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COMPLIANCE OBLIGATIONS FOR THE REAL ESTATE SECTOR: IMPROVING AML/CFT STANDARDS OF SRI LANKA

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Financial Intelligence Unit, CBSL
June 26, 2023

AGENDA

- 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 Real Estate Sector
- Conclusion



INTRODUCTION

Real Estate Sector is a vital area for the non-financial businesses sector in Sri Lanka. The Central Bank and the FIU affirms the importance and the sector's resilience even during times of turbulence.

Emerging from economic turbulence, an industry with sound compliance levels maintained would be attractive for investments, legitimate clientele, and would create a strong lobby to aim for progressive goals.

Globally, sound regulatory and compliance framework has attracted investors and purchaser confidence in the longevity of the sector as a venue and would prevent outsiders from eroding customer confidence in the Sri Lankan real estate sector.



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3

RESULTS OF THE NATIONAL RISK ASSESSMENT OF SRI LANKA



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National Risk Assessment

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



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ML/TF National Risk Assessment

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.








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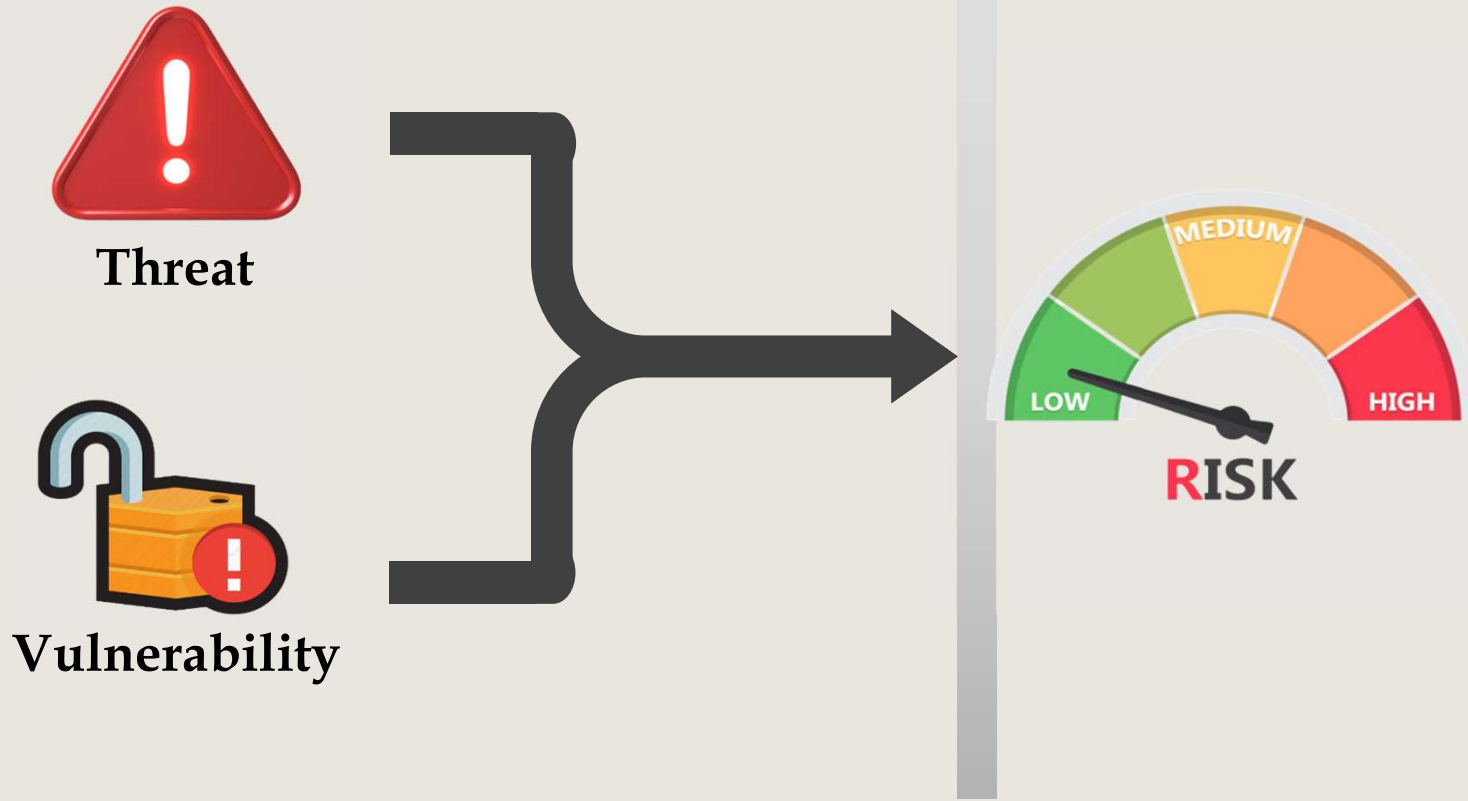


National Risk Assessment - Sri Lankan Context

-  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



World Bank NRA Tool



**13 NRA
Modules**

**66 Public and Private
Stakeholders**

(including 8 CBSL Departments)

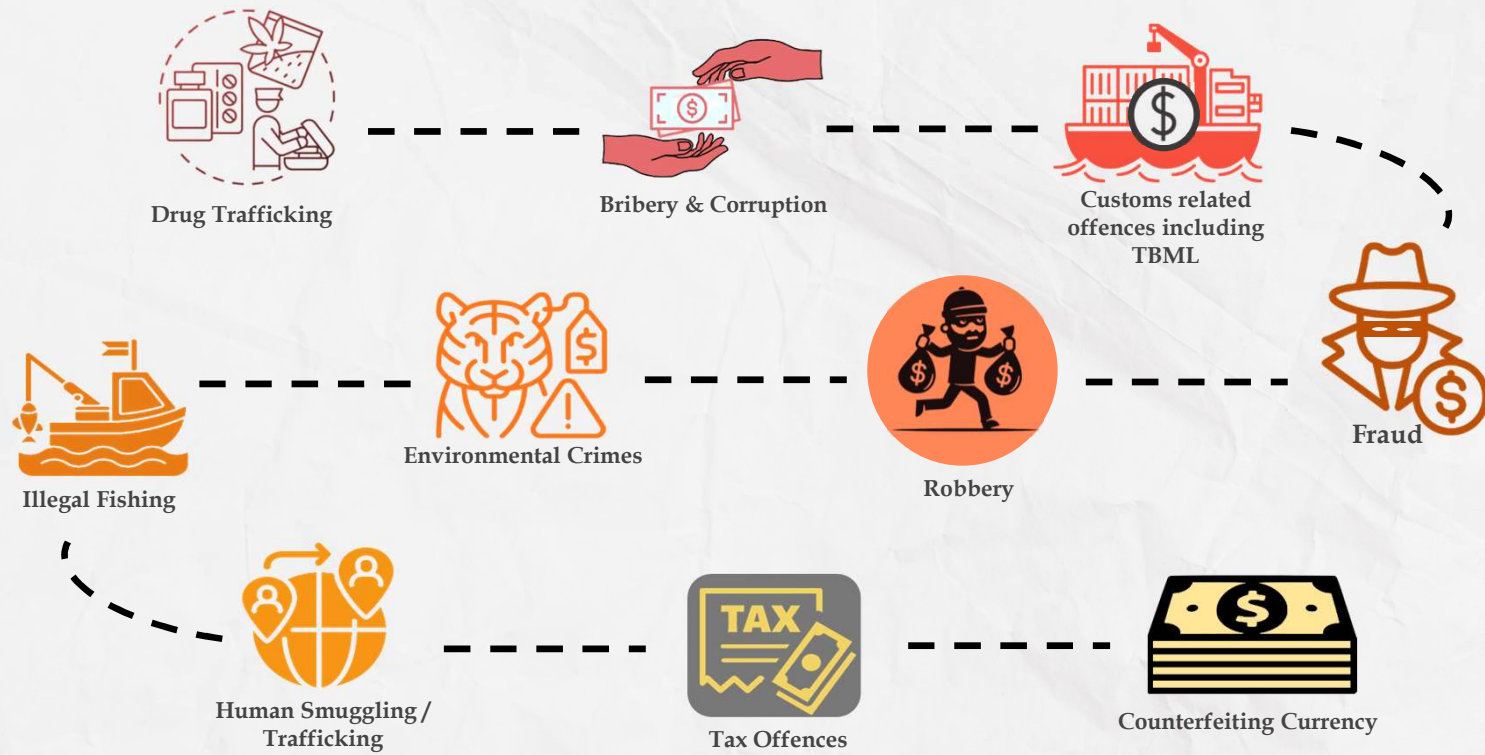


**31 FIU Officers +
123 Non-FIU
Participants**

**Sector Regulators and
Experts as Reviewers**



Money Laundering Threat



Sectoral Vulnerability to ML

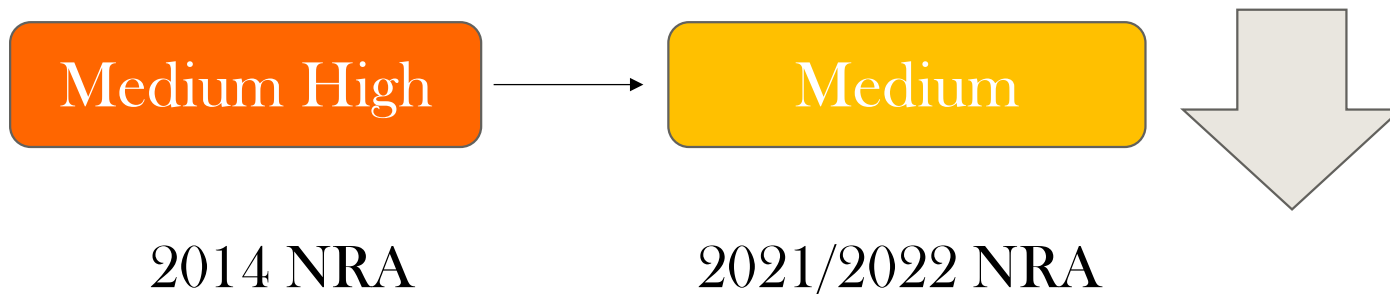


Least Vulnerable

Most Vulnerable



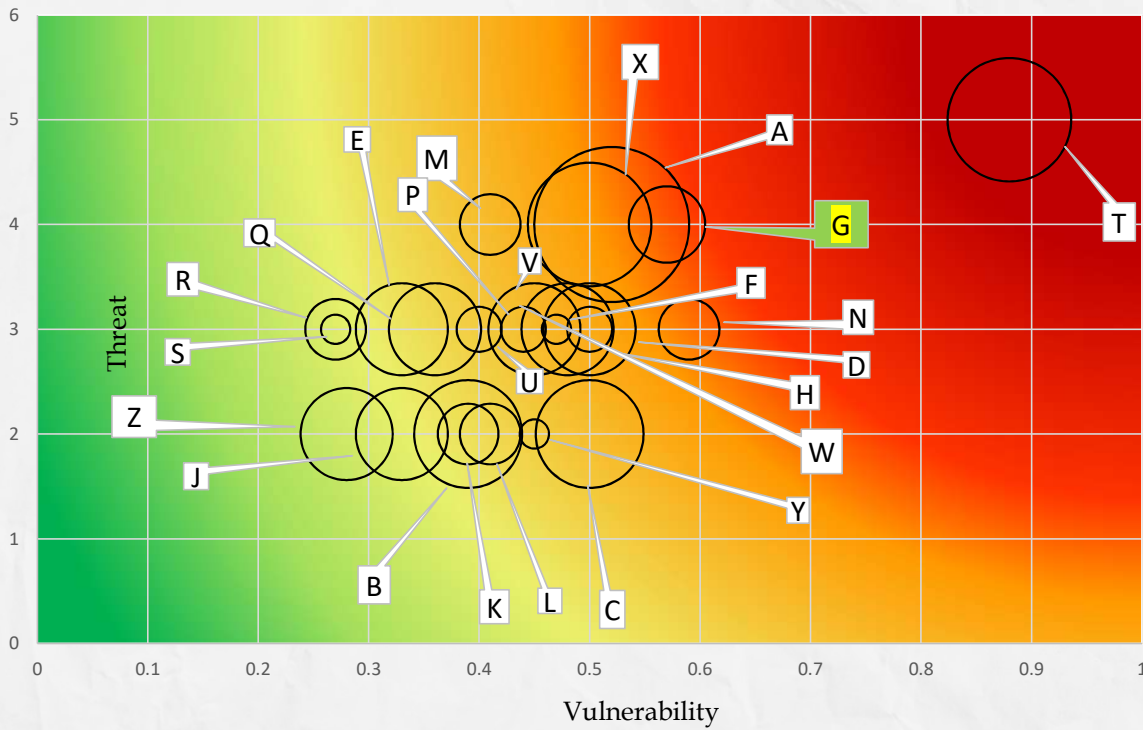
REAL ESTATE SECTOR RISK RATING



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 - UMI
- Z - MFIs



Overall ML/TF Risk in Sri Lanka

Overall Threat	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		Overall Vulnerability				



Strategic Deficiencies Identified in the NRA

- No regulatory authority to grant licenses, supervise and direct the functioning of real estate sector in Sri Lanka.
- Lack of transparency and accountability resulting in increased malpractices and informal and unorganized nature of the real estate market.
- Absence of a single regulatory body with a comprehensive database of Institutions and individuals operating in the sector.



