



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**30 September 2020**

**BANKING ACT DIRECTIONS**

**No. 10 of 2020**

**AMENDMENTS TO BANKING ACT DIRECTIONS ON FINANCIAL DERIVATIVE  
TRANSACTIONS FOR LICENSED COMMERCIAL BANKS AND LICENSED  
SPECIALISED BANKS**

In the exercise of the powers conferred by Sections 46(1) and 76J(1) of the Banking Act No. 30 of 1988, as amended, the Monetary Board, having considered the necessity to encourage foreign inflows to the country, hereby issues the following Directions amending the Banking Act Directions No. 4 of 2018 dated 21.08.2018 on Financial Derivative Transactions for Licensed Commercial Banks and Licensed Specialised Banks.

Accordingly, Directions 5.1 b) and 5.7 c) are replaced, and Direction 5.11 is inserted immediately after Direction 5.10 as follows:

5. General Terms and Conditions
- 5.1 b) **Non Market Maker (NMM) Deals:** Transactions executed by EBs with their customers, i.e., any party other than an EB or with another EB with the intention of making a spread. In these transactions an EB shall not take any market risk into its own books and shall cover the transaction on the same day on a back-to-back basis with another EB in Sri Lanka or with a foreign counterparty or Central Bank of Sri Lanka.
- 5.7 c) a marked-to-market gain (financial gain) should not be paid to the customer. However, EBs may pay the marked-to-market gain arising from unwinding/selling back of derivatives for which the underlying transaction is an investment in Government Securities, by foreign investors;
- 5.11 In the case of Inward Investments SWAPs entered into by licensed commercial banks in terms of Operating Instructions No. 33/04/012/0011/002 dated 23.09.2020 and any subsequent instructions, issued by the Central Bank of Sri Lanka, Directions 5.7 shall not be applicable.

**Prof. W D Lakshman**

*Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka*