

Asia Market Intelligence

Sri Lanka

Presence

HSBC has maintained a presence in Sri Lanka since 1892 and is one of the oldest foreign banks in Sri Lanka. It is also one of the largest, both in terms of profitability and balance sheet. We provide a full range of banking services to corporate and retail customers. These include personal banking facilities, credit facilities, remittance services, trade services, foreign exchange (FX), electronic banking, credit cards and securities. We are the market leaders in credit cards and are exceptionally strong in cash management, trade services, FX and corporate banking.

The Foreign Currency Banking Unit (FCBU) scheme was established in May 1979 for foreign currency dealings by non-residents, approved residents and the Board of Investment (BOI) enterprises. FCBU accounts can be used place deposits and utilised for foreign currency financing by non-residents and BOI enterprises in eight different currencies.

Population:
19.30 million (as at July 2007)

Total Area:
65,610 sq km

Currency:
Sri Lankan rupee (LKR)

Capital:
Colombo.

Major Languages:
Sinhala, Tamil and English

Time Zone:
GMT + 5.5 hours

Central Bank:
The Central Bank of Sri Lanka

Gross Domestic Product:
81.3bn total (2007 est.); 6.3% real growth rate (2007 est.);
4,079 per capita (2007 est.)

Inflation rate (consumer prices)
19.7% (2007)



Clearing Systems and Payment Instruments

- The Sri Lanka Automated Cheque Clearing House (SLACH) was established in 1988 and is responsible for providing automated cheque clearing facilities. It has considerably reduced the time required to clear local cheques, increasing the efficiency of the banking system. The central bank manages and sets the rules for the country's clearing system. Since February 2002, SLACH has been operated by the private company LankaClear Pvt Ltd.
- Interbank payments, such as money market, foreign exchange settlements and other bank transfers, are handled electronically through the real-time gross settlement (RTGS) system. High-volume, low-value payments are routed through the Sri Lanka Interbank Payment System (SLIPS).
- The Cheque Imaging and Truncation System (CITS) is the interbank cheque clearing system which has been used by all commercial banks in Sri Lanka since April 2006. Inward clearance cheque images and details are received from Lanka Clear (Pvt) Ltd (a company whose major shareholders are the CBSL and two state banks) and loaded onto the CITS. The images and details are verified, and respective customer accounts are debited. Outward clearance cheque images and details are loaded onto the CITS and burnt onto a CD, which is sent to Lanka Clear at the end of the day. Lanka Clear then performs the reconciliation based on the clearing rules set by the central bank.

Clearing system	Comments
Sri Lanka automated cheque clearing house	The Sri Lanka automated cheque clearing house is responsible for providing automated cheque-clearing facilities, which include cheque imaging and truncation. It is managed by Lanka Clear. There is also a system to clear locally issued US dollar cheques.
Sri Lanka Interbank Payment System (SLIPS)	SLIPS is used for high-volume, low-value payments, although the system can also handle larger-value interbank transfers as well.
Real-time gross settlement (RTGS) system	The RTGS system is used for large-value payments such as money market, foreign exchange settlements and other bank transfers.

Banking System and Bank Accounts

- The Central Bank of Sri Lanka (CBSL) is the primary authority for the regulation of all banks and financial institutions in Sri Lanka. As the central bank, CBSL is responsible for formulating monetary policy, maintaining the stability of the country's financial system and currency management.
- The Sri Lankan banking sector accounts for 69% of the local financial sector. There are 23 commercial banks, 12 of which are foreign and 11 local. ICICI Bank, a large private-sector bank from India, is the most recent foreign bank to set up operations in Sri Lanka.
- Under CBSL regulations, banks are authorised to operate offshore foreign currency banking units (FCBU), which are free from exchange control regulations that are applicable to domestic companies operating in domestic banking units (DBU). The FCBU scheme allows for foreign currency dealings by non-residents and companies approved by the Board of Investment (BOI) – see the “Legal, Company and Regulatory” section.
- Documentation required for opening bank accounts varies according to factors such as domicile.
 - Locally registered companies have to provide documentation that includes:
 - Preliminary Business Information Form;
 - Certificate of incorporation;
 - List of directors (Form 01/20);
 - Articles of association;
 - National ID or passport copies of authorised signatories and major shareholders;
 - Utility bill copies of authorised signatories and major shareholders; and

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- Any other documents specified by any regulatory authority in Sri Lanka.

All copies to be attested by the company secretary.

- For companies registered overseas, documentation requirements include:

- Group identification/Status reports;
- Certificate of incorporation;
- List of directors;
- Articles of association;
- Passport copies of authorised signatories and major shareholders;
- Utility bill copies of authorised signatories and major shareholders; and
- Any other documents specified by any regulatory authority in Sri Lanka.

All copies to be attested by the group office.

There are also additional requirements for organisations such as non-governmental organisations.

- The following types of bank accounts are currently available¹:

Account type	Local current	Local savings	Foreign current	Foreign savings
Local registered	Yes	Yes/Interest bearing (IB)	No	No
Local registered with BOI approval	Yes	Yes/IB	Yes (FCBU) ²	Yes (FCBU)/IB
Local registered with Export Development Board	Yes	Yes/IB	Yes (DBU)	Yes (DBU)/IB
Local registered – professional service providers (FCAPS)	Yes	Yes/IB	Yes (DBU)	Yes (DBU)/IB
Local registered – hoteliers	Yes	Yes/IB	No (but if opened under FCAPS, yes)	Yes (DBU)/IB
Local registered – suppliers of material input	Yes	Yes	Yes (DBU)	Yes (DBU)
Local registered – shippers/airline on behalf of parent company	Yes	No	Yes (DBU)	No
Overseas registered	Yes – non-resident rupee account; share investment external rupee account; treasury bond investment external rupee accounts	Yes under special foreign direct investment account (SFIDA)	Yes (FCBU)	Yes (FCBU or DBU under SFIDA)/IB

1. Please note that these are basic account types that are guided by exchange control circulars.

2. FCBU accounts can be opened by companies incorporated outside Sri Lanka or by companies with BOI approval. In the FCBU, accounts are not subjected to exchange control restrictions but must be maintained in approved foreign currencies, which are Australian dollar, Canadian dollar, Danish krone, euro, Hong Kong dollar, Norwegian krone, Singapore dollar, sterling, Swedish krona, Swiss franc, US dollar and yen. FCBU savings accounts would be in the form of call deposits or time deposits only.

Cash management products and services at a glance*

INVESTMENT PRODUCT	TRANSACTION MANAGEMENT		LIQUIDITY MANAGEMENT
	PAYMENTS	COLLECTIONS	
<ul style="list-style-type: none"> Local currency/foreign currency savings Call deposits Time deposits Treasury products 	<ul style="list-style-type: none"> Cheques/Demand drafts/Cashier's orders Electronic payments: <ul style="list-style-type: none"> RTGS: for time critical, high value payments SLIPS: for low value payments eg. salaries. Corporate credit cards Cheque outsourcing Outward foreign currency TTs Payments Advising 	<ul style="list-style-type: none"> Cheque collection USD cash letters Cash collection In-branch service Inwards SLIPS or RTGS Internet Payment Gateway Bank alliance Inward foreign currency TTs Post Office Distributor Collection solution via cheques 	<ul style="list-style-type: none"> FCBU Pooling (foreign currency; in-country only) Sweeping is only available from the FCBU to the DBU Cash Concentration

Alliance Network

HSBC Sri Lanka supplements its branch network through the use of the Alliance Network, consisting of government organizations, banks and collection outlets. Currently the Alliance Partners in use/ to be used are as follows:

- Seylan Bank**
 One of the largest local banks with an islandwide branch network
- Post Office**
 HSBC has expanded its network by liaising with local post offices to act on behalf of the Bank for cheque deposits, cash deposits and credit card bills. Currently this service is offered at 156 post offices across the island.

Legal, Company and Regulatory

- Apart from CBSL, another significant regulator is the BOI. Any foreign incorporated company investing in Sri Lanka (or a Sri Lankan company making a large capital investment) can apply to the BOI for Board of Investment status. This essentially exempts the company from paying tax for five years.

Liquidity, Currency and Tax

- On the domestic currency (DBU) side, banks are obliged to levy a debit tax charge of 0.1% whenever funds are transferred between two companies. Cash concentration is only offered in the FCBU unit where debit tax is not applicable. As interest cannot be paid on current accounts, a further restriction is that cash concentration is available only via savings accounts.
- Cash concentration facilities are available in Sri Lanka and debit tax would be payable.
- There are significant exchange control restrictions and the conversion of LKR to foreign currency for remittances is permitted under specifically stated conditions and with supporting documents. Companies registered with the BOI or foreign companies opening accounts in Sri Lanka are not subject to these conditions when debiting foreign currency accounts.
- To prevent speculation on the LKR, all currency hedging activity must have a genuine underlying commercial transaction. Prior to any hedging transaction being executed, the corporate treasury has to submit documentation to the bank proving

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the existence of such a transaction or provide an undertaking that the hedge is against a transaction approved for hedging purposes.

- Non-financial companies pay corporation tax at 35%.
- Withholding tax is levied at 10% on all interest earned on deposits held in LKRs in a DBU account. However if interest is being paid on USD balances, then withholding tax does not apply.

Market Watch

- The government is keen to encourage foreign direct investment and certain categories of BOI companies are subject to tax exemption and other benefits.
- Sri Lanka has already relaxed some of its existing capital restrictions; for example, foreign investors can now invest in LKR accounts with the ability to repatriate the funds. The authorities are currently considering further relaxation of the remaining capital restrictions. There are restrictions in the remittance of funds overseas that are permitted under pre-defined categories with specific documentary requirements.

Contacts

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Banking hours:

Mon – Fri

8:30am – 5:00pm (office hours)

9:00am – 4:00pm (business hours)

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