GLOBAL EXAMPLES FOR REAL ESTATE SECTOR REGULATORS AND FRAMEWORKS

India: 2017	Pakistan: 2020	Malaysia: 1981	Singapore: 2010	UK: 1979	New Zealand: 2008	Australia: 2002
Ministry of Housing and Urban Affairs (Applicable ministry changes respectively for state and union territory governments)	Ministry of Interior: Real Estate Regulatory Authority	Ministry of Finance	Ministry of National Development The Council for Estate Agencies	Ministry of Housing, Communities and Local Government National Trading Standards Estate Agency Team under	The Real Estate Authority	Real Estate Institute of Australia



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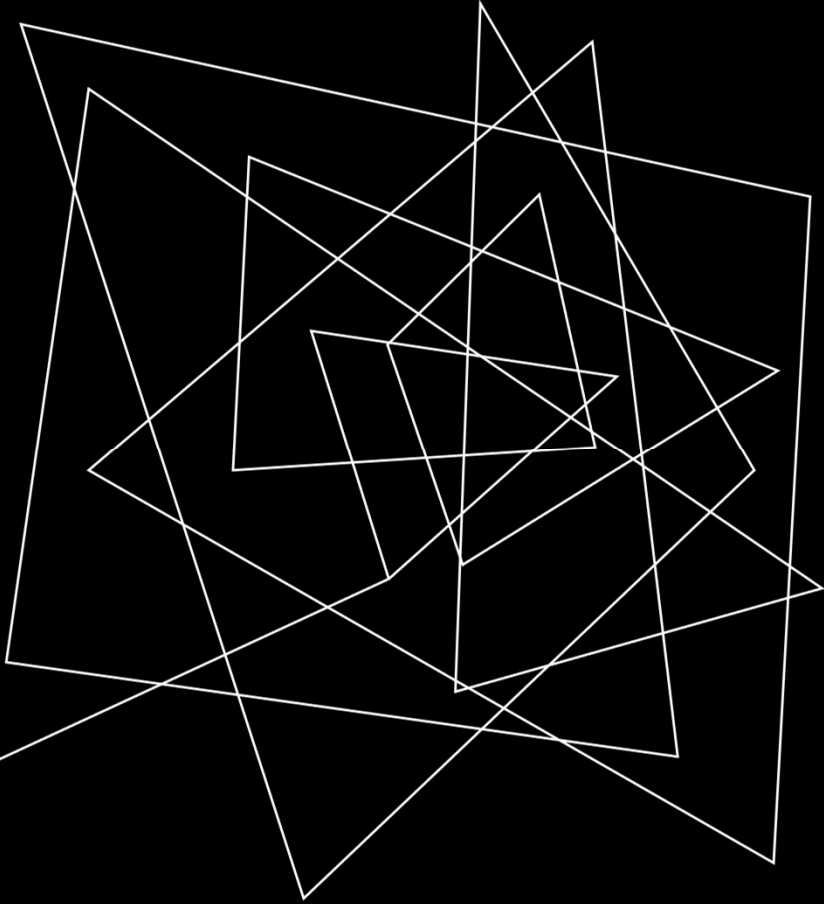
GLOBAL REAL ESTATE TRANSPARENCY INDEX 2022

SRI LANKA (RANK:64/94)*

Rank	Country/Territory	Region		Overall Score	Investment Performance	Market Fundamentals	Listed Vehicles	Regulatory & Legal	Transaction Processes	Sustainability
1	United Kingdom	EUR		1.25	1.02	1.77	1.00	1.15	1.00	1.80
2	United States	AM		1.34	1.12	1.48	1.00	1.38	1.45	1.70
3	France	EUR		1.34	1.25	1.77	1.31	1.21	1.00	1.70
4	Australia	AP		1.38	1.18	1.64	1.00	1.41	1.13	2.10
5	Canada	AM		1.44	1.49	1.79	1.17	1.23	1.20	1.90
6	Netherlands	EUR		1.54	1.60	1.64	1.40	1.31	1.15	2.50
7	Ireland	EUR		1.69	2.25	1.93	1.00	1.26	1.00	2.60
8	Sweden	EUR		1.76	1.81	2.61	1.32	1.25	1.30	2.50
9	Germany	EUR		1.76	1.94	2.05	1.39	1.49	1.30	2.57
10	New Zealand	AP		1.77	1.83	1.96	1.01	1.59	1.00	3.63
64	Sri Lanka	AP		3.67	4.61	2.90	5.00	2.79	2.83	4.53

