

the major functions in this regard. The funds were invested mainly in Government Securities, bank deposits and high rated corporate debentures and the average rate of return on investments was 7.31 per cent for the year 2014. The audited financial statements of these funds for 2013 were submitted to the Monetary Board as per the rules of those funds.

Table II - 12 Performance of Funds Management - 2014

Amounts in Rs. mn

Funds	Inflows	Out flows	Investments	Investments Year-end	Average Yield (% p.a.)
Superannuation funds	21,836.3	3,249.8	18,594.1	37,794.3	7.33
Medical funds	75.0	0.9	73.1	112.9	7.73
Special funds	1,342.1	22.5	1,319.7	2,071.6	7.04
Total	23,253.4	3,273.2	19,986.9	39,978.8	7.31

11.5 Maintaining Fixed Assets Register

The FD maintained the Fixed Assets Register in the fixed asset module of the General Ledger System. All changes such as new purchases of locations, change of locations, revaluations, depreciation and disposals were recorded in this register during the year 2014. The register was updated during the year 2014 with 1,396 items procured and 944 retirements.

11.6 Maintaining the Data Base of Staff Loans

The FD continuously maintained the loan data base of the CBSL staff with the assistance of the IT Department to facilitate the loan recovery record process and to supply information to employees and to the Management during the year 2014.

11.7 Other Operations

(i) Procurement Process

According to the Rules of the Central Bank standing orders, the officers of the FD are required to participate in all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 400 Tender Boards and all Technical Evaluation Committees related to those procurements were attended during the year 2014.

(ii) Reporting Improvements

A new integrated General Ledger Accounting System (iGLAS) developed in-house by the Information Technology Department of the Central Bank with the assistance of the FD in line with accounting standards was implemented on January 1, 2014, replacing the Oracle General Ledger System that has been in operation since 2003. A new payroll module and a new loan module for the staff of the Central Bank were also developed in-house by the IT Department of the Central Bank with the assistance of the FD to replace IHRM System that has been outsourced since 1996. The new payroll module was implemented with effect from January, 2015.

(iii) Investment Oversight Committee

The Investment Oversight Committee continued its contribution to fund management activities during the year 2014 as well. The committee established by the Monetary Board to advise and monitor the investments of sixteen funds managed by Departments of Finance, Bank Supervision and Staff Services Management and funds of several projects managed by the Regional Development Department of the Central Bank. It is chaired by the Assistant Governor in charge of FD and meets monthly and the FD provides secretarial service for the monthly meetings of the committee with the Heads and other officers of the respective departments. The Committee had 12 meetings during the year 2014 and reported quarterly to the Monetary Board for ratification of investments. At the end of 2014, the total value of the funds under management was Rs. 52.2 billion.

12. FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit (FIU) established in terms of the provision of the Financial Transactions Reporting Act No. 6 of 2006 (FTRA) has been operating in the Central Bank of Sri Lanka since 2007. The key functions of the FIU include collection and receipt of information on financial transactions for the purpose of identifying possible links to Money Laundering (ML), Terrorist Financing (TF) and other related unlawful activities defined in the FTRA, investigations into suspicious financial transactions relating to the above unlawful activities and dissemination of information of such investigations to relevant law enforcement and/or regulatory authorities for appropriate actions. The highlights of key functions and other activities of the FIU during 2014 as stipulated in the FTRA were as follows.

12.1 Conduct of National Risk Assessment

Recommendation 1 of the Financial Action Task Force (FATF) requires countries to identify, assess and understand the Money Laundering and Terrorist Financing (ML/TF) risk and apply a Risk Based Approach (RBA) to ensure that the measures to prevent/mitigate ML/TF risks are commensurate with the risks identified. Accordingly, National Risk Assessment (NRA) on ML/TF was carried out with the technical assistance of the World Bank for the purpose of developing a risk based Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework and facilitating the allocation of available resources in the most effective way to control, mitigate and eliminate the identified risks. The FIU of Sri Lanka, as the AML/CFT regulator in the country played a major role in conducting the country's NRA during 2014 with the participation of more than 80 officials representing 23 key government and private sector institutions, under the guidance of the Advisory Board for the FIU.

12.2 Conduct of Mutual Evaluation (ME)

The first Mutual Evaluation (ME) on Sri Lanka was conducted by the Asia Pacific Group on Money Laundering (APG) in 2006. The second ME on Sri Lanka was conducted in 2014 by the APG with the intention of assessing the Sri Lanka's AML/CFT framework against the new FATF standards of 2012 on AML/CFT. Sri Lanka's AML/CFT legal and institutional framework as well as the effectiveness of the implementation was assessed by a panel of 8 experts representing APG member countries and the APG Secretariat. At the final phase of the ME process, FIU-Sri Lanka also facilitated the said panel of experts to visit Sri Lanka and conduct an on-site review by having discussions with more than 50 institutions in Sri Lanka representing both public and private sectors.

12.3 Collection of Information, Investigations and Dissemination

Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs) and Insurance Companies (ICs) continued to report to the FIU on cash transactions and electronic fund transfers, both local and foreign with the value of Rs. 1.0 million and above or its equivalent in foreign currencies through the FIU's on-line database management system 'LankaFIN'. The Authorised Money Changers (AMC) also reported their cash transactions of Rs 1.0 million and above equivalent in foreign currencies through the Controller of Exchange who monitors and regulates the AMC sector. Accordingly, over 5.5 million of cash/fund transfers and 718 suspicious transactions (STRs) were reported during the year 2014. After conducting preliminary investigations, 189 STRs were referred to the law enforcement and regulatory authorities for further investigation. Based on the investigations conducted by the Criminal Investigations Department (CID), the Attorney General's Department has filed 7 indictments against money laundering and 3 indictments against terrorist financing as at end of 2014.

12.4 Examinations of Reporting Institutions

During the year 2014, FIU conducted 4 examinations on banking and finance company sector institutions to assess their exposure to risk of ML/TF and non-compliance with the provisions of the FTRA and other rules and directions issued by the FIU. Further, FIU conducted 5 one-on-one meetings with reporting institutions during 2014.

12.5 Other Activities

(i) Signing of Memorandums of Understanding:

As a mechanism to facilitate sharing of information and intelligence for the purpose of investigation and prosecution of suspicious transactions, in terms of provisions of the FTRA, the FIU signed 3 Memorandums of Understanding (MOUs) with Financial Intelligence Units of Albania, Peru

and Myanmar during the year. Accordingly, the total number of such MOUs signed, increased to 27 as at end of 2014.

(ii) Institutional Capacity Building and Awareness Programmes:

The FIU continued its efforts to enhance the awareness on detecting, analysing and reporting of ML/TF related transactions and conducted 22 awareness/training programmes during the year, accommodating more than 1200 participants from LCBs, LSBs and LFCs. The FIU also conducted 3 special programmes for Hon. Judges of the High Courts, Hon. District Court Judges and Magistrates and Officers of the Attorney General's Department during the year.

(iii) International Relations:

(a) Egmont Group : The FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 139 member FIUs globally to carry out investigations and collaborated with the member countries to gather evidence on their investigations. Total number of instances that FIU exchanged information with foreign Egmont members stood at 18 in the year 2014.

(b) Asia Pacific Group on Money Laundering: As a founder member of Asia Pacific Group on Money Laundering (APG), FIU officials represented Sri Lanka at APG's 17th Annual Meeting held in Macao SAR, China in July 2014 and its 17th Annual Typologies and Technical Seminars held in Thailand in November 2014.

13. FINANCIAL SECTOR RESEARCH

The Financial System Stability Department (FSSD) was established in 2007 with a view to put in place a comprehensive macro-prudential approach, which complements supervision at an individual financial institution level and also looks at the broad market and economic factors that could have a material impact on the stability of the domestic financial system. Preserving the financial system stability is one of the statutory objectives of the Central Bank as per the Monetary Law Act.

The scope of the Department has since been widened in consideration of the anticipated rapid development of the domestic financial sector. Accordingly, conducting of comprehensive analysis and research related to the financial sector have also been added to the scope of the Department and therefore, it was renamed 'Financial Sector Research Department' (FSRD) with effect from 7 November 2014.

In line with its mandate, FSRD, in 2014, conducted research on topics relating to the development of the financial sector and strengthening of the financial system stability