

7. DESIGNATED NON-FINANCE BUSINESSES AND PROFESSIONS VULNERABILITY ASSESSMENT

7.1 Introduction

Casinos, Real Estate Agents, DPMS, and when engaged in defined activities the Lawyers and Notaries, Accountants, and TCSPs are identified as DNFBPs¹ in Sri Lanka. The FIU has the authority to verify institutional compliance of its RIs which includes these DNFBPs². The FIU established a separate division to monitor the compliance of DNFBPs and started issuing Rules, Guidelines and Directives for DNFBPs during 2018 to rectify the deficiencies identified at the 1st NRA conducted in 2014. Since then, the FIU closely co-ordinates with relevant sector licensing, regulatory, self-regulatory bodies, or associations in introducing and promoting AML/CFT requirements among DNFBPs in Sri Lanka. As of today, the following number of DNFBPs are being monitored by the FIU under the RBA.

Table 1: Composition of the Designated Non-Finance Businesses and Professions registered with the Financial Intelligence Unit as at 31.12.2022

	DNFBP sector	No. of DNFBPs registered with FIU	Regulator/ Self-Regulatory Body cooperates with the FIU
1.	Casinos	03	Finance Ministry
2.	Real Estate Agents	161	Condominium Management Authority
3.	Dealers in Precious Metals and Precious and Semi-Precious Stones	187	National Gem and Jewellery Authority
4.	Lawyers and Notaries	16	Supreme Court/Bar Association/ Registrar General's Department
5.	Accountants	08	Institute of Chartered Accountants
6.	Trust and Company Service Providers	06	Registrar General's Department/ Department of Registrar of Companies

At the time of conducting Sri Lanka's 1st NRA, the DNFBPs were not properly integrated into the AML/CFT framework in Sri Lanka. This was identified as one of core deficiencies at the ME conducted in 2015 as well as it became one of core action items in the International Cooperation Review Group (ICRG) process. Considering the level of non-compliance as well as the threat that could bring by these segments into the Sri Lankan financial sector, in 2018, FIU initiated a programme to include them into AML/CFT framework with the issuance of CDD Rules³ for DNFBPs. For the 2nd NRA conducted in 2021/22, a working group was created including the private sector DNFBPs and their regulators/self-regulatory bodies and associations. It was collectively decided to consider the assessment period for DNFBP sectors from 2018-2022, as there were no prior data, especially on many AML control variables for DNFBPs in Sri Lanka.

1 Refer Section 33 of the FTRA

2 Refer the requirements set out in the FTRA as per Section 15 (1) (e), read with Section 18 of the FTRA. PL 000861 (E) Financial Transactions PDF.p65 (fiusrilanka.gov.lk)

3 Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018. - Extraordinary Gazette No 2053/20, January 10 of 2018

Difficulties in obtaining information from unregulated business sectors in DNFBPs, non-availability of comprehensive databases on the institutions operating in some DNFBP sectors, and lack of information on local, global typologies and case studies on ML/TF related to all DNFBP sectors were the other challenges faced when conducting the DNFBPs vulnerability assessment.

Inherent ML vulnerabilities of each DNFBP sector and the quality of AML controls of DNFBP sectors which were assessed at the NRA conducted in 2021/22 are presented below.

7.2 Casinos

7.2.1 Inherent Vulnerability of Business

Casino industry in Sri Lanka is a small business sector of country's entertainment industry which consists of only 3 physical, land-based businesses located in the city of Colombo and no island wide branch network is available. Also, there are no foreign branches available in high-risk jurisdictions as per FATF closely monitored standards. However, 2 casinos have 5 offshore branches in Mozambique, Zambia, Madagascar, Malawi and Nepal.

The casinos were not fully functioning during the assessment period as the number of their main target customers i.e., foreign gamblers were considerably low from 2019 to 2021 period due to several adverse conditions faced by the country. The brutal Easter Sunday bomb attack in 2019, closure of businesses, interruptions, and travel restrictions for foreigners due to COVID-19 pandemic during 2020/21 and prevalent economic crisis of the country were such adverse conditions. Due to these factors, casinos were making continuous losses during the period of 2019-2021 and identified as loss-making institutions for the income tax payments as well. However, in 2021, average revenue of the Casino sector was recorded as Rs. 1.8 billion.

When considering the games available in Sri Lankan casinos, there is no wider range of selection for table games or slots, compared to the casinos in foreign destinations. There is only a limited number of common tables and slot games available for gamblers in Sri Lanka⁴. The number of gaming tables available in 3 casinos ranges between 41 and 100 whereas the number of slot machines ranges between 28 and 150. Further, the minimum and maximum betting limits for the games available in casinos are depicted in both LKR and USD terms in the below table.

Table 2: Betting Limits for Games

Name of the Game	Minimum Betting Limit of the Sector		Maximum Betting Limit of the Sector	
	LKR	USD ⁵	LKR	USD ⁵
Baccarat	1,000	3.12	1,000,000	3,125
Blackjack	1,000	3.12	10,000	31.25
Roulette	100	0.31	20,000	62.50
03 Card Poker	1,000	3.12	20,000	62.50
05 Card Poker	1,000	3.12	20,000	62.50
Texas Poker	100	0.31	10,000	31.25

Source: Casinos

4 Products available at 03 casinos as per the information obtained from the onsite examinations conducted during year 2019 and from the periodic information gathered from Compliance Officers of those casinos include Baccarat, Blackjack, Roulette, 03 Card Poker, 05 Card Poker and Texas Poker.

5 At the exchange rate of Rs. 320 per 1 USD

The above table denotes that the games in Sri Lankan casino sector have less vulnerability due to insignificant betting limits where only the maximum limit of Baccarat marginally exceeds the financial transaction threshold of USD 3,000 applicable for casinos. Considering the above and other factors applicable, the total size/volume of the business has been rated as low among other variables.

The level of cash activity associated with the casino business has been assessed as medium high among the inherent vulnerability variables, recording a comparatively high vulnerability. This was due to cash being the main method to buy chips while other methods of payments such as electronic fund transfers, debit/credit cards, etc., are also available. Additional financial services such as safety lockers, currency exchange services, cheque cashing, lending, or pawning are not available in these business premises.

The risk of client-base profile of the casino business was recorded as medium among other variables due to the factors discussed herein. The membership base of all casinos is less than 2,000 and membership cards are granted physically by seeing the customer in-person. Walk-in customers are allowed to enter casino premises after granting membership. Casinos obtain copies of identity verification documents when granting memberships and records are properly retained with the easy access to retrieve as and when such records are demanded by an authority⁶. Further, all customers are screened against sanction lists when granting memberships⁷ and screening tools for PEP identification such as Accuity are also available within these casinos. In addition, the customers are rated while assigning risk scores as per the AML/CFT policies. If a PEP is a member, he/she is rated at high risk to closely monitor their transactions⁸. However, during the assessment, it was observed that no membership was granted to customers from high-risk jurisdictions and no designated persons have been detected while screening their memberships against designated lists.

Risk arising from using agents in the casino business was also recorded medium as there is no involvement of outsourced companies/ agents or third parties in casino operations. As per the information provided by the casinos during the assessment, the use of agents or other professional intermediaries to deliver the casino product is at a low level. Even, the entertainment events are handled by casinos themselves and no outsourced/agent services are obtained. However, there are mediators such as marketing groups of hotels for recommending and directing, especially the foreign customers to Sri Lankan casinos. These mediators are not providing any other services to gamblers instead of the marketing activities. Further, the memberships introduced via such mediators are also subject to routine screening procedure of the casinos and the CDD requirements.

While considering the non-face-to-face use of the casino products, non-face-to-face issuance of membership is limited only for virtual membership granting mechanism started due to COVID-19 pandemic. As casino businesses were closed during the COVID-19 pandemic, customers of casino businesses have been facilitated with live stream gaming facilities launched by the casinos in Sri Lanka. However, the conduct of CDD measures and the screening procedures were followed when granting online memberships. Sri Lankan casinos operate

6 This process is carried out by casinos in order to comply with the Rule 10 of the Designated Non-Finance Business (CDD) Rules No. 01 of 2018.

7 This process is carried out by casinos in order to comply with the Rule 42 of the Designated Non-Finance Business (CDD) Rules No. 01 of 2018.

8 This process is carried out by casinos in order to comply with the Rule 24 of the Designated Non-Finance Business (CDD) Rules No. 01 of 2018.

online at a small scale compared to large scale operations of other online gaming by casino sites in other destinations.

Close monitoring of customer transactions is done by the casinos at the time of encashing the winnings, but it is difficult to trace all the records relevant to each gaming activity the customer engaged in as there are no tracking systems. Further, the existence of ML typologies was assessed as exist but limited considering the previous ML cases involving foreign PEPs related to casino gaming in Sri Lanka. The use of the business in fraud or tax evasion schemes was also assessed as exist but limited based on the availability of cases and adverse media records both in Sri Lankan and international context.

Anonymous use of the product in the casino business was assessed as not available as this is not possible within any of the 3 casinos in Sri Lanka because no person can enter the casino premises or play online without a verified membership.

7.2.2 Quality of Anti Money Laundering Controls

There are 2 core legal enactments relating to Sri Lankan betting and gaming industry. One is the Betting and Gaming Levy Act, No. 40 of 1988. According to the provisions of this Act, a levy is imposed every year on the person who carries out gaming business in Sri Lanka. The other is the Casino Business (Regulation) Act, No. 17 of 2010. Under the Regulation Act, a casino shall only be operated under a valid license subject to terms and conditions and within an area designated by the relevant Minister. The Regulation Act was effective from January 1, 2012. However, on August 31, 2022, nearly after 12 years of its enactment, the Minister of Finance has issued Casino Business Licensing Regulation, No. 1 of 2022 ("Regulation") giving effect to the provisions of the Regulation Act. These regulations set out a comprehensive licensing process. An existing operator must apply for a license within 60 days of the date of the Regulation, and an application for the renewal of a license must be made six months prior to the expiry of the license. The fee for a new license or renewal of a license for a period of five years is Rs. 500,000,000. Also, all licensees are required to appoint a Compliance Officer to ensure that the casino complies with all applicable laws, terms and conditions of the license, mandate stringent book-keeping requirements, and stipulate certain employee requirements. All 3 existing casinos have obtained the license from the Ministry of Finance for the year 2023 after paying the above license fee and no new entrants have applied for licenses to date. Considering the above, though the AML/CFT framework applicable for casinos is monitored by the FIU, Ministry of Finance acts as the licensing authority for the industry attributing more formality and regularity to the sector.

Effective entry controls can also be seen in the sector due to several reasons such as considerable capital expenditure needed for the investment in new casinos, huge licensing fee, higher taxation rates for the sector, etc. Further, there are some other culturally influential facts such as majority of the population being Buddhists, working as a barrier for the government to expand the business activities of the industry. Hence, this industry is expected to be retained at the same size and volume with no expansion in near future.

Further, since January 2018, FIU undertakes AML/CFT on-site supervision under the RBA for the casino sector. In addition, off-site ML/TF risk assessment is conducted annually in every November-December and thematic reviews were also conducted for the sector. Following are the statistics of onsite, off-site examinations, and thematic reviews conducted for the casino sector during the assessment period.

Table 3: Risk-Based Supervision/Meetings for Casinos

Year	Number of Examinations				Number of Meetings
	Progress Review Visits	On-site Examinations	Off-site Examinations	Thematic Reviews	
2018	3	-	-	-	2
2019	-	3	1	-	6
2020	-	-	1	-	1
2021	-	-	1	2 ⁹	1
2022	-	-	1	1 ¹⁰	1

Source: Financial Intelligence Unit - Sri Lanka

Further, the FIU conducts regular AML/CFT awareness/training programmes to enhance AML knowledge of the staff members of the sector and to enhance the effectiveness of the compliance function. Accordingly, front office staff engaged in customer handling, accounts section and managers of the gaming floors are continuously equipped with the training on AML/CFT in addition to the Compliance Officers. The awareness/training programmes conducted by the FIU in collaboration with the management of the casinos during the assessment period are as follows.

Table 4: Awareness/Training Sessions

Year	No. of Training Programmes
2018	2
2019	4
2020-2022 ¹¹	-

Source: Financial Intelligence Unit – Sri Lanka

AML/CFT compliance function is directly handled by the senior management of the businesses and good rapport is maintained with the FIU for the development and maintenance of AML/CFT policies and procedures. In addition to the above, the integrity of the staff of the casinos has been established through intense screening procedures carried out by the management when hiring employees to the business.

However, the number of STRs submitted by the casinos during the assessment period was low considering the casino business closure and interruptions to operations due to previously explained reasons.

7.2.3 Deficiencies/Gaps Identified during the Vulnerability Assessment of Casinos

- Non-availability of records relevant to each gaming activity the customer engaged as there is no tracking systems within the casinos.

9 Due to the travel restrictions and curfew situations resulted from COVID-19 pandemic, on-site examinations were not conducted during the year 2021 and hence, 2 thematic reviews were conducted.

10 Due to the travel difficulties arisen from the fuel crisis of the country, on-site examinations were not conducted and hence, a thematic review has been conducted specifically focusing on online gaming.

11 Due to the casino business closure and interruptions to operations resulted from COVID-19 pandemic, fuel crisis and the current economic condition of the country, no new trainings have been conducted for the sector since 2020. However, the same market players remain to date where they have already been trained on AML/CFT requirements applicable for them. However, FIU continuously communicated with 3 market players virtually and instructions were provided as and when necessary.

- Non-availability of fit and propriety requirements for the beneficial owners and persons holding a senior management position of casinos.
- Although, policies are in place for suspicious activity reporting, effectiveness of reporting is low considering the reported number of STRs.

Accordingly, the overall vulnerability of the Casino sector was assessed at **Medium**.

7.3 Real Estate Agents

7.3.1 Inherent Vulnerability of Business

Real estate sector is a large business sector compared to other DNFBP sectors in Sri Lanka. Real estate market comprises several diverse market segments such as condominium properties, residential housing properties, commercial properties, agricultural lands, residential lands, etc. DNFBPs include real estate agents when they are involved in transactions for their clients in relation to the buying and selling of real estate, as defined in the FTRA. As per the survey conducted by FIU to collect details of real estate operators in Sri Lanka in 2018, it was revealed that most of the country's leading real estate companies are operated and based in the Western Province. The real estate companies operated in the other provinces are the branches, subsidiaries, or groups of companies of these leading real estate companies located in the Western Province in most cases. The details of real estate businesses were collected from the official business directories. Details of operators in other provinces were also collected through Regional Offices of the CBSL. However, the total number of such institutions operating in the whole real estate sector is not traceable from a single source due to the non-availability of a centralized database for the sector. Hence, entire market operators for each segment cannot be identified and the total size of the segments cannot be accurately estimated with this gap.

