



1st Follow-Up Report

Mutual Evaluation of Sri Lanka

July 2016



The Asia/Pacific Group on Money Laundering (APG) is an autonomous and collaborative international organisation founded in 1997 in Bangkok, Thailand consisting of 41 members and a number of international and regional observers. Some of the key international organisations who participate with, and support, the efforts of the APG in the region include the Financial Action Task Force (FATF), International Monetary Fund, World Bank, OECD, United Nations Office on Drugs and Crime, Asian Development Bank and the Egmont Group of Financial Intelligence Units.

APG members and observers are committed to the effective implementation and enforcement of internationally accepted standards against money laundering and the financing of terrorism, in particular the Forty Recommendations of the FATF.

For more information about the APG, please visit the website: www.apgml.org.

The photograph on the front page is of Sigiriya, the Lion Rock Fortress built by King Kasyapa in the 5th Century.

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Asia/Pacific Group
on Money Laundering

SRI LANKA 1ST FOLLOW-UP REPORT 2016

1. In accordance with the *APG Third Round Mutual Evaluation Procedures 2014*, please find attached Sri Lanka's first follow up report (FUR).
2. Sri Lanka submitted its first FUR on 1 February 2016 and requested re-ratings of 11 Recommendations.
3. An APG review team was formed consisting of the following two former assessors and secretariat to undertake the analysis as under paragraph 114 of the APG's 3rd round ME procedures:
 - Russell Wilson, AUSTRAC, Australia
 - Lim Hsin Ying, Financial Intelligence and Enforcement Department, Bank Negara Malaysia, Malaysia
 - Lindsay Chan, APG Secretariat.

Recommendation	MER rating	Progress made to largely compliant (LC)/compliant (C) Yes/No
R.1 – Assessing risks and applying a risk-based approach	PC	No
R.2 – National cooperation and coordination	PC	Yes – LC
R.10 – Customer due diligence	NC	Yes – LC
R.12 – Politically exposed persons	NC	Yes – LC
R.13 – Correspondent banking	NC	Yes – LC
R.14 – Money or value transfer services	NC	No
R.15 – New technologies	PC	Yes – LC
R.16 – Wire transfers	NC	Yes – LC
R.17 – Reliance on third parties	NC	Yes – LC
R.18 – Internal controls and foreign branches and subsidiaries	PC	Yes – LC
R.19 – Higher-risk countries	NC	Yes – LC

APG Review Team
8 July 2016

1ST FOLLOW-UP REPORT SRI LANKA

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TECHNICAL COMPLIANCE ANNEX (UPDATED JULY 2016)

1. INTRODUCTION

2. NATIONAL AML/CFT POLICIES AND COORDINATION

Recommendation 1 – Assessing risks and applying a risk-based approach

1. These requirements were added to the *FATF Recommendations 2012*, and were not therefore assessed in APG's 2nd round mutual evaluation report of Sri Lanka in 2006.

2. *Criterion 1.1.* Sri Lanka completed its first national risk assessment (NRA) of money laundering (ML) and terrorist financing (TF) in October 2014 two months before the onsite. The NRA was completed using the World Bank's *National Money Laundering and Terrorist Financing Risk Assessment Tool*. Prior to the NRA, there had not been any ML national or sectoral risk assessments. There is also the National Security Strategy, which was issued in 2014 and published in the Ministry of Defence's website. The strategy shows that Sri Lanka has assessed and identified TF risks, not only LTTE but also other TF risks such as Islamic State of Iraq and the Levant (ISIL). This strategy focuses primarily on terrorism, including its financing, but also examines maritime security issues (including organised trafficking of persons, human smuggling and drug trafficking) and organised crime. The document covered three areas:

- Sri Lanka's overall national security context;
- The primary threats to Sri Lanka's national security; and
- The strategies being formulated in response to these threats.

3. In the NRA, the overall conclusions of ML/TF risks are based on assessments done using seven modules and seven respective sub-teams involving 60 expert participants. These include ML and TF threat analysis, national vulnerability (including legal and regulatory framework, institutional capacity, and other factors), banking sector vulnerability, securities sector vulnerability, insurance sector vulnerability, and other financial sector vulnerability and designated non-financial businesses and professions (DNFBPs) sector vulnerability. ML and TF risks on financial inclusion products were also assessed. Information sources used were quite broad and included both quantitative data and qualitative information, such as databases in government agencies; feedback obtained through questionnaire circulated among participants of banking, securities and insurance sectors; open source information; and qualitative input from sectoral experts from competent authorities and private sector. Further, the NRA contains comprehensive proposed actions to address the identified deficiencies and provide the basis of a national AML/CFT strategy.

4. The NRA's assessment of ML/TF risks, overall, is reasonable and is not inconsistent with the assessment team's findings. The NRA is relatively broad and recognizes all the major ML/TF risks identified by the assessment team. It is lacking the assessment of the ML/TF risks of legal persons and arrangements.

5. *Criterion 1.2.* Sri Lanka has established the National Risk Assessment Working Group (NRAWG) with the FIU as the designated lead agency for preparing the NRA. The NRAWG represents all AML/CFT-related stakeholders in Sri Lanka, including private sector representatives (from the three major

financial industry associations covering the banking, securities and insurance sectors) and comprises of senior officials of 23 institutions.

6. The NRAWG has been divided into eight sub-groups based on members' professions, specialisations, and backgrounds. The eight groups include one group for each thematic area of threat analysis, national vulnerability assessment, banking sector vulnerability assessment, securities sector vulnerability assessment, insurance sector vulnerability assessment, other financial institutions (FIs) vulnerability assessment, designated non-financial businesses and professions (DNFBPs) vulnerability assessment, and financial inclusion product risk assessment.

7. *Criterion 1.3.* There is an approved plan to conduct a review of the NRA every 2 years by the National Risk Assessment Working Group. This plan is part of The National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Policy 2015-2020 ("AML/CFT Strategy 2015-20"), approved by the Sri Lankan Cabinet of Ministers on 6 January 2016.

8. *Criterion 1.4.* The NRA has been disseminated to competent authorities and the three main financial sector industry associations have received the sanitised version of the report. The sanitized report is now publicly available and published in the FIU web (<http://fiusrilanka.gov.lk/publications.html>).

9. *Criterion 1.5.* Sri Lanka has developed a security strategy that focuses on TF risks. The strategy includes implementation of a national coordination mechanism chaired by the Chief of National Intelligence. In the AML/CFT Strategy 2015-20, there are eight priority objectives including on enhancing the effectiveness of ML/TF investigations and prosecutions and AML/CFT supervision. Sri Lanka is in the process of allocating resources and executing measures to implement the strategy. One objective is focused on financial inclusion to reduce the ML/TF risks. A planned output is the issuance of simplified CDD rules.

10. *Criterion 1.6.* There are no exemptions based on identified lower risk in the NRA. Not all elements of the relevant FATF Recommendations are required to be implemented by FIs or DNFBPs (see section on preventive measures). These exemptions are not based on proven low risk of ML/TF.

11. *Criterion 1.7.* Under the new CDD Rules 2016 for finance business, FIs defined as finance business (excludes insurance) are now required to take enhanced measures to mitigate higher risks where they have been identified, including those in the NRA and incorporating into their risk assessments. However, no CDD rules have been issued for insurance and DNFBPs concerning such requirements.

12. *Criterion 1.8.* There has been no implementation of simplified AML/CFT measures based on proven lower risks for financial inclusion or otherwise. However, as noted above, the AML/CFT Strategy 2015-20 includes a focus on financial inclusion, including a plan to issuing rules on simplified CDD and identifying lower risk financial inclusion financial products. There are provisions for simplified CDD in certain circumstances consistent with this criterion as detailed in Part III, Rules 53-55 of the CDD Rules for insurance.

13. *Criterion 1.9.* Sri Lanka's supervisory authorities do not have a formal risk-based approach to supervision for the financial sector and there are no designated supervisors for DNFBPs. With the adoption of the AML/CFT Strategy 2015-20, which includes enhancing the effectiveness of AML/CFT supervision, it is expected that financial supervisors will formalise and develop their risk-based approach. However, progress on DNFBP is still dependent on designating supervisory authorities for those sectors.

14. *Criterion 1.10.* Under Rule 6 of the new CDD Rules 2016, all finance business (as defined in the FTRA) are now mandated to implement measures as required under this criterion. There are no requirements for insurance and DNFBPs.

15. *Criterion 1.11.* Rule 7 of the CDD Rules 2016 for finance business imposes comprehensive policies, controls and procedures in place to mitigate risks and take a risk based approach. There are general requirements in Part III, Rules 43-44 in the CDD Rules for insurance for risk mitigation measures to apply in higher risk scenarios. There are no requirements for DNFBPs.

16. *Criterion 1.12.* The CDD Rules 2016 for finance business provide for a risk based approach, and for FIs defined as finance business to delay verification if low risk has been identified. Except for that provision and the simplified measures in the CDD Rules for insurance, no other regulatory instruction has been promulgated that would permit FIs and DNFBPs to take simplified measures to manage and mitigate risks, if lower risks have been identified. As noted above, the authorities plan to issue new rules on simplified CDD.

17. *Weighting and conclusion:* With the Cabinet Minister's approval of the AML/CFT Strategy 2015-20, Sri Lanka has adopted a national risk-based approach informed by the NRA to prevent or mitigate ML/TF. CDD Rules No.1 imposes additional risk based requirements on FIs defined as finance business in the FTRA. DNFBPs are still not covered as they are defined as non-finance business in the FTRA. **Recommendation 1 is rated partially compliant.**

Recommendation 2 – National cooperation and coordination

18. In the 2006 MER, Sri Lanka was rated partially compliant with the former R.31. It was found that Sri Lanka needed to enhance domestic coordination on AML/CFT across agencies with the primary deficiency considered to be the lack of a functioning FIU and of provision for its potential role in national coordination. Follow-up reports found that this has improved due to the establishment of the FIU, its subsequent interaction with other agencies, and the formation of a national coordination body, being the Advisory Board to the FIU.

19. *Criterion 2.1.* The National Security Strategy, which was made public in 2014, provides for a coordinated response to terrorism. Sri Lanka's national AML/CFT body, the Advisory Board for the FIU, serves as the reviewing body for national AML/CFT policies. As mentioned, the Sri Lankan Cabinet of Ministers approved on 6 January 2016 the AML/CFT Strategy 2015-20. The AML/CFT Strategy 2015-20 is informed by the findings and recommendations in the MER and NRA.

20. *Criterion 2.2.* The Advisory Board for the FIU is also the designated authority responsible for national AML/CFT policies. The cabinet memorandum forming the advisory board provides the board's terms of reference, including responsibility for national AML/CFT policies, and not just FIU matters. Authorities advised that the TORs are, and therefore the mandate of the board is, ongoing. Further, the Office of the Chief of National Intelligence performs a coordination role on matters relating to national security, including terrorism and TF, and certain categories of predicate offences but not ML. In order to better reflect its actual role of Advisory Board for the FIU, the AML/CFT Strategy 2015-20 includes a plan to appoint new members and re-name the board to the AML/CFT National Coordinating Committee. The Committee will continue to be the designated authority responsible for national AML/CFT policies.

21. *Criterion 2.3.* At the national level, the Governor of the Central Bank of Sri Lanka (CBSL) chairs the Advisory Board for the FIU. The board is tasked with deciding on AML/CFT policy matters and consists of heads of key ministries and institutions:

- Governor of Central Bank of Sri Lanka as the Chairman
- Secretary of Ministry of Finance and Planning
- Secretary of Ministry of Justice
- Secretary to Ministry of External Affairs
- Attorney General
- Legal Draftsman
- Controller General of Department of Import and Export Control
- Controller General of Department of Immigration and Emigration
- Inspector General of Police
- Chairman of Board of Investment of Sri Lanka
- Director General of Securities and Exchange Commission of Sri Lanka
- Director General of Sri Lanka Customs
- Registrar General of Companies
- Director General of Accounting and Auditing Standard Board
- Director General of NGO Secretariat
- Chairman of National Dangerous Drug Control Board
- Controller of Exchange

22. The Chief of National Intelligence oversees all agencies relevant to countering terrorism and meets weekly to discuss threats, including TF, from both LTTE and non-LTTE. The group consists of the Sri Lanka Police Terrorist Investigation Division (TID) and Criminal Investigation Division (CID), the State Intelligence Service, and the Defence Intelligence agencies: Directorate of Military Intelligence, Directorate of Naval Intelligence, and Air Intelligence. Other agencies such as Customs and the FIU attend as required. There is also information sharing on predicate offences such as drug trafficking, people smuggling and human trafficking.

23. In addition to the advisory board, there are several other coordination mechanisms/arrangements between domestic authorities providing for cooperation between agencies on policy development and implementation. Examples provided by Sri Lanka include:

- As noted previously, up to 60 officials from all relevant competent authorities were involved in preparing the NRA, including recommendations to address identified deficiencies.
- Two senior officials of the Attorney General's Department (AGD) are appointed as consultants to the FIU to facilitate coordination with the AGD (the prosecutor).
- Some members of the CID are housed at the central bank, providing for close coordination between CID and the FIU.
- FIU has entered in to memorandum of understanding (MOU) with the Sri Lanka Customs to share information and initiatives. Formal arrangements have been made with Department of Immigration and Emigration, and Department of Persons Registration, to share information without MOUs. An officer has been designated in each department and the FIU and respective department to share information by emails using a specified document format.

24. Despite such examples, there is no formal information sharing agreement between the FIU and the police, or between the FIU, as the primary AML/CFT supervisor, and other financial sector supervisors. However, all financial sector supervisors are located with the Central Bank of Sri Lanka which may negate the need for more formalised arrangements.

25. *Criterion 2.4.* Since the adoption of the MER, Sri Lankan authorities have discussed PF issues as part of the finalisation of the AML/CFT Strategy 2015-20; the latter includes drafting and adopting a legal/regulatory framework for PF.

26. *Weighting and conclusion:* Sri Lanka has adopted the AML/CFT Strategy 2015-20 informed by the NRA and to implement the MER recommendations. It is expected that the strategy will be reviewed regularly following the bi-annual review of the NRA. There are regular meetings on terrorism, including TF, under the auspices of the Chief of National Intelligence. Coordination on PF is still only at the early stage. **Recommendation 2 is largely compliant.**

3. PREVENTIVE MEASURES

Preamble: Scope of Financial institutions

27. The AML/CFT measures applicable to Sri Lanka's FIs are contained in the FTRA for thirteen categories of FIs designated by the FATF. Obligations under the FTRA are applicable to 'institutions', a term that includes persons and entities engaged in finance business and designated non-finance businesses. Designated Non Businesses and Professions (DNFBPs) as defined by the FATF are captured under the FTRA's definitions of designated non-finance business.

28. More detailed requirements are specified in four separate KYC and CDD rules issued to licensed banks and finance companies, stockbrokers, insurance companies, and authorised moneychangers. On 27 January 2016, the FIU issued the Financial Institutions (Customer Due Diligence) Rules, No.1 of 2016 ("CDD Rules 2016") to address key gaps identified from its Mutual Evaluation Report in 2015. These Rules are enforceable means as they have been issued by competent authorities pursuant to the FTRA, with mandatory language and sanctions for non-compliance as contained in the FTRA, and sanctions have been applied pursuant to that Act for violations of previously issues Rules. The CDD Rules 2016 apply to all FIs engaged in 'Finance Business' as defined in the FTRA, resulting in licensed banks, finance companies, stockbrokers, transfer of money or value and authorized moneychangers now being subject to more comprehensive preventive obligations. Previously the 2011 CDD Rules for banks and registered finance companies were more limited in scope, as they did not cover all FIs defined as finance business in the FTRA. However, insurance companies and their agents are not covered by the new Rules as these are defined as 'Designated Non-Finance Business in the FTRA'.

Recommendation 10 – Customer due diligence

29. Sri Lanka was rated non-compliant with the former R.5 in its 2006 MER. Since its 2006 MER, Sri Lanka has prescribed detailed KYC and CDD rules for different sectors. These rules are:

- i. Know Your Customer (KYC) and Customer Due Diligence (CDD) Rule No. 1 of 2011 and Amendment in 2012 for Licensed Banks and Registered Finance Companies ('Financial Institutions') – rescinded by the new Rules.
- ii. Rules on Know Your Customer (KYC) & Customer Due Diligence (CDD) for the Securities Industry of 28 December, 2007
- iii. Rules on KYC and CDD for the Insurance Industry of 11 September 2008
- iv. Rules of 31 January 2013 for all Authorized Money Changing Companies

30. The 2013 follow-up report of Sri Lanka concluded that Sri Lanka had not brought the level of compliance with R.5 up to a level equivalent to largely compliant. The report observed that while Sri Lanka had made good progress over the last year in addressing a number of deficiencies, non-bank money remitters were still not subject to AML/CFT requirements and not all AML/CFT requirements were applicable to all FIs. The latter include verifying any person purporting to act on behalf of the customer is so authorised, ownership and control structure of the customer, beneficial ownership, and purpose and intended nature of the business regulations.

Detailed CDD requirements

31. *Criterion 10.1.* As noted in 2006 MER (paragraph 218, page 58), Section 2(1) of the FTRA prohibits institutions (including persons and entities engaged in finance business and designated non-finance businesses) from opening or maintaining an account where the account holder cannot be identified, including an anonymous account or a numbered account. This prohibition also applies to accounts that the FIs know are under false or fictitious names. The new CDD Rules 2016 strengthen compliance with this recommendation for FIs defined as finance business. Rule 24 of the new CDD Rules 2016 prohibits a FI from opening, operating or maintaining an anonymous account, any account in a false name, or in the name of a fictitious person, or a numbered account.
32. *Criterion 10.2.* Section 2, Subsection 2(a), (b), (c) and (d) of FTRA contains provisions with regard to conduct of customer identity verification by institutions in keeping with the FATF requirements.
33. *Criterion 10.3.* Requirements prescribed for banks and registered finance companies, securities industry, and insurance sector are quite detailed and prescriptive. These requirements have been strengthened in the new CDD Rules 2016 for finance business; which excludes the insurance sector which is defined as designated non-finance business in the FTRA. Rule 27 of CDD Rules 2016 requires every FI defined as finance business to identify its customers prior to entering into business relationships and obtain specified information (described in the Schedule), verify such information, and record the same for the purpose of identifying and risk profiling of customers, at a minimum. The specified information includes full name, permanent address, official personal identification, date of birth, etc. Enhanced CDD measures are required to be taken for any high risk customers. Rule 31 of the CDD Rules 2016 requires verification of identity of the customer and beneficial owner before or during the course of entering into a business relationship with or conducting a transaction for an occasional customer.
34. *Criterion 10.4.* Rule 29 of the CDD Rules 2016 requires FIs defined as finance business to identify and verify a natural person purporting to act for the customer and to verify that the person is so authorised through documentary evidence. There are requirements in Part III, Rule 7 of the CDD Rules for insurance but it does not cover whether the person acting on behalf of the customer is so authorised.
35. *Criterion 10.5.* The requirements to identify and verify the identity of beneficial owner have been stipulated in previous CDD rules applicable to different constituents. Rule 30 of the CDD Rules 2016 state that where there is a beneficial owner, every FI that is defined as finance business shall obtain information to identify and take reasonable measures to verify the identity of the beneficial owner using relevant information or data obtained from a reliable source, adequate for the finance business to satisfy itself that it knows who the beneficial owner is. Rule 99 of the CDD Rules 2016 defines the term 'beneficial owner' with reference to a natural person across all FIs defined as finance business, except in respect to the insurance sector which are defined as non-finance business. CDD Rules 2008 for insurance sector include beneficial ownership requirements and definition consistent with the FATF.
36. *Criterion 10.6.* Rule 27(1)(c) of the CDD Rules 2016 requires, as a minimum, a FI to obtain the purpose of the account, sources of earning, expected monthly turnovers, expected mode of transactions and expected type of counterparties. There is a requirement to obtain information from the customer on the purpose of the relationship but there is no explicit requirement to understand the intended purpose of the relationship. There is a mandatory obligation in the insurance sector under CDD Rules 2008 to obtain information on the purpose and intended nature of the business relationship and other relevant factors.
37. *Criterion 10.7.* Section 5 of FTRA requires institutions to conduct ongoing due diligence of the business relationship with its customer, and ongoing scrutiny of any transaction undertaken throughout the course of the business relationship to ensure that any transaction that is being conducted is consistent with the institution's knowledge of the customer, the customer's business and risk profile, including, where

necessary, the source of funds. These obligations are now reinforced by new Rules 37, 38, 39, and 40 in the CDD Rules 2016, though not in respect to the insurance sector. Rule 40(1) requires every FI to periodically review the adequacy of customer information obtained in respect of customers and beneficial owners and ensure the information is kept up to date, particularly for higher risk customers. There are requirements for ongoing CDD on the basis of risk and materiality in Part III, Rule 11 of the CDD Rules for insurance.

38. *Criterion 10.8.* Specific rules have been prescribed for insurance industry (Article 7 of CDD Rules 2008) and securities industry (Part I B, paragraph 3 of CDD 2007 Rules) to understand the nature of business of customers that are legal persons and legal arrangements and their ownership and control structure. Rule 28 of the CDD Rules 2016 for FIs defined as finance business requires that, where the customer is not a natural person, every FI shall take reasonable measures to understand the ownership and control structure of the customer and determine the natural persons who ultimately own or control the customer. Rule 48 of the CDD Rules 2016 requires, in respect to a customer that is a legal person or legal arrangement, for every finance business to understand the nature of the customer's business, its ownership and control structure, and identify and verify the customer in terms of the requirements in the Schedule.

39. *Criterion 10.9.* Rule 48 of the CDD Rules 2016 for finance business provides detailed obligations, including documentary requirements, for FIs to identify the customers that are legal persons or legal arrangements. Such measures are applicable for partnerships, corporate entities, trusts, nominee and fiduciary accounts, charities, clubs and associations, societies, non-government organisations, stocks and securities. Cooperatives are not specifically referred to in the new Rules. Rules 34-39 of CDD Rules for insurance provide similar requirements for that industry.

40. *Criterion 10.10.* Rule 49 of the CDD Rules 2016 for finance business requires a FI to identify and take reasonable measures to verify the identity of beneficial owners of customers that are legal persons through steps (a) to (c) detailed in this criterion. Part III, Rules 34-39 of CDD Rules for insurance provide similar requirements for that industry.

41. *Criterion 10.11.* Rule 50 of the CDD Rules 2016 for finance business requires that a FI should identify and take reasonable measures to verify the beneficial owners of a legal arrangement, through the information detailed in (a) and (b) of this criterion. Part III, Rules 35-37 of CDD Rules for insurance provide similar requirements for that industry.

42. *Criterion 10.12.* The rules for the insurance sector lay down detailed requirements to identify and verify the identity of beneficiary (as distinct from the beneficial owner) of a contract. These rules provide that identification and verification of the beneficiary may take place after the insure contract has been concluded with the policyholder, provided the ML and TF risks are effectively managed. These rules also require that identification and verification should occur at, or before the time of pay out, or the time when the beneficiary intends to exercise vested rights under the policy. Rule 55 of the CDD Rules 2016 for finance business requires every FI, in addition to the CDD measures required for a customer and a beneficial owner, to conduct the following CDD measures on the beneficiary of a life insurance and other investment related insurance policy, as soon as the beneficiary is identified or designated:-

(a) for a beneficiary that is identified as specifically named natural or legal person or legal arrangement - shall take the name of the person;

(b) for a beneficiary that is designated by characteristics or by class or by other means, shall obtain sufficient information concerning the beneficiary to satisfy the financial institution that it will be able to verify the identity of the beneficiary; and

(c) in the case of a beneficiary referred to in paragraph (a) and (b), the verification of the identity of the beneficiary shall occur at the time of appointment and payout.

43. *Criterion 10.13.* The CDD Rules for insurance provide that customer due diligence measures that should be taken by insurers include identifying the (ultimate) beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the insurer is satisfied that it knows who the beneficial owner is. For legal persons and arrangements, insurers should take reasonable measures to understand the ownership and control structure of the customer. These rules provide that the extent and specific form of these measures may be determined following risk analysis based upon relevant factors with enhanced due diligence called for in case of higher-risk customers. These rules indicate that the expression 'beneficial owner' applies to the owner/controller of the policyholder as well as to the 'beneficiary' to the contract. Rule 56 of the new CDD Rules 2016 for finance business requires every FI to include the beneficiary of a life insurance policy as a relevant risk factor in determining whether enhanced CDD measures are to be applicable. If the finance business determines that a beneficiary who is a legal person or a legal arrangement presents a higher risk, it shall take enhanced CDD measures which shall include reasonable mechanisms to identify and verify the identity of the beneficial owner of the beneficiary, at the time of payout.

44. *Criterion 10.14.* Rules prescribed for insurance sector are specific and granular and require that, in principle, identification and verification of customers and beneficial owners should take place when the business relationship with that person is established, subject to certain exceptions provided that ML and TF risks are effectively managed. New Rules 31 and 32 of the CDD Rules 2016 for finance business covers the requirements on the timing of verification as detailed in this criterion.

45. *Criterion 10.15.* For finance business, Rule 33 of CDD Rules 2016 requires, to mitigate the risk of delayed verification, every FI shall adopt risk management procedures relating to the conditions under which the customer may utilize the business relationship prior to verification. Rules for the insurance industry contain provisions that require FIs to adopt risk management procedures concerning the conditions under which a customer/beneficiary may utilize business relationship prior to verification.

46. *Criterion 10.16.* Section 2(5)(c) of the FTRA provides a phase-in period not exceeding 3 years for application of customer identification and verification procedures in respect of existing customers. Rules for the insurance sector (CDD Rules 2008) also provide for application of CDD requirements to existing customers and/or beneficial owners based on materiality and risk. Rules 43, 44 and 45 of the CDD Rules 2016 for finance business comply with c10.16 on applying CDD to existing customers on the basis of risk and materiality. There are similar requirements in the CDD Rules for insurance (Rule 11).

47. *Criterion 10.17.* This is satisfied by Rules 27(2), 40, 41, 42 and 43 of the CDD Rules 2016 for finance business that require FIs to perform enhanced due diligence where ML/TF risks are higher. Part III, Rules 8 and 43 of the CDD Rules for insurance covers this requirement.

48. *Criterion 10.18.* The basis for simplified CDD measures have been prescribed for insurance industry are broadly in line with requirements of the criterion. Whilst new Rules 41, 42 and 43 of the CDD Rules 2016 for finance business deal generally with CDD being commensurate with risk, and there are measures under Rules 31-34 for delayed verification for low risks, except where there is suspicion of ML/T, or specific higher risk scenario, the Rules do not mandate that the low risks have been identified through an adequate analysis of risks by the country or finance business.

49. *Criterion 10.19.* Section 3 of FTRA stipulates that if satisfactory evidence of identity is not submitted to an institution, the institution shall not proceed any further with the transaction unless directed

to do so by the FIU and shall report the attempted transaction to the FIU as a suspicious transaction. In compliance with c10.19, Rule 35 of the CDD Rules 2016 for finance business requires, where a FI is unable to comply with the relevant CDD measures, it should not in relation to a new customer, open the account or enter into the business relationship or perform the transaction; or in relation to an existing customer, terminate the business relationship, with such customer and consider making a suspicious transaction report in relation to the customer. Rule 13 (Part III) of the Insurance CDD rules cover this requirement.

50. *Criterion 10.20.* While Section 3 of FTRA requires a specific direction from FIU for an institution to proceed with a transaction where it is not able to satisfactorily identify the client, new Rule 46 of the CDD Rules 2016 for finance business now allows a FI not to pursue CDD process where it is reasonably believed that the customer will be tipped off if CDD process is performed. There is similar clarification in Rule 5 (Part V) of the CDD Rules for the insurance sector.

51. *Weighting and conclusion:* FTRA contains broad obligations for FIs with regard to conduct of customer identity verification. Detailed requirements have been separately prescribed previously for banks and registered finance companies, authorised money changers, non-bank MVTS, securities sector and insurance industry. The new CDD Rules 2016 significantly enhances compliance with R10 for all FIs defined as finance business in the FTRA. This excludes insurance which are defined as non-finance business in the FTRA. The CDD rules 2008 for the insurance sector are broadly in compliance. This sector is relatively low risk and accounts for only 3.5% of the financial sector's total asset. **Recommendation 10 is rated largely compliant.**

Additional measures for specific customers and activities

Recommendation 12 – Politically exposed persons

52. Sri Lanka was rated non-compliant with the former R.6. The report concluded that there was no legislative, regulatory, or other enforceable requirement in respect of politically exposed persons (PEPs). During the review process, the 2011 follow-up report observed that the KYC-CDD rules issued to banks and insurers provide for requirements relating to domestic and foreign PEPs, but only the insurance rules appear to cover the full range of requirements under R.6.

53. *Criterion 12.1.* Rule 59 of the CDD Rules 2016 for finance business mirrors c12.1 requirements in relation to PEPs.

54. The requirements relating to foreign PEPs in the insurance sector are elaborate (though still falling short of standards). As per paragraph 48 of KYC/CDD rules for the insurance industry, insurers should have appropriate risk management systems to determine whether the customer is a PEP. These requirements, however, do not extend to identification of beneficial owner. There are requirements on beneficial ownership in paragraphs 7 and 44. The paragraph further provides that the board of directors of the insurer must establish a client acceptance policy with regard to foreign PEPs, taking account of the reputational and other relevant risks involved. Insurers are also required to obtain senior management approval for establishing (though not necessarily for continuing business relationships) with such customers. Requirements exist for taking reasonable measures to establish the source of wealth and source of funds, and for conducting enhanced ongoing monitoring of the business relationship.

55. *Criterion 12.2.* The CDD Rules 2016 for finance business do not distinguish between foreign and domestic PEPs, though the definition now includes officials of international organisations. For finance business, the higher measures under c.12.1 apply to international organisation and domestic PEPs. For the insurance sector, the requirements for foreign PEPs apply to the other two categories of PEPs.

56. *Criterion 12.3.* The requirements applicable for different sectors as discussed in criteria 12.1 and 12.2 extend to family members and close associates of PEPs (see new Rule 59 referenced above). For the insurance sector, there are no requirements to determine whether the beneficiaries and/or, where required, the beneficial owner of the beneficiary, are PEPs.

57. *Criterion 12.4.* Rule 60 of the new CDD Rules 2016 for finance business mirrors the requirements of c12.4.

58. *Weighting and conclusion:* Some minor gaps in obligations remain with regard to PEPs. **Recommendation 12 is rated largely-compliant.**

Recommendation 13 – Correspondent banking

59. Sri Lanka was rated non-compliant with the former R.7. The report concluded that there was no legislative, regulatory, or other enforceable requirement in respect of correspondent banking relationships.

60. *Criterion 13.1.* Part III of the 2016 CDD Rules for finance business requires FIs (including banks) which provide correspondent banking services to assess the suitability of respondent banks by gathering adequate information to enable a thorough understanding of the respondent bank's business, determine from publicly available sources its reputation, quality of supervision and exposure to ML/TF activities, assess effectiveness of its AML/CFT systems, and clearly understand and record the AML/CFT responsibilities of each bank. However, there appears to be a drafting error i.e. Rule 64 (e) requires prior approval from the Board of Directors of **the respondent bank** prior to entering into new correspondent banking relationships. FATF's Recommendation 13.1 (c) requires FIs to obtain senior management approval before establishing new correspondent banking relationships, **and this requirement should be imposed on the FI in their capacity as the correspondent bank**, and not the respondent bank. The Rules do require FIs to establish necessary measures to duly manage the risk of ML/TF through the accounts of the respondent banks

61. *Criterion 13.2.* The CDD Rules 2016 for finance business require a FI to satisfy itself that in relation to payable-through accounts, the respondent banks have conducted CDD measures on clients with direct access to accounts of the correspondent bank and are able to provide relevant CDD information upon request.

62. *Criterion 13.3.* The CDD Rules 2016 for finance business prohibits FIs from entering into or continuing with correspondent banking relationships with shell banks, and requires FIs to take appropriate measures to satisfy itself that its respondent bank does not permit their accounts to be used by shell banks. The Rules also require FIs to apply enhanced CDD measures when entering into or continuing correspondent banking relationships with FIs in countries which have been designated as high risk.

63. *Weighting and conclusion:* General requirements have been established under the FTRA, and notwithstanding the minor drafting errors, the CDD Rules 2016 have strengthened rules in relation to correspondent banking, in line with FATF Recommendations. **Sri Lanka is rated largely compliant with Recommendation 13.**

Recommendation 14 – Money or value transfer services

64. Sri Lanka was rated non-compliant with former SR.VI. The 2006 MER concluded that there was no licensing or registration requirement for legal non-bank MVTS providers.

65. *Criterion 14.1.* The Exchange Control Act prohibits any person in Sri Lanka from transferring funds outside the country, or from paying funds to a resident that is the beneficiary of an inbound funds

transfer, except with the permission of the CBSL. The CBSL is responsible for licensed commercial banks, which are authorised to provide MVTS under the banking license. The CBSL is also responsible for approving any payment, which would therefore apply to all MVTS providers, including non-bank providers. However, there does not appear to be a licensing or registration regime in place to implement the basic requirements of the Exchange Control Act for entities that are permitted to act as inward remittance agents for these non-bank MVTS providers.

66. *Criterion 14.2.* Unauthorised or unlicensed MVTS are subject to sanctions as provided for under sections 51-52 of the Exchange Control Act. Penalties include fines (ranging from LKR 15 000 (USD 114) to three times the value of the payment), forfeiture of assets, and up to five years' imprisonment upon conviction. Sri Lanka's NRA assesses the informal money remittance sector as being highly vulnerable to ML/TF. Rule 88 of the CDD Rules 2016 for finance business now requires FIs to "*follow special precautionary measures to make a distinction between formal money transmission services and other alternative money or value transfer systems (e.g. hundi, hawala etc.) through which funds or values are moved from one geographic location to another, through informal and unsupervised networks or mechanisms. The FI shall take reasonable measures to ascertain the sources of funds involving any such alternative money or value transfer system and file a suspicious transaction report with the FIU.*" However, efforts by Sri Lankan authorities to curb such illegal activities and to apply appropriate sanctions are lacking-

67. *Criterion 14.3.* MVTS providers are classified as 'finance business' in the FTRA and supervision is broadly provided for in the FTRA. The Exchange Control Department (ECD) of CBSL is responsible for AML/CFT supervision of authorized moneychangers. In January 2016, the FIU issued the new CDD Rules 2016 for finance business which apply to moneychangers and non-bank MVTS providers. However, neither the FIU nor ECD has conducted AML/CFT supervision on these entities. From interviews conducted during the on-site, ECD are of the view that foreign MVTS providers provide sufficient oversight on compliance to AML/CFT requirements by their locally appointed inward remittance agents. However, interviews with a permitted non-bank MVTS provider, which has over 2 000 agents nationwide, confirmed that the foreign MVTS provider has only conducted two audits on their operations over the last two years. The Postal Department, which has over 4 000 branches nationwide, informed that about 3 to 4 meetings are held annually with the foreign MVTS provider to discuss operational matters which could include compliance issues, but these meetings are conducted at headquarters, with no further site visits to the branches.

68. *Criterion 14.4.* There is no explicit requirement for agents of MVTS providers to be licensed or registered. However, Rule 84 of the CDD Rules 2016 for finance business issued by the FIU now requires MVTS providers to maintain a current list of its agents in all countries in which the MVTS provider and its agents operate.

69. *New Criterion 14.5.* Rule 85 of the CDD Rules 2016 require MVTS providers that use agents to include them in their internal policy on AML/CFT and monitor their compliance with that policy.

70. *Weighting and conclusion:* The FIU have issued more specific CDD and AML/CFT rules which are legally enforceable on the legal non-bank MVTS providers, but some minor shortcomings remain. Efforts by authorities to curb the activities of illegal MVTS providers and to apply appropriate sanctions given the high risk posed by the sector remain lacking. There is also inadequate monitoring of non-bank MVTS providers and their inward remittance agents by the ECD, with over-reliance on foreign MVTS providers to ensure AML/CFT compliance by local MVTS providers. Progress made would be to partially compliant but not largely compliant. However, the APG 3rd round ME procedures provide for re-rating to largely compliant/compliant but not partially compliant. **Recommendation 14 is rated non-compliant.**

Recommendation 15 – New technologies

71. Sri Lanka was rated as non-compliant with the former R.8. The report concluded that there was no requirement for measures in respect of technological development or non-face-to-face business relationships.

72. *Criterion 15.1.* The NRA is the first coordinated attempt by supervisors to assess the ML/TF risks associated with new products, technologies, delivery channels and practices across the financial sector and institutions, with electronic cards, pre-loading of credit cards, internet banking and online sale of insurance policies identified as facilities for which enhanced measures should be taken. The previous KYC/CDD rules did broadly require banks and finance companies to take measures to prevent the abuse of new technologies in money laundering schemes. The CDD Rules 2016 for finance business expands on this by requiring all FIs (except insurance) to identify and assess ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms and the use of new or developing technologies for both new and pre-existing products. These enhanced requirements do not apply to the insurance sector as insurers and their agents are not defined as finance business in the FTRA. There are references to new technologies in Part III, Rules 49-51 in the CDD Rules for insurance, but these are focused on non-face-to-face CDD verification rather than risk assessment.

73. *Criterion 15.2.* The CDD Rules 2016 for finance business require every FI (except insurance) to undertake risk assessments prior to launch or use of new products, practices and technologies and to take appropriate measures to manage and mitigate the risks which may arise in relation to the development of new products and new business practices. In addition, all FIs (except insurance) are also prohibited from pre-loading of credit cards to prevent the abuse of such facilities for ML/TF purposes.

74. *Weighting and conclusion:* Sri Lanka has met the essential criteria apart from minor scoping gaps with respect to the insurance sector. **Recommendation 15 is rated as largely compliant.**

Recommendation 16 – Wire transfers

75. Sri Lanka was rated non-compliant with former SR.VII. The report concluded that no specific laws or enforceable regulations existed in respect of inclusion of originator information in wire transfers.

76. *Criterion 16.1.* Rule 70 of the CDD Rules 2016 for finance business requires every ordering FI to ensure that all cross-border transfers having a value more than or equal to rupees one hundred thousand (USD678) or its equivalent in any foreign currency to be accompanied with the necessary originator and beneficiary information. With respect to originator information, FIs are required to verify the information for accuracy.

77. *Criterion 16.2.* Rule 71 of the CDD Rules 2016 mirrors the FATF requirements in relation to the treatment of batched or bundled transactions.

78. *Criterion 16.3.* There are no requirements in the CDD Rules 2016 which require FIs to ensure that all cross-border wire transfers having a value of less than rupees one hundred thousand or its equivalent in any foreign currency be accompanied by the necessary originator and beneficiary information.

79. *Criterion 16.4.* Despite the gap in meeting the criterion above, Rule 72 of the CDD Rules 2016 does require all ordering FIs to verify the information pertaining to its customer where there is a suspicion of ML/TF.

80. *Criterion 16.5.* Rule 73 of the CDD Rules 2016 mirrors the FATF requirements in relation to the treatment of domestic wire transfers.

81. *Criterion 16.6.* The Code of Criminal Procedure Act and FTRA empower the FIU and Police to obtain any information deemed necessary for investigations or prosecution. In addition, in the case where the information accompanying domestic wire transfer can be made available to the Beneficiary FI and appropriate authorities by other means, Rule 74 of the 2016 CDD Rule requires the ordering FI to include the account number or a unique transaction reference number, provided that any such number will permit the transaction to be traced back to the originator of the beneficiary. Ordering FIs are also required to make the information available as soon as practicable after receiving the request either from the Beneficiary FI or from the appropriate authority.

82. *Criterion 16.7.* Section 4 of the FTRA requires reporting institutions to maintain and retain records of relevant transactions and correspondences, and records of identity obtained, for a period of six years. Rule 75 of the CDD Rules 2016 requires every ordering FI to maintain all originator and beneficiary information collected in accordance with the FTRA. In addition, Rule 69 of the CDD Rules 2016 requires every FI to preserve the SWIFT messages that accompany inwards remittance

83. *Criterion 16.8.* Section 3 of the FTRA broadly prescribes that Institutions shall not proceed any further with any transaction if satisfactory evidence of identity is not submitted. Rule 76 of the CDD Rules 2016 states that if any ordering FI fails to comply with the requirements specified in Rules 70 to 75 in respect of a wire transfer, such FI shall not proceed with the wire transfer unless directed to do so by the FIU and shall consider submitting a suspicious transactions report to the FIU.

84. *Criteria 16.9-12.* Rules 77 to 80 of the CDD Rules 2016 mirror the FATF requirements in relation to cross-border wire transfers by intermediary FIs.

85. *Criteria 16.13-15.* Rules 81 to 83 of the CDD Rules 2016 mirror the FATF requirements in relation to cross-border wire transfers by Beneficiary FIs.

86. *Criteria 16.16-17.* Rules 86 and 87 of the CDD Rules 2016 mirror the FATF requirements in relation to wire transfers by MVTs providers.

87. *Criterion 16.18.* The Ministry of External Affairs has issued regulations to effect freezes on funds, other financial assets and economic resources of designated persons that have been sanctioned under UNSCR 1373 (2001) and 1267 (1999) which apply equally to wire transfer transactions. In addition, Rule 68 of the CDD Rules 2016 mirrors the FATF requirements in relation to freezing of wire transfers to sanctioned persons and entities.

88. *Weighting and conclusion:* Apart from the omission of FATF's requirements on the need for ordering FIs to ensure the transmission of necessary information on the originator and beneficiary on all cross-border wire transfers below the *de minimis* threshold, Sri Lanka has met key FATF requirements in relation to wire transfers. **Recommendation 16 is rated largely compliant.**

Recommendation 17 – Reliance on third parties

89. Sri Lanka was rated non-compliant with former R.9. The report concluded that the FTRA was silent on the application of the CDD requirements when business relationships are initiated through third parties and introducers, or the responsibility for meeting the requirements.

90. *Criterion 17.1.* The CDD Rules 2016 for finance business require any FIs (except insurance) that rely on third party introducers to retain ultimate responsibility for CDD measures and are required to immediately obtain the necessary information relating to CDD; take steps to satisfy itself that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay; and to satisfy itself that the third party is regulated,

supervised or monitored, and has measures to adhere to CDD and record-keeping requirements. CDD Rules for Insurance (Part III, Rules 56-58) mirrors the FATF requirements.

91. *Criterion 17.2.* Rule 62 of the CDD Rules 2016 require that FIs which rely on third parties shall have internal policies and procedures which enables the mitigation of ML/TF risks to the international financial system, including those from countries that have been identified by FATF as having strategic deficiencies in AML/CFT policies, and to have regard to information available on the level of country risk when determining the country of a third party. There are implied and general requirements in Part III, Rule 56 of the CDD Rules for insurance but they are not specific.

92. *Criterion 17.3.* Rule 63 of the CDD Rules 2016 exceeds the requirement of this criterion as it imposes additional requirements on FIs of the same financial group. It appears, however, to be erroneous in its interpretation of FATF's expectations on this criterion. It is understood that FATF's intent is to accord the relevant competent authorities with the flexibility to assume that criterion 17.1 and 17.2 under Recommendation 17 are met in situations where FIs rely on a third party that is of the same financial group in specific circumstances as listed under criterion 17.3 (a) to (c), and was not intended as an additional requirement to impose on FIs who rely on third party introducers. Instead, Rule 63 requires that "*the provisions of Rules 61 and 62 shall apply in respect of every FI which relies on a third party that is part of the same financial group or group of companies in the following circumstances: (a) when applying CDD and record keeping requirements and implementing AML/CFT programmes...(b) when conducting supervision by the FIU or any relevant authority...(c) when any risk arising due to third party located in a high risk country referred to in Rule 57 is solely mitigated by the group's AML/CFT internal policies*". The CDD Rules for insurance are silent on financial groups.

93. *Weighting and conclusion:* Sri Lanka have met the essential criteria, apart from minor scoping gaps with respect to the insurance sector (assessed as lower risk) and drafting errors in relation to Rule 63. **Recommendation 17 is rated largely compliant.**

Recommendation 18 – Internal controls and foreign branches and subsidiaries

94. Sri Lanka was rated partially compliant with former R.15 on internal controls, compliance and audits (paragraph 3.8.3, page 78). The 2006 MER concluded that the new FTRA law had not provided for the requirements but the efficacy can be assessed only after the financial sector supervisors ensure that FIs integrate the AML/CFT requirements in their internal control procedures. Sri Lanka was rated largely compliant with former R.22 on foreign branches and subsidiaries. The 2006 MER noted (paragraphs 3.8.3, page 79) that the home/host country standard issues had been clearly covered in the FTRA. However, the provisions were yet to be tested.

95. *Criterion 18.1.* Section 14 of FTRA provides that every institution be required to establish and maintain procedures and systems to implement the following requirements: customer identification; record-keeping and retention; monitoring and reporting; training and screening of employees; and internal awareness relating to ML/TF. The section also provides for requirements relating to establishment of an audit function (though not necessarily 'an independent audit function') to test procedures and systems for compliance. Rules 14 to 17 of the CDD Rules 2016 appear to mirror the requirements of c18.1, including maintaining an independent audit function. There are similar requirements that mirror the FATF standards in the CDD Rules (Part IV) for insurance.

96. *Criterion 18.2.* Rule 19 of the CDD Rules 2016 effectively mirrors the requirements of c18.2. Scope deficiencies remain for the insurance sector as the CDD Rules for that sector is silent on financial groups.

97. *Criterion 18.3.* Section 14(3) of the FTRA provides that an institution shall ensure that its foreign branches and subsidiaries adopt and observe measure consistent with the Act to the extent that local laws and regulations permit, and where the foreign branch or subsidiary is unable to adopt and observe such measures, to report the matter to the relevant supervisory authority or in the absence of a supervisory authority to the FIU. New Rules 20 and 21 of the CDD Rules 2016 mirror the requirements of c18.3. The CDD Rules for insurance are silent on this requirement.

98. *Weighting and conclusion:* Sri Lanka has significantly enhanced its compliance with R.18 with the promulgation of the CDD Rules 2016 for finance business. Scope deficiencies with the lower risk insurance sector nevertheless remain. **Recommendation 18 is rated largely compliant.**

Recommendation 19 – Higher-risk countries

99. Sri Lanka was rated as non-compliant with the former R.21. The 2006 MER (paragraph 3.6.3, page 73) concluded that there were no instructions, guidance notes or advisories to the FIs in respect of dealings with countries that did not apply or insufficiently apply the FATF Recommendations. The 2006 MER (paragraph 298, page 71) noted that the FTRA did not require effective measures be in place to ensure that FIs were advised of concerns about weaknesses in the AML/CFT systems of other countries.

100. *Criterion 19.1.* Rule 57 of the CDD Rules 2016 mirrors the requirements of c19.1 except they do not cover the insurance sector. There are, however, general provisions in the CDD Rules for insurance but without specific reference to when called upon by the FATF.

101. *Criterion 19.2.* Rules 58 of the 2016 Rules mirrors the requirements of c19.2 except they do not cover the insurance sector. There are no requirements in the CDD Rules for insurance concerning measures undertaken independently of any call by the FATF.

102. *Criterion 19.3.* Rule 57(3) of the CDD Rules 2016 requires the FIU to proactively identify countries having weaknesses in their AML/CFT systems and advise FIs of such concerns through publication on its website. It is not known whether any FIU advisories has been issued in the last few years to advise FIs of concerns of weaknesses in the AML/CFT systems of other countries.

103. *Weighting and conclusion:* Sri Lanka has significantly enhanced its compliance with R.19 pursuant to the new Rules except they do not cover the lower risk insurance sector. **Recommendation 19 is rated largely complaint.**

SRI LANKA

Table 2: Compliance with FATF Recommendations (Updated July 2016)

Compliance with FATF Recommendations		
Recommendation	Rating	Factor(s) underlying the rating
1. Assessing risks & applying a risk-based approach	PC	<ul style="list-style-type: none"> NRA process lacked a critical review mechanism that has affected the reasonableness of some conclusions on national and sectoral vulnerability, and no substantive assessment of legal persons and arrangements. Exclusion of some AML/CFT requirements is not based on proven low or lower risks. No enforceable requirement for DNFBPs to take enhanced measures in areas identified as higher risks in the NRA or to ensure that this information is incorporated into their risk assessments. No enforceable requirement for insurance or DNFBPs to undertake risk assessments. No enforceable requirement for DNFBPs to apply a risk-based approach to mitigating identified risks. No regulatory instruction, except for insurance, has been promulgated that would permit all FIs and DNFBPs to take simplified measures to manage or mitigate risks if lower risks have not been identified, nor are criteria 1.9 to 1.11 met to allow for such an approach.
2. National cooperation and coordination	PC LC	<ul style="list-style-type: none"> Only preliminary cooperation on PF.
10. Customer due diligence	NC LC	<ul style="list-style-type: none"> No requirement for insurance to determine whether the person acting on behalf of the natural customer is so authorised. Limited simplified KYC/CDD measures prescribed for FIs.
12. Politically exposed persons	NC LC	<ul style="list-style-type: none"> No requirements in insurance sector to determine whether the beneficiaries and/or the beneficial owner of the beneficiary are PEPs.
13. Correspondent banking	NC LC	<ul style="list-style-type: none"> Drafting error in relation to requirement for FI to obtain its senior management approval prior to commencing with new correspondent banking relationships rather than with new respondent bank.
14. Money or value transfer services	NC	<ul style="list-style-type: none"> Efforts by authorities to identify illegal MVTs providers and to apply appropriate sanctions are not

Compliance with FATF Recommendations		
Recommendation	Rating	Factor(s) underlying the rating
		<p>commensurate with the high risk posed by the sector.</p> <ul style="list-style-type: none"> Inadequate monitoring of MVTS providers for AML/CFT compliance, with over-reliance on foreign MVTS providers to ensure AML/CFT compliance by local MVTS providers.
15. New technologies	PC LC	<ul style="list-style-type: none"> Sri Lanka has minor scoping gaps with respect to the insurance sector.
16. Wire transfers	NC LC	<ul style="list-style-type: none"> Omission of FATF's requirements on the need for ordering FIs to ensure the transmission of necessary information on the originator and beneficiary on all cross-border wire transfers below the <i>de minimis</i> threshold.
17. Reliance on third parties	NC LC	<ul style="list-style-type: none"> Sri Lanka has minor scoping gaps with respect to the insurance sector and drafting errors in relation to Rule 63.
18. Internal controls and foreign branches and subsidiaries	PC LC	<ul style="list-style-type: none"> There are gaps for the insurance sector.
19. Higher-risk countries	NC LC	<ul style="list-style-type: none"> There are gaps for the insurance sector.