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# COMPLIANCE OBLIGATIONS FOR THE GEM AND JEWELLERY SECTOR: IMPROVING AML/CFT STANDARDS OF SRI LANKA

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# AGENDA

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- Introduction
  - Results of the National Risk Assessment
  - Current Technical Compliance and Effectiveness Levels of Sri Lanka
  - Primary goals of AML/CFT Compliance Obligations for the Gem and Jewellery Sector
  - Conclusion
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# INTRODUCTION

- The gem and jewellery sector in Sri Lanka has become an integral part of the country's tourism industry. The sector has not only contributed to the economy but also plays a significant role in showcasing Sri Lanka's cultural identity to the world.
- Gem and jewellery Sector is a vital growth area in the non-financial businesses sector in Sri Lanka. In terms of exports, the sector grew by 63% from US\$ 277mn (2021) to US\$ 451mn (2022)\*.
- As one of the five important gem bearing nations in the world, Sri Lanka has been a hub of international trade for gemstones for centuries.
- Our strategic location along historic trade routes facilitated the exchange of gemstones, making Sri Lanka a pivotal center for the global gem and jewellery trade.

\*CBSL (2022)

## Some of the Gem and Jewellery markets at a glance...

Country	Sector size to GDP	
	Percentage	Amount (USD)
Thailand 	5%	14 - 16 Billion
Tanzania 	3%	2.3 Billion
Madagascar 	10%	1.4 Billion
India 	7%	60 - 70 Billion

Sri Lanka:  
Exports of Gem, Jewellery, and Diamonds amount to **US\$ 450.6 Mn**, around **3.4% of the GDP** (2022)



# RESULTS OF THE NATIONAL RISK ASSESSMENT OF SRI LANKA



# NATIONAL RISK ASSESSMENT

- Every country needs to combat ML/TF/PF. This is carried out via an AML/CFT framework.
- The Framework includes laws, regulations, enforcement and other measures, powers / procedures for competent authorities.
- The country should identify, assess and understand the ML/TF risks, usually through an NRA (FATF Rec. 1 and Immediate Outcome 1).
- NRA should be accurate and up-to-date to prioritize areas that need attention / efficient allocation of resources.



# ML/TF NATIONAL RISK ASSESSMENT

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## FATF Recommendation 1

Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively.

## FATF Immediate Outcome 1

Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.



# NATIONAL RISK ASSESSMENT - SRI LANKAN CONTEXT



The first ML/TF NRA of Sri Lanka was conducted in 2014.



A Sanitized version of NRA 2014 was published and available on the FIU website.



Results were used to prepare the AML/CFT Policy of Sri Lanka 2015-2020.



Sri Lanka has just completed 2021/22 NRA and results will be published.