Sri Lanka is placed in the **low transparency category**, rating score **3.67/5.00**
Score ranges from 1- 5 (1.00 being the highest rating available)

*<https://www.jll.co.uk/en/trends-and-insights/research/global-real-estate-transparency-index/greti-global-rankings-and-methodology>



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

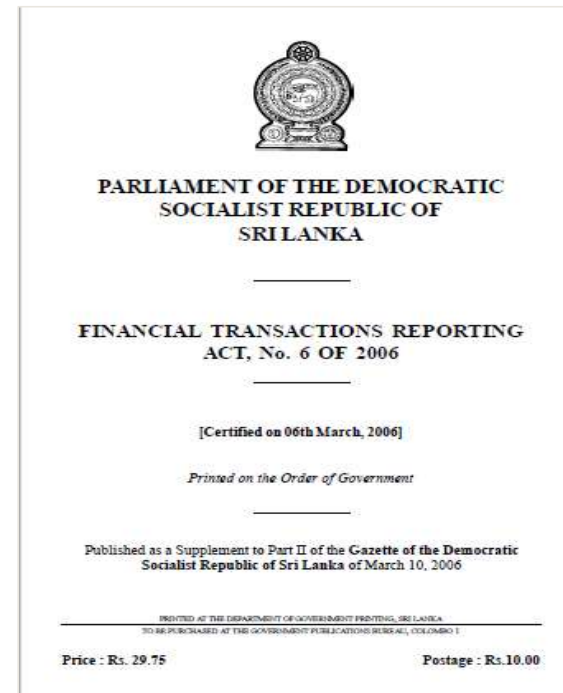
Gem and Jewellery Dealers	(195)
Real Estate (Dealers) Agents	(169)
Casinos	(3)
Lawyers	(16)
Accountants	(8)
Trust and Company Service Providers	(6)



Real Estate Dealers – Who are Real Estate Agents under the FTRA?

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

- If a real estate business is involved in transactions for their clients in relation to buying and selling of real estate, they are identified as Real Estate Agents.



Appointment of a Compliance Officer

Compliance Officer is responsible to ensure the Institution's compliance with the AML/CFT obligations by carrying out following tasks.

Duties and Responsibilities of the compliance officer

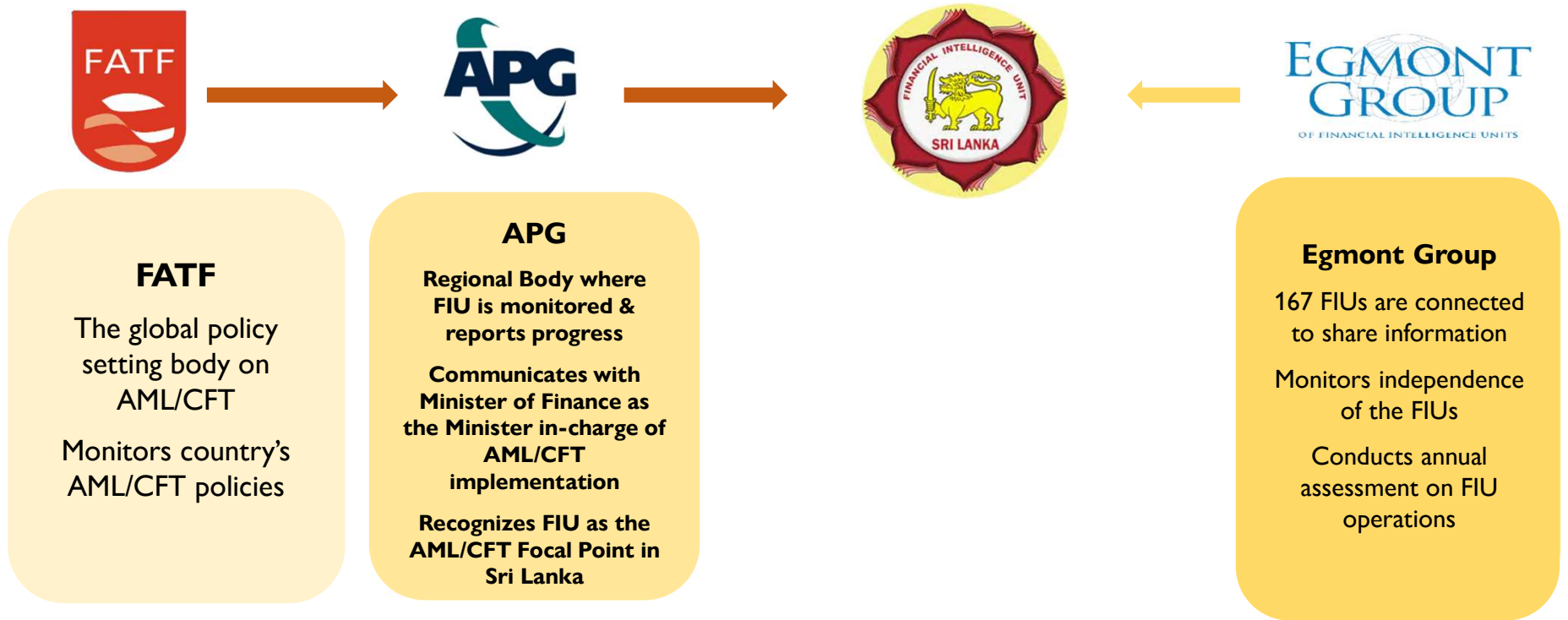
- Assess and periodically update overall ML/TF risk of the Institution.
- Prepare the AML/CFT Compliance Policy and procedures and obtain the approval of the top management.
- Implement Customer Due Diligence (CDD) requirements.
- Implement measures to screen the customers against the designated sanctions 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





