER II

ESTABLISHMENT OF THE CENTRAL BANK TO ADMINISTER AND REGULATE THE MONETARY SYSTEM

Part 1- The Central Bank, its powers and purposes

5.	Establishment and objects of Central Bank	4
5A.	Powers of the Central Bank and the Monetary Board in relation to section 69A of the Inland Revenue Act, No.4 of 1963	4
6.	Capital of Central Bank	4
7.	Place of business	5

Part II-The Monetary Board

8.	Constitution of Monetary Board	5
9.	Monetary Board to be a body corporate	5
10.	General powers of Monetary Board	6
11.	Disqualification for appointment as Governor or as member of Monetary Board	6
12.	Appointment, remuneration, &c. of Governor of Central Bank	7
13.	Term of office of Governor and appointed member	7
14.	Remuneration of appointed member	8
15.	Alternate for appointed member	8
16.	Removal from office of Governor or appointed member	8
17.	Meetings of Monetary Board	9
18.	Attendance of certain officers at meetings of Monetary Board	9

Section Page

Part III-The Governor and the Deputy Governors

19. General functions and duties of Governor 9
20. Governor to be principal representative of Central Bank and Monetary Board 10
21. Delegation of powers of Governor 10
22. Appointment of Deputy Governor 10
23. Disqualification and removal of Deputy Governors 10
24. Deputy Governor to act as Governor 10
24A. Authority of Deputy Governor to obtain Information 11

Part IV-Departments of the Central Bank

(A) The Department of Economic Research

25. Establishment and functions of department of economic research 12
26. Authorities to obtain information 12
27. Training of technical personnel 13

(B) The Department of Bank Supervision

28. Establishment and functions of department of bank supervision 13
29. Examination of banking institutions 13
29A. Continuous supervision of banking institutions 14
29B. Director of Bank Supervision to examine books of any subsidiary or agency of a banking institution or of a Co-operative Society carrying on banking business 15
30. Power of Monetary Board to suspend or restrict business of a banking institution 15
31. Director of Bank Supervision to be liquidator in winding up of a banking institution 17
32. Offences in regard to information and examinations 18
32A. Scheme to insure deposits held by banking institutions and co-operative societies 18
32B. Insurance of deposits held by banking institutions or societies 18
32C. Premiums payable on deposits 18

Section Page

32D. Examination of insured banks and insured societies &c. 18

32E. Regulations 18

(C) Other Departments

33. Other Departments 19

Part V-Reports and Publications

34. Monthly statement 19

35. Annual report 19

36. Signatures on balance sheets and financial statements 20

Part VI-Profits, Losses and Special Accounts

37. Financial year 20

38. Computation of profits and losses 20

39. Distribution of profits 20

40. Extraordinary expenses of currency issue and monetary stabilization 21

41. Revaluation profits and losses 21

Part VII-Audit

42. Audit 22

43. Powers and functions 22

Part VIII-Restrictions Relating to Central Bank Officers and Servants

45. Duty to maintain secrecy 22

46. Liability for false statements in Central Bank accounts, &c 23

47. Protection for acts done in good faith, &c 23

CHAPTER III

THE CENTRAL BANK AND THE MEANS OF PAYMENT

Part I-Issue of Means of Payment

(A) Currency

48.Definition of “currency” 24

49.Issue power 24

Section Page

50. Prohibition against issue of notes by any person other than Central Bank 24
51. Liability for notes and coins 24
52. Currency to be legal tender 24
53. Characteristics of currency 24
54. Contracts for printing of notes and minting of coins 25
55. Exchange of currency 25
56. Replacement of currency unfit for circulation 25
57. Retirement of old notes and coins 25
58. Mutilation or defacement of currency notes 26
58A. Use of currency coins otherwise than as legal tender 26
59. Conclusive evidence of imitation of currency notes 26
59A. Conclusive evidence of imitation of a coin or current coins 27

(B) Demand Deposits

60.Definition of "demand deposits" 27
61. Acceptance and creation of demand deposits 28

Part II-The Money Supply

62. Definition of 'the money supply' 28

CHAPTER IV

THE CENTRAL BANK AND NATIONAL MONETARY POLICY

Part I-Domestic Monetary Stabilization

63. Principles governing determination of domestic monetary policy 28
64. Action to preserve domestic monetary stability 29

Part II-International Monetary Stabilization

65. Principles governing determination of international monetary policy 29
66. International Reserve 30
67. Composition of International Reserve 30
68. Action to preserve the international stability of the rupee 31

Section Page

CHAPTER V

INSTRUMENTS OF CENTRAL BANK ACTION

Part I-Operations in Gold and Foreign Exchange

70. Dealings in gold 31

71. Foreign exchange operations of Central Bank 32

72. Purchases and sales of foreign exchange from or to commercial banks in Sri Lanka 32

73. Parities of foreign currency with respect to the rupee 33

74. Exchange rates for Central Bank transactions 33

75. Loans to and from foreign institutions &c 34

Part II-Regulation of Foreign Exchange Operations of Commercial Banks

76. Rates applicable to purchases and sales of exchange by commercial banks 34

76A. Exchange rate for Central Bank and commercial bank transactions where parities of foreign currencies are not determined 35

77. Control of foreign exchange holdings of commercial banks 37

78. Requirements regarding currency positions of commercial banks 37

79. Revaluation profits and losses on holdings of foreign exchange by banking institutions 38

80. Information on exchange operations 39

81. Capital movements 39

Part III-Credit Operations with Banking Institutions

82. Principles governing credit operations 39

83. Types of operations normally authorized 40

84. Extension of maturities 41

85. Loans to mortgage institutions 41

86. Emergency loans and advances 42

87. Interest and discount rates 42

88. General conditions as to grant of credit facilities 43

Section Page

Part IIIA - Medium and Long-Term Credit Operations with Credit Institutions

88A. Loans or advances to credit institutions 43

88B. Instrument of assignment by way of pledge to the Central Bank to be free of stamp duty 44

88C. Instrument of assignment by way of pledge to the Central Bank need not be registered under the Registration of Documents Ordinance 44

88D. Notarial executions not required in case of assignments by way of pledge 44

88E. Medium and Long Term Credit Fund 44

88F. Interpretation 45

88G. This part of this Act to prevail over other law 45

Part IV-Credit Operations with the Government

89. Provisional advances to the Government 45

Part V-Open-Market Operations

90. Principles governing open-market operations 45

91. Authority of Central Bank to transact open-market operations 46

92. Conditions as to issue of securities by Central Bank 46

Part VI-Regulation of the Reserves of Commercial Banks

93. Reserve requirements 47

94. Monetary Board to prescribe reserve ratios 47

95. Fixing of special high ratios in time of inflation 47

96. Computation of required reserves 48

97. Consequences of reserve deficiencies 48

98. Clearance and settlement 49

Part VII - Additional Regulation of Credit Operations of Banking Institutions

99. Principles governing additional regulation 49

100. Maturities of banking loans and security therefor 49

101. Limitation of loans and investments of commercial banks 49

102. Minimum capital ratios 49

Section Page

103. Margin requirements against letters of credit 50

104. Fixing of interest rates, commissions and charges 50

105. Conditions of eligibility of credit instruments for discount, &c. by Centra; Bank

CHAPTER VA

THE CENTRAL BANK TO PURCHASE SHARES IN CERTAIN COMPANIES

105A. Central Bank to purchase shares in companies 51

CHAPTER VI

THE CENTRAL BANK AS FISCAL AGENT, BANKER AND FINANCIAL ADVISOR OF THE GOVERNMENT

106. Central Bank to be fiscal agent and banker of the government 51

107. Offcial depository of the government 51

108. Loan guarantees and loan insurance 52

108A. Guarantee of loans to samall-scale enterprises 52

109. Other institutions as agents of Central Bank 52

110. Remuneration for services 52

111. Representation with foreign governments, agencies, and international institutions 53

112. Issue of government securities 53

112A. Accounts maintained by non-commercial bank primary dealers 53

112B. Any body corporate to provide facilities to carry out functions under section 98(1) or 112A. 54

113. Management of the public debt 54

114. Advice on Government credit operations 54

115. Recommendations as to policy &c. of Government agencies or institutions 54

116. Monetary policy and fiscal policy 54

Section Page

CHAPTER VII

GENERAL

117. Business which Central Bank may not transact 55

118. Exemption from income tax, import duty and stamp duty 55

119. Acts of Monetary Board valid notwithstanding subsequent discovery of disqualification 56

120. Officers and servants to be deemed public servants for purposes of Chapter IX of Penal Code 56

120A. Release of officers and servants of the Central Bank 56

121. Protection for banking institutions 56

122. Offences and penalties 56

123. Offences by corporations 57

124. Exclusion of application of Companies Ordinance 57

125. Provision for conflict with other written law 57

126. Defence ! (Finance) Regulations, &c. 57

127. Interpretation 57

CHAPTER VIII

TRANSITIONAL PROVISIONS

128. Validity of currency in circulation, &c. 59

129. Appointment of pensionable public officers to posts in Central Bank 59

130. Contributions by Central Bank in respect of pensionable public officers appointed to posts in the bank 60

CHAPTER 422

MONETARY LAW ACT

AN ACT TO ESTABLISH THE MONETARY SYSTEM OF SRI LANKA AND THE CENTRAL BANK, TO ADMINISTER AND REGULATE THE SYSTEM AND TO CONFER AND IMPOSE UPON THE MONETARY BOARD OF THE CENTRAL BANK POWERS, FUNCTIONS AND RESPONSIBILITIES NECESSARY FOR THE PURPOSES OF SUCH ADMINISTRATION AND REGULATION, AND TO PROVIDE FOR CONNECTED MATTERS.

Acts
Nos. 58 of 1949
33 of 1954
11 of 1963 (§.67,)
18 of 1965 (§.56)
16 of 1967
5 of 1968
21 of 1968
2 of 1969 (§.7,)
30 of 1971 (§.88,)

Laws
Nos. 37 of 1974
16 of 1977 (§.8)
10 of 1978

Acts
Nos. 14 of 1979
62 of 1980
52 of 1985
7 of 1988
30 of 1988 (§.84)
26 of 1995
6 of 1998

[Chapter II - 16th December, 1949]
[Chapter I, III to VIII - 28th August, 1950]

Short title

1. This Act may be cited as the Monetary Law Act.

CHAPTER 1

ESTABLISHMENT OF THE MONETARY UNIT

The unit of monetary value.

2. (1) The standard unit of monetary value in Sri Lanka shall be the Sri Lanka rupee, which shall be represented by the signs "Re." and "Rs."

(2) The Sri Lanka rupee shall be divided into one hundred units each of which shall be called a "cent".

The par value of the rupee (§.8, Law 10 of 1978)

3. (1) The Monetary Board shall by unanimous decision, recommend to the Minister in charge of the subject of Finance that the par value of the Sri Lanka rupee be determined in terms of special drawing rights or in terms of such other common denominator as may be prescribed by the International Monetary Fund, and upon such recommendation, the Minister in charge of the subject of Finance shall, by Order published in the Gazette, determine and declare the par value of the Sri Lanka rupee in accordance with the terms specified in such recommendation:

Provided, however, that if the Monetary Board is of the view that international economic conditions do not warrant the introduction or maintenance of exchange arrangements based on stable but adjustable par values, it may, by unanimous decision, recommend to the Minister in charge of the subject of Finance that no determination be made under the preceding provisions of this section or that any Order made under this section be revoked, and upon any such recommendation, the Minister in charge of the subject of Finance shall desist from making an Order under this section, or, as the case may be, revoke an Order made under this section.

(2) The Monetary Board may by unanimous decision recommend to the Minister in charge of the subject of Finance the alteration of the par value of the Sri Lanka rupee, if the Board is of the opinion that such alteration of the par value of the Sri Lanka rupee is rendered necessary in any of the following circumstances, that is to say-

(a) if the continuance of the existing par value hinders or is likely to hinder unduly, the achievement and maintenance of a high level of production, employment and real income and the full development of the productive resources of Sri Lanka, or results, or is likely to result, in a serious decline in the International Reserve of the Central Bank or in other utilizable external assets of Sri Lanka or if such decline cannot be prevented except by-

(i) a large scale increase in the external liabilities of Sri Lanka;

(ii) the persistent use of restrictions on the convertibility of the rupee into foreign currencies in settlement of current transactions; or

(iii) undue or sustained Government assistance to one or more of the major export industries; or

(iv) prolonged use of measures designed to restrict the volume of imports of essential commodities; or

(b) if the maintenance of the existing par value is producing, or is likely to produce, a persisting surplus in the balance of payments on current account and a monetary disequilibrium which cannot be adequately corrected by other Government or by Central Bank action authorised by this Act; or

(c) if uniform proportionate changes in the par values of currencies of its members are made by the International Monetary Fund,

and upon such recommendation, the Minister in charge of the subject of Finance may, by Order published in the Gazette, amend, in accordance with the terms specified in such recommendation, any Order made under subsection (1).

(3) Any Order made under subsection (1) or subsection (2) shall cease to have effect after a period of ten days from the date of publication thereof, unless such Order is approved by Parliament within that period:

Provided however, that if Parliament is not in session on the date of publication of the Order, the Order shall cease to have effect after a period of ten days from the date of the next meeting of Parliament, unless such Order is approved by Parliament within that period.

The use of the rupee

4. (1) Every obligation of the following description, that is to say, every contract, sale, payment, bill, note, instrument, and security for money, and every transaction, dealing, matter, and thing whatsoever relating to money, or involving the payment of money or the liability to pay any money, shall, in the absence of an express agreement to the contrary which is not rendered invalid or unlawful by any other written law, be held to be made, executed, entered into, done, and had in Sri Lanka according to the Sri Lanka rupee.

(2) In any case where any such obligation which is by agreement expressed in any monetary unit other than the Sri Lanka rupee has, by reason that such agreement is rendered invalid or unlawful by any other written law, to be executed or liquidated in Sri Lanka rupees, the necessary conversions shall be effected on the basis of the legal parties ruling at the time when such obligation falls to be executed or liquidated, or at such other time as may be specified in that behalf in the agreement.

CHAPTER II

ESTABLISHMENT OF THE CENTRAL BANK TO ADMINISTER AND REGULATE THE MONETARY SYSTEM

PART I-- THE CENTRAL BANK, ITS POWERS AND PURPOSES

Establishment and objects of Central Bank. [§.2, 52 of 1985]

5. An institution, which shall be called and known as the Central Bank of Sri Lanka (hereinafter referred to as "the Central Bank"), is hereby established as the authority responsible for the administration and regulation of the monetary and banking system of Sri Lanka and, without prejudice to the other provisions of this Act, the Central Bank is hereby charged with the duty of so regulating the supply, availability, cost, and international exchange of money as to secure, so far as possible by action authorized by this Act, the following objects, that is to say :-

(a) the stabilization of domestic monetary values;

[§.8, Law 10 of 1978]

(b) if there has been a determination of the par value of the Sri Lanka rupee, the preservation of the par value of the Sri Lanka rupee and the free use of the rupee for current international transactions;

[§.8, Law 10 of 1978]

(bb) if there has been no determination of the value of the Sri Lanka rupee, the preservation of the stability of the exchange rate of the Sri Lanka rupee in relation to foreign currencies;

[§.8, Law 10 of 1978]

(c) the promotion and maintenance of a high level of production, employment, and real income in Sri Lanka ; and

(d) the encouragement and promotion of the full development of the productive resources of Sri Lanka.

Powers of the Central Bank and the Monetary Board in relation to section 69A of the Inland Revenue Act No. 4 of 1963. [§.56, 18 of 1965]

5A. (1) For the purposes of section 69A of the Inland Revenue Act, No. 4 of 1963, the Central Bank may open, maintain and manage special deposit accounts.

(2) Where an institution is approved by the Minister in charge of the subject of Finance by Order made under paragraph *(b)* of subsection (2) of section 69A of the Inland Revenue Act, No. 4 of 1963, the Monetary Board may determine the terms and conditions subject to which that institution may open, maintain and manage special deposit accounts for the purposes of that section.

Capital of Central Bank.

6. The capital of the Central Bank shall be fifteen million rupees, which sum is hereby appropriated to the bank from the surplus assets of the Board of Commissioners of Currency.

Place of business.

7. 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 the business of the bank.

PART II – THE MONETARY BOARD

Constitution of Monetary Board. [§.2, 37 of 1974]

8. (1) The Monetary Board of the Central Bank shall, in addition to determining the policies or measures authorized to be adopted or taken under this Act, be vested with the powers, duties, and functions of the Central Bank under this Act, and be generally responsible for the management, operations, and administration of the bank.

(2) The Monetary Board shall consist of-

*(a) the Governor of the Central Bank who shall be the chairman of the board;

(b) the person holding office for the time being as Secretary to the Ministry of the Minister in charge of the subject of Finance; and [S3, 52 of 1985

(c) a third member appointed by the President.

(3) In the absence of the Governor from any meeting of the Monetary Board, the Deputy Governor designated as Senior by the board shall act as his alternate and shall preside at the meeting and have the right to vote thereat.

(4) In the absence of the member of the Monetary Board mentioned in paragraph (b) of subsection (2) from any meeting of the board, the person holding office for the time being as Deputy Secretary to the Treasury shall act as that member's alternate at the meeting and have the right to vote thereat.

Monetary Board to be a body corporate

9. (1) The Monetary Board of the Central Bank shall in that name be a body corporate with perpetual succession and a common seal and may sue or be sued in its corporate name.

(2) The Monetary Board shall have the power, in the name of the Central Bank, to hold property, both movable and immovable, and to sell and dispose of the same, to enter into contracts and otherwise to do and perform all such acts or things as may be necessary for the purpose of carrying out the principles and provisions of this Act.

(3) The Monetary Board may, in the name of the Central Bank, acquire and hold such assets and incur such liabilities as result directly from

* See Gazette Extraordinary No. 320/14 of 8.6.78

operations authorized by this Act or as are essential for the proper conduct of such operations.

General powers of Monetary Board.

10. For the purposes of the exercise of its powers, duties, functions, and responsibilities under this Act, the Monetary Board-

(a) may, subject to the provisions of section 22 and section 23, appoint such officers and servants as the board may consider necessary and remove them from office or dismiss them, and may fix the salaries or wages, or other remuneration, of such officers and servants, and may prescribe their conditions of service;

(b) may establish and regulate pensions or provident funds or schemes for the benefit of officers and servants and their dependants and nominees, and may make contributions to any such fund or scheme.

[§2, 7 of 1988]

(bb) may, notwithstanding the provisions of paragraph *(c)* of section 117, grant loans and advances, for housing purposes, to officers and servants of the Central Bank on the mortgage of, or otherwise on the security of, immovable property;

(c) may make such rules and regulations as the board may consider necessary in relation to any matter affecting or connected with or incidental to the exercise, discharge, or performance of the powers, functions, and duties of the Central Bank; and

(d) may utilize the funds of the Central Bank for the purpose of meeting all expenditure incurred by the board in the management, administration, and operation of the bank and in the exercise, performance, and discharge of powers, functions, and responsibilities of the bank under this Act.

Disqualification for appointment as Governor, or as member of the Monetary Board.
[§.4, 52 of 1985]

11. (1) A person shall be disqualified for appointment as the Governor of the Central Bank if-

(a) he is a Member of Parliament, or a member of any local authority; or

(b) he is a public officer or judicial officer within the meaning of the Constitution of the Democratic Socialist Republic of Sri Lanka, or holds any office or position (other than an academic position) either by election or appointment, for which salary or other remuneration is payable out of public funds or the funds of any local authority; or

(c) he is a director, officer, employee or shareholder of any banking institution (other than the Central Bank).

(2) A person shall be disqualified for appointment as a member of the Monetary Board under paragraph *(c)* of subsection (2) of section 8 if-

(a) he is a Member of Parliament, or a member of any local authority; or

(b) he is a public officer or judicial officer within the meaning of the Constitution of the Democratic Socialist Republic of Sri Lanka, or holds any office or position (other than an academic position) either by election or appointment, for which salary or other remuneration is payable out of public funds or the funds of any local authority; or

(c) he is a director, officer, employee or shareholder of any banking institution (other than the Central Bank).

Appointment, remuneration, &c. of Governor, Central Bank. [§.5, 52 of 1985]

12. (1) The Governor of the Central Bank shall be appointed by the President on the recommendation of the Minister in charge of the subject of Finance;

(2) The Governor shall devote his full professional time to the business of the bank; and accordingly the Governor shall not accept or hold any other office or employment whatsoever, whether public or private, and whether remunerated or not:

[§.5, 52 of 1985]

Provided, however, that nothing in the preceding provisions of this subsection shall be deemed to prevent the Governor from accepting or holding any academic office or position or any office or position in an institution or organisation, established for the purpose of carrying on research in the subjects of economics, money, banking, statistics and finance, or from being appointed to be or acting as a member of any commission constituted under the Commissions of Inquiry Act for the purposes of any inquiry relating to monetary, banking, financial or general economic matters or questions affecting the national welfare of Sri Lanka, or of any council, committee, or other body investigating or examining, or advising upon, any such matters or questions.

[§.5, 52 of 1985]

(3) The Governor shall receive such salary as may be fixed by the President on the recommendation of the Minister in charge of the subject of Finance.

Term of office of Governor and appointed member [§.4, 37 of 1974]

13. (1) The term of office on the Governor, and of the person appointed under paragraph *(c)** of section 8(2) (hereinafter referred to as the "appointed member"), shall, subject to the provisions of subsection (2) of this section, be the period of six years commencing on the date of his appointment.

Provided, however, that the term of office of the first appointed member holding office under this Act shall be the period of three years from the date of his appointment.

* See Gazette Extraordinary No. 320/14 of 8.6.78

(2) In the event of the vacation of office by the Governor or by the appointed member before the expiration of his term of office, another person shall be appointed in his place to hold office during the unexpired part of the term of office of the Governor or member so vacating office.

(3) Any person vacating office as Governor or as appointed member by effluxion of time shall be eligible for reappointment.

Remuneration of appointed member.

[§.5, 37 of 1974]

14 (1) The appointed member shall receive an allowance for each day on which he attends a meeting of the Monetary Board.

(2) The amount of such allowance shall be fixed by the Minister in charge of the subject of Finance in consultation with the President.

Alternate for appointed member.

15. (1) Where the appointed member is, through illness, absence from Sri Lanka, or for any other reason, temporarily unable to perform the functions of his office, the President may, on the recommendation of the Minister in charge of the subject of Finance, appoint some other person to act in his place for such period as may be specified by the President.

(2) The provisions of section 11 shall apply in relation to any such appointment.

(3) The person appointed to act as a member of the board under this section shall during the period of his appointment be deemed for the purposes of this Act to be the appointed member.

Removal from office of Governor or appointed member

16. The president may, on the recommendation of the Minister in charge of the subject of Finance, remove the Governor or the appointed member from office-

(a) if he becomes subject to any disqualification mentioned in section 11; or

(b) if he becomes permanently incapable of performing his duties; or

(c) if he has done any act or thing which, in the opinion of the President is of a fraudulent or illegal character or is manifestly opposed to the objects and interests of the Central Bank; or

(d) in the case of the Governor, if he acts in contravention of subsection (2) of section 12.

Meetings of Monetary Board.
[§.6,37 of 1974]

17. (1) Meetings of the Monetary Board shall be held at least once in every two weeks an, in addition, as frequently as is necessary for the purpose of the discharge of its responsibilities under this Act.

(2) Meetings of the board shall be convened by the Governor.

*(3) At any meeting of the board, two members shall constitute a quorum.

*(4) No decision taken at any meeting of the board shall be deemed to be a decision of the board unless it has the concurrence of at least two members, or, in any case where any other provision of this Act requires a unanimous decision, the concurrence of all three members.

Attendance of certain officers at meetings of Monetary Board.

18. The Deputy Governor designated as senior by the Monetary Board and the Director of Economic Research may attend meetings of the Monetary Board, but shall not have the right to vote on any question.

PART III - THE GOVERNOR AND DEPUTY GOVERNORS

General functions and duties of Goveernor.

19. (1) The Governor shall be the chief executive officer of the Central Bank and shall accordingly be charged with the following powers, duties, and functions :-

(a) the execution of policies and measures approved by the Monetary Board and, subject to any such policies and measures as may be applicable, the direction, supervision, and control of the operation of the Central Bank and its internal management and administration;

(b) the preparation or the agenda for meetings or the Monetary Board and the submissions for the consideration of the board of policies and measures considered by him to be necessary for the purpose of carrying out the principles and provisions of this Act; and

(c) the exercise or performance of such other powers or duties as may be conferred of imposed upon him by the Monetary Board.

(2) Every instrument of the following description, that is to say, every contract, promissory note, security, report, balance sheet, statement, or other document and every rule, regulation, order, direction, notice, or requirement which bears the signature of the Governor or such other officer as may be authorized in that behalf by the Monetary Board, shall be deemed for all purposes to be an instrument executed, made, or issued by the Central Bank or by the Monetary Board, as the case may be.

Governor to be principal representative of Central Bank and Monetary Board.

20. The Governor of the Central Bank shall be the principal representative of the bank and of the Monetary Board and shall in that capacity, but in accordance with policies or rules approved or made by the board, have authority.-

*See Gazette Extraordinary No. 320/14 of 8.6.78.

(a) to represent the Central Bank and the board in all relations with other persons, including the Government and any body of persons, corporate or unincorporate, whether public or private, domestic, foreign, or international; and

(b) to represent the Central Bank and the board in any legal proceedings either personally or through an attorney-at-law.

Delegation of powers of Governor.

21. Subject to and in accordance with such rules, if any, as may be made by the Monetary Board in that behalf, the Governor may delegate to any other officer of the bank his authority to represent the bank for any purpose mentioned in section 20, so however that the Governor shall remain and continue to be responsible to the board for and in respect of any act or thing done or omitted to be done by any such delegate.

Appointment of Deputy Governor.

22. The Monetary Board shall, with the concurrence of the Minister in charge of the subject of Finance appoint one or more Deputy Governors who shall perform such duties and exercise such powers as may be assigned to them by the board.

Disqualification and removal of Deputy Governor.

23. (1) A person shall be disqualified for appointment as a Deputy Governor if-

(a) he is a Member of Parliament, or a member of any local authority; or

(b) he is a public officer or judicial officer within the meaning of the Constitution of the Democratic Socialist Republic of Sri Lanka, or holds any office or position (other than an academic position) either by election or appointment, for which salary or other remuneration is payable out of public funds or the funds of any local authority; or

(c) he is a director, officer, employee or shareholder of any banking institution (other than the Central Bank).

[S.3,7 of 1988]

Nothing in paragraph *(b)* or *(c)* shall be held to disqualify an officer or servant of the Central Bank who has been temporarily released to serve in any office or position for which salary or remuneration is payable out of public funds or who is a director of any banking institution which is a public corporation, for appointment as a Deputy Governor.

(2) The Monetary Board may, with the concurrence of the Minister in charge of the subject of Finance, remove any Deputy Governor from office-

(a) if he becomes subject to any disqualification mentioned in subsection (1); or

(b) if he becomes permanently incapable of performing his duties; or

(c) if he has done any act or thing which, in the opinion of the board, is of a fraudulent or illegal character or is manifestly opposed to the objects and interest of the Central Bank; or

(d) if, in the opinion of the board, he has failed to carry out his duties: [§.3, 7 of 1988]

Provided that nothing in this subsection shall be held to empower the Monetary Board. with the concurrence of the Minister, to remove from office, any Deputy Governor who has been temporarily released, under subsection (3) to serve in any office or position for which salary or other remuneration is payable out of public funds or to serve with a banking institution which is a public corporation, as a Director of that banking institution by reason only of the fact that such Deputy Governor holds such office or position or is such Director. [§.3, 7 of 1988]

(3) The Monetary Board may, with the concurrence of the Minister, temporarily release a Deputy Governor to- [§.3, 7 of 1988]

(a) serve in an office or position for which a salary or other remuneration is payable out of public funds;

(b) serve with a banking institution, which is a public corporation, as a Director of that banking institution,

on such terms as may be determined by the Monetary Board, with like concurrence.

For the purpose of this section, "public corporation" shall have the same meaning as in Article 170 of the Constitution.

Deputy Governor to act as Governor

24. In the event of the temporary absence from duty of the Governor or of the temporary inability of the Governor to perform his functions and duties, the Deputy Governor designated as senior by the board shall act as the chief executive officer of the Central Bank and shall have authority to execute the powers and perform the functions and duties of the Governor under this Act.

Authority of Deputy Governor to obtain information. [§.6,52 of 1985]

24A. (1) A Deputy Governor may require any person-

(a) to furnish him or to any officer or servant of the Central Bank designated by him within such time and in such manner as he may specify, such information as he may

consider necessary to obtain for the purpose of the proper discharge of the functions and responsibilities of the Central Bank; or

(b) to produce for inspection to him or to any officer or servant of the Central Bank, designated by him within such time and in such manner as he may specify, any books or records in the possession of such person containing or likely to contain any such information as is referred to in paragraph *(a)* of this subsection.

(2) Any person who, without reasonable cause, fails or refuses to comply with any requirement under subsection (1), shall be guilty of an offence.

(3) In this section "person" includes any officer of any department of Government and any body of persons, corporate or unincorporate, whether established or constituted under any written law or otherwise.

PART IV - DEPARTMENTS OF THE CENTRAL BANK

(A) - The Department of Economic Research

Establishment and functions of department of economic research.

25. (1) The Central Bank shall establish and maintain a department of economic research which shall prepare data and conduct economic research, for the guidance of the Monetary Board and the Governor in formulating, implementing, and executing policies and measures and for the information of the public, in the subjects of money and banking and other economic subjects of general interest.

(2) The head of the department established under subsection (1) shall be called the Director of Economic Research.

Authority to obtain information.

26. (1) The Director of Economic Research or any officer of the department of economic research authorised for the purpose by the Director may in such manner as may be prescribed by rules made under section 10-

(a) require any person to furnish to him such information as he may consider it necessary to obtain for the purposes of the proper discharge of the functions and responsibilities of the Central bank; or

(b) require any person to produce for inspection any books or records in his possession containing or likely to contain any such information.

(2) Any person who without reasonable cause fails or refuses to comply with any requirements made under subsection (1) shall be guilty of an offence.

(3) In this section "person" includes any officer of any department of Government, and any body of persons, corporate or unincorporate, whether established or constituted under any written law or otherwise.

Training of technical personnel.

27. The Central Bank shall promote and sponsor the training of technical personnel on the subjects of money, banking, statistics, finance, and other economic subjects, and for this purpose, the Central Bank is hereby authorized to defray the costs of study, in Sri Lanka or abroad, of employees of the bank who are of proved merit, or of any other qualified persons selected by the Monetary Board.

(B) - The Department of Bank Supervision

Establishment and functions of department of bank supervision.

28. (1) For the purposes of the continuous supervision and periodical examination of all banking institutions in Sri Lanka, the Central Bank shall establish and maintain a department of bank supervision.

(2) The head of the department established under subsection (1) shall be called the Director of Bank Supervision

Examination of banking institutions.

29. (1) The Director of Bank Supervision shall examine, or cause an examiner of his department to examine, the books and accounts of every commercial bank in Sri Lanka at least once in each examination period, and shall make such further examinations in respect of any specified bank whenever required so to do by the Governor.

(2) Examination of books and accounts of banking institutions other than commercial banks, or of any specified banking institution, shall be made if directions in that behalf are given by the Monetary Board.

(3) A report on the results of each examination under this section shall be furnished by the Director of Bank Supervision to the Governor.

(4) It shall be lawful for the Director of Bank Supervision or for any examiner of his department-

(a) to administer oaths or affirmations, in accordance with the Oaths Ordinance, to any director, officer, or employee of any banking institution;

(b) to require any such director, officer, or employee to furnish such information as the Director or examiner may consider it necessary to obtain for the purpose of enabling the true condition of the affairs of the institution to be ascertained; or

(c) to require any such director, officer, or employee to produce for inspection any books, records, or other documents in his possession containing or likely to contain any such information.

(5) It shall be the duty of every director, officer or employee of any banking institution to afford to the Director of Bank Supervision or to any examiner of his department full opportunity to examine books and records and its cash, available assets, full liabilities and general condition, whenever so requested by the Director.

(6) In this section "examination period" means each period of such duration as may be fixed for the purpose by the Monetary Board.

Continuous supervision of banking institutions [§.7, 52 of 1985]

29A. The Director of Bank Supervision may for the purpose of the continuous supervision of banking institutions-

(a) require any commercial bank, and if so authorized by the Monetary Board any banking institution other than a commercial bank, to furnish from time to time and within such period as may be specified by him, such statement and information relating to the business or affairs of a commercial bank or a banking institution, as the case may be, as he may consider necessary to obtain for the purpose of ascertaining the true condition of the affairs of the commercial bank or the banking institution;

(b) require the auditor of any commercial bank, and if so authorized by the Monetary Board of any Banking Institution other than a commercial bank, furnish to him within such period as may be specified by him, any information in relation to an audit carried out by such auditor of the commercial bank or banking institution, as the case may be, as he may consider necessary to obtain for the purpose referred to in paragraph *(a)*; and

(c) to examine or cause an examiner of his department to examine the books and accounts kept by any commercial bank, or other banking institution as he may deem necessary for the purpose of verifying the accuracy of any statement or information so furnished.

Director of Bank Supervision to examine books of any subsidiary or agency of a banking

29B. (1) The Director of Bank Supervision shall examine or cause an examiner of his department to examine the books and accounts of any subsidiary or agency of any commercial bank, or the books and accounts of any subsidiary or agency of any banking institution other than a commercial bank, if directions in that behalf are given by the Monetary Board or the books and accounts of any society registered under the

Co-operative Societies Law, No. 5 of 1972, which carried on banking business, if direction in that behalf are given by the Governor.

institution or of a Co-operative Society carrying on banking business. [§.7, 52 of 1985]

(2) The provisions of subsections (3), (4) and (5) of section 29 and sections 30, 31 and 32 of this Act shall, *mutatis mutandis* apply, to and in relation to, all or any of the institutions referred to in subsection (1) of this section.

Power of Monetary Board to suspend or restrict business of a banking institution.

30. (1) In any case where the Director of Bank Supervision 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 depositors, or that its continuance in business is likely to involve loss to its depositors or creditors, the Director shall make a report accordingly to the Governor for submission to the Monetary Board; and if the board, upon review of the facts and circumstances, is of opinion that action should be taken as hereinafter provided, the board may make order directing the institution forthwith to suspend business in Sri Lanka and directing the Director 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.

(2) 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 (1) or in respect of any loss or damage incurred, or likely to be or alleged to be incurred, by reason of such order.

[§.8, 52 of 1985]

(3) An order made by the Monetary Board under subsection (1) 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 board, 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 board may consider necessary in the public interest or in the interests of the depositors and other creditors of the institution; or

[§.8, 52 of 1985]

(b) to cause the Director of Bank Supervision 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

[§.8, 52 of 1985]

(c) to cause the Director of Bank Supervision to make application to the competent court, to wind up the affairs of a branch of an institution, incorporated outside Sri Lanka.

(4) Where an order has been made by the Monetary Board under subsection (3) 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 a declaration 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 board; and any such declaration shall have effect notwithstanding anything in the order made by the board under subsection (3).

The Director of Bank Supervision shall be named respondent to any such application and shall be entitled on behalf of the board to be heard and to adduce evidence at the hearing thereof.

(5) In any case where application is made by the Director as provided in subsection (3) 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 a declaration 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.

(6) 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 (5) shall be final and shall not be subject to appeal.

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

(8) 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.

[§.8, 52 of 1985]

(9) Where the business of a banking institution has been suspended under subsection (1), the Director of Bank Supervision may-

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

(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 business of the banking institution;

(d) reorganize, such banking institution by increasing its' capital and arranging for new shareholders 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.

Director of Bank Supervision to be liquidator in winding up of a banking institution.

31. In any case where an order is made, whether in pursuance of an application under section 30 or otherwise, for the winding up of any banking institution, then notwithstanding anything in any other written law, the Director of Bank Supervision shall be appointed to be the liquidator for the purposes of such winding up.

Offences in regard to information and examinations.

32. (1) Any owner, agent, director, officer, or employee of any banking institution, who fails to furnish any information or to produce any book, record, or other document when required so to do by the Director of Bank Supervision or any examiner under the preceding provisions of this Part or who obstructs or fails to permit the Director or any examiner to make any examination authorized to be made under any such provision, shall be guilty of an offence.

(2) Any person who in any report or information furnished to the Director of Bank Supervision, or to any examiner, makes any statement which he knows to be false shall be guilty of an offence.

Scheme to insure deposits held by banking institutions and co-operative societies. [§.7,37 of 1974]

32A. The Central Bank may establish, maintain, manage and control, as determined by the Monetary Board from time to time, a scheme for the insurance of deposits held by banking institution and societies registered under the Co-operative Societies Law, No, 5 of 1972.

Insurance of deposits held by banking institutions or societies. [§.7,37 of 1974]

32B. (1) Any banking institution, or any society registered under the Co-operative Societies Law, No. 5 of 1972, and carrying on banking business of any kind, may, as prescribed , apply to the Central Bank to insure deposits held by such institution or society.

(2) The Central Bank may, in its discretion, accept any application made under subsection (1).

(3) Every banking institution or society, whose application has been accepted under subsection (2), is hereafter in this Part of this Act referred to as "insured bank" or "insured society", as the case may be.

Premiums payable on deposits [§.7,37 of 1974]

32C. (1) Every insured bank or insured society shall be liable to pay a premium to the Central Bank on its deposits on such basis as may be determined by the Monetary Board from time to time, with the approval of the Minister in charge of the subject of Finance.

Provided that the premium payable by any insured bank or insured society for any period shall not exceed fifteen cents per annum for every hundred rupees of the total amount of the deposits in that bank or that society.

(2) The premium shall be payable for such periods, at such times and in such manner as may be determined by the Monetary Board.

(3) If an insured bank or insured society makes any default in the payments of any premium, it shall, for the period of such default, be liable to pay to the Central Bank, interest on the amount of such premium at such rate as may be determined by the Monetary Board.

Examination of insured banks and insured societies, & c. [§.7,37 of 1974]

32D. (1) The Director of Bank Supervision may, at his discretion, examine, or cause an examiner of his department to examine, the books and accounts of any insured bank or insured society.

[§.9, 52 of 1985]

(2) The provisions of subsections (4) and (5) of section 29, paragraph *(b)* of section 29A, section 30, section 31 and section 32 of this Act shall, *mutatis mutandis*, apply to insured banks and insure societies.

Regulations [§.7, 37 of 1974]

32E. Regulations may be made by the Monetary Board in respect of-

(a) the periods for which, the times at which and the manner in which premiums will be calculated and may be paid by an insured bank or an insured society.

(b) the interest which may be charged from an insured bank or an insured society where it makes default in the payment of premiums;

(c) any matter that is stated or is required to be prescribed or in respect of which a regulation is authorized to be made under this Part of this Act;

(d) any other matter affecting, connected with, or incidental to, the exercise, discharge, or performance of the powers, functions and duties of the Central Bank under this Part of this Act.

(C) - Other Departments

Other departments

33. The Monetary Board may establish and maintain such other departments as it may consider necessary for the proper and efficient conduct of the business of the Central Bank.

PART V - REPORTS AND PUBLICATIONS

Monthly Statements

34. The Central Bank shall, before the eighth day of each month, publish a general balance sheet showing the volume and composition of its assets and liabilities as on the last working day of the preceding month.

Annual Report [§.8, 37 of 1974]

35. (1) Within four months after the end of each financial year, the Monetary Board shall submit to the Minister in charge of the subject of Finance and shall publish an annual report on the condition of the Central Bank and a review of the policies and measures adopted by the Monetary Board during the financial year and an analysis of the economic and financial circumstances which prompted those policies and measures.

(2) The annual report shall include a statement of the financial condition of the Central Bank, and shall present as a minimum the following data-

(a) the monthly movements of the money supply, distinguished between currency and demand deposits;

(b) the monthly movements of purchases and sales of exchange and of the International Reserve of the Bank;

(c) the annual balance of payments of Sri Lanka;

(d) the monthly indices of wages, of the cost of living, and of import and export prices;

(e) the monthly movement, in summary form, of exports and imports, by volume and value;

(f) the monthly movement of the accounts of the Central Bank and, in consolidated form, of the commercial banks;

(g) the principal data on Government receipts and expenditures and on the state of the public debt, both domestic and foreign; and

(h) the texts of the major legal enactments and administrative measures adopted by the Government and the Monetary Board during the year which relate to the functions or operations of the Central Bank or of banking institutions operating in Sri Lanka.

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

Signatures on balance sheets and financial statements.

36. The balance sheet and other financial statements of the Central Bank (including the statement of financial condition referred to in section 35 (2) shall be signed by the Governor and the Chief Accountant of the Bank, and shall be certified by the Auditor-General.

PART VI - PROFITS, LOSSES, AND SPECIAL ACCOUNTS

Financial year.

37. The financial year of the Central Bank shall be the calendar year.

Computation of profits and losses.

38. Before the expiration of thirty days after the end of each financial year, the Central Bank shall determine its net profits or losses, and in the calculation of net profits the bank shall make adequate allowance or establish adequate reserves for such purposes as the Monetary Board may deem fit.

Distribution of profits.

39. Before the expiration of sixty days after the end of each financial year, the Monetary Board shall carry out the distribution of the net profits in accordance with the following provisions :-

(a) *Firstly*- all the net profits of the Central Bank shall be used to reduce the Monetary Adjustment Account, defined in the following section, whenever such account exists, until the account has been completely liquidated.

(b) *Secondly* - any net profits remaining after liquidation of the Monetary Adjustment Account, if any, shall be carried to surplus until such time as the total capital accounts of the bank reach a sum equal to at least fifteen *per centum* of the difference between the total assets of the bank and its assets in gold and in foreign currencies.

(c) *Thirdly* - any net profits remaining after compliance with the preceding provisions shall, after consultation with Minister in charge of the subject of Finance, either be applied in liquidation

of any outstanding Government obligations to the Central Bank or be paid and credited to the Consolidated Fund.

Extraordinary expenses of currency issue and monetary stabilization.

40. The Monetary Board may, whenever it deems it advisable, exclude from the computation of the annual profits and losses of any particular financial year all or any part of any extraordinary expenses of the following description which may have been incurred during that year.

(a) the costs of any extraordinary coin or note issue;

(b) expenditures incurred in the issue and placing of, and the payment of interest on, the securities to which reference is made in section 91;

(c) interest paid on bank reserves in accordance with section 95.

The amount so excluded from the computation of profits and losses shall be entered in a suspense account which shall be called the "Monetary Adjustment Account". The expenses charged to such account shall in every case be amortized not later than five years after they are so charged.

Revaluation profits and losses.

41. (1.) Profits or losses arising from any revaluation of the Central Bank's net asset or liabilities in gold or foreign currencies as a result of changes in the par value of the Sri Lanka rupee or of changes in the parities or exchange rates of foreign currencies with respect to the Sri Lanka rupee, or profits or losses assumed by the Central Bank in accordance with the provisions of section 79, shall not be included in the computation of the annual profits and losses of the Central Bank.

(2) All such profits or losses shall be carried in a special account, which shall be named "International Reserve Revaluation Account", and the net balance of which shall appear either among the liabilities or among the assets of the Central Bank, according as the revaluations have produced net profits or net losses.

(3) The International Reserve Revaluation Account shall be neither credited nor debited for any purposes other than those specifically mentioned in this section.

PART VII - AUDIT

Audit.

42. (1) The accounts of the Central Bank shall be audited by the Auditor-General and the cost of audit shall be paid by the bank.

(2) The Auditor-General shall submit an annual report on the accounts of the Central Bank to the Minister in charge of the subject of Finance who shall lay such report before Parliament.

Powers and functions.

43. (1) The Auditor-General and any officer of his department authorized by him in that behalf 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.

(2) The Auditor-General shall at such intervals as may be fixed by the Minister in charge of the subject of Finance furnish to him reports setting out the results of the examination of the accounts of the Central Bank.

PART VIII - RESTRICTIONS RELATING TO CENTRAL BANK OFFICERS AND SERVANTS

Duty to maintain secrecy. [§.8, 37 of 1974] [§.10, 52 of 1985]

***45.** (1) Except in the performance of his duties under this Act, every officer and servant of the Central Bank shall preserve and aid in preserving secrecy with regard to all matters relating to the affairs of any banking institution or of any client of any such institution or of any matter relating to the affairs of any department of Government, corporation, company, partnership or person that may come to his knowledge in the performance of his duties under this Act, the Control of Finance Companies Act, No. 27 of 1979, or any other law for the time being in force, and any such officer or servant who communicates any such matter to any person, other than the Monetary Board or an officer of the Central Bank authorized in that behalf by the Governor, or suffers or permits any unauthorized person to have access to any books, papers or other records relating to any banking institution, department of Government, corporation, company, partnership or person, shall be guilty of an offence.

(2) No officer or servant of the Central Bank shall be required to produce in any court any book or document or to divulge or communicate to any court any matter or thing coming under his notice in the performance of his duties under this Act, except as may be necessary for the purpose of carrying into effect the provisions of this Act.

(3) 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 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.

In this subsection, "certified copy" in relation to any book, document or entry, means a copy of such book, document or entry, together with a certificate written at the foot of such copy that it is a true copy of such

* Section 44 is repealed by Act No. 62 of 1980

book, document or entry; that such book or document is still in the custody of the Central Bank; 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, such certificate being dated and subscribed with his name and official title, by such officer as may be authorised for the purpose by the Governor of the Central Bank.

Liability for false statements in Central Bank accounts, &c.

46. Any member of the Monetary Board or any officer or auditor of the Central Bank who certifies or verifies any statement, account, or list required to be furnished to the Minister in charge of the subject of Finance in pursuance of this Act, knowing the same to be false in any material particular, shall be guilty of an offence.

Protection for acts done in good faith, &c.

47. (1) No member of the Monetary Board or officer or servant of the Central Bank shall be liable for any damage or loss suffered by the bank unless such damage or loss was caused by his misconduct or wilful default.

(2) Every member of the Monetary Board and every officer or servant of the Central Bank shall be indemnified by the bank from all losses and expenses incurred by him in or about the discharge of his duties, other than such losses and expenses as the board may deem to have been occasioned by his misconduct or wilful default.

CHAPTER III

THE CENTRAL BANK AND THE MEANS OF PAYMENT

PART 1- ISSUE OF MEANS OF PAYMENT

(A) Currency

Definition of "currency". [§.11, 52 of 1985]

48. For the purpose of this Act unless the context otherwise requires, "currency" means all currency notes and coins issued or circulating in accordance with the provisions of this Act.

Issue power.

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

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

50. (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:

Provided that cheques or drafts payable to bearer on demand may be drawn on 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 shall be guilty of an offence.

Liability for notes and coins.

51. Currency notes and coins issued by the Central Bank shall be liabilities of the bank. The bank's holdings of its own notes and coins shall not be considered as part of its currency issue and, accordingly, shall not be taken into account in determining the assets or liabilities of the bank.

Currency to be legal tender.

52. All currency notes and coins issued by the Central Bank shall be legal tender in Sri Lanka for the payment of any amount.

Issue of commemorative currency notes or coins. [§2,6 of 1998]

***52A.** (1) (a) The Central Bank may, with the aproval of the Minister in charge of the subject of Finance and subject to section 53, issue commemorative currency notes or coins.

(b) Commemorative currency notes or coins issued under paragraph (a) of this subsection may be sold at a price higher than the denomination specified in such note or coin and as may be determined by the Minister in charge of the subject of Finance.

* This section is deemed to have come into effect from February 4, 1998. See section 4, Act 6 of 1998.

(2) The sale of a commemorative currency note or coin issued under subsection (1) at a price higher than the denomination specified in such currency note or coin shall be deemed not to be a contravention of section 58A.

(3) In this section "commemorative currency note or coin" means a currency note or coin isuued to commemorate any person or a special event.

Characteristics of currency.

53. (1) The Monetary Board shall, with the approval of the Minister in charge of the subject of Finance, prescribe the denominations, dimensions, designs, inscriptions, and other characteristics of currency notes issued by the Central Bank.

(2) Every currency note shall bear the signatures in facsimile of the Minister in charge of the subject of Finance 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.

(3) The Monetary Board shall, with the approval of the Minister in charge of the subject of Finance, prescribe the metals, fineness, weight, size, designs, denominations, and other characteristics of the coins issued by the Central Bank.

Contracts for printing of notes and minting of coins.

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

Exchange of currency. [§3, 6 of 1998]

***55.** (1) Subject to the provisions of subsection (2) upon surrender by any person to the Central Bank of any Sri Lanka currency, the bank shall deliver to that person in exchange, on demand and without charge, Sri Lanka coins and currency notes of equivalent value in such denominations as may be required by that person:

Provided that if the bank is temporarily unable to deliver currency notes or coins of any required denomination, the bank shall be deemed to comply with its obligation if it delivers notes or coins of the next higher or next lower available denomination.

[§3, 6 of 1998]

(2) Nothing in subsection (1) shall be read and construed as imposing an obligation on the Central Bank to deliver on demand under subsection (1), any commemorative curency note or coin issued under section 52A, where the required currency note or coin is of a denomination specified in such currency note or coin.

Replacement of currency unfit for circulation

56. The Central Bank shall withdraw from circulation and shall cancel all currency notes and coins which for any reason whatsoever are

* The amendments made to this section should be deemed to have come into effect from February 4, 1998. section 4, Act 6 of 1998.

unfit for circulation, and shall, as soon as practicable and subject to such rules and regulations as may be made in that behalf by the Monetary Board with the approval of the Minister in charge of the subject of Finance, replace them by the delivery in exchange of fit notes and coins.

Retirement of old notes and coins.

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

(2) 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 prescribed by the Monetary Board and shall thereafter cease to be legal tender.

(3) During the period of five years succeeding the date of call, or such longer period as the Monetary Board may determine, the Central Bank or any agent authorised by the board for the purpose, shall, upon surrender of any currency notes or coins so called in for replacement, replace such notes or coins, at par and without charge, by the delivery in exchange of fit notes or coins.

(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.

Mutilation of defacement of currency notes

58. Any person who without the authority of the Monetary Board-

[§.12, 52 of 1985]

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

[§.12, 52 of 1985]

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

[§.12, 52 of 1985]

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

[§.12, 52 of 1985]

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

shall be guilty of an offence.

Use of currency coin otherwise than aslegal tender.
[§ 2, 14 of 1979]

58A. (1) Any person who, without the authority of the Monetary Board, melts, breaks up, perforates, mutilates or uses otherwise than as legal tender, any coin which is legal tender in Sri Lanka shall be guilty of an offence.

(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), shall be guilty of an offence.

Conclusive evidence of imitation of a currency note. [§.2, 33 of 1954] [S.2, 52 of 1985]

59. (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 or, if the Governor is temporarily absent from duty or temporarily unable to perform his functions and duties, a certificate under the hand of the Deputy Governor for the time being acting as the Chief Executive Officer 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 of Sri Lanka shall be received in those proceedings as conclusive evidence of the fact that such document is an imitation of a currency note.

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

[§.13, 52 of 1985]

(3) Every certificate issued under this section shall be substantially in the following form: -

I,....., Governor of the Central Bank of Sri Lanka*/Deputy Governor for the time being acting as the chief executive officer of the Central Bank of Srl Lanka, do hereby certify that I have examined the document marked .....which purports to be a currency note of the denomination .....bearing number ....., and dated ..and 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 of Sri Lanka.

Signature: .....
Date:.....
(*Delete inapplicable words)

(4) This section shall apply -

Application of section. [§.3, 33 of 1954]

(a) to proceedings in respect of all offences whether committed before or after the 8th day of July, 1954, and

(b) to proceedings pending before or awaiting inquiry or trial in any court on the 8th day of July, 1954.

Conclusive evidence of imitation of a coin or current coin

59A. (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 or, if the Governor of the Central Bank

[S.2, 5 of 1968] [S.2, 52 of 1985]

is temporarily absent from duty or temporarily unable to perform his functions and duties, a certificate under the hand of the Deputy Governor for the time being acting as the chief executive officer 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 of Sri Lanka, shall be received in those proceedings as conclusive evidence of the fact that such article is an imitation of a coin or current coin.

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

[§.14, 52 of 1985]

(3) Every certificate issued under this section shall be substantially in the following form :-

I,....., Governor of the Central Bank of Sri Lanka*/Deputy Governor for the time being acting as the chief executive officer of the Central Bank of Sri Lanka, do hereby certify that I have examined the article delivered in a sealed packet by .....together with letter No.... in respect of case No. ..... which purports to be a coin*/current coin of the denomination .....and that such article is an imitation of a coin*/ current coin issued or deemed to be issued by the Central Bank of Sri Lanka and is not a coin*/current coin issued or deemed to be issued by the Central Bank of Sri Lanka.

Signature :.....
Date :-.....
(*Delete inapplicable words)

(4) This section shall apply -

(a) to proceedings in respect of all offences whether committed before or after the fifteenth day of August, 1967; and

(b) to proceedings pending before or awaiting inquiry or trial in any court on the fifteenth day of August, 1967.

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

(B) - Demand Deposits

Definition of "demand deposits".

60. For the purposes of this Act, "demand deposits" means all those liabilities of the Central Bank and of commercial banks which are denominated in Sri Lanka currency and are subject to payment in legal tender upon demand by cheque, draft or order.

61. The acceptance or creation of demand deposits shall be subject to the control of the Monetary Board in accordance with the powers granted to the board under this Act.

Acceptance and creation of demand deposits.

PART II - THE MONEY SUPPLY

62. For the purposes of this Act, "the money supply" means all currency and demand deposits owned by persons other than commercial banks or the Government.

Definition of "the money supply"

CHAPTER IV

THE CENTRAL BANK AND NATIONAL MONETARY POLICY

PART I-DOEMSTIC MONETARY STABILIZATION

63. (1) The Monetary Board shall endeavour so to regulate the supply, availability, and cost of money as to secure, so far as possible by action authorised by this Act, the objects mentioned in section 5; and shall for such purpose have regard to the monetary needs of particular sectors of the economy as well as of the economy as a whole.

Principles governing determination of domestic monetary policy.

(2) In determining its domestic monetary policies the Monetary Board shall especially consider their effects on Sri Lanka's international financial position as evidenced by the relation of domestic to world prices and costs, by the level and composition of exports and imports, by the international balance of payments, and, ultimately, by the ability of the Central Bank to maintain the international stability of the Sri Lanka rupee and its free convertibility for current international transactions.

64. (1) Whenever the Monetary Board anticipates economic disturbances that are likely to threaten domestic monetary stability in Sri Lanka or whenever abnormal movements in the money supply or in the price level are actually endangering such stability, it shall be the duty of the board -

Action to preserve domestic monetary stability

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

(b) to submit to the Minister in charge of the subject of Finance and, if not prejudicial to the public interest, make public, 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 money supply or the price level;

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

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

(2) Without prejudice to the generality of the provisions of subsection (1), it shall be the duty of the Monetary Board to submit a report in terms of paragraph *(b)* of that subsection if at the end of any month the board finds that the amount of the money supply has increased or decreased by more than fifteen *per centum*, or the cost of living index has increased by more than ten *per centum*, of its level at the end of the corresponding month in the preceding year.

(3) The Monetary 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 monetary stability.

PART II-INTERNATIONAL MONETARY STABILIZATION

Principles governing determination of international monetary policy. [§.8, Law 10 of 1978]

65. In determining its international monetary policy the Monetary Board shall endeavour to maintain the par value of the Sri Lanka rupee, or where no determination of such par value has been made under section 3, maintain such exchange arrangements as are consistent with the underlying trends in the country and so relate its exchange with other currencies as to assure its free use for current international transactions.

International Reserve.

66. (1) In order to maintain the international stability of the Sri Lanka rupee and to assure the greatest possible freedom of its current international transactions, the Monetary Board shall endeavour to maintain among the assets of the Central Bank an international reserve adequate to meet any foreseeable deficits in the international balance of payments.

[§.8, Law 10 of 1978]

(2) In judging the adequacy of the International Reserve, the Monetary Board shall be guided by the estimates of prospective receipts and payments of foreign exchange by Sri Lanka; by the volume and maturity of the Central Bank's own liabilities in foreign currencies; and, in so far as they are known or can be estimated, by the volume and maturity of the foreign exchange assets and liabilities of the Government and of banking institutions and other persons in Sri Lanka. So long as any part of the foreign currency assets of Sri Lanka are held in currencies which are not freely convertible by the Central Bank, whether directly or indirectly, into special drawing rights or such other common denominator prescribed by the International Monetary Fund or into foreign currencies freely usable in international transactions, or are frozen, the Monetary

Board shall also take this factor into account in judging the adequacy of the International Reserve of the Central Bank.

Composition of International Reserve [§.7, 2 of 1969]

67. (1) The International Reserve of the Central Bank may include the following assets :-

(i) gold;

(ii) assets in foreign currencies in the form of -

(a) documents and instruments of types customarily employed for the international transfer of funds; or

(b) demand and the time deposits in central banks, treasuries, and commercial banks abroad; or

(c) securities of foreign Governments; or

(d) foreign notes and coins; and [§.7,2 of 1969]

(iii) either the whole, or such maximum percentage of the whole, of the holdings of such drawing rights in the Special Drawing Rights Department in the International Monetary Fund according as may be determined from time to time by the Monetary Board. [§.7,2 of 1969] [§.8, Law 10 of 1978]

(2) The Monetary Board shall endeavour to hold at least a nuclear reserve in gold or currencies freely convertible by the Central Bank, whether directly or indirectly, into gold. The board shall particularly consider the prospects of stability and convertibility of all of the currencies in the International Reserve as well as the anticipated demand for such currencies.

Action to preserve the international stability of the rupee.

68. (1) Whenever the Monetary Board anticipates that there may develop a deficit in the international balance of payments of such magnitude as to cause a serious decline in the International Reserve, or whenever there is an imminent threat of a serious decline in the International Reserve, or whenever the International Reserve actually falls to a level which the board considers to be a threat to the international stability of the Sri Lanka rupee, or whenever international payments or remittances are being made which in the opinion of the board constitute an actual or a potential threat to such stability or are prejudicial to the national welfare, it shall be the duty of the board -

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

(b) to submit to the Minister in charge of the subject of Finance a detailed report which shall include, as a minimum, an analysis of -

(i) the nature, causes, and magnitude of the actual or potential threat to the international stability of the Sri Lanka rupee; and

Dealings in gold

(ii) the measures which the board has already taken, and the further monetary, fiscal or administrative measures which it proposes to take or recommends for adoption by the Government.

(2) The Monetary Board shall submit further periodical reports to the Minister in charge of the subject of Finance until the threat to the international stability of the rupee has disappeared.

CHAPTER V

INSTRUMENTS OF CENTRAL BANK ACTION

PART I-OPERATIONS IN GOLD AND FOREIGN EXCHANGE

***70.** The Central Bank may import, export, buy, sell, hold, or otherwise deal in gold in any form,.

Foreign exchange operations of Central Bank

71. (1) The Central Bank may engage in spot or other foreign exchange operations, that is to say, it may effect transfers of funds by telegram, letter, or other method of communication, and may buy and sell foreign notes and coins and any documents or instruments of types customarily employed for the international transfer of funds.

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

(a) 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);

(c) foreign commercial or central banks;

(d) international financial institutions; and

---

* Section 69 is repealed by Law No. 10 of 1978.

(e) foreign Governments and agencies or institutions acting on behalf of foreign Governments.

Purchases and sales of foreign exchange from or to commercial banks in Sri Lanka [S.8, Law 10 of 1975]

72. (1) In order to ensure the free use of the Sri Lanka rupee for current international transactions, the Central Bank shall buy any quantity of foreign exchange offered, or sell any quantity of foreign exchange demanded, by any commercial bank in Sri Lanka.

Provided that nothing in the preceding provisions of this subsection shall require the Central Bank to purchase foreign exchange in any currency which is not freely convertible by the bank, whether directly or indirectly, into special drawing rights or such other common denominator prescribed by the International Monetary Fund or into foreign currencies freely usable in iternational transactions, unless, in the opinion of the Monetary Board, there is an adequate demand, actual or anticipated, for such currency for the purpose of making payments for current international transactions, or unless the Monetary Board, with the concurrence of the Minister in charge of the subject of Finance, makes a determination that the acquisition of such currency is in the national interest.

(2) Notwithstanding anything in subsection (1), the Monetary Board may by unanimous decision and with the approval of the Minister in charge of the subject of Finance temporarily suspend or restrict sales of foreign exchange by the Central Bank in any case where such action is considered necessary in order to conserve the International Reserve of the Central Bank during any period of crisis affecting exchange.

Parities of foreign currencies with respect to the rupee.

73. (1) The Governor shall determine and certify the parities with respect to the Sri Lanka rupee of foreign currencies ordinarily required for the international transactions of Sri Lanka. Parities so determined and certified shall be published in the Gazette, and shall be recognized as the legal parities for all purposes. The Governor may in addition certify the parity of any foreign currency not included in the published list of parities.

(2) The Governor may at any time desist from certifying or publishing the parity of any foreign currency if the exchange rates for that currency in international markets are unstable or widely divergent.

(3) The legal parities of foreign currencies with respect to the Sri Lanka rupee shall be determined by the Governor, in accordance with the following provisions :-

(a) The currency of a country which is a member of the International Monetary Fund shall have its parity with respect to the rupee established on the basis of its par value as agreed with the fund in every case where the country is permitting exchange transactions between its currency and the currencies of other members only within

the maximum and the minimum rates prescribed in the International Monetary Fund Agreement for such transactions. In any other case, or if the par value of the currency of a member country has not been agreed with the fund, the parity of such currency with respect to the rupee may be calculated on the basis of the exchange rates for that currency in the international markets; and if there is divergence among the rates quoted in the international markets, the Governor may determine which rates to use for the determination of parity.

[§.8, Law 10 of 1978]

(b) The currency of a country which is not a member of the International Monetary Fund shall have its parity with the rupee calculated on the basis of the exchange rates for the currency in international markets; and if there is divergence among the rates quoted in international markets the Governor may determine which rates shall be used for the determination of the parity.

Exchange rates for Central Bank transactions.

74. (1) The Monetary Board shall from time to time determine the rates at which the Central Bank will buy and sell foreign exchange.

[§.8, Law 10 of 1978]

(2) The rates determined under subsection (1) for spot transactions shall not differ by more than four and one-half *per centum* from the legal parities determined under section 73, except in the case of the rates for purchases and sales of foreign notes and coins, in which case the Board may have regard to the additional costs of, or incidental to, such transactions.

(3) The rates determined under subsection (1) for transactions other than spot transactions shall not differ from the corresponding rates for spot transactions, except in so far as is necessary to reimburse the bank for the additional costs, expenses, or risks of each type of transaction.

(4) 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 actually incurred in connection with such purchase or sale.

(5) The provisions of subsections (2) and (3) shall not apply at any time during which the sales of foreign exchange by the Central Bank are restricted under section 72.

Loans to and from foreign institution, &c.

75. (1) The Central Bank may grant loans to, or take loans from, any institution of any description referred to in paragraphs *(c), (d)* and *(e)* of subsection (2) of section 71 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 bank as a Central Bank.

The Central Bank may act as agent or correspondent of any such institution other than a foreign commercial bank.

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

PART II- REGULATION OF FOREIGN EXCHANGE OPERATIONS OF COMMERCIAL BANKS

Rates applicable to purchases and sale of exchange by commercial banks.

[§8, 10 of 1978]

76. (1) The Monetary Board shall determine the minimum rate at which commercial banks may buy spot exchange and the minimum rate at which they may sell spot exchange. Where the Monetary Board has certified the legal parity of a currency in accordance with section 73, the maximum and minimum exchange rates established for such currency shall not differ from such parity by more than four and one-half *per centum*.

(2) No commercial bank shall buy spot exchange at any rate below the minimum rate determined under subsection (1) or sell spot exchange at any rate exceeding the maximum rate so determined; and no commercial bank shall in respect of any purchase or sale of such exchange accept any commission or impose any charge of any description except telegraphic or other costs actually incurred in connection with such purchase or sale.

(3) No commercial bank shall carry out any transaction in exchange, not being a spot transaction, at any rate which differs from the rate determined under subsection (1) for a spot transaction -

(a) by a margin greater than is reasonable having regard to the additional costs, expenses or risks of the transaction; or

(b) by such margin, if any, as may be prescribed in that behalf by the Monetary Board.

(4) The preceding provisions of this section shall not apply at any time during which the sales of foreign exchange by the Central Bank are suspended or restricted under section 72.

Exchange rate for Central Bank and commercial bank transactions where partities of foreign

76A. (1) Where the Governor is of opinion that it is inexpedient to determine and certify, in accordance with section 73, the parities with respect to the Sri Lanka rupee of foreign currencies ordinarily required for the international transactions of Sri Lanka, he may, in lieu of determining and certifying such parities under that section, determine the rates at which the Central Bank may buy and sell spot foreign exchange.

currencies are not determined. [§.2, 16 of 1977]

(2) Where the Governor determines, under subsection (1), the rates at which the Central Bank may buy and sell spot foreign exchange, the provisions of sections 73, 74 and 76 shall cease to have any force or effect in law, and the following provisions shall apply upon such determination :-

(a) Such determination may be limited to such foreign currencies as the Governor may deem appropriate.

(b) The rates determined under subsection (1) shall not apply in the case of the purchases and sales of foreign notes and coins, in which case the Central Bank may have regard to the additional costs of, or incidental to, such purchases and sales.

(c) The rates for transactions other than spot transactions shall not differ from the rates determined under subsection (1), except in so far as it is necessary to reimburse the Central Bank for the additional costs, expenses or risks of each type of transaction.

(d) 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 the telegraphic or other costs actually incurred in connexion with such purchase or sale.

(e) It shall be competent for the Governor to authorize, in writing, any officer by name or by office, to vary from time to time within such limits as may be specified by the Governor, the rates determined by the Governor under subsection (1).

(f) Where the Governor makes no determination under subsection (1) with respect to any particular foreign currency, the Central Bank may buy and sell such currency at a rate calculated on the basis of the exchange rate for that currency in the international markets in relation to any foreign currency with respect to which the Governor has made a determination under subsection (1).

(g) (i) Where the Governor determines under subsection (1) the rates at which the Central Bank may buy and sell spot foreign exchange, he may also determine the minimum rate at which any commercial bank may buy spot exchange and the maximum rate at which any commercial bank may sell spot exchange.

(ii) In any case where the Central Bank buys or sells any

currency in the exercise of the authority granted by paragraph *(f)* any officer authorized in that behalf by the Governor by name or by office, may determine the minimum rate at which any commercial bank may buy spot exchange and the maximum rate at which any commercial bank may sell spot exchange.

(iii) The provisions of paragraph *(e)* shall, *mutatis mutandis*, apply to, and in relation to, the minimum and maximum rates determined under this paragraph.

(h) Where no determination is made under paragraph *(g)* with respect to any particular foreign currency, a commercial bank may buy, sell or carry out any transaction in such currency at rates calculated on the basis of the exchange rates for that currency in the international markets.

(i) Where a determination is made under paragraph *(g)*, as to the minimum and the maximum rates at which commercial banks may buy and sell spot exchange -

(i) no commercial bank shall buy spot exchange at any rate below the minimum rate determined under that paragraph or sell spot exchange at any rate exceeding the maximum rate so determined; and no commercial bank shall in respect of the purchase or sale of such exchange accept any commission or impose any charge of any description except telegraphic or other costs actually incurred in connection with such purchase or sale, and

(ii) no commercial bank shall carry out any transaction in exchange, not being a spot transaction, at any rate which differs from the rates determined under paragraph *(g)* by a margin greater than is reasonable having regard to the additional costs, expenses or risks of the transaction, or by such margin, if any, as may be prescribed in that behalf by the Governor.

(j) A determination under paragraph *(g)*, as to minimum and maximum rates shall have no application during any period in which the Monetary Board decides, under section 72, to suspend or restrict the sales of foreign exchange by the Central Bank.

Control of foreign exchange holdings of commercial banks.

77. (1) In order more effectively to control the use and disposition of the foreign exchange resources of Sri Lanka or in order to promote the domestic investment of the resources of commercial banks, the Monetary Board may from time to time fix, or prescribe the manner of

determination of, the maximum amount of the working balances which commercial banks may hold in foreign currencies generally or in any specified foreign currency or currencies, and may from time to time require such banks to sell to the Central Bank all or any specified part of the surpluses in excess of such maximum amount.

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

(3) In ascertaining whether the working balances of any commercial bank in any foreign currency are in excess of the maximum amount fixed or determined as herein before provided, there may be deducted from such balances the net liabilities of that bank in currencies into which the first-mentioned currency is freely convertible.

Requirements regarding currency position of commercial banks.

78. (1) The Monetary Board may direct that the proportion which the assets in Sri Lanka rupees of commercial banks in Sri Lanka bear to the liabilities in Sri Lanka rupees of such banks shall not be less than such proportion as the Monetary Board may prescribe, or may direct such banks to maintain a balanced position between their assets and liabilities in any currency or currencies in which they operate. The board shall allow to such banks a reasonable period of time in which to comply with any such direction.

(2) Any direction under subsection (1) shall be made applicable to all commercial banks without discrimination:

Provided, however, that the Monetary Board may give such a direction to any particular commercial bank in any case where, in the opinion of the board, such action is necessary in order to protect against possible loss to depositors and other creditors of the bank who are citizens of Sri Lanka or to companies or associations controlled by citizens of Sri Lanka.

Revaluation profits and losses on holdings of foreign exchange by banking institutions. [§.8, Law 10 of 1978]

79. (1) Any revaluation profits realized or any revaluation losses incurred by banking institutions on their net assets and liabilities in foreign currencies freely convertible by the Central Bank, whether directly or indirectly, into special drawing rights or such other common denominator prescribed by the International Monetary Fund or into foreign currencies freely usable in foreign transactions and arising from changes in the par value of the Sri Lanka rupee or in the legal parities or in the Central Bank's exchange rates, of such currencies with respect to the Sri Lanka rupee, shall be assumed in their entirety by the Central Bank and shall be debited or credited accordingly.

(2) (a) If the Monetary Board so declares, the provisions of subsection (1) shall apply in relation to revaluation profits realized or

revaluation losses incurred by banking institutions on their net assets or liabilities in any specified foreign currency which is not freely convertible by the Central Bank, whether directly or indirectly, into gold.

(b) Any such declaration shall have effect until it is revoked by the board. Notice of the date on which any such declaration will be revoked shall be given to banking institutions not less than eight days before the proposed date of revocation.

(c) During the period commencing on the date of the notice referred to in paragraph (b) and ending on the date of revocation of the declaration to which it relates, every banking institution shall comply with such directions, if any, as may be given by the Monetary Board for the purpose of preventing banking institutions from increasing their holdings of the currency to which the declaration relates.

(3) Where in consequence of a determination made under subsection (1) of section 76A, the provisions of sections 73, 74 and 76 cease to be of any force or effect, the provisions of subsections (1) and (2) of this section shall also cease to be of any force or effect, and accordingly, the Central Bank shall not assume any revaluation profits realised or revaluation losses incurred by any banking institution. [§3, Law 16 of 1977]

80. (1) Every commercial bank shall, as soon as may be after the close of business at the end of such period as may be prescribed by the Monetary 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 Bank may require with reference to such purchases and sales and to the movements of its accounts in foreign currencies. Information on exchange operations.

(2) The Monetary Board may also 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 of the appropriate forms as the Monetary Board may prescribe for the purpose.

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

81. Whenever there is in progress an inward or outward movement of capital which in the opinion of the Monetary Board is actually endangering, or threatening to endanger, the domestic or international Capital movements

stability of the Sri Lanka rupee, it shall be the duty of the board to take such action as is appropriate under section 64 or section 68.

PART III-CREDIT OPERATIONS WITH BANKING INSTITUTIONS

Priciples governing credit operations.

82. (1) The Central Bank shall exercise the authority conferred by this Part of this Act to carry out the national monetary policy by regulating the supply, availability, cost, and character of credit and by providing the banking system with liquid funds in times of need.

(2) If the Monetary Board determines that it is necessary so to do by reason that, in the opinion of the board, there is in progress, or has occurred, an expansion of the money supply that represents a threat to the domestic or international monetary stability of Sri Lanka, the board shall direct the suspension of the grant of credit by the Central Bank to banking institutions, except when the board, having regard to the special circumstances, by unanimous decision approves the grant of credit.

Types of operations normally authorised. [§.88, 30 of 1971]

83. (1) Subject to the principles stated in section 82 of this Act, the Central Bank may ordinarily transact with commercial banks and the National Savings Bank, credit operations of any description set out hereunder :-

(a) Commercial credits - The Central Bank may discount, rediscount, buy and sell bills, acceptances, promissory notes, and other credit instruments with maturities of not more than 180 days from the date of their discount, rediscount, or acquisition by the Central Bank and resulting from transactions related to -

(i) the importation, exportation, purchase, or sale of readily saleable goods and products, or their transportation within Sri Lanka; or

(ii) the storage of non-perishable goods and products which are duly insured and deposited under conditions assuring their preservation, in authorised bonded warehouses or in other places approved by the Monetary Board.

(b) Production credits - The Central Bank may discount, rediscount, buy and sell bills, acceptances, promissory notes, and other credit instruments having maturities of not more than 270 days from the date of their discount, rediscount, or acquisition by the Central Bank and resulting from transactions related to the production, manufacture, or processing of agricultural, animal, mineral, or industrial products.

(c) Advances. - The Central Bank may grant loans or advances for any fixed period not exceeding 180 days upon promissory notes secured by the pledge with the bank of -

(i) gold coins or bullion; or

(ii) negotiable Treasury Bills, promissory notes, debentures, bonds, or other negotiable securities of the Government; or

(iii) securities issued by the Central Bank itself or other credit instruments of banking institutions operating in Sri Lanka and approved by the Monetary Board; or

(iv) credit instruments referred to in paragraph *(a)* of this subsection; or

(v) credit instruments referred to in paragraph (b) of this subsection.

Notwithstanding anything in the preceding provisions of this paragraph, a loan or advance secured by the pledge of any credit instrument referred to in paragraph *(b)* of this subsection may be for a period not exceeding 270 days.

(2) Except in such circumstances and subject to such conditions as the Monetary Board may determine, the Central Bank shall not grant to any commercial bank or to the National Savings Bank, any loan or advance upon the security of the pledge of any instrument referred to in paragraph *(c)* of subsection (1) in any case where such instrument is held by such commercial bank or the National Savings Bank as security for the repayment to it of the amount due upon any overdraft account. [§.88, 30 of 1971]

84. Whenever, in the opinion of the Monetary Board, a deflationary situation exists which requires special relaxation of normal maturities applying to Central Bank credit operations, the board may determine that credits may be granted by the bank on instruments referred to in paragraph *(a)* or paragraph *(b)* of section 83(1) having a maturity of a period longer than the period specified in those paragraphs but not exceeding one year, and may authorise loans or advances to be granted under paragraph *(c)* of that section for any period not exceeding one year. Extension of maturitie.

85. (1) in special circumstances in which the Monetary Board considers it necessary to promote or facilitate lending operations or particular classes of such operations by banking institutions which make loans upon mortgages, whether of movable or of immovable property, the Central Bank may grant loans or advances to any such institution against Loans to mortgage institutions

promissory notes given by such institution subject to and in accordance with the following conditions :-

(a) that the loan or advance is repayable within a period not exceeding one year;

(b) that the repayment to the Central Bank of the loan or advance is secured by the assignment to the bank by way of pledge -

(i) of debts falling due for payment within the same period to the institution by its borrowers, and

(ii) of the mortgages given as security for the payment of such debts to the institution;

(c) that the borrowers from whom such debts are due to the institution are not in default or arrears; and

(d) that the total amount of the loan or advance by the Central Bank must not exceed fifty *per centum* of the total amount of the debts which are so assigned to it.

(2) The Central Bank may make advances to any institution referred to in subsection (1) upon the terms and conditions mentioned in section 83(1).

(3) Loans or advances shall not be made under subsection (1) by the Central Bank at any time when the board is of opinion that the grant thereof would cause or aggravate inflationary tendencies.

Emergency loans and advances.

86. (1) In periods of emergency or of imminent financial panic which directly threaten monetary and banking stability, the Central Bank may grant to banking institutions, and may renew, extraordinary loans or advances secured by any assets which are defined as acceptable for the purpose by the Monetary Board by unanimous decision.

(2) A banking institution to which an extraordinary loan or advance is granted under subsection (1) shall not, while the loan or advance is outstanding, expand the total volume of its loans and investments except with the prior approval of the Monetary Board.

Interest and discount rates

87. The Monetary Board shall fix the interest and discount rates to be charged by the Central Bank on its credit operations in accordance with the character and term of each such operation; and the board shall, in so doing, have regard to the soundness of credit conditions, the needs of the market, and the general requirements of the national monetary policy.

General conditions as to grant of credit facilities

88. The Monetary Board may prescribe the conditions subject to which credit facilities of the Central Bank will be available to banking institutions, including conditions relating to the rates of interest charged by such institutions, to the purposes for which their loans in general are destined, and to any other matter affecting or connected with the credit policy of such institutions.

[§.67, 11 of 1963]

PART IIIA- MEDIUM AND LONG TERM CREDIT OPERATIONS WITH CREDIT INSTITUTIONS

Loans or advances to credit institutions.

[§67, 11 of 1963]

88A. (1) With the object of granting financial accommodation to any credit institution in respect of lending operations carried out by such institution for any productive purpose, the Central Bank may, from time to time, grant, out of the Fund, any loan or advance to such institution against a promissory note given by such institution subject to and in accordance with the following conditions :-

(a) that the loan or advance is repayable within such period not exceeding fifteen years as may be determined by the bank;

[§.2, 21 of 1963]

(b) that the repayment to the Central Bank of the loan or advance is secured by the assignment to the bank by way of pledge of debts owing to such institution by its borrowers in respect of such purpose or purposes; and

(c) such other conditions including the rate of interest to be charged by the Bank on such loan or advance, as may be determined by the Monetary Board.

Such assignment is in this Part of this Act referred to as an "assignment by way of pledge".

(2) The Monetary Board may prescribe the conditions subject to which loans or advances will be available out of the Fund to credit institutions, including conditions relating to the rates of interest charged by such institutions, to the purposes for which their loans in general are destined, and to any other matters affecting or connected with the credit policy of such institutions.

(3) An assignment by way of pledge to the Central Bank under this Part of this Act shall be effected by an instrument which shall be substantially in the following form :-

[§.2, 52 of 1985]

Form of Assignment by way of pledge to the Central Bank of Sri Lanka under section 88A of the Monetary Law Act

We, ..., in terms of section 88A of the Monetary Law Act, do hereby assign to the Central Bank of Sri Lanka by way of pledge, the

debts owing to us, particulars whereof are set forth in the Schedule hereto, as security or further security for the repayment to the Central Bank of Sri Lanka of a *loan/advance of Rs ..... granted to us by the Bank repayable .....with interest at ..% per annum.

*Delete whichever is inapplicable.

SCHEDULE

Amount of debt	*Borrowers name and address*	*Date*	*Notary*

[§.2, 21 of 1968]

(4) The Central Bank shall, on the execution of an assignment by way of pledge under this Part of this Act, have a first charge on the debts assigned.

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

Instrument of assignment by way of pledge tothe Central Bank to be free of stamp duty. [§.67, 11 of 1963]

88B. No duty shall be chargeable or payable under the Stamp Ordinance* on or in respect of any instrument of assignment by way of pledge to the Central Bank under this Part of this Act, and accordingly, for the purposes of that Ordinance, such instrument shall be deemed to be exempt from such duty.

Instrument of assignment by way of pledge tothe Central Bank need not be registered under the Registration of Documents Ordinance. [§.67, 11 of 1963]

88C. No instrument of assignment by way of pledge to the Central Bank under this Part of this Act shall require registration under the Registration of Documents Ordinance, and accordingly any such instrument shall be deemed not to be void by reason only of its not being so registered.

Notarial execution not required in the case of assignments by way of pledge. [§.67, 11 of 1963]

88D. No assignment by way of pledge shall require execution before a licensed notary public and witnesses as provided by section 2 of the Prevention of Frauds Ordinance, and accordingly any such assignment shall be deemed not to be void by reason only of its not being so executed.

Medium and long term credit fund. [S.67, 11 of 1966]

[§.3, 21 of 1968]

88E. (1) The Central Bank may establish, maintain, manage, and control at the bank, a Fund to be called the Medium and Long Term Credit Fund (in this Part of this Act referred to as the "Fund").

(2) *(a)* The Monetary Board may, from time to time, transfer to the Fund, out of the reserves of the bank, such sums of money as it may deem necessary to enable the bank to discharge its functions under this Part of this Act.

* See also the Stamp Duty Act, No. 43 of 1982.

(b) The bank may pay to the Fund the amounts of loans granted to the bank by international financial institutions.

(3) The Central Bank shall pay out of the Fund -

(a) the amounts of all loans and advances granted by the bank to credit institutions under this Part of this Act;

(b) all sums of money representing other liabilities incurred by the bank in the discharge of its functions under this Part of this Act; [§.3, 21 of 1968]

(c) all sums of money which the bank may, from time to time, decide to retransfer from the Fund to the reserves of the bank; and [§.3, 21 of 1968]

(d) all sums of money due to international financial institutions in repayment of loans granted to the bank by such international financial institutions if the amounts of such loans had been paid into the Fund. [§.3, 21 of 1968]

(4) The Central Bank shall, in addition to the sums of money referred to in subsection (2), pay into the Fund all sums of money paid to or recovered by the bank in repayment of the loan or advances granted by the bank to credit institutions under this Part of this Act. [§.3, 21 of 1968]

88F. In this Part of this Act, - Interpritation [§67, 11 of 1963]

(a) "credit institution means any banking institution as defined in subsection (1) of section 127 of this Act and includes the Development Finance Corporation of Ceylon established under the Development Finance Corporation of Ceylon Act; and

(b) "productive purpose" means any such purpose connected with or relating to the promotion or development of agriculture, industry, trade, commerce or business, as may be determined, from time to time, by the Monetary Board.

88G. The provisions of this Part of this Act shall have effect notwithstanding anything to the contrary in the provisions of any other written law, and accordingly in the event of any conflict or inconsistency between the provisions of this Part of this Act and the provisions of such other written law, the provisions of this Part of this Act shall prevail over the provisions of such other written law. This Part of this Act to prevail over other written law. [§.67, 11 of 1963]

PART IV - CREDIT OPERATIONS WITH THE GOVERNMENT

89. The Central Bank may make direct provisional advances to the Government to finance expenditures authorised to be incurred out of the Consolidated Fund: Provisional advances to the Government

Provided that every such advance shall be repayable within a period not exceeding six months, and the total amount of such advances outstanding at any time shall not exceed ten *per centum* of the estimated revenue of the Government for the financial year in which they are made.

PART V-OPEN MARKET OPERATIONS

Principles governing open-market operations.

90. (1) The Central Bank shall so exercise the authority conferred by this Part of this Act to conduct open-market operations as to secure any of the following purposes, that is to say :-

(a) to increase the liquidity or stabilize the values of the securities referred to in section 91 in order thereby to promote private investment in such securities; and to prevent or moderate sharp fluctuations in the quotations of such securities, so, however, as not to alter fundamentally movements in the market resulting from basic changes in the pattern or level of interest rates;

(b) to increase or decrease the supply, availability, and cost of money, in accordance with the national monetary policy as determined by the Monetary Board.

(2) In conducting open-market operations in Government securities, the Central Bank shall have regard to the need for maintaining adequate holdings of short-term securities in order to enable the bank more readily to contract its credit if such contraction becomes necessary.

(3) If the Monetary Board determines that it is necessary so to do by reason that, in the opinion of the board, there is in progress, or has occurred, an expansion of the money supply or of bank reserves that represents a threat to the domestic or international monetary stability of Sri Lanka, the board shall take action to secure -

(a) that purchases of rupee securities in the open market by the Central Bank are suspended, except in special circumstances where the board by unanimous decision determines that such purchases are necessary in the public interest; and

(b) that sales of rupee securities are transacted in the open-market by the bank to such extent as market conditions permit.

Authority of Central Bank to transact open-market operations.

91. (1) in order to carry out the purposes of this Part the Central Bank is hereby authorised-

(a) to purchase and sell in the open-market securities issued by the Government or securities fully guaranteed by the Government; and

(b) to issue, place, buy and sell freely negotiable securities of the bank itself.

(2) The power conferred on the Central Bank by the preceding provisions of this section shall be deemed to include the power to purchase and sell Government securities which are denominated in foreign currencies.

Conditions as to issue of securities by Central Bank

92. (1) Securities issued by the Central Bank shall be on such terms and conditions and in such form as may be determined by the Monetary Board.

(2) Any security issued by the Central Bank which is purchased or redeemed by the bank shall not be included among its assets and shall be immediately retired and cancelled.

PART VI-REGULATION OF THE RESERVES OF COMMERCIAL BANKS

Reserve requirements

93. (1) The Monetary Board shall, in order to limit the volume of money created by the credit operations of the banking system, require commercial banks operating in Sri Lanka to maintain reserves against their deposit liabilities, and shall for such purpose define the classes of deposit liabilities against which reserves shall be held.

(2) The reserves required to be held by any commercial bank shall be proportional to the volume of its deposit liabilities and shall ordinarily take the form of rupee deposits in the Central Bank:

Provided that the Monetary Board may in its discretion permit the maintenance of any part of the required reserves in the form of assets other than rupee deposits in the Central Bank.

Monetary Board to prescribe reserve ratios

94. (1) The Monetary Board shall prescribe, and may from time to time modify, the reserve ratios applicable to each class of deposit liabilities. The ratios so prescribed shall not be less than five *per centum* or more than twenty *per centum* in the case of time and savings deposits, and shall not be less than ten *per centum* or more than forty *per centum* in the case of demand deposits and unused balances of overdrafts allowed

(2) Any increase of the reserve ratio which is to be applicable in respect of any existing liability shall be made by the board in a gradual manner and shall not exceed four percentage points in any one period of thirty days. The board shall, except in extraordinary circumstances, endeavour to give the commercial banks at least fourteen days' notice of the date on which any such increase is to become effective.

Fixing of special high ratios in time of inflation

95. (1) Notwithstanding anything in section 94, the Monetary Board may, during periods of inflation or when inflation is anticipated,

prescribe reserve ratios not exceeding one hundred *per centum* in respect of the amount by which any commercial bank's deposit liabilities of any class may, after the date on which notice is given to that bank of the fixing of the new reserve ratio, exceed the amount of such deposit liabilities of that bank on that date.

(2) In any case where any commercial bank is required, by reason of the exercise of the powers conferred on the Monetary Board by subsection (1), to maintain a minimum reserve against any class of deposit liabilities of an amount exceeding the maximum amount specified in section 94(1) for that class of deposit liabilities, the Central Bank shall pay to that bank interest on the amount in excess at a rate not higher than the Central Bank's lowest discount rate for the time being in operation.

Computation of required reserves.

96. The required reserves of each commercial bank shall be calculated weekly on the basis of the amount, at the close of business on such day of each week as may be prescribed by the Monetary Board, of its deposit liabilities against which reserves are required to be maintained.

In the computation of the required reserves of a commercial bank, its principal office in Sri Lanka and all its branches and agencies in Sri Lanka shall be considered together as one unit.

Payment of interest on deficiency in the reserves of commercial banks [S.15, 52 of 1985]

97. (1) Whenever the reserves of any commercial bank are below the required reserves computed in the manner provided, in section 96, the bank shall within such time as may be prescribed by the Monetary Board pay to the Central Bank interest on the amount of the deficiency at such rate not exceeding one-tenth of one *per centum* per day, as may be prescribed by the Monetary Board:

Provided however, that a commercial bank shall not be required to pay interest in respect of any deficiency in reserves, occurring on one or more days of a week, if the aggregate of the amount lying to the credit of such commercial bank with the Central Bank at the close of business on each of the seven days of that week is not less than the aggregate of the reserves which the commercial bank ought to have maintained on each of the seven days of the same week as a minimum for compliance with the foregoing section. Where the former aggregate is less than the latter aggregate, interest at the rate prescribed by the Monetary Board shall be paid on the deficiency which shall be a sum equal to one-seventh of the difference of such two aggregates (any fraction of a cent not being taken into account) and interest on the deficiency so computed shall be paid on the basis that such deficiency has occurred on each of the seven days of the week and such payment shall be sufficient compliance with the provisions of this subsection.

(2) Where any bank continuously fails to maintain the required reserves, the Monetary Board may make order -

(a) that the proviso to subsection (1) shall not apply to that bank;

(b) (i) prohibiting or restricting the making of new loans or investments by that bank; and

(ii) prohibiting the application of the whole or any specified part of the net profit of that bank for the purpose of the payment of a dividend to its shareholders.

(3) For the purposes of this section "week" means, any seven consecutive days, as may be prescribed by the Monetary Board.

Clearance and settlement

98. (1) The Central Bank shall provide facilities for clearance transactions among commercial banks operating in Sri Lanka.

(2) The deposit reserves maintained by commercial banks in the Central Bank under the preceding provisions of this Part shall serve as a basis for the clearance of cheques and the settlement of balances among such banks in accordance with such rules as may be made in that behalf by the Monetary Board.

PART VII-ADDITIONAL REGULATION OF CREDIT OPERATIONS OF BANKING INSTITUTIONS

Priciples governing additional regulation.

99. The powers conferred on the Monetary Board by this Part of this Act shall be so exercised as to regulate the supply, availability, cost and character of bank credit in accordance with the national monetary policy as determined by the board, and to ensure that bank credit is not granted for speculative purposes, or other purposes, prejudicial to the public interest.

Maturities of bank loans and security therefor.

100. The Monetary Board may from time to time by order prescribe the maximum permissible maturities for loans and investments made by commercial banks after the order comes into force and the nature and amount of the security to be permitted or required for various types of credit operations.

Limitation of loans and investments of commercial banks.

101. (1) The Monetary Board may from time to time by order -

(a) prohibit commercial banks from increasing the amount of their loans and investments; or

(b) fix limits to the rate at which the amount of loans and investments may be increased within specified periods:

Provided, however, that nothing in any such order shall be deemed to require any commercial bank to reduce the amount of its loans and investments below the amount outstanding at the date of the order.

(2) An order under subsection (1) may be made applicable to all the loans and investments of each commercial bank or any specified class or classes of such loans and investments so, however, that every such order shall be applicable to all banks uniformly and without discrimination.

Minimum capital ratios.

102. The Monetary Board may from time to time by order prescribe the minimum ratios which the capital and surplus of commercial banks shall bear to the total volume of their assets or to any specified categories of such assets.

Margin requirements against letters of credit.

103. The Monetary Board may by order direct that letters of credit shall not be opened by commercial banks unless such letters are covered by minimum margins of such kind, amount, or proportion as may be prescribed by the board; different margins may be so prescribed for different classes of transactions to be financed by means of letters of credit.

Fixing of interest rates, commissions and charges.

104. (1) The Monetary Board may from time to time make order

(a) fixing the maximum rates of interest which commercial banks may pay upon various classes of deposits: or

(b) fixing the maximum rates of interest which commercial banks may charge for different types of loans or other credit operations.

(2) Subject as hereinafter provided, the maximum rate of interest fixed by order under subsection (1) shall apply in relation to any deposit, or to any loan or credit operation, as the case may be, completed before the date on which the order comes into force:

Provided, however, that nothing in any such order -

(a) shall apply in relation to any interest accrued before that date; or

(b) shall require or be deemed to require the reduction of the rate of interest payable upon any deposit completed before the date if such reduction would constitute a breach of the contract or agreement relating to such deposit.

(3) For the purposes of preventing evasion of any order made under subsection (1), the Monetary Board may from time to time prescribe the maximum rates which may be paid to or charged by commercial banks in the form of commissions, discounts, fees or other payments whatsoever.

105. The Monetary Board may declare that credit instruments held by banking institutions will not be accepted for discount or rediscount by, or advances from, the Central bank, if the interest rates charged by such institutions in respect of the loans or other credit operations to which such instruments relate exceed the interest or rediscount rates of the Central Bank by more than such percentage or margin as may from time to time be prescribed by the board.

Conditions of eligibility of credit instruments for discount, &c., by Central Bank.

CHAPTER VA

THE CENTRAL BANK TO PURCHASE SHARES IN CERTAIN COMPANIES

Central bank to purchase share in companies. [§.2, 26 of 1995]

105A. Notwithstanding any other provision in this Act or anything in any other written law, the Central bank may acquire and hold shares in any company which in the opinion of the Monetary 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 referred to in subsection (1) of section 98 or 112A of this Act.

CHAPTER VI

THE CENTRAL BANK AS FISCAL AGENT, BANKER, AND FINANCIAL ADVISER OF THE GOVERNMENT

Central Bank to be fiscal agent and banker of the Government.

106. (1) The Central Bank shall act as the fiscal agent and banker of the Government and of agencies or institutions acting on behalf of the Government, whether established by any written law or otherwise.

(2) The Central Bank may, in addition to exercising the functions mentioned in subsection (1), act as agent of the Government for the purposes of any matter or transaction if it is authorised so to do by the Minister in charge of the subject of Finance after consultation with the Monetary Board.

Official depository of the Government.

107. (1) The Central bank shall be the official depository of the Government and or agencies or institutions referrred to in subsection (1) of section 106:

Provided, however, that the Monetary Board may authorise one or more commercial banks operating in Sri Lanka to accept Government deposits, subject to such rules and regulations as the board may prescribe.

(2) The monetary Board shall advise the Government regrding the distribution of official deposits between the Central Bank and commercial banks and the effects of such distribution on monetary conditions in Sri Lanka.

(3) The bank shall not pay interest on deposits of the Government or of agencies or institutions referred in subsection (1).

Loan Guaratntees and loan insurance.

108. (1) The Central bank may act as agent, or for the account, of the Government or of any of the agencies or institutions referred to in subsection (1) of section 106, in guaranteeing, insuring, or particiapating in the loans, or any category thereof, of banking instituions operating in Sri Lanka.

(2) The Cental Bank may give guarantees in favour of the Government or of any of the agencies or institutions referred to in subsection (1) of section 106.

Guarantee of loans to small-scale enterprises. [§. 10, Law 37 of 1974.]

108A. (1) The Central Bank may, subject to such directions as may from time to time be made by the Monetary Board, guarantee loans, advances or other accommodation granted to small-scale enterprises by credit institions operating in Sri Lanka.

(2) Where the Central Bank has prior to the date or coming into operation of this section and acting as agent, or for the account, of the Government, guaranteed under section 108 any loans, advances or other accommodation granted by credit institutions to small-scale industrial enterprises, such guarantee shall, with effect from such date, be deemed to be a guarantee given by the Central Bank on its own account.

(3) In this section "credit instituion" means any banking institution as defined in subsection (1) of section 127 of this Act, and indludes-

(a) the Development Finance Corporation of Ceylon established under the Development Finance Corporation of Ceylon Act; and

(b) any such society registered under the Co-operative Societies Law and carrying on banking business of any kind as is approved for the purposes of this section by the Monetary Board.

Other Institutions as agents of Central Bank.

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

Remuneration for services

110. The Central Bank shall not ordinarily collect any commissions, fees, or other charges for services which it renders to the Government or to any agencies or institutions referred to in subsection (1) of section 106:

Provided, however, that the Monetory Board may, in special cases, conclude an agreement with the Minister in charge of the subject of Finance providing for reimbursement for services the cost of which the bank is unable to bear.

Representation with foreign Governments, agencies, and international institutions.

111. The Central Bak may represent the Government of Sri Lanka in any dealing, negotiations, or transactions with the International Monetary Fund and shall carry such accounts as may result from Sri Lanka's membership in, or operations with, the fund. The Central Bank may also be authorised by the Government to represent it in dealing, negotiations, and transactions with foreign Governments, institutions, or agencies, or with the International Bank for Reconstruction and Development, or other international financial institutions and agencies.

Issue of Government securities.

112. The issue of secutities of the Government or of any of the agencies or institutions referred to in seubsection (1) of section 106 shall be made through the Central Bank, shich shall act as agent, and for the account, of the Government or of such agency or institution:

Provided, however, that except in the case of treasury Bills, for which the Central Bank may make direct ternders, the bank shall not subscribe to any issue of such secutities or agree to purchase the unsubscribed portion of any such issue.

Accounts maintained by non-commercial bnk primary dealers. [§ 3, 26 of 1995]

112A. The Central Bank shall provide facilities-

(a) for non-commercial bank primary dealers to maintain accounts at the Central bank for the purpose of settling securities transactions;

(b) for direct participants including any direct participant which are not commercial banks, to maintain accounts at the Central Bank for the purpose of holding scripless secutirties, clearing and settling transactions in scripless securities among direct participants.

For the purpose of this section-

"direct participant" means, a person appointed as a direct participant under section 21D of the Registered Stock and Securities Ordinance or under the Local Treasury Bills Ordinance;

"non-commercial bank primary dealer" menas a primary dealer who is not a commercial bank;

"primary dealer" means any commercial bank, company or other person appointed by the Monetary Board as a primary dealer for the purpose of dealing with the Central Bank as a counterparty in the primary and secondary market for stock and securities;

"scripless securities" means securities issued in scripless form; and

"securities" means-

(i) treasury bills issued in accordance with the provisions of the Local Treasury Bills Ordinance, whether isseud in scropless form or otherwise;

(ii) registered stock or securities issued in accordance with the provisions of the Registered Stock and Securities Ordinance whether issued in scripless form or otherwise;

(iii) any securities of the Central bank whether issued in scripless form or otherwise.

Any body corporate to privide facilities to carry out functions under section 98(1) or 112A. [§ 3, 26 of 1995]

112B. The Central bank may for the purpose of performing duties imposed on it by subsection (1) of section 98 or section 112A, authorise any body corporate to provide all or any of the facilities referred to in those sections.

Management of the public debt.

113. The Central Bank shall, as agent of the Government, be responsible for the management of the public debt.

Advice on Government credit operations.

114. No new loan shall be raised and no new issue of stock or debentures shall be made by the Government or by any agency or institution referred to in subsection (1) of section 106, whether in pursuance of authority conferred by any written law or otherwise, unless the advice of the Monetary Board has first been obtained upon the monetary implication of the proposed loan or issue.

Recommendations as to policy, &c. of Government agencies or institutions.

115. The Monetary Board may from time to time make recommendations to the Minister in charge of the subject of Finance or to any agency or institution referred to in subsection (1) of section 106, as to the measures and policies which should be adopted by such agency or institution for the purposes of co-ordinating its policy with the policies of the board; and where any such recommendations are made to the Minister, the Minister or any other authority or person may, if empowered so to do by any such other written law as may be applicable, make or issue such orders or directions or take such other action as may be necessary for the purpose of giving effect to such recommendations.

Monetary policy and fiscal policy. [§.11, 37 of 1974]

116. (1) On or before the fifteenth day of September in each year the Monetary Board shall submit to the Minister in charge of the subject of Finance for use in preparation of the budget speech a confidential report describing and analysing the monetary situation in Sri Lanka and the current monetary policy of the board, and examining the effect of the current fiscal policy of the Government upon the ability of the Central Bank to achieve the objects specified in section 5.

(2) In the event of any difference of opinion between the Minister in charge of the subject of Finance and the Monetary Board as to whether the monetary policy of the board is directed to the greatest advantage of the people of Sri Lanka, the Minister in charge of the subject of Finance and the board shall endeavour to reach agreement. If the Minister in charge of the subject of Finance and the board are unable to reach agreement, the Minister in charge of the subject of Finance may inform the board that the Government accepts responsibility for the adoption by the board of a policy in accordance with the opinion of the Government and direct that such a policy be adopted by the board. Where a direction is so given by the Minister in charge of the subject of Finance, the board shall carry out that direction.

CHAPTER VII

GENERAL

Business which Central Bank may not transact

*__117__. Save as otherwise expressly provided in this Act, the Central Bank shall not -

(a) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking except such interest as it may in any way acquire in the course of the satisfaction of any of its claims:

Provided that all such interests shall be disposed of at the earliest possible opportunity; or

(b) purchase the shares of any other banking institution or of any company, or grant loans or advances upon the security of any such shares; or

(c) grant loans or advances on the mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto.

Exemption from income tax, import duty, and stamp duty.

118. Notwithstanding anything in any other written law -

(a) the Monetary Board shall be exempt from the payment of income tax and profits tax upon the income or profits of the Central Bank;

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

(c) the Monetary Board shall be exempt from the payment of stamp duty on any instrument executed by, or on behalf

* Section 116A is repealed by Act No. 30 of 1988

of, or in favour of the Monetary Board or the Central Bank in cases where, but for this exemption, the Monetary Board would be liable to pay the duty chargeable in respect of such instrument.

Acts of Monetary Board valid notwithstanding subsequent discovery of disqualification.

119. All acts done at any meeting of the Monetary Board shall, notwithstanding that it shall afterwards be discovered that there was some defect in the appointment of any member thereof or that any such member was disqualified, be as valid as if every such member had been duly appointed and duly qualified.

Officers and servants to be deemed public servants for purposes of Chapter IX of Penal Code.

120. Every member of the Monetary Board and every officer or servant of the Central Bank shall be deemed to be a public servant within the meaning and for the purposes of Chapter IX of the Penal Code.

Release of officers and seervants of the Central Bank. [§.4, 7 of 1988]

120A. The Monetary Board may, subject to the provisions of subsection (3) of section 23, at the request of the Government or otherwise temporarily release any officer or servant of the Central Bank with the consent of such officer or servant to serve in any office or position outside the Central Bank, on such terms and conditions as may be determined by the Monetary Board.

Protection for banking institution.

121. Notwithstanding anything in any written or other law, no banking institution 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 person by reason of any act or thing done or omitted to be done by such institution for the purpose of carrying out or complying with any provision of this Act or any rule, regulation, order, direction or requirement made or given under this Act.

Offences and penalties.

***122.** (1) Any person who contravenes or fails to comply with any provisions of this Act or any rule, regulation, order direction or requirement made or given thereunder shall be guilty of an offence under this Act.

(2) Every person who is guilty of an offence by reason of the contravention of or failure to comply with section 30, or section 32(2), or section 45, or section 46 or section 50 or any rule, regulation, order, direction, or requirement made or given under section 30, or section 79(2)(c), or section 101 or section 102 shall be liable -

(a) on conviction after summary trial before a Magistrate to imprisonment of either description for a term not exceeding six months or to a fine not exceeding two thousand five hundred rupees, or to both such imprisonment and such fine; or

(b) on conviction before a District Court to imprisonment of either description for a term not exceeding three years or

*Section 121A and 121B are repealed by Act No. 30 of 1988

to a fine not exceeding ten thousand rupees, or to both such imprisonment and such fine.

[§.3, 14 of 1979]

(2A) Every person who is guilty of an offence by reason of the contravention of subsection (1) or subsection (2) of section 58A shall be liable on conviction after summary trial before a Magistrate to a fine not exceeding three thousand rupees or to imprisonment of either description for a term not exceeding two years or to both such fine and imprisonment. A Magistrate may, on conviction of any person for an offence under subsection (1) or subsection (2) of section 58A, make order that any coin in respect of which the offence was committed or any metal or other article derived therefrom be forfeited to the State.

[§.3, 14 of 1979]

(3) Every person who is guilty of an offence for which no punishment is prescribed by subsection (2) or subsection (2A) shall be liable on conviction after summary trial before a Magistrate to a fine not exceeding five hundred rupees or to imprisonment of either description for a term not exceeding one month, or to both such fine and such imprisonment.

(4) Any person who attempts to commit, or does any act preparatory to the commission of, any offence under this Act shall be deemed to be guilty of such offence.

Offences by corporations

123. Where the person convicted of an offence under this Act is a body corporate, every person who at the time of the commission of the offence was a director or an officer of the body corporate shall be deemed to be guilty of that offence unless he proves that the offence was committed without his knowledge, or that he exercised all due diligence to avoid the commission of such offence.

Exclusion of application of Companies Ordinance.

124. Nothing in the Companies Ordinance* shall apply to or in relation to the Central Bank or the Monetary Board.

Provision for conflict with other written law.

125. In the event of any conflict or inconsistency between the provisions of this Act and the provisions of any other written law by or under which any banking institution is constituted or established, the provisions of this Act shall prevail.

Defence (Finance) Regulations, &c.

126. The provisions of this Act shall be in addition to, and not in substitution or derogation of the provisions of the Defence (Finance) Regulations, Defence (Finance No.2) Regulations, Defence (Finance No.3) Regulations and Defence (Securities) Regulations.

Interpritation

127. (1) In this Act, unless the context otherwise requires -

"appointed date" means the 28th day of August, 1950;

"banking institution means -

* Repealed and replaced by the Companies Act No. 17 of 1982

(a) any commercial bank;

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

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

(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 this Act;

"commercial bank" means any person or body of persons, corporate or unincorporate, which carries on in Sri Lanka the business of accepting from the public, or of creating, demand deposits, but does not include the Central Bank;

"current international transactions" means transactions which are not for the purpose of transferring capital, and includes, without limitation -

(i) all payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;

(ii) payments due as interest on loans and as net income from other investments;

(iii) payments, of amounts not exceeding such maxima as may be fixed by the Monetary Board, for amortisation of loans or for depreciation of direct investments; and

(iv) remittances, of amounts not exceeding such maxima as may be fixed by the Monetary Board, for family living expenses;

"currency" 'demand deposits" and "money supply" have the meanings assigned to those expressions by sections 48, 60 and 62 respectively.

(2) For the purposes of this Act, any question which may arise as to whether any agency or institution is an agency or institution acting on behalf of the Government shall be referred to the President for decision; and such decision shall be final.

CHAPTER VIII

TRANSITIONAL PROVISIONS

Validity of currency in circulation, &c.

128. (1) The Central Bank is hereby empowered to issue any currency notes or Ceylon coins printed or minted under the authority of the Board of Commissioners of Currency and remaining unissued on the appointed date.

(2) All currency notes and Ceylon coins issued or deemed to have been issued under the Currency Ordinance, No.21 of 1941* , prior to the appointed date and in circulation on that date (including any such notes or coins which have ceased to be legal tender and have not been surrendered to the Board of Commissioners of Currency), and all currency notes and coins issued by the Central Bank under subsection (1) shall be deemed for all purposes to be currency notes and coins issued by the Central Bank under this Act and to be liabilities of the Central Bank; and the provisions of this Act shall apply accordingly to and in relation to such currency notes and coins in like manner as they apply to and in relation to currency notes and coins issued under this Act.

Appointment of pensionable pulic officers to posts in Central Bank.

129. (1) Where any person in the service of the Government of Sri Lanka and holding a post declared to be pensionable under the Minutes on Pensions (hereinafter referred to as a "pensionable public officer") is appointed to be a temporary officer of the Central Bank, he shall be deemed to have been seconded to an office to which pension rights are not attached and accordingly section 24 of those Minutes shall apply to him.

(2) Where a pensionable public officer is appointed to be a permanent officer of the Central Bank on or before the appointed date, he shall be deemed, for the purposes of the Minutes on Pensions, to continue to hold a post declared to be pensionable under those Minutes so long as he is in the employ of the bank, and shall be eligible for the grant of a pension as though his service under the bank were service under the Government, and the Minister in charge of the subject of Public Administration may grant such pension in accordance with those Minutes.

(3) Where a pensionable public officer, whether or not he is an officer to whom subsection (1) applies, is appointed to be a permanent officer of the Central Bank after the appointed date, the Minister in charge of the subject of Finance may, by Notification published in the Gazette, declare that the post in the service of the bank to which such officer is appointed shall, while it is held by such officer, be deemed, for the purposes of the Minutes on Pensions, to be a pensionable post in the service of the Government; and upon the publication of any such

---

* Repealed by Act. No.58 of 1949

Notification, the officer referred to therein shall be eligible for the grant of a pension as though his service under the bank were service under the Government, and the Minister in charge of the subject of Public Administration may grant such pension in accordance with the Minutes on Pensions.

(4) Where a person in the employ of the Central Bank is eligible, under the preceding provisions of this section, for the grant of a pension in accordance with the Minutes on Pensions, he shall, notwithstanding anything in the Widows' and Orphans' Pension Fund Ordinance, be deemed, so long as he remains in such employ, to be a public officer within the meaning, and for the purposes of the application, of that Ordinance.

Contributions by Central Bank in respect of pensionable public officers appointed to posts in the bank

130. (1) In respect of every such officer in the employ of the Central Bank as is eligible, under subsection (2) or subsection (3) of section 129, for the grant of a pension in accordance with the Minutes on Pensions and is deemed, under subsection (4) of that section, to be a public officer within the meaning, and for the purposes of the application, of the Widows' and Orphans' Pension Fund Ordinance, the banks shall contribute out of the funds of the bank to the Consolidated Fund, in respect of every complete month during which that officer is in the employ of the Bank -

(a) such sum not exceeding twenty-two *per centum* of the highest monthly salary received by that officer in his substantive post in the service of the Government or the bank as the Minister in charge of the subject of Public Administration may from - time to time determine, and

(b) a sum equivalent to three *per centum* of the salary of that officer for that month.

(2) In subsection (1) "salary" means the emoluments of the pensionable appointment held by the officer exclusive of allowances other than personal allowances

(3) The Central Bank shall pay the contributions under subsection (1) annually to the Treasury on or before such date as may be fixed by the Deputy Secretary to the Treasury.

MONETARY LAW ACT

SECTION 10 (C)

REGULATION A

HOURS OF BUSINESS

1. The Central Bank of Sri Lanka shall be open for banking business–

(*a*) on any day, other than a Saturday, Sunday, Monday or bank holiday, between 0900 hours and 1330 hours;

(*b*) on any day, not being a bank holiday, which is a Monday between 0900 hours and 1300 hours.

2. In this regulation, "bank holiday" means any day declared to be a bank holiday by or under the Holidays Act, No. 29 of 1971.

REGULATION B

SERVICE OF NOTICES, & C.

Any communication, notice, order, circular or other document may be served by post by registered letter on any banking institution, and if so served, shall be deemed to have been served at the time when the letter containing the same would be delivered in the ordinary course of post, and in proving such service, it shall be sufficient to prove that the communication, notice, order, circular or other document was properly addressed and put into the post.

SECTION 26

REGULATION C

AUTHORITY TO OBTAIN INFORMATION

1. The Director of Economic Research or any officer of the Department of Economic Research authorized in that behalf by the Director may exercise the powers conferred on him by section 26(1) of the Monetary Law Act by notice in writing under his hand. The notice shall specify the time within which the requirements thereof shall be complied with.

2. In this regulation–

(*a*) the expression "Director of Economic Research" means the head of the Department of Economic Research; and

(*b*) the expression "Department of Economic Research" means the Department of Economic Research established and maintained by the Central Bank under the Monetary Law Act.

REGULATION D

RESERVE REQUIREMENTS

804/16 of 3.2.1994
958/1 of 13.1.1997
958/3 of 25.3.1997
1092/24 of 12.8.1999

1. In terms of the provisions of section 93 of the Monetary Law Act, the classes of deposit liabilities against which reserves shall be held are defined as follows :

(*a*) deposit liabilities denominated in Sri Lanka currency ;

(*b*) deposit liabilities denominated in foreign currency arising out of monies accepted by way of deposits in foreign currency other than those invested outside Sri Lanka, including, however, the working balances in foreign currency ;

2. (*i*) In terms of the provisions of section 94 of the Monetary Law Act, the reserves required to be held by commercial banks against their deposit liabilities with effect from 20th August, 1999 shall–

(*a*) in the case of deposit liabilities specified at (*a*) in regulation 1 above, be an amount equal to 11 percentum of the total of the total of such deposit liabilities;

12 / 8 / 1999

(*b*) in the case of deposit liabilities specified at (*b*) in regulation 1 above, be an amount equal to 11 percentum of the total of such deposit liabilities.

The percentages specified above shall constitute the reserve ratio applicable to the classes of deposit liabilities mentioned in regulation 1 above.

(*ii*) Subject to any permission granted to a commercial bank by the Monetary Board in terms of the second proviso to sub-section (2) of section 93 of the Monetary Law Act, the reserves required to be held by any commercial bank:

(*a*) against deposit liabilities in Sri Lanka Rupees shall take the form of rupee deposits in the Central Bank, provided that–

(*i*) an amount over and above two percentum of the total of deposit liabilities but not exceeding four percentum may be maintained as a part of its required reserves in the form of Sri Lanka currency notes and coins held by such bank as its assets; and

(*ii*) an amount not exceeding one tenth of its required reserves in respect of the total of its time and savings deposit liabilities may take the form of bonds issued by the Development Finance Corporation of Ceylon and held by such bank as its assets.

(*b*) against foreign currency deposit liabilities, shall take the form of United States Dollar deposits in the Central Bank in a manner determined by the Monetary Board.

3. The calculation of the amount of the required reserves of a commercial bank to be held in the case of foreign currency deposit liabilities shall be computed by the conversion of the various foreign currency deposits into a base currency, *i.e.* United States Dollar, at rates determined by the Central Bank for this purpose, weekly.

4. The calculation of the amount of the required reserves of a commercial bank shall be made each Friday on the basis of the total of the aggregate of rupee deposit liabilities, and the foreign currency deposit liabilities as computed in terms of regulation 3 above, at the close of business on the Wednesday immediately preceding or if the Wednesday is a bank holiday, on the working day last preceding it.

5. Each amount so calculated shall be maintained as a reserve at the close of business on the date of calculation and on each succeeding day until the date of the next succeeding calculation.

6. Subject to the proviso of section 97(1) of the Act, interest at the rate of one tenth of one percentum per day shall be paid by a commercial bank to the Central Bank on the deficiency in Sri Lanka Rupees in the case of deposit liabilities held in Sri Lanka Rupees and in United States Dollars, in the case of foreign currency deposit liabilities. Such interest shall be paid not later than the Friday next following the Friday on which such reserves were calculated under section 96 of the Act.

7. A notice issued under the hand of the Chief Accountant or any officer authorised by him in that behalf stating–

(*a*) that the reserves of such commercial banks are below the amount of the required reserves;

(*b*) the date or week as the case may be in respect of which there was a deficiency of such reserve;

(*c*) the amount of such deficiency; and

(*d*) the amount of interest payable on the amount of the deficiency,

shall be deemed to be sufficient notice to such bank of the interest due from such bank.

8. Every commercial bank shall not later than 12 noon on each Friday furnish to the Chief Accountant of the Central Bank, a return substantially in the form prescribed in the Schedules A and B hereto.

9. In this regulation unless the context otherwise requires–

"Bank Holiday" means any day declared to be a bank holiday by or under the Holidays Act, No. 29 of 1971.

"deposit liabilities" shall mean all those liabilities of a commercial bank being–

(*i*) demand deposits, special deposits, savings deposits, time deposits, placements made by any institution other than a commercial bank in the inter-bank call-money market, margins against letters of credit, and special deposit schemes if any, such as pension funds, children's deposit schemes and other schemes of a similar nature, and assets held in trust or on behalf of its constituents consequent to deposits made by them denominated in Sri Lanka currency.

(*ii*) deposit liabilities arising from Non-Resident Foreign Currency Accounts, Resident Non-National Foreign Currency Accounts, Resident Foreign currency Accounts and Numbered Accounts held in foreign currencies in the domestic banking business.

but does not include inter-commercial bank deposits.

"demand deposits", shall mean all those deposit liabilities of a commercial bank which are denominated in Sri Lanka Rupees, subject to payment in legal tender upon demand by cheque, draft or order; but does not include any such liability if it is subject to payment upon conditions.

"domestic banking business" of a commercial bank mean the banking business relating to such bank other than the off-shore banking business.

"foreign currency banking unit" means a unit or department of a commercial bank authorized by the Central Bank of Sri Lanka to operate as a foreign currency banking unit.

"off-shore banking business" of a commercial bank shall mean the banking business carried on under the provisions of Part IV of the Banking Act, No. 30 of 1988.

"special deposits" shall mean all those deposit liabilities of a commercial bank arising out of monies deposited in any special account under section 10 of the Inland Revenue Act, No. 28 of 1979.

"savings deposits" shall mean all deposit liabilities denominated in Sri Lanka currency other than demand deposits, time deposits, and special deposits as defined above.

"time deposits" shall mean all deposit liabilities denominated in Sri Lanka currency accepted for a perio d of maturity and not withdrawable on demand and repaid with interest.

SCHEDULE A

FORM OF REPORT

WEEKLY REPORT OF DEPOSIT LIABILITIES (RUPEE DEPOSIT LIABILITIES)

For close of business on Wednesday *1 ..... 199.....

From .....
(Name of Bank)

To: Chief Accountant
Central Bank of Sri Lanka
Colombo 1.

The amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Bank at the close of business of the day specified above.

I	II	III
Demand Deposits	Time Deposits and Savings Deposits	All other deposit liabilities (including special deposits, margins against letters of credit, etc.) *2 *3

REQUIRED RESERVES

For week commencing Friday,.....

Rs.

1. .....% of Rs. ....
(Total Rupee Deposit Liabilities) (I + II + III)

2. (*a*) Value of Bond issued by the DFCC (Value of such bonds should not exceed one tenth of the total of the reserves on the total of time and savings deposits). .....

(*b*) Sri Lanka Currency Notes and Coins held over and above 2% of deposit liabilities, but not exceeding 4%. .....

2. Total Reserves required to be on deposit with the Central Bank (1-2). .....

We/I hereby certify that the above statement is correct and is in accordance with the books of this Bank and that the figures shown above are in accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date: ....
Official Signature

*1. Strike off if Wednesday was a bank holiday and enter immediately preceding day which was a working day.

*2. In the case of Certificates of Deposits the amount declared should be the paid up value.

*3. Each type of deposit should be indicated separately.

Note –

(*a*) Demand deposits are the total of credit balances in current accounts without deducting debit balances in respect of overdrafts allowed.

(*b*) Deposits and placements made by National Development Bank, Development Finance Corporation of Ceylon, National Savings Bank, other Financial Institutions and E.P.F. should be accounted for maintenance of required reserves at prescribed ratios.

(c) All amounts should be shown to the nearest rupee.

SCHEDULE B

FORM OF REPORT

WEEKLY REPORT OF DEPOSIT LIABILITIES (FOREIGN CURRENCY DEPOSIT LIABILITIES)

For close of business on Wednesday *1 ..... 199.....

From .....
(Name of Bank)

To: Chief Accountant
Central Bank of Sri Lanka
Colombo 1.

The amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Bank at the close of business of the day specified above.

I	II
All deposit liabilities other than those invested outside Sri Lanka (inclusive of working balances)*2	US Dollar Equivalent
Total in US Dollars	

REQUIRED RESERVES

For week commencing Friday ..... US Dollars

Reserves required to be held in respect of deposit liabilities other than those invested outside Sri Lanka.

.....% of US Dollar..... .....

We/I hereby certify that the above statement is correct and is in accordance with the books of this Bank and that the figures shown above are in accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date: …… ……

Official Signature

*1. Strike off if Wednesday was a bank holiday and enter immediately preceding day which was a working day.

*2. Indicate the respective currencies in which the deposit liabilities are held.

Note –

(*a*) Deposit liabilities in respect of current accounts are the total of credit balances on such accounts without deducting debit balances in such accounts in respect of overdrafts allowed.

(*b*) All items in II should be shown to the nearest United States Dollar.

SECTION 56

REGULATION E

REPLACEMENT OF UNFIT CURRENCY

Definition.

1. In this regulation unless the context otherwise requires –

"altered note" means a note in which an alteration has been made in the number, date, signature or value or in any other respect;

"authorized officer" means any officer authorized in that behalf by the Governor;

"half note" means one half of a note which has been divided vertically, horizontally or diagonally through or near the centre;

"mismatched note" means an imperfect note formed by joining a half note of one note to a half note of another note;

"mutilated note" means a portion of a note (being a note the other portion of which is missing) which is clearly more than a half note and each part of which, if it consists of parts of a note joined together, is identifiable as part of the same note;

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

"number" includes the letters of the series to which the note belongs;

"obliterated note" means a note, not being a mutilated or altered note, of which a portion has become or has been rendered undecipherable.

Time limit to claims.

2. No claim for the refund of the value of a damaged or mutilated note will be entertained unless such claim is made within a period of twelve months reckoned from the date when it might first have been made.

Value limit to claims.

3. No claim in respect of a half note or a mismatched note shall be entertained unless such half note or each of the half notes

comprising the mismatched note is part of a note of which the denomination exceeds two rupees.

Half notes to be entire.

4. A claim for the value of a half note shall be rejected unless the number of the note is identified on the half note and such half note is entire and has not been divided and rejoined.

Claims concerning mutilated notes of less than ten rupees.

5. A claim for the value of a mutilated note of a denomination not exceeding ten rupees shall be rejected unless in the opinion of the authorized officer the portion tendered is at least three quarters of the whole note and if made up of two or more pieces, such pieces belong to one and the same note.

Claims concerning mutilated notes of more than ten rupees.

6. A claim for the value of a genuine mutilated or damaged note of a denomination exceeding ten rupees may be accepted if the number of the note can be identified with certainty by the authorized officer as one of not more than two numbers:

Provided that the authorized officer may, with the Approval of the Governor or Deputy Governor of the Central Bank, pay the value of any mutilated or damaged note in a case where the Governor or Deputy Governor is satisfied that the note tendered is a genuine one.

Stamping of mutilated notes.

7. Where a claim for the value of a mutilated note is rejected under paragraph 5 or paragraph 6 of this regulation the note shall be stamped with the words "PAYMENT REFUSED" and dated before it is returned to the claimant.

Obliterated notes.

8. A claim in respect of an obliterated note or half note shall not be entertained unless the authorized officer is satisfied as to identity of such note or half note.

Altered notes.

9. No claim in respect of an altered note shall be entertained. The authorized officer shall retain every altered note tendered for payment, whether or not the alteration has been made with intent to defraud, and may in addition require every tenderer of an altered note to state in writing the circumstances in which such altered note came into his possession.

Claim in respect of wilfully mutilated notes.

10. No claim in respect of a wilfully mutilated note shall be entertained by the authorized officer. If there are clear indications of wilful mutilation, the authorized officer shall retain the note and in addition require every tenderer of a wilfully mutilated note to state in writing the circumstances in which such note came into his possession.

Claims for half value of notes exceeding rupees 10.

11. A claim for half the value of a note of the denomination of Rs. 50 and above, of which a half note only is presented, shall be entertained if the authorized officer is satisfied that a claim in

respect of a note of the corresponding number and denomination has not been entertained earlier and that the note remains unpaid, or if entertained earlier, that only half value had been paid on that occasion.

Claim for full value notes exceeding Rs.10.

12. (1) A claim for the full value of a note of the denomination of Rs.50 and above–

(*i*) when only a half note is tendered; or

(*ii*) when the portion tendered is less than a half note but contains one number which can be identified beyond doubt;

shall be accompanied by a statement, signed by the claimant, that he was the last lawful holder of the entire note and also briefly detailing the circumstances in which the loss or destruction of the missing portion of the note took place.

(2) If full value of the note has already been paid the claim shall be rejected.

(3) If half the value of the note has already been paid the authorized officer may order half the value of the note to be paid.

(4) If another claim has been received and is under investigation, the authorized officer may order that one claimant be paid the full value of the note, or that each claimant be paid half the value of the note or that both claims be rejected.

(5) If the authorized officer is not satisfied that the counterpart of the section of the note tendered has been lost or destroyed in such circumstances that there is no probability of its being presented at some future date, he may order half the value of the note to be paid or reject the claim.

(6) If the authorized officer is satisfied that the counterpart of the section of the note tendered has been lost or destroyed in such circumstances that there is no probability of its being presented at some future date, he may order that full value be paid on the claimant furnishing an indemnity bond with two sureties in the form prescribed in the Schedule hereto.

Notes to be retained by Central Bank.

13. Save as otherwise provided in this regulation, any note presented in prosecution of a claim shall be retained by the Central Bank whatever be the decision on the claim.

14. Notwithstanding anything in any other provision of this regulation, the value of damaged or mutilated currency notes are refunded as an act of grace and no holder shall be entitled as of right to claim the value of any damaged or mutilated currency note.

Payment of value of damaged notes as matter of grace.

SCHEDULE

FORM OF INDEMNITY BOND

KNOW ALL MEN BY THESE PRESENTS THAT WE, ...

.....

principal, and .....and .....

Sureties, are held and firmly bound unto the Central Bank of Sri Lanka in the sum

of Rupees ..... Lawful money of Sri Lanka, to be paid to the Central Bank of Sri Lanka; for which payment to be well and truly made we bind ourselves, our heirs, executors, administrators and representatives; and every two of us bind ourselves, our heirs, executors, administrators and representatives, jointly, and each of us binds himself, his heirs, executors, administrators, and representatives, severally, firmly by these presents, hereby renouncing the beneficium ordinis divisionis et excussionis, and all privileges to which sureties as such are by law entitled.

Witnesses : –

Signed by us, and dated the .....day of .....19.....

WHEREAS the above-bounden .....alleges that he is the holder of the following Currency Note, to wit :–

AND WHEREAS the said Currency Note ..... has been

mutilated and defaced and the said ..... has applied to the Central Bank of Sri Lanka for payment of the amount of the said Note, and the Central Bank of Sri Lanka, has acceded to the said Application on condition of

the said ..... and two sufficient Sureties executing such

Obligation as above written, and the said ..... have accordingly as such Sureties agreed to execute the said Obligation with such condition as hereunder is written and whereas the stamp duty on these presents is not payable by virtue of section 118(*c*) of the Monetary Law Act.

NOW the condition of the above-written Obligation is such, that if the above-bounded, their heirs, executors, administrators, or representatives, shall from time to time and at all times hereafter keep harmless and indemnify the Central

Bank of Sri Lanka, and all and every the officers and servants of the Central Bank, from and against all actions, suits and other legal proceedings which shall be brought against the Central Bank of Sri Lanka or any of the officers or servants of the Central Bank, or in which he or they respectively may become involved, and also against all costs, damages, and expenses which by him or them respectively shall be sustained, or have to be paid at any time in respect of the said Currency Note, any of them or the payment of the money hereby secured, or any part thereof, then the above-written Obligation shall be void, otherwise the same shall remain in full force and virtue. Provided and it is hereby agreed by

the said ..... with the Central Bank of Sri Lanka, that in the defence and prosecution of any action, suit or other legal proceeding preferred to in the foregoing clause for indemnity, or maintained in virtue thereof, the Central Bank of Sri Lanka shall not be responsible or accountable to the said

..... or any of them, or any or either of their heirs, executors, administrators, or representatives, for any act, omission, or mistake, and that in the defence or prosecution of such action, suit, or other legal proceeding the Central Bank of Sri Lanka and its officers and servants, shall be required to do such acts and taken such steps only as shall be required to do such acts and taken such steps only as shall in that behalf be approved or advised by the Attorney-General, or the person executing the duties of that Officer for the time being.

In witness whereof we have hereunto set our hand and seals at ..... this, ... day of ..... in the Year of Our Lord One Thousand Nine Hundred ..... and .....

Witness : .....

SECTION 98

REGULATION F

SETTLEMENT OF BALANCES

The deposit reserves maintained by each commercial bank in the Central Bank shall, upon each settlement of balances under section 98 of the Monetary Law Act, be credited or debited with the amount of the balance according as it is to the credit or the debit of that bank.

The procedure applicable for the purposes of the settlement of balances shall from time to time be notified by the Central Bank to each commercial bank by circular.

MONETARY LAW ACT

(Chapter 422)

(Incorporating Amendments up to 31st December, 1998)