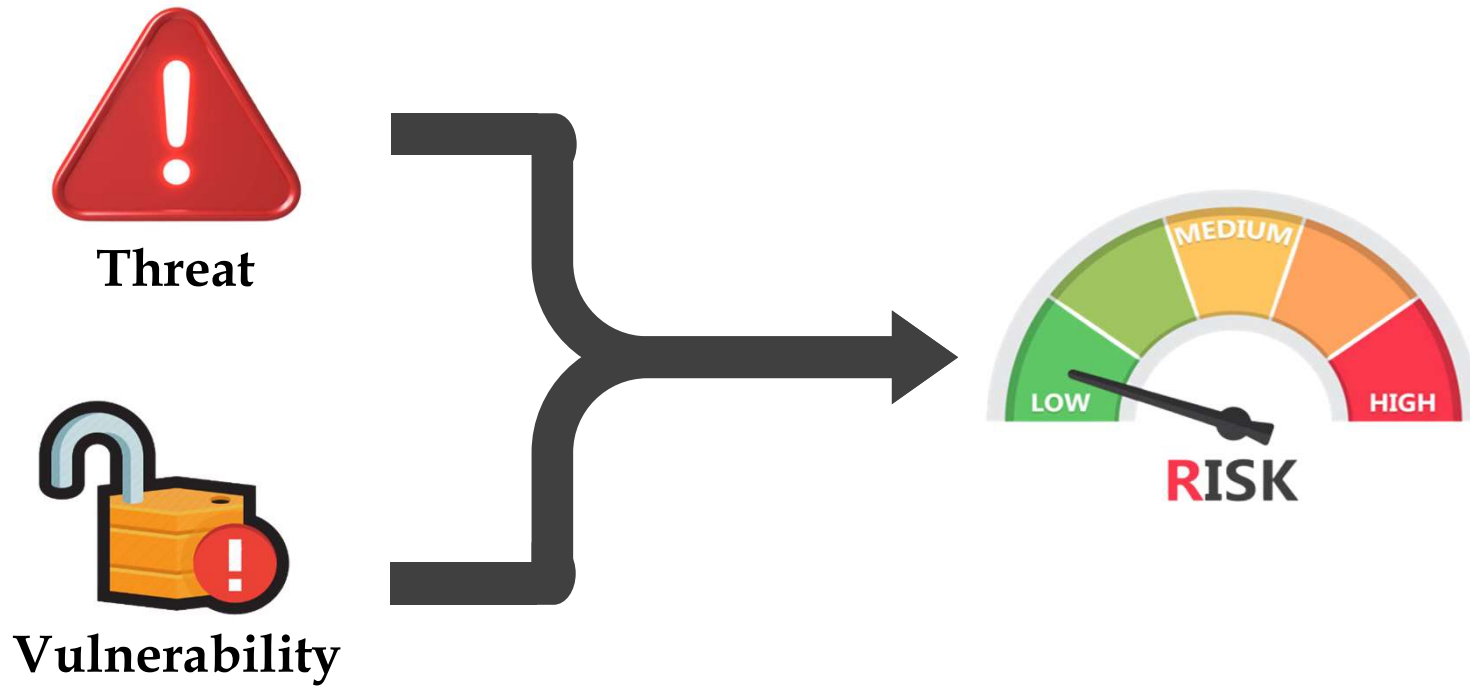


Based on the Updated NRA, the AML/CFT Policy of Sri Lanka 2023-2028 has been drafted.

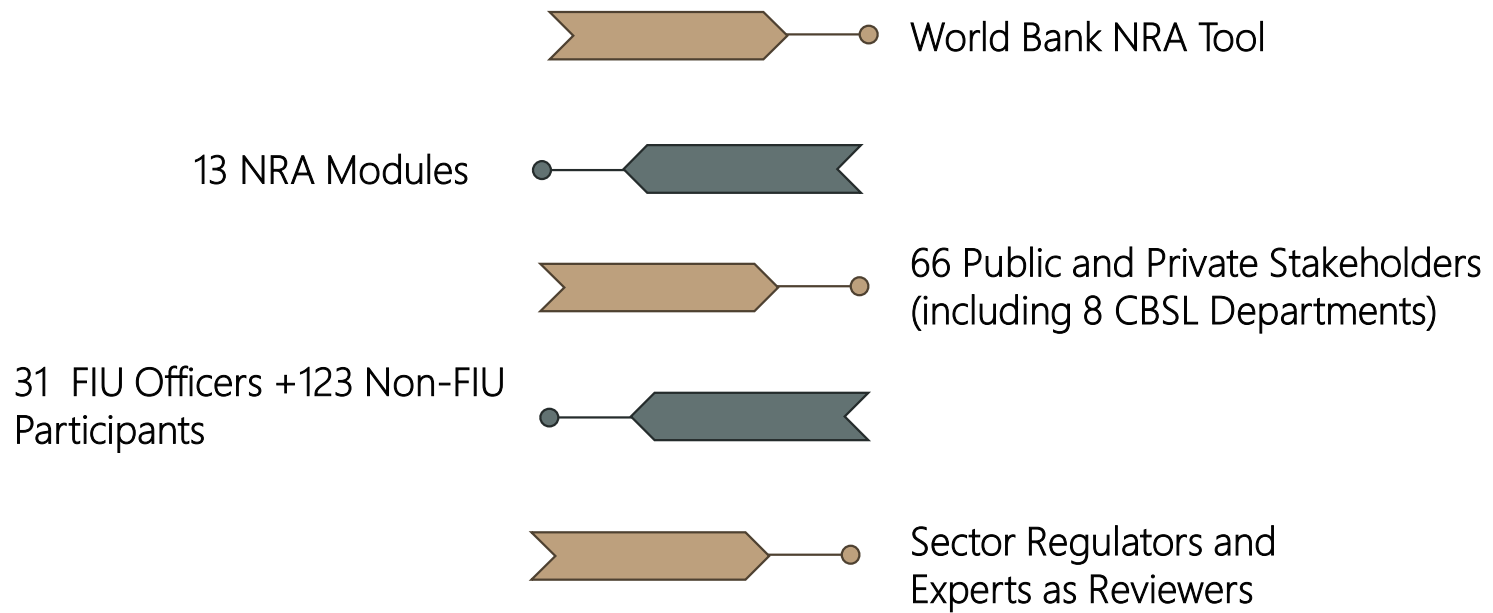




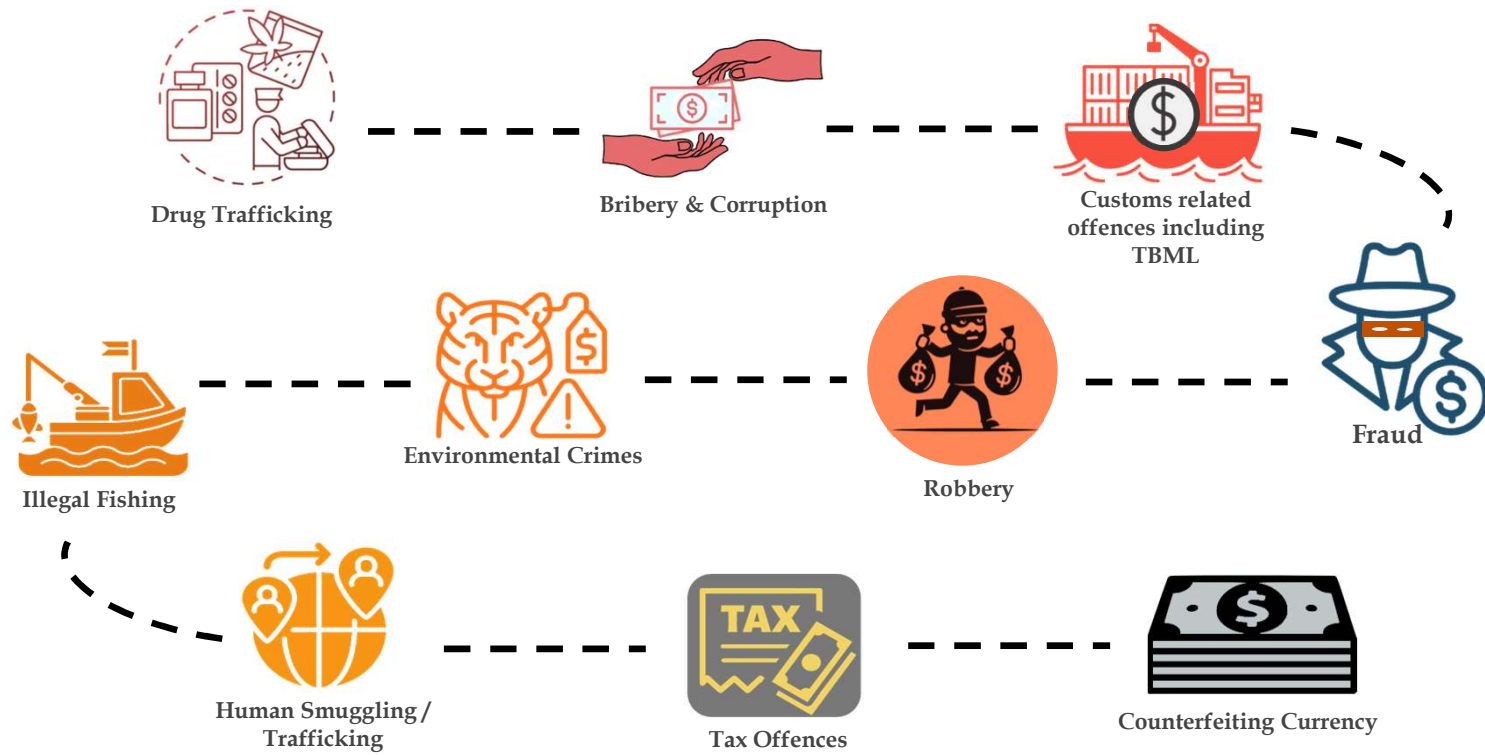
# HOW THE ML/TF RISK IS DETERMINED



# CURRENT NATIONAL RISK ASSESSMENT



# MONEY LAUNDERING THREAT



# SECTORAL VULNERABILITY TO ML

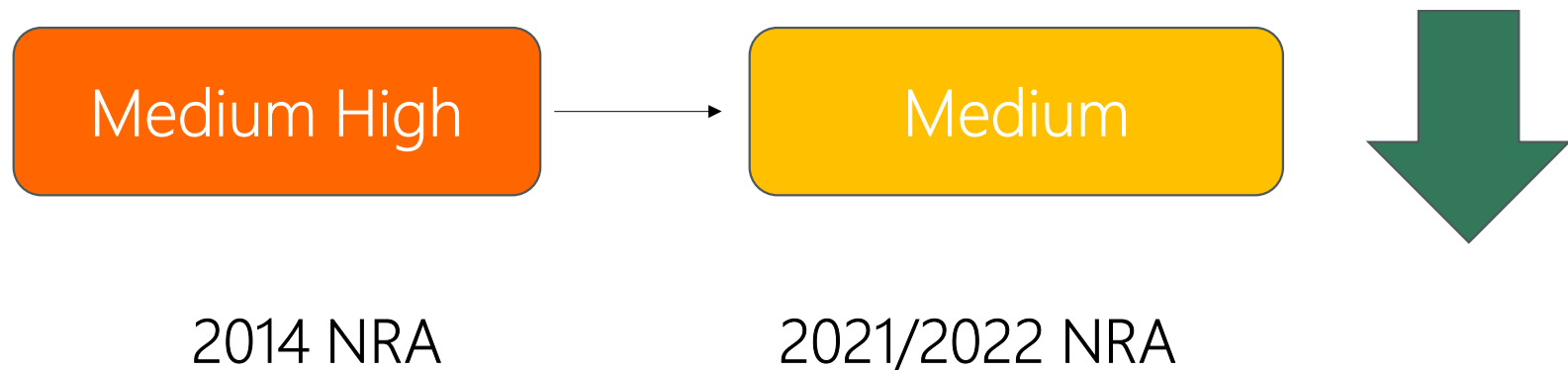


Least Vulnerable

Most Vulnerable

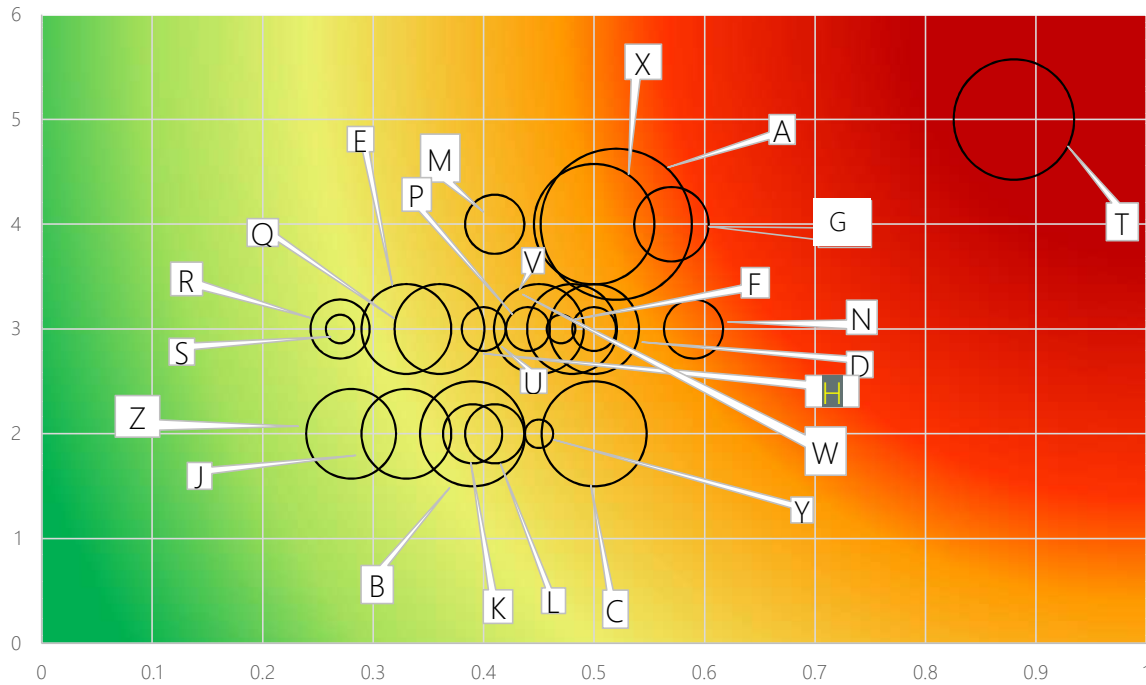


# GEM AND JEWELLERY SECTOR RISK RATING



Amidst the challenges faced by the economy of Sri Lanka, the FIU-Sri Lanka has had a challenging yet efficacious period with the NRA which is a self-assessment encompassing a series of recommendations to strengthen the AML/CFT framework of Sri Lanka

# SECTORAL RISK – HEAT MAP



- A - Banking
- B - Insurance
- C - Stockbrokers
- D - Primary Dealers
- E - UTs and IMs
- F - Casino
- G - Real Estate
- H - Gem and Jewellery
- J - Accountants & Auditors
- K - TCSPs
- L - Lawyers
- M - NPs
- N - MVTs Providers
- P - RDs
- Q - SLCs
- R - CSs
- S - SBs
- T - Hawala
- U - IPBs
- V - IML
- W - EMS
- X - LFCs
- Y - UMIs
- Z - MFIs



# OVERALL ML/TF RISK IN SRI LANKA

<b>Overall Threat</b>	<b>H</b>	M	M	MH	H	H
	<b>MH</b>	M	M	MH	MH	H
	<b>M</b>	ML	M	<b>M</b>	MH	MH
	<b>ML</b>	ML	ML	M	M	M
	<b>L</b>	L	ML	ML	M	M
		<b>L</b>	<b>ML</b>	<b>M</b>	<b>MH</b>	<b>H</b>
		<b>Overall Vulnerability</b>				



# STRATEGIC DEFICIENCIES IDENTIFIED IN THE NRA

- Lack of knowledge on ML/TF vulnerability of the sector and AML/CF 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.

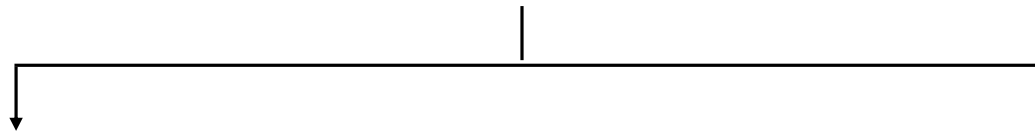




# SRI LANKA'S AML/CFT FRAMEWORK



# INSTITUTIONS SUPERVISED BY THE FIU



## *Financial Institutions (FIs) - 129*

- Licensed Commercial Banks (24)
- Licensed Specialized Banks (6)
- Licensed Finance Companies (35)
- Insurance Companies (28)
- Stockbrokers (28)
- Money or Value Transfer Services (3)
- Primary Dealers (5)