- 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)



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.

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



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CURRENT TECHNICAL COMPLIANCE LEVEL OF SRI LANKA

Level of Compliance	2015	2023
Compliant (C)	5	7
Largely Compliant (LC)	7	25
Partially Compliant (PC)	16	7
Non-Compliant (NC)	12	1
	40	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

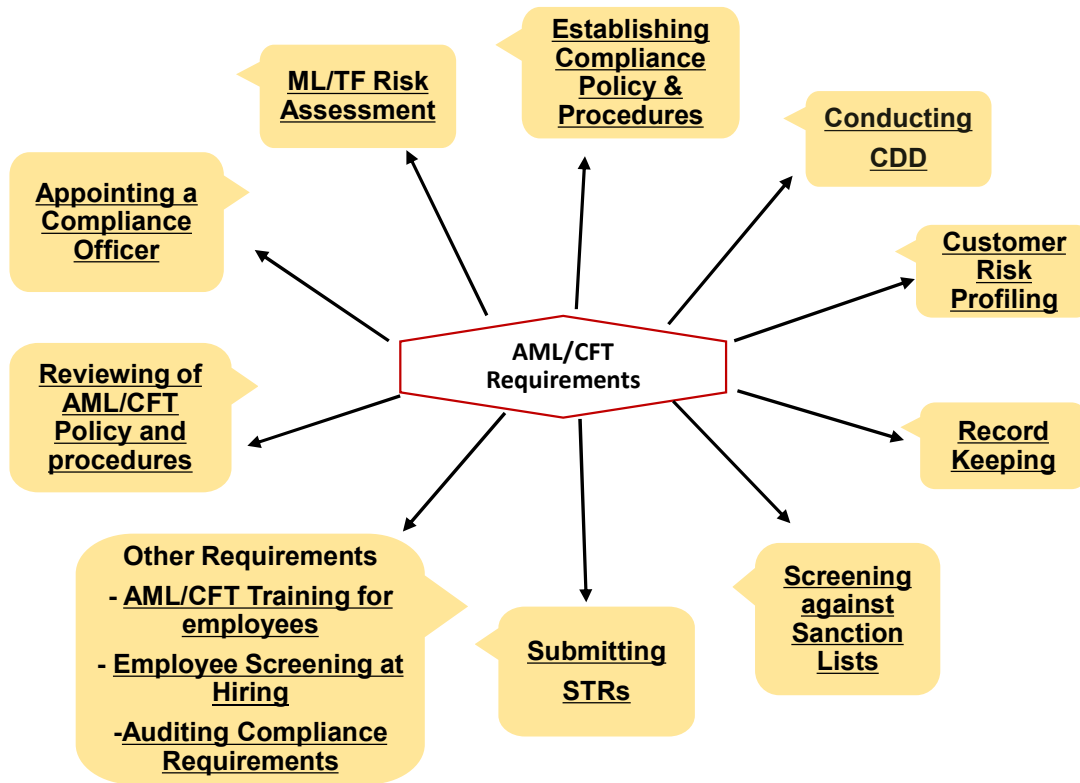


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Compliance Officer

