

**DEPARTMENT OF FOREIGN EXCHANGE  
CENTRAL BANK OF SRI LANKA**

**DIRECTIONS No. 15 of 2021 UNDER FOREIGN EXCHANGE ACT, No. 12 of 2017**

**Directions issued to Authorized Dealers on Inward Investment Accounts**

In terms of the Foreign Exchange (Classes of Capital Transactions Undertaken in Sri Lanka by a Person Resident Outside Sri Lanka) Regulations No. 02 of 2021 (the regulations) and Section 9 read with Section 6 and 7 of the Foreign Exchange Act, No. 12 of 2017 (FEA), Authorized Dealers (ADs) are permitted to open and maintain Inward Investment Accounts (IIAs) in the Domestic Banking Unit, subject to the following.

**2. Eligible Persons**

- (a) A non- national, resident in or outside Sri Lanka.
- (b) A Sri Lankan dual citizen, resident in or outside Sri Lanka.
- (c) Sri Lankan national who has obtained Permanent Residency status or citizenship in another country, resident in or outside Sri Lanka.
- (d) A Sri Lankan citizen employed abroad, resident outside Sri Lanka (excluding emigrants).
- (e) A company incorporated outside Sri Lanka.
- (f) A partnership registered outside Sri Lanka.
- (g) Country funds, Regional Funds, Mutual Funds, Unit Trusts and Foreign Institutional Investors established outside Sri Lanka.
- (h) An administrator or executor of the estate of a deceased person, who maintained an IIA with an AD.
- (i) A receiver or liquidator of a company that maintained an IIA with an AD.

**3. Opening and maintaining IIAs**

- (a) IIAs may be opened and maintained in the form of Savings or Term Deposit or Current (without overdraft facility and cheque drawing facility) accounts, either in any designated foreign currency or in Sri Lanka Rupees.
- (b) IIAs shall be held as sole accounts. IIAs may be held as joint accounts by eligible individuals with an immediate family member who is eligible under subparagraphs (a), (b) and (c) of the paragraph 2.

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- (c) IIAs already opened as joint accounts with a person who is not an immediate family member prior to the date of these Directions, may be continued and operated until the closure of IIA subject to the paragraph 7(a) of these Directions.

**4. Permitted Credits**

- (a) Remittances in foreign exchange received from outside Sri Lanka in favor of the account holder through the banking system.
- (b) Foreign exchange brought into Sri Lanka by the account holder upon declaration to the Customs Department, subject to the Order issued under Section 8 of the FEA.
- (c) Transfers from Personal Foreign Currency Accounts or IIAs or Emigrant's Remittable Income Account or Diplomatic Foreign Currency Accounts or Diplomatic Rupee Accounts or accounts maintained in the Offshore Banking Unit, of the account holder.
- (d) Transfers, as any income and any capital proceeds received from capital transactions in Sri Lanka of the account holder, as permitted under the regulations or provisions of the repealed Exchange Control Act or the FEA, from a Sri Lanka rupee account or Business Foreign Currency Account or an account maintained in the Offshore Banking Unit of another person (*i.e.* investee or tenant or lessee or buyer, who is a resident person).
- (e) In the case of the selling the investments made through the same IIA under the regulations or provisions of the repealed Exchange Control Act or the FEA to another person (*i.e.* buyer), transfers, as sale proceeds from an IIA of such buyer.
- (f) Settlement charges under a court Order related to the capital transactions made through the IIA.
- (g) Claims received by the accountholder as determined by the Central Depository Systems (Private) Limited and Colombo Stock Exchange.

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- (h) Transfers from an External Commercial Borrowing Account of a person resident in Sri Lanka (*i.e.* the borrower), as recoveries of loans granted by the account holder to the borrower, as permitted in the regulations or in terms of the provisions of the repealed Exchange Control Act or the FEA.
- (i) Transfers, as repayments of the loans granted under the regulations or the provisions of the FEA, to licensed commercial banks or licensed specialized banks or the Government of Sri Lanka or State-Owned Enterprises (*i.e.* borrower), from a rupee account of the borrower.
- (j) Repayments of the loans granted during the period from the date of 20<sup>th</sup> November 2017 to the date of these Directions by the account holder through the same IIA to a person resident in Sri Lanka (*i.e.* the borrower), from a Sri Lanka rupee account or Business Foreign Currency Account or account maintained in the Offshore Banking Unit, of the borrower.
- (k) Any income or any capital proceeds derived from a residential property acquired by the accountholder utilizing a loan obtained under the Directions No. 11 of 2021, subject to the subparagraph of 6(e) of these Directions.
- (l) Proceeds of non-materialized capital transactions excluding the loans (including Initial Public Offering) in Sri Lanka under the regulations, for which the funds were remitted through the same IIA, within three months from the date of payment made for the investment. In case of the investment in a condominium property, such proceeds returned by the property developer from the Business Foreign Currency Account of the property developer, before the completion of such property due to any failure to meet the conditions in the agreement or termination of the agreements between parties.
- (m) Transfers of the migration allowance or current income from the Capital Transactions Rupee Account of the same account holder.
- (n) Maturity proceeds including the interest of Special Deposit Accounts (SDAs) opened and maintained by the accountholder under the Regulations published in the Gazette No. 2170/4 dated 08 April 2020 (subject to any amendments thereto) and the Directions applicable on SDAs.

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- (o) Where the accountholder is a non-national resident in or outside Sri Lanka;
  - i. Any income and any capital proceeds, received from capital transactions undertaken by the account holder in Sri Lanka while being a resident in Sri Lanka, utilizing the funds out of salaries, superannuation benefits of the account holder [including Employees Provident Fund (EPF), Employees Trust Fund (ETF), gratuity and pensions or any other retirement benefits].
  - ii. Transfers of USD 30,000 per annum from the Capital Transactions Rupee Account of the accountholder.
- (p) Where the accountholder is a company incorporated outside Sri Lanka; Transfers of USD 30,000 per annum from the Non Resident Rupee Account of the accountholder.
- (q) Where the account holder is an administrator/executor of the estate of a deceased person or a receiver/liquidator of a company.
  - i. Any income or any capital proceeds, received from capital transactions in Sri Lanka made by the deceased person or liquidating company as permitted in the regulations or provisions of the repealed Exchange Control Act or the FEA.
  - ii. Funds transferred from IIAs of such deceased person or liquidating company.
- (r) Transfers from an IIA of an administrator/executor of the estate of a deceased person or a receiver/liquidator of a company, in the event of the accountholder is a beneficiary.
- (s) Interest earned on the funds held in the account.

**5. Permitted Debits**

- (a) Any outward remittances in favor of the accountholder.
- (b) Disbursements in Sri Lanka in Sri Lanka Rupees.
- (c) Transfers to Personal Foreign Currency Accounts or IIAs or Diplomatic Foreign Currency Accounts or Diplomatic Rupee Accounts or accounts maintained in the Offshore Banking Unit, of the same account holder.
- (d) Payments relating to capital transactions undertaken in Sri Lanka by the account holder, in terms of the permissions granted under the regulations or the provisions of FEA, to;

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- i. A rupee account of the investee/seller (who is a resident) of the investment.
  - ii. A foreign currency account of the investee or issuer who is a resident if the said investee or issuer is permitted to receipt such proceeds in foreign currency in terms of the foreign exchange regulations or special permission granted for such investee/ issuer.
  - iii. An IIA of another person (*i.e.* seller) in respect of the purchase of permitted investment.
  - iv. A Business Foreign Currency Account of the property developer if the investment is to purchase a condominium property.
  - v. An account maintained in Offshore Banking Unit of the investee, if the investee has been exempted from relevant provisions of the FEA on investments into Sri Lanka under the Board of Investments Law.
- (e) Transfer of proceeds of the loan granted under the regulations or the provisions of the FEA, to a licensed commercial banks or licensed specialized banks or the Government of Sri Lanka or State-Owned Enterprises (*i.e.* borrower), to a rupee account, of the borrower.
- (f) Transfer of proceeds of the loan granted under the regulations or the provisions of the FEA, to a licensed commercial banks or licensed specialized banks (*i.e.* the borrower) to an Outward Investment Account of the borrower, if such borrowings are made for the purpose of financing outward investment of the borrower under the regulations or the provisions of the FEA.
- (g) Transfer of proceeds of the loans granted under the regulations or the provisions of the FEA, to an External Commercial Borrowing Account of the person resident in Sri Lanka (*i.e.* borrower).
- (h) Payments relating to the investments in shares, debt securities issued by a company incorporated in Sri Lanka (*i.e.* investee) under the regulations or the provisions of FEA, to an Outward Investment Account of the investee, if such proceeds of the investment are to be utilized for the purpose of financing outward investment of the investee under the regulations or the provisions of FEA.

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- (i) Settlement charges under a court Order related to the capital transactions made through the IIA.
- (j) Claims to be paid by the accountholder as determined by the Central Depository Systems (Private) Limited and Colombo Stock Exchange.
- (k) Where the account holder is an administrator/executor of the estate of a deceased person or a receiver/liquidator of a company;
  - i. Outward remittances in favour of the beneficiary or administrator/executor or receiver/liquidator of the company, outside Sri Lanka.
  - ii. Transfers to the IIA of the beneficiary.
  - iii. In the case of beneficiary is a resident person in Sri Lanka, transfers to a Sri Lanka Rupee account or existing Personal Foreign Currency Accounts of the beneficiary.

**6. Other Conditions**

- (a) The eligible persons mentioned under subparagraph 2(h) and 2(i) are eligible only for permitted credits and debits under subparagraphs 4(a), 4(f), 4(q), 4(r), 4(s) and 5(b), 5(k), respectively.
- (b) ADs shall ensure that all income and capital proceeds of investments are credited to the IIA through which the investment was made, as stipulated in the regulations.
- (c) In case of joint IIAs, when executing transactions/transfers permitted under these Directions, ADs may follow the procedure in the normal banking business on transferring funds from a "Join Account" to a "Sole Account" of a party to the joint account.
- (d) IIAs opened by a Sri Lankan citizen employed abroad (excluding emigrants), may be continued to operate IIAs even after the accountholder becomes as a resident in Sri Lanka for the purpose of receiving any income or any capital proceeds of such investments made through the same IIA, until all such investments have been divested/liquidated. The operations of such accounts will be confined only for permitted

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credits specified under 4(d), 4(e) and 4(f) and debits specified under subparagraph 5(b) and 5(c) of these Directions.

- (e) In the case of the credit under paragraph 4(k), the capital proceeds of the property shall be proportionated to the sum of repayments of the loan made by utilizing funds out of inward remittances or Personal Foreign Currency Accounts or IIAs or Emigrant's Remittable Income Account or an Account in the Offshore Banking Unit, of the accountholder.
- (f) Any income or capital proceeds received from the investee or issuer with regard to the investments which was made under subparagraph (ii) of paragraph 5(d) of these Directions shall be received from the foreign currency accounts of such investee or issuer and no rupee conversions will be permitted for the said purpose. ADs shall obtain a consent of the investee or issuer appropriately on this condition, at the time of transferring funds for the investment from the IIA to the investee's foreign currency accounts as permitted under subparagraph (ii) of paragraph 5(d) of these Directions.
- (g) ADs are hereby permitted to facilitate transactions related to investments by eligible investors mentioned under paragraph 2(a) to 2(g) of these Directions, in the following manner.
- i. The funds to the credit of an IIA of the eligible investors may be routed via a Vostro Account.
  - ii. Any income and any capital proceeds of such investments referred in paragraph 6 (f) (i) above may be repatriated following the same way that the investment was routed.
  - iii. At the time of making investment into Sri Lanka, rupee conversions into foreign exchange for the payments of permitted capital transactions to be made through IIAs may be carried out for customers whose underlying transactions are established with another AD provided that documentary evidence on each transaction is furnished by the said AD with whom the IIA is maintained.
  - iv. Outward remittances of any income or any capital proceeds of an permitted capital transactions in favour of the accountholder may be effected through an

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AD other than the AD with whom the IIA is maintained, upon having a confirmation from the AD with whom the IIA is maintained confirming that the funds for the purpose of the captioned capital transactions were debited from the same IIA of the accountholder and income or capital proceeds received from such capital transactions were credited to the same IIA in compliance with the regulations.

- (h) ADs shall obtain proper legally acceptable documentary evidence (as required) to establish the legality and *bona-fide* of the underlying transaction to be carried out and to ensure the compliance to the regulations and these Directions.
- (i) ADs shall maintain documentary evidence (either in hard copy or electronic/digital form) obtained at the time of making transactions through IIAs beyond any statutory record keeping requirements during the maintenance of the account and for a period not less than six years after the closure of such accounts.

**7. Closure of IIAs**

- (a) IIAs may be closed only after the repatriation/ transfer of proceeds of disposal/ liquidation of all investments acquired by the account holder through the said IIA.
- (b) However, in the event an IIA holder requests for a closure of the IIA before disposing the investments made through the same IIA, for the purpose of crediting future income and any capital proceeds derived from such investments to an IIA opened and maintained with another AD, the AD with whom the original IIA is held, may close the IIA only after forwarding following information/documents for the satisfaction of AD who operates the recipient IIA,
  - i. A confirmation of the outstanding investments made out of the funds in the IIA to be closed (including details of inward remittances, details of the investee, type of investment etc.).
  - ii. Documentary evidence collected from the IIA holder, for the proof of the transactions made through the IIA.

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- (c) In the case of IIAs held by a Sri Lankan citizen employed abroad, resident outside Sri Lanka (excluding emigrants),
- i. Such IIAs may be closed at the request of the accountholder, after the accountholder becomes a resident.
  - ii. If the IIAs had been continued to operate as permitted under subparagraph 6(d) of these Directions, such IIAs shall be closed after fully utilization of proceeds of disposal/liquidation of all such investments made through same IIA, under the permitted credits and debits.
- (d) IIAs opened by an administrator/executor of the estate of a deceased person or a receiver/liquidator of a company shall be closed immediately upon completion of the repatriation of proceeds subject to the fulfillment of legal requirement in Sri Lanka.
- (e) ADs shall inform such closure mentioned (a) to (d) above to the Director- Department of Foreign Exchange within one week from the date of such closure via [dfem@cbsl.lk](mailto:dfem@cbsl.lk).
8. ADs shall require prior permission of the Director-Department of Foreign Exchange, for any transaction/transfer to/from IIAs for any purpose which falls outside the purview of these Directions.

**9. Reporting Requirement**

- (a) ADs shall furnish the details of IIA to this department on a daily basis via <https://www.cbsl.lk/forexnet>.
- (b) ADs shall implement a system within the bank in order to generate or extract the relevant information from the books of accounts of their respective banks, as per the above reporting requirements.
- (c) ADs shall incorporate verification of accuracy and completeness of information submitted electronically to the Department of Foreign Exchange, in its internal audits, periodic reviews and compliance programs and evidence to that effect shall readily be available for inspections by Department of Foreign Exchange.

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**10. For the purpose of these Directions.**

- (a) **“Migration Allowance”** shall have the same meaning in the Foreign Exchange (Remittance of Funds by Emigrants) Regulations No.03 of 2021 (amendments thereto).
- (b) **“Emigrant”** shall have the same meaning in the Foreign Exchange (Remittance of Funds by Emigrants) Regulations No.03 of 2021 (amendments thereto).
- (c) **“Remittances”** shall include telegraphic transfers, other interbank transfers, bank drafts, other payment instruments, payments received via other internationally accepted payment mechanisms or platforms and funds received from exchange companies/houses in foreign currency from abroad, other than currency notes.

**11.** Nothing permitted by these Directions shall be construed as exempting, absolving or preventing ADs, dealing in foreign exchange under these Directions, from the requirement to comply with the provisions of any other law.

**12.** Directions No. 13 of 2017 dated 20 November 2017, No. 2 of 2018 dated 21 December 2018 and Directions No. 8 of 2020 dated 7 October 2020 issued to ADs specifying requirements related to IIAs are hereby rescinded.

**13.** The revocation of previous Directions referred to in Paragraph 12 above shall not affect any rights accrued on or penalties or liabilities incurred, under them prior to the revocation.

**14.** All credits and debits of these Directions shall be subject to any Order issued under the section 22 of the FEA.

**15.** These Directions shall come into operation with effect from **22 March 2021**.



**Director - Department of Foreign Exchange**

**18 March 2021**