## *Designated Non- Finance Businesses and Professions (DNFBPs) - 397*

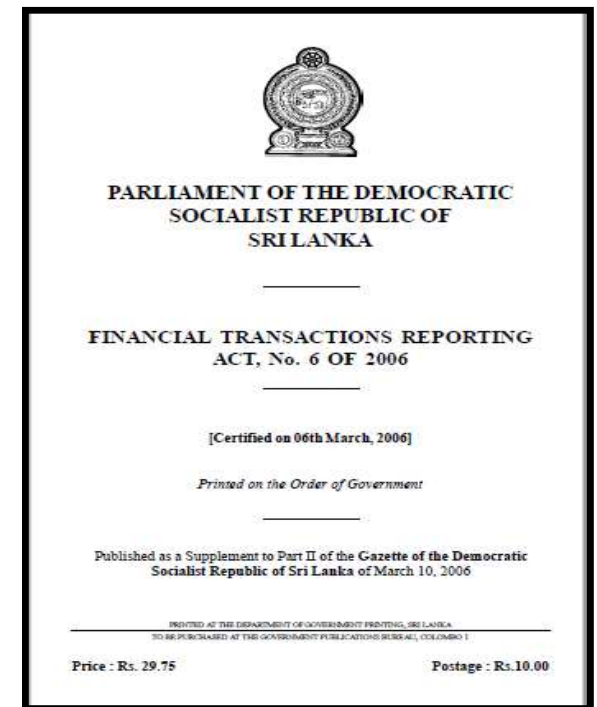
- **Gem and Jewellery Dealers (195)**
- Real Estate Agents (169)
- Casinos (3)
- Lawyers (16)
- Accountants (8)
- Trust and Company Service Providers (6)



# WHO ARE GEM AND JEWELLERY DEALERS UNDER THE FTRA?

Under Section 33 “designated non-finance business” of the FTRA:

Dealers in precious metals and dealers in precious and semi-precious stones, including but not limited to, metals and stones covered by the Gem and Jewellery Authority Act, No. 50 of 1993





# APPOINTMENT OF A COMPLIANCE OFFICER

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- Assess and periodically update overall ML/TF risk of the Institution.
- Prepare the AML/CFT Compliance Policy and procedures and obtain the approval of the top management.
- Implement Customer Due Diligence (CDD) requirements.
- Implement measures to screen the customers against the designated sanctions lists of UNSCR.
- Implement procedures for record keeping, submission of Suspicious Transactions Reports (STRs), employee screening before hiring.
- Make officers aware of laws relating to ML/TF and, train officers, employees and agents to recognize suspicious transactions.
- Establish an audit function to test its procedures and systems for the provisions of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA).



# CURRENT TECHNICAL COMPLIANCE AND EFFECTIVENESS LEVEL OF SRI LANKA



# INTERNATIONAL MONITORS OVERSEEING SRI LANKA'S AML/CFT FRAMEWORK



**FATF**  
The global policy setting body on AML/CFT  
Monitors country's AML/CFT policies

**APG**  
Regional Body where FIU is monitored & reports progress  
Communicates with Minister of Finance as the Minister in-charge of AML/CFT implementation  
Recognizes FIU as the AML/CFT Focal Point in Sri Lanka

**FIU – SL**  
Apex institution committed to combat ML/TF in Sri Lanka

**Egmont Group**  
167 FIUs are connected to share information  
Monitors independence of the FIUs  
Conducts annual assessment on FIU operations





- 1 FATF AML/CFT Policies and Coordination  
(02 Recommendations)
- 2 Money Laundering and Confiscation  
(02 Recommendations)
- 3 Terrorist Financing and Financing of Proliferation  
(04 Recommendations)
- 4 Preventive Measures  
(15 Recommendations)
- 5 Transparency and Beneficial Ownership of Legal Persons and Arrangements  
(02 Recommendations)
- 6 Power and Responsibilities of Competent Authorities and Other Institutional Measures  
(10 Recommendations)
- 7 International Cooperation  
(05 Recommendations)



# FATF 11 IMMEDIATE OUTCOMES

- IO1** ▶ Risk, Policy and Coordination
- IO2** ▶ International Cooperation
- IO3** ▶ Supervision
- IO4** ▶ Preventive Measures
- IO5** ▶ Transparency and BO (LPs and LAs)
- IO6** ▶ Financial Intelligence
- IO7** ▶ ML Investigation / Prosecution
- IO8** ▶ Confiscation
- IO9** ▶ TF Investigation / Prosecution
- IO10** ▶ TF Prevention and TFS
- IO11** ▶ Proliferation Financing TFS

## Effectiveness

The extent to which the defined outcomes are achieved:

Effectiveness is that the AML/CFT system of the country is producing the expected results.





# CURRENT TECHNICAL COMPLIANCE LEVEL OF SRI LANKA

Level of Compliance	2015
Compliant (C)	5
Largely Compliant (LC)	7
Partially Compliant (PC)	16
Non-Compliant (NC)	12
	40



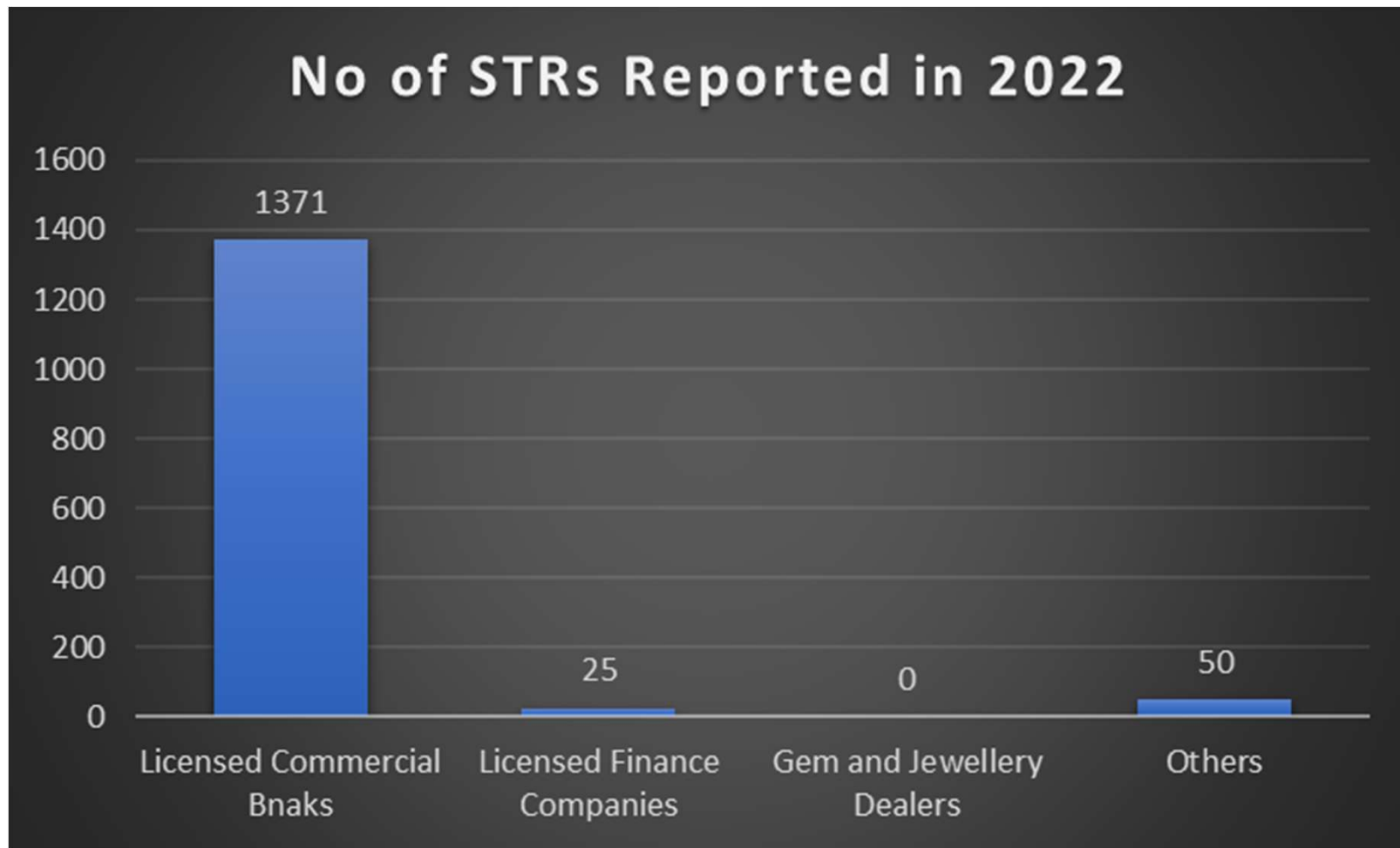
2023
7
25
7
1
40



# STATUS OF SRI LANKA'S AML/CFT EFFECTIVENESS

Immediate Outcome	Level of Effectiveness - 2015
1. Risk, Policy & Coordination	Moderate
2. International Cooperation	Low
3. Supervision	Low
4. Preventive Measures	Low
5. Legal Persons & Arrangements	Low
6. Financial Intelligence	Low
7. ML Investigation & Prosecution	Low
8. Confiscation	Low
9. TF Investigation & Prosecution	Substantial
10. TF Preventive Measures & Financial Sanctions	Low
11. PF Financial Sanctions	Low





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Financial Intelligence Unit of Sri Lanka  
CENTRAL BANK OF SRI LANKA

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#### Awareness Programme for Real Estate Sector on "AML/CFT Compliance Obligations and New Developments - June 26, 2023

[See More](#)

**Awareness Programme for Real Estate Sector**  
on "Anti-Money Laundering (Countering the Financing of Terrorism (AML/CFT) Compliance Obligations and New Developments"  
**26 JUNE 2023**  
2.00 p.m. to 4.00 p.m.  
@ Centre for Banking Studies (CBS) Rajagiriya

**Keynote Speakers:**  
Dr. Nandalal Weerasinghe, Governor of the Central Bank of Sri Lanka  
Mr. W S Sathyananda, Secretary to the Ministry of Urban Development and Housing

Dr. Nandalal Weerasinghe, Governor of the Central Bank of Sri Lanka, and Mr. W S Sathyananda, Secretary to the Ministry of Urban Development and Housing will be participating the event as keynote speakers.

Enq. R H Ruvinis, Chariman of the Construction Industry Development Authority and officials of the Financial

#### Notices to the Public

#### FIU Sri Lanka

The Financial Intelligence Unit (FIU) of Sri Lanka was established in March 2006 as an autonomous body under the Ministry of Finance and Planning. The FIU was reorganized in February 2007 as an independent institution within the Central Bank's framework and administrative structure.

**Vision**  
To be the trusted and respected single agency with commitment to excellence in establishing the framework for Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) in Sri Lanka.

**Mission**  
To administer, effectively, the provisions of the Financial Transactions Reporting Act by facilitating the prevention, detection, investigation and prosecution of the offences related to money laundering and the terrorist

#### News & Events

**New** Workshop on Monitoring Transactions, Identifying Suspicious Patterns and Suspicious Transaction Reporting for Licensed Finance Companies will be held on June 19, 2023  
[See More](#)

**New** Circular 02/2023 - Institutional Compliance of Real Estate Sector under the Financial Transactions Reporting Act, No. 06 of 2006

<http://fiusrilanka.gov.lk/>

Click here to find all the regulations, rules and guidelines issued by FIU.



# AML/CFT INTERNATIONAL & NATIONAL COMMITMENTS



# AREAS OF FOCUS

- Sri Lanka's 3rd ME will start from March 2025.
- Sri Lanka needs to:
  - a) Address remaining technical deficiencies (Recommendation rated as PC and NC).
  - b) Make required changes without delay for any Recommendation updates to be done by the FATF.
  - c) Improve effectiveness of all 11 Immediate Outcomes.
- Failure to do so will result in future FATF listing of Sri Lanka

It is important that the country has the experience & technical knowledge of areas covered during an on-site.



# CONTACT DETAILS



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THANK YOU