Nevertheless, the condominium developers which is the prime segment of the sector has established an association known as Condominium Developers' Association of Sri Lanka (CDASL) for their administrative matters and 35 condominium developers including the key developers have obtained the membership of this association as of March 2022. Further, every condominium developer shall obtain a clearance certificate from the Condominium Management Authority (CMA) prior to initiating a development project where CMA can be considered as an authority only for the condominium developers' segment in Sri Lanka. CMA has issued around 1,500 clearance certificates from 2005 to 2022¹², but the number of developers in Sri Lanka massively differs from the number of certificates issued by them as it includes certificates issued for the same developer for different projects, certificates issued to government projects and certificates belonging to individuals mainly developing units only for the purpose of renting out or personal use who are not covered under the FTRA. Further, the database of condominium developers maintained by the CMA is not sufficiently comprehensive. It was noticed that the contact details of condominium developers who got registered at the early stages were not available in this database. However, such details of newly registered developers are available in the database as they are now obtained at the registration. Apart from CMA, Construction Industry Development Authority (CIDA) operating under the Ministry of Urban Development and Housing, has already taken initial steps to register property developers and issue a "Certificate of Registration". However, they have only registered 15 property developers as of April 2022. In addition, CBSL conducts a condominium market survey every quarter where only 17 condominium developers have participated in the Q3, 2022 survey.

¹² As per the information provided by the CMA.

Based on the above information deficiencies and gaps in the sector, FIU focused on the 161 real estate agents who have been registered with the FIU as of December 2022 for the assessment. Hence, the survey questionnaire for the sector was distributed among them. Around 90 per cent of the sample constituted the condominium developers and residential housing developers as the condominium properties/residential properties represent a larger segment of the real estate market based on their higher value and their considerable attractiveness among domestic, expatriate, and foreign buyers. Further, the period of assessment was impacted from COVID-19 pandemic, resultant travel restrictions, fuel crisis and the adverse economic condition of the country where the construction and the real estate sector experienced severe downturns by these conditions.

Size and volume of the sector has been rated as medium high under the assessment considering the large volume transactions associated with the sector and the increase of real estate volume related statistics discussed herein. Other than institutional property transactions, individual property transactions are also registered at the Land Registries of the country and the details of the same can be obtained from them. The number of deeds registered with the 45 Land Registries in Sri Lanka during year 2019 and 2020 are 1,128,508 and 864,105 respectively¹³ (this includes different categories of deed registrations including deeds of transfer, mortgages, leases, gifts, declarations, and other deed registrations such as Title Registrations. Among these, deeds of transfer are the deeds prepared when a property owned by one person is sold to another). Further, the value of the property, mortgages, multiple transfers of a single property with the title changes, geographical location of the property, assets under the local authorities, information of notary public, stamp duty details, etc., can be identified through the Land Registries. This information can be obtained, if any competent authority or LEA requests the same from the Land Registries. In addition, to understand the market size of the real estate activities, the value of the real estate sector could be derived through contribution of real estate activities (including ownership of dwelling) to the Gross Domestic Product which was at Rs. 920,883 million in 2020 and Rs. 1,006,056 million in 2021 as per the reports of DCS. Foreign Direct Investment by Board of Investment companies for housing, property development and shop office sector as per the CBSL annual reports was USD 256.1 million in 2020 and USD 201.5 million in 2021. Further, the Condominium Property Volume Index¹⁴ has increased significantly during Q4, 2021 with a notable increase of 49.0 per cent compared to Q4, 2020. According to the condominium market survey as at end of Q4 2021, 49 per cent of sales occurred in the 0-25 million range, 29 per cent of sales occurred in the 25-50 million range while 12 per cent of sales occurred in the 50-75 million range and 10 per cent in the above 75 million range.

Risk arising from the client-base profile of the real estate business was rated medium due to several reasons. According to the condominium market survey as at end of Q4, 2021¹⁵, around 85 per cent of the condominium buyers were Sri Lankan residents. Further, number of clients who are domestic/international PEPs, high net-worth individuals, non-residents particularly from higher-risk jurisdictions, corporates, NGOs and NPOs was insignificant among the client bases of real estate agents participated in the assessment survey.

13 As per the information obtained from Registrar Generals' Department.

14 Condominium Property Volume Index is compiled to capture the variations in market activities by way of number of sales transactions reported for the reference period. (Base period: Q3, 2017 = 100).

15 https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/real_estate_market_analysis_2022_q1.pdf.

The use of agents in the real estate business has also been ranked as having a medium risk. Around 55 per cent of the real estate respondents have not allowed the use of agents or other professional intermediaries in delivering the product in their business. But in some instances, real estate agents use the service of an intermediary institution or an individual in reaching buyers, for a professional fee. On the other hand, the variable “level of cash activity associated with the business” was assessed as having a medium low risk as 81 per cent of the real estate respondents has recorded zero to medium low level of cash usage in their business.

When considering the availability of ML cases on the abuse of real estate business, there have been cases in Sri Lanka as well as in the global context as per the open-source information and the information obtained from LEAs and hence, the variable was ranked as exist. In Sri Lankan context, there were ML cases relating to the funds obtained from drug trafficking, bribery and corruption being invested in property market in condominiums, individual housing properties and lands. Further, there were 6 indictments with related to such ML cases on the abuse of real estate business. Use of the real estate business in fraud or tax evasion schemes also exists but a limited number of cases were reported on such fraudulent activities.

Further, based on the survey responses, non-face-to-face use of the product in the business was ranked as available but limited and anonymous use of the product was not available within the business. Moreover, the transaction records were easily traceable and retrievable in the business as per the information obtained from the real estate agents through the questionnaire and discussions.

7.3.2 Quality of Anti Money Laundering Controls

Sri Lanka has a number of laws in relation to the segmented real estate sector where different authorities have diverse roles. These laws help the government to manage the real estate markets, ownership of property, lease of property, buying and selling property and collection of taxes in relation to property, etc. There are several government authorities such as Urban Development Authority, Urban Councils, National Housing Development Authority, Pradeshiya Sabha, CMA, Land Registries and CIDA established under these legal enactments to implement the provisions therein. While considering the different roles of these entities, a regulatory role for the whole sector cannot be identified from any entity other than the CMA which only covers the condominium property developers, which is the main stakeholder group under the real estate market.

CMA is established under the Apartment Ownership (Amendment) Act, No. 39 of 2003 and the Common Amenities Board (Amendment) Act, No. 24 of 2003. Accordingly, the CMA has setup a requirement of appointing a Compliance Officer for the purpose of AML/CFT compliance function of the condominium property developers, when applying for the “Preliminary Planning Clearance Certificate” from the CMA. Further, the CMA has a continuous information sharing policy with the FIU as per the MOU signed between them during 2019. CMA shares the number of final clearance certificates, provisional certificates and semi certificates issued by them on an annual basis with the FIU as an outcome of this MOU. Breakdown of the certificates issued by the CMA during 2019-2021 period is given below.

Table 5: Breakdown of the Certificates Issued by the Condominium Management Authority

Year	Final Clearance Certificates	Provisional Certificates	Semi Certificates
2019	153	13	5
2020	56	4	2
2021	44	-	-
2022	63	7	3

Source: Condominium Management Authority

In addition, as per Section 13 (k) of the Construction Industry Development Act, No. 33 of 2014, the CIDA shall provide for the registration of property developers¹⁶ and to grade them under financial and marketing capabilities which has been initiated by CIDA only after the issuance of the Construction Industry Development (Registration of Property Developers) Regulations of 2020. However, CIDA currently has no grounds to act as the real estate regulator as per AML/CFT requirements. Hence, the FIU continued its attempts in establishing a regulatory authority for the sector and has prepared a concept paper on formation of a regulatory environment for the real estate sector in view of complying with both national and international AML/CFT requirements and submitted the same to the Ministry of Finance where the matter was further referred to the Hon. Attorney General by CIDA in 2021. Accordingly, the CIDA has agreed to make necessary amendments to the CIDA Act covering the real estate agents coming under the FTFA and the relevant changes are suggested to process through the Ministry of Urban Development and Housing at present. After that mechanism to register the institutions engaged in the real estate business with CIDA will be carried out until a separate regulatory framework is established in the future.

The FIU follows up the process of identifying new institutions operating as real estate agents and enhancing the number of Compliance Officers appointed by such identified Institutions. New Institutions are identified through newspaper advertisements, associations, regional offices of the CBSL, etc. The FIU has issued the Designated Non-Finance Business (Customer Due Diligence) Rules, No. 01 of 2018 (CDD Rules for DNFBPs) in 2018 which are applicable to real estate agents when they are involved in transactions for their clients in relation to buying and selling of real estate.

Since January 2018, FIU has undertaken AML/CFT on-site supervision of DNFBPs under the RBA for real estate agents. In addition, off-site ML/TF risk assessment is conducted annually in every November-December and thematic reviews were also conducted for the sector. Following are the statistics on risk-based supervision for the real estate sector during the assessment period.

¹⁶ In terms of the Construction Industry Development Act, No. 33 of 2014, “property developer” means an entrepreneur who promotes any project in the construction industry, specially in the housing sector which are either physically or conceptually developed by the gain of inputs of lands, land ownership, financing, marketing, or any other required expertise.

Table 6: Risk-Based Supervision of Real Estate Agents

Year	Number of Examinations					Other Supervisory Actions Taken by the FIU	
	Progress Review Visits	On-site Examinations	Off-site Examinations	Follow-up Examinations	Thematic Reviews	Warning Letters	Letters Informing Deficiencies
2018	11	-	-	-	-	40	-
2019	-	6	1	5	-	89	-
2020	-	7	2	2	-	-	8
2021	-	-	1	-	2 ¹⁷	-	-
2022	-	9	1	-	-	-	9

Source: Financial Intelligence Unit – Sri Lanka

Further, the FIU conducts AML/CFT awareness/training programmes to enhance AML knowledge of the staff members of the sector and to enhance the effectiveness of the compliance function. Some of the programmes were conducted for the sector in collaboration with the CMA and LEAs. The CMA continuously shares informatory brochures relating to AML/CFT in their website as well. The details of the awareness/training programmes conducted by the FIU during the assessment period are as follows.

Table 7: Awareness/Training Sessions

Years	2018	2019	2020	2021	2022
No. of Training Programmes	11	6	1	1	1

Source: Financial Intelligence Unit – Sri Lanka

AML/CFT compliance function of real estate businesses is usually handled by the senior management and the Compliance Officers have the required knowledge and understanding to implement the AML/CFT policies and procedures within these Institutions. In addition, the integrity of the staff of the real estate sector has been established through the employee screening processes commonly carried out by the management when hiring employees to the business. A police report or a Grama Niladari certificate is normally obtained from every employee by the businesses as a practice and a background or a reference check is also done to screen employees.

However, the number of STRs submitted by the real estate sector during the assessment period was low and the entry controls of the sector has also been identified at a low level under the assessment considering the non-availability of a single regulatory authority for the sector, informality, and largely diversified segments of the sector.

¹⁷ Due to the travel restrictions and curfew situations resulted from COVID-19 pandemic, on-site examinations were not conducted during the year 2021 and hence, 2 thematic reviews were conducted.

7.3.3 Deficiencies/Gaps Identified during the Vulnerability Assessment of the Real Estate Sector

- Non-availability of a regulatory authority to grant licenses/registrations to real estate sector in Sri Lanka and no comprehensive database of Institutions and individuals operating in the sector.
- Lack of transparency and accountability resulting in increased malpractices.
- Although, policies are in place for suspicious activity reporting, effectiveness of reporting is low considering the reported number of STRs.

Accordingly, the overall vulnerability of the Real estate sector was assessed at **Medium**

7.4 Dealers in Precious Metals and Precious and Semi-Precious Stones

7.4.1 Inherent Vulnerability of Business

DPMS includes, but not limited to, dealers in metals and stones covered by the National Gem and Jewellery Authority Act, No. 50 of 1993 (NGJA Act), and they come under the AML/CFT purview when engaging in cash transactions with a customer, equal to or above the prescribed threshold which is currently USD 15,000¹⁸. The NGJA regulates the DPMS in Sri Lanka. Based on different activities carried out by individuals in the value chain, they are required to obtain a license from the NGJA to carry out the business legally. Accordingly, the details of licenses issued/renewed by the NGJA during the period from 2020-2022 are provided in the table given below.

Table 8: Breakdown of the Licenses Issued/Renewed by the National Gem and Jewellery Authority

Year	Gem Mining Licenses	Gem Dealing Licenses	Jewellery Shop Registration Certificates
2020	4,666	3,481	1,125
2021	4,434	3,628	840
2022	5,322	7,193	1,434

Source: National Gem and Jewellery Authority

Gem miners were excluded from the assessment as they cannot engage in dealing unless they obtain a gem dealer license separately. Further, the gem dealers include the exporters, gem manufacturers, whole-sellers, retailers, etc. The dealing license is issued by the NGJA based on the gross value of the stock of gems expected to be kept to a maximum during the year. For stock values ranging from Rs. 50,000 to Rs. 100,000,000, the license fee ranges between Rs. 5,000 and Rs. 100,000. On the other hand, the jewellery sellers must obtain jewellery shop registration certificates to engage in jewellery dealing and if they are willing to conduct gem dealing in the shop premises, they need to obtain a separate gem dealer license for that. Considering the scattered segments of the gem dealers, non-availability of data with the NGJA on sub-classification of the gem dealers such as exporters, gem manufacturers, whole-sellers, retailers, etc., and wide dispersion of the

¹⁸ As per FATF Recommendation 22 and Section 33 of the FTRA.

sector all over the country including Colombo, Ratnapura, Beruwala, Kandy, Galle and other geographical areas and their reachability issues, the registrations of the DPMS with the FIU was considerably low during past period which accounted to 187 as of December 2021.

Gem and jewellery dealers are considered as DNFBPs under the FTRA only when they engage in cash transactions with a customer, equal to or above the prescribed threshold which is currently USD 15,000 (around Rs. 4.8 million)¹⁹. As the whole-sellers and exporters mainly conduct bank transactions depending on the nature and volume of their business, retail gem dealers and jewellery shops were primarily considered for the assessment by the WG since they have a possibility of conducting cash transactions above the threshold. In order to obtain an accurate picture of the whole population, a sample of 300 of gem and jewellery dealers was selected with the assistance of the NGJA, including exporters, whole-sellers, retail gem dealers and jewellery shops. However, around 90 per cent of the sample constituted with retail gem dealers and jewellery shops. Also, as disclosed by them, most of these businesses are passed down through successive generations. Moreover, a substantial number of individuals in their clientele are personally acquainted with them as such individuals have been purchasing gold or gems from them consistently across multiple generations. The period of assessment was impacted from COVID-19 pandemic resultant travel restrictions, fuel crisis, country visit barriers and the adverse economic condition of the country where the DPMS sector was adversely affected by these conditions.

As per the annual reports of the CBSL, exports of gems, diamonds and jewellery details are given below. A significant improvement in exports of gems, diamonds and jewellery can be seen during the year 2022 which was due to the efforts on streamlining and strengthening the procedures relating to the export of gems.

Table 9: Exports of Gems, Diamonds, and Jewellery

Year	USD million	Share of Total Exports
2018	278	2.3%
2019	305.7	2.6%
2020	181.5	1.8%
2021	276.7	2.2%
2022	450.6(a)	3.4%(a)

(a) Provisional

Source: Annual Reports, Central Bank of Sri Lanka

Apart from the above volume related information of the DPMS sector, results of the survey conducted among DPMS was considered for the ranking of size and volume of the sector as medium. The number of employees, branch network within the country, foreign branches, existence of subsidiaries and affiliations, annual turnover, etc., of the institutions were considered for the given ranking.

The client-base profile of the business was also considered as having a medium risk as expatriates and foreign citizens can be identified as customers in this business sector in addition to domestic customers. Further, the client bases of DPMS consist of corporate customers, domestic/international PEPs, and high net-worth individuals. However, business transactions with NGO or NPO customers are at a very low level. Further, the

¹⁹ At the exchange rate of Rs. 320 per 01 USD.

level of cash activity involved in the business has been rated as having a medium risk exposure considering that around 73 per cent of the respondents recorded from zero to low level of cash usage in their business. Banking transactions, debit/credit cards, old gold exchanges, etc. are used by the customers as main payment methods in this sector.

The existence of ML typologies related to the abuse of the business was ranked as exist because there was open-source information on such cases, even though reliable statistics on cases or indictments were not available. However, there are typologies available in the global context related to the abuse of the business. The use of the business in fraud or tax evasion schemes have been identified as exist but limited considering the “Custom Ordinance” related violations that may lead to fraud/tax evasion schemes. On the other hand, the export of gemstones and jewellery is closely monitored by the NGJA and Sri Lanka Customs. All the gem exporters and suppliers of Sri Lanka requires a valid official gem dealer license issued by the NGJA and the exports are monitored by the “Gem Unit” of the Sri Lanka Customs.

The risk of non face-to-face use of the product in the business was ranked as available but limited as there are limited instances where gemstones or jewellery can be purchased via online platforms. However, the online purchases were mainly conducted during the COVID-19 period in low volumes and the DPMS conducts online CDD when such purchases are made. Further, due to the reason of CDD requirements are being properly adhered by the DPMS which was revealed through the supervisory activities of the FIU, the anonymity is not allowed by the DPMS. The risk arising from the use of agents in the business was also ranked low as around 76 per cent of the DPMS respondents have mentioned that they do not use agents or other professional intermediaries to deliver their products. Moreover, the transaction records were easily traceable and retrievable in the businesses as per the information obtained from the DPMS through the questionnaire and discussions.

7.4.2 Quality of Anti Money Laundering Controls

In 1993, Sri Lanka enacted the NGJA Act to establish the NGJA for the development, regulation and promotion of the gem and jewellery industry. Accordingly, the licensing body for the DPMS has been clearly identified in the said law and the licensing criteria and regulations for the sector have been set up to control the entry to the sector. The NGJA carries out its licensing and entry control duties effectively in line with the criteria for granting, revoking, and renewing licenses established under the above Act. The FIU has submitted proposals on amending the NGJA Act to incorporate the AML/CFT obligations to be complied by the DPMS, fit and proper requirements for the sector, etc. The NGJA has drafted the required changes and currently the NGJA is in the process of getting the NGJA Act amended.

The NGJA has the required understanding and appreciation for the ML risks in the sector where they have participated in the awareness sessions and meetings conducted by the FIU time to time in this regard. The knowledge and information sharing process between NGJA, and the FIU continues with the MOU signed between two organizations in the year 2019.

The FIU has issued CDD rules for the DNFBPs sector in 2018 which are applicable to DPMS when they engage in cash transactions with a customer, equal to or above the prescribed threshold. Since January 2018, FIU has undertaken AML/CFT on-site supervision of DNFBPs under the RBA for DPMS. In addition, off-site ML/TF risk

assessment is conducted in November/ December every year, and thematic reviews were also conducted for the sector. NGJA provides their support in sharing and collecting the annual ML/TF off-site risk assessment questionnaires from the DPMS, and they have allocated their supervision officers to conduct joint AML/CFT onsite examinations with the FIU on DPMS. Following are the statistics on risk-based supervision for the DPMS sector during the assessment period.

Table 10: Risk-Based Supervision of Dealers in Precious Metals and Precious Stones

Year	Number of Examinations					Other Supervisory Actions Taken by the FIU	
	Progress Review Visits	On-site Examinations	Off-site Examinations	Follow up Examinations	Thematic Reviews	Warning Letters	Letters Informing Deficiencies
2018	13	-	-	-	-	47	-
2019	-	16	1	6	-	81	-
2020	-	4	2	5	-	-	9
2021	-	-	1	-	2 ²⁰	-	-
2022	-	8	1	-	-	-	8

Source: Financial Intelligence Unit – Sri Lanka

Further, the FIU conducts AML/CFT awareness/training programmes to enhance AML knowledge of the staff members of the sector and to enhance the effectiveness of the compliance function. Some of the programmes were conducted for the sector in collaboration with the NGJA, Sri Lanka Customs and LEAs. In addition to the assistance given for the AML/CFT trainings, the NGJA separately conducts sector related trainings/awareness for the DPMS time to time. The NGJA continuously shares informatory brochures relating to AML/CFT on their website as well. The details of the awareness/training programmes conducted by the FIU during the assessment period are as follows.

Table 11: Awareness/Training Sessions

Year	2018	2019	2020	2021	2022
No. of Training Programmes	11	7	1	1	1

Source: Financial Intelligence Unit – Sri Lanka

AML/CFT compliance function is directly handled by the senior management, partners or owners of the businesses, and the Compliance Officers have the required knowledge and understanding to implement the AML/CFT policies and procedures within the Institutions. In addition, the integrity of the staff of the DPMS sector has been established through the employee screening processes usually carried out by the management/owners/partners when hiring employees to the business. A police report or a Grama Niladhari certificate is normally obtained from every employee by the businesses as a practice.

²⁰ Due to the travel restrictions and curfew situations resulted from COVID-19 pandemic, on-site examinations were not conducted during the year 2021 and hence, 02 thematic reviews were conducted.

However, the number of STRs submitted by the DPMS sector during the assessment period was low considering the business closure and interruptions to operations due to previously explained reasons.

7.4.3 Deficiencies/Gaps Identified during the Vulnerability Assessment of the DPMS Sector

- Lack of knowledge on ML/TF vulnerability of the sector and AML/CFT controls, especially within the businesses located outside the Colombo city such as Kandy, Beruwala, Ratnapura, and Galle areas.
- Although, policies are in place for suspicious activity reporting, effectiveness of reporting is low considering the reported number of STRs.

Accordingly, the overall vulnerability of the DPMS sector was assessed at **Medium**.

7.5 Lawyers and Notaries

7.5.1 Inherent Vulnerability of Profession

Lawyers and notaries sector is one of the largest professional sectors in Sri Lanka and to practice law in Sri Lanka, one must be admitted and enrolled as an attorney-at-law of the Supreme Court of Sri Lanka. The legal profession in Sri Lanka is divided into two as official and unofficial bar. The official bar consists of state counsels serving in the AGD while unofficial bar consists of legal professionals engaged in private practice. A person who is qualified as an attorney has different career opportunities to work as a judge, President's Counsel, law officer in private or government entities or justice of peace, notary, company secretary or unofficial magistrate, etc. Attorneys are authorized to engage as notaries and company secretaries in Sri Lanka. Further, to practice as a notary public in Sri Lanka, a notarial license shall be obtained from the RGD and the license can only be applied by articulated clerks and lawyers sworn at the Supreme Court. Also, the Minister (Minister of Home Affairs) may appoint qualified persons as notaries as per Section 4 (1) of the Notaries Ordinance No. 1 of 1907. The notary warrant is cancelled, if any notary is lawfully convicted of any offence or removed from the office of attorney-at-law. As per the statistics given on the website of RGD, there are 5,174 practicing notaries as of the end 2022. Warranted notaries who render their service through the legal firms may engage in defined activities as per FATF recommendations. Hence, FIU closely works with such notaries in appointing Compliance Officers and other related AML/CFT requirements who practice through the legal firms.

The professional body of the attorneys-at-law is the Bar Association of Sri Lanka (BASL) which can be considered as a Self-Regulatory Body (SRB) for the sector. Lawyers' profession has a dual controlling system where the profession is liable to the highest legal authority, the Supreme Court of Sri Lanka and the BASL also involves in support activities to the Supreme Court in managing the sector. However, there is no mandatory requirement to obtain BASL registration by every attorney-at-law whereas the number of members of the BASL has a discrepancy from the number of actual attorneys enrolled into the profession through the Supreme Court. There are around 25,000 registered lawyers in Sri Lanka according to the statistics of Supreme Court. As per the annual reports of the BASL, summary of their membership for the assessment period are as follows.

Table 12: Membership of Bar Association of Sri Lanka

Category	2018	2019	2020	2021
Life Membership	15,509	15,965	16,577	16,956
Ordinary Membership	4,970	4,788	5,055	5,474
Total Membership	20,479	20,753	21,632	22,430

Source: Bar Association of Sri Lanka

Lawyers and notaries are coming under the purview of the FTRA only when they prepare for or carry out transactions for their clients in relation to defined activities under the FTRA²¹. However, the BASL has no data on the activities carried out by their members and due to this data limitation, the individual lawyers engaged in defined activities cannot be traced. Further, considering the nature and volume of defined activity related transactions in Sri Lanka and the gathered information from sector experts in the WG, legal and notarial firms engaged in conducting defined activities were only considered for the assessment. In selecting the sample for the assessment, geographical location of the firm, number of employees, transaction volumes, etc. were considered. Accordingly, 16 firms with large to medium scale operations centered in Western province and registered with the FIU were selected for the sample. These 16 firms were considered for the assessment as they had declared that they are engaged in defined activities as per FATF recommendations.

Considering the above, the rating was given as medium high for total size/volume of the profession. The rating was primarily based on the fact of non-availability of information on the defined activities conducted by the profession in Sri Lanka. Existence of ML typologies on the abuse of the profession was ranked as exist but limited considering the available ML cases in Sri Lanka as well as in the global context. Also, there were 06 indicted cases for ML offending had involved deeds and notarial executed documents on purchasing real estates. However, no ML charges were framed against lawyers/notaries in these indictments. Further, the use of the profession in fraud or tax evasion schemes was ranked as exist but limited. Although there were no recorded number of instances for fraud/tax evasion by lawyers, there are occasional media records which leads to possibility of malpractices.

Non face-to-face use of the service is possible but in a limited level within the profession as there is a possibility for online service obtaining. According to the survey on the legal and notarial firms registered with the FIU, it was evident that the number of domestic/foreign PEPs, high-net-worth domestic as well as foreign individuals were low and hence, the risk of client-base profile of the profession was considered low in the assessment. Cash, cheques, debit/credit cards, bank drafts and wire transfers are collectively used as the transaction modes in the profession. Around 78 per cent of the respondents indicated a zero to low level of cash activity associated in their profession and hence, the variable was ranked low risk in the assessment. As per 89 of per cent legal and notarial firms participated in the survey, there is a low usage of agents in their profession.

21 Defined activities applicable for lawyers, notaries, and accountants include (i) buying and selling of real estate; (ii) managing of client money, securities, or other assets; (iii) management of bank, savings, or securities accounts; (iv) organization of contributions for the creation, operation, or management of companies; and (v) creation, operation or management of legal person or arrangements and the buying and selling of business entities.

Furthermore, the anonymous use of the service in the profession was ranked as not available since beneficial owner of the transaction is identified and verified through identification document verification and adhering to CDD requirements, and hence the real clients are always known by the profession.

7.5.2 Quality of Anti Money Laundering Controls

The legal profession in Sri Lanka was recognized by the Charter of Justice in the year 1802. Prior to 1974, the legal profession consisted of two branches namely the Advocates of Sri Lanka and the Proctors of Sri Lanka. The “Bar Council of Sri Lanka” represented the Advocates in Sri Lanka, and the “Law Society of Sri Lanka” represented the Proctors in Sri Lanka in all matters affecting their respective practices. With the enactment of the Administration of Justice Law, No. 44 of 1973, the said two branches were amalgamated into a single group of legal practitioners named as attorneys-at-law. Further, the legal professionals in Sri Lanka are governed with higher standard professional ethics under the controls of the Constitution, provisions of the Judicature Act, No. 02 of 1978, the Supreme Court (Conduct and Etiquette for Attorneys-at-Law) Rules, 1988. In addition, the notaries conduct is governed by the Notaries (Amendment) Act, No. 31 of 2022 (Notaries Ordinance). A registry of notaries is maintained by the RGD.

There were instances that revoked and temporary ceasing of license to practice as attorneys in Sri Lanka. Further, the following entry controls have been established to protect the integrity of the profession.

- Foreign entities cannot enter this profession.
- Legal professional service outsourcing is not possible.
- Foreign citizens cannot be employed.
- Attorney has to be a Sri Lankan citizen, enrolled by the Supreme Court as a qualified attorney.

Following special facts were also found regarding the integrity of the profession.

- Supreme Court is the regulating body for attorneys in Sri Lanka.
- Supreme Court Conduct of Etiquette for attorneys issued in the gazette of 7th December 1988 by the Supreme Court.
- Disciplinary actions will be taken for conducts outside the professional sphere.
- Suspension for unethical conduct is available.
- Section 42 of the Judicature Act states that attorneys shall be guilty of any malpractices or offences will be suspended from practice or revoke from office by 3 judges of the Supreme Court sitting together.
- Bar Association also has a role to play in ethical conducts of attorneys. BASL has a disciplinary committee.
- Lawyers’ conduct should abide by the Supreme Court rules.

The CDD Rules for DNFBPs issued by the FIU are applicable to lawyers and notaries who are engaged in defined activities. Further, the FIU has drafted and in the process of issuing the “Guidelines on AML/CFT Compliance Obligations for Lawyers and Notaries”. The FIU started conducting off-site examinations for the sector in 2020 despite the fact that the number of firms registered with the FIU was low as many firms are

not engaged in providing defined activities. Off-site monitoring covered the compliance with main AML/CFT requirements stipulated by the FTRA and the CDD Rules based on the tool developed with the assistance of the IMF. The tool covers risks arising from inherent factors and the available AML controls of an Institution. A risk score is calculated as per the risks arising from the above factors to decide the ML/TF related risk level of the Institution.

Further, the FIU conducts AML/CFT awareness/training programmes to enhance AML knowledge of the members of the sector and to enhance the effectiveness of the compliance function. AML/CFT compliance function is directly handled by the senior management /partners of the firms. Some of the programmes were conducted for the sector in collaboration with the BASL. The BASL continuously provides support relating to the proper implementation of AML/CFT measures within the sector and to strengthen the AML/CFT regime. The details of the awareness/training programmes conducted by the FIU during the assessment period are as follows.

Table 13: Awareness/Training Sessions

Years	2018	2019	2020	2021/22
No. of Training Programmes	6	2	1	1

Source: Financial Intelligence Unit - Sri Lanka

Further, the number of suspicious activity/transactions reports reported by lawyers and notaries is at a very minimum level and therefore, suspicious activity monitoring and reporting requires improvement.

Accordingly, the overall vulnerability of the Lawyers and Notaries sector was assessed at **Medium**.

7.6 Accountants

7.6.1 Inherent Vulnerability of Profession

Several professional bodies offer professional accounting qualifications and serve as SRBs for their respective members, such as the Institute of ICASL, Chartered Institute of Management Accountants of the United Kingdom (CIMA-UK), Association of Chartered Certified Accountants (ACCA), Association of Accounting Technicians of Sri Lanka (AAT) and Certified Management Accountants of Sri Lanka (CMA-Sri Lanka). There are government accountants serving in the public sector apart from the members of the bodies stated above. Therefore, quantifying the number of accountants and size of the sector is a cumbersome process as they provide services in a wide array of businesses and no single database to gather information on the same. However, ICASL which was founded in 1959 is considered as the largest professional accountancy body in the country. ICASL is the only accredited authority that formulates Accounting and Auditing Standards in Sri Lanka. Further, many accountants have dual or more accounting qualifications from the aforesaid professional bodies where quantification of the sector is not possible.

However, as per the information obtained from ICASL, number of active members for the assessed period are as follows.

Table 14: Active Members of the Institute of Chartered Accountants of Sri Lanka

	2018	2019	2020	2021	2022
Resident	4,405	4,561	4,566	4,582	4,480
Non-Resident	1,210	1,382	1,332	1,367	1,590
Total	5,615	5,943	5,898	5,949	6,070

Source: Institute of Chartered Accountants of Sri Lanka

There are large, medium and small-scale accounting and auditing firms in Sri Lanka. Most of these firms are in bookkeeping, payroll and financial advisory services to small to medium-sized businesses. However, the large-scale accounting and auditing firms are into specified activities as per FATF recommendations.

Most of the individual professional accountants belonging to all above accounting bodies serves in private or government companies, do not prepare for, or carry out transactions in relation to defined activities coming under the FTRA²². Defined activities are generally offered by the accounting/auditing firms on behalf of their clients. Establishment of accounting and auditing firms are permitted only for the professional members of ICASL in Sri Lanka. As per the information collected from ICASL, the total number of such audit firms were 619 and 608 respectively for the years 2019 and 2020. Considering these facts and as there is no single source to identify the volume of the accountants' sector, overall assessment was limited to the established accounting and auditing firms under the authority of ICASL. Hence, the survey questionnaire was circulated among 30 selected institutions registered with the ICASL. Around 98 per cent of the audit firms belong to small to medium size category with less than 5 partners. Considering these facts, the rating for total size/volume of the sector was assigned as medium.

Existence of ML typologies on the abuse of the profession and the use of the profession in fraud or tax evasion schemes were ranked as exist but limited. The accountants are not directly charged against ML cases in Sri Lanka. However, there are several investigations and indictments which relate to some involvement of the auditor/ accountant and the fraudulent practices leading to some cover up in the annual returns/financial statements etc.

Further, the non face-to-face use of the service in the profession was ranked as available but limited considering the limited possibility of obtaining online services to some extent. However, the anonymous use of the service in the profession was not available and the transaction records were easily traceable and retrievable.

More than 80 per cent of the accountants participated in the survey, had an insignificant number of domestic/international PEPs, high net-worth individuals, non-resident clients particularly from high-risk jurisdictions as clients. Hence, the risk arising from the client base of the sector has been ranked as low. Cash, cheques, debit/credit cards, bank drafts and wire transfers are collectively used as the transaction modes in the profession. However, the level of cash associated with the profession has been ranked as low based on the fact that

22 Defined activities applicable for lawyers, notaries, and accountants include (i) buying and selling of real estate; (ii) managing of client money, securities, or other assets; (iii) management of bank, savings, or securities accounts; (iv) organization of contributions for the creation, operation, or management of companies; and (v) creation, operation or management of legal person or arrangements and the buying and selling of business entities.

around 85 per cent of the respondents reported zero to low level cash utilization in the profession. Further, the risk arising from use of agents in the profession was also ranked as low in the assessment as 78 per cent of the respondents have indicated that they are not allowing use of agents in their profession.

7.6.2 Quality of Anti Money Laundering Controls

The members of the professional bodies are governed by the Acts, Regulations or by laws and code of ethics of each professional body. The SLAASMB is the mandated organization by the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, for monitoring the quality of the private sector financial reporting and auditing from a regulatory perspective. Further, the main SRB for the accounting professionals, the ICASL, has been established under the Institute of Chartered Accountants Act, No. 23 of 1959. Effective entry controls are maintained by all the SRBs including ICASL for the sector as they can cancel the membership for any misconduct in terms of applicable laws and code of ethics.

The CDD Rules for DNFBPs issued by the FIU in 2018 are applicable for accountants who are engaged in the defined activities. The FIU issued the Guidelines on AML/CFT Compliance Obligations for Accountants and TCSPs in 2020. The ICASL has also issued an AML/CFT guidance for their members in accordance with the Guidelines issued by the FIU in June 2020.

The FIU started conducting off-site examinations for the sector in 2020 despite the fact that the number of firms registered with the FIU was low as many firms are not engaged in providing defined activities. Off-site monitoring covered the compliance with main AML/CFT requirements stipulated by the FTRA and the CDD Rules based on the tool developed with the assistance of the IMF. The tool covers risks arising from inherent factors and the available AML controls of an Institution. A risk score is calculated as per the risks arising from the above factors to decide the ML/TF related risk level of the Institution.

Moreover, the FIU conducts AML/CFT awareness/training programmes to enhance AML knowledge of the members of the sector and to enhance the effectiveness of the compliance function. AML/CFT compliance function is directly handled by the senior management /partners/owners of the firms. Some of the programmes were conducted for the sector with the assistance and guidance of the ICASL. The ICASL works in collaboration with the FIU in raising awareness among their members on applicable AML/CFT requirements and in addition, they conduct separate programmes for profession related awareness. The details of the awareness/training programmes conducted by the FIU during the assessment period are as follows.

Table 15: Awareness/Training Sessions

Years	2018	2019	2020	2021/22
No. of Training Programmes	6	1	2	1

Source: Financial Intelligence Unit – Sri Lanka

Further, the number of suspicious activity/transactions reports reported by accountants is at a very minimum level and therefore, the effectiveness of suspicious activity monitoring and reporting require improvement.

Accordingly, the overall vulnerability of the Accountants was assessed at Medium Low.

7.7 Trust and Company Service Providers

7.7.1 *Inherent Vulnerability of Profession*

The TCSPs in the country mainly comprise legal professionals and chartered accountants, who provide secretarial functions to companies and trusts. The DRC acts as the regulator for Company Service Providers as per the provisions of the Companies Act, No. 7 of 2007. To act as a Company Service Provider, an individual should be registered with the DRC, satisfying the Registrar that the service provider is qualified. There are two types of service providers registered as secretaries and auditors. There are 13,928 individual secretaries and 588 secretary firms, as well as 1,702 individual auditors and 360 auditor firms registered with the DRC as of 2021. Additionally, legal professionals in the country primarily handle services related to trusts. There are less than 200 trusts registered under the Trust Ordinance, No. 9 of 1917. In general, most of the legal professionals do not have exposure to provide services related to trusts. The perception of the participants of the TCSPs group of the NRA was that only few institutions engage in the defined activities²³ such as formation of trusts. Considering the above, the total size/volume of the sector is rated as medium high.

The existence of ML typologies on the abuse of the profession and the use of the profession in fraud or tax evasion schemes were ranked as exist but limited as the TCSPs are not linked to any STRs or ML investigations during the assessed period. However, there are possible cases linking TCSPs on providing the service of formation of legal persons via DRC. Further, according to the FATF reports, criminals often seek out the involvement of legal professionals in their ML/TF activities because they may be required to complete certain transactions or provide access to specialized legal and notarial skills and services, both of which can assist the laundering of the proceeds of crime.

Non face-to-face use of the service is available but limited in the profession considering the possibility of obtaining the service via online platforms to a certain extent. However, TCSPs take controls to avoid providing services to clients who appear to be inexplicably avoiding face-to-face meetings or who provide instructions intermittently without legitimate reasons and are otherwise evasive or very difficult to reach. Anonymous use of the service in the profession is not facilitated. Most of the TCSPs do not use agents or other professional intermediaries to deliver their services.

Some TCSPs maintain transaction records in paper format and mostly the firms with large client bases use electronic systems to store the records which enables to trace them easily. Nevertheless, around 93 per cent of the respondents indicated that they have easily retrievable record keeping mechanism within their institutions.

About 70 per cent of the respondent TCSPs do not provide services to PEPs or high net worth individuals. Also, the number of non-resident clients particularly from high-risk jurisdictions, are reported at minimum in the sector. Considering this survey outcome, the variable on client base profile was rated at low risk in the assessment. Transaction modes such as cash, cheques and electronic fund transfers are commonly used in the sector. 65 per cent of the TCSP respondents mentioned a zero to medium low-level conduct of cash transactions within the sector where the level of cash activity was ranked low risk.

23 Defined activities applicable for TCSPs include (i) formation or management of legal persons (ii) acting as or arranging for another person to act as, a director or secretary of a company, a partner or a partnership or a similar position in relation to other legal persons (iii) providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or for any other legal person or arrangement Financial Transactions Reporting Act, No. 6 of 2006 33 (iv) acting as or arranging for another person to act as, a trustee of an express trust (v) acting as or arranging for another person to act as, a nominee shareholder for another person)

7.7.2 Quality of Anti Money Laundering Controls

As per the Extraordinary Gazette 471/6 dated 14 September, 1987 under the Companies Act, No. 17 of 1982, a person to be eligible to register under the DRC as a company secretary, he/she should be a citizen of Sri Lanka and be either an attorney-at-law, a member of the ICASL, a member of the Association of Chartered Secretaries and Administrators, a member of the CIMA-UK, a member of the CMA-Sri Lanka, or if the applicant is unable to meet the above qualifications, the applicant must have 20 years' experience in the company secretarial field. Although the Companies Act, No. 17 of 1982 was later repealed by the Companies Act, No. 7 of 2007, the eligibility criteria specified in the Extraordinary Gazette 471/6 dated 14th September, 1987 for registering as a company secretary, still remain in effect. Additionally, as per the provisions under Section 157 of the Companies Act, No. 7 of 2007, no person shall be eligible for appointment as an auditor of a company unless he is a member of the ICASL or is a registered auditor.

The availability and effectiveness of entry controls to the profession is identified as excellent and the integrity of the staff and the AML knowledge of the staff is given a higher rating considering the Acts, regulations, and directions issued by the regulators and the codes of ethics issued by the SRBs to which the members are expected to adhere with.

The FTRA and the CDD Rules for the DNFBP sector issued in 2018 are applicable to TCSPs when providing defined services to third parties. The FIU issued guidelines on AML/CFT Compliance Obligations for TCSPs in 2020. The FIU started conducting off-site examinations for the sector in 2020 despite the fact that the number of firms registered with the FIU was minimum as many firms are not engaged in defined activities. Off-site monitoring covered the compliance with main AML/CFT requirements stipulated by the FTRA and the CDD Rules based on the tool developed with the assistance of the IMF. The tool covers risks arising from inherent factors and the available AML controls of an Institution. A risk score is calculated as per the risks arising from the above factors to decide the ML/TF related risk level of the Institution.

Moreover, the FIU conducts AML/CFT awareness/training programmes to enhance AML knowledge of the members of the sector and to enhance the effectiveness of the compliance function. AML/CFT compliance function is directly handled by the senior management /partners/owners of the firms. Some of the programmes were conducted for the sector with the assistance of DRC. The details of the awareness/training programmes conducted by the FIU during the assessment period are as follows.

Table 16: Awareness/Training Sessions

Year	2018	2019	2020	2021	2022
No. of Training Programmes	5	-	1	-	1

Source: Financial Intelligence Unit – Sri Lanka























Further, the number of suspicious activity/transactions reports reported by TCSPs is at a very minimum level and therefore, the effectiveness of suspicious activity monitoring and reporting of TCSPs requires improvement.

Accordingly, the overall vulnerability of the TCSPs was assessed at **Medium Low**.

7.7.3 Deficiencies/Gaps Identified in Lawyers and Notaries/ Accountants/ Trust and Company Service Providers

- There was no data source to identify the individuals or firms engaged in captured activities specified in the FTRA.
- Although, policies are in place for suspicious activity reporting, effectiveness of reporting is low considering the reported number of STRs.

Figure 1: Key Changes from National Risk Assessment 2014

DNFBP Sectors	Vulnerability Ratings		
	2014	2021/22	Change
 Casino	Medium High 	Medium 	
 Real Estate	Medium High 	Medium 	
 DPMS	Medium High 	Medium 	
 Accountants	Medium Low 	Medium Low 	
 Lawyers and Notaries	Medium 	Medium 	
 TCSPs	Medium Low 	Medium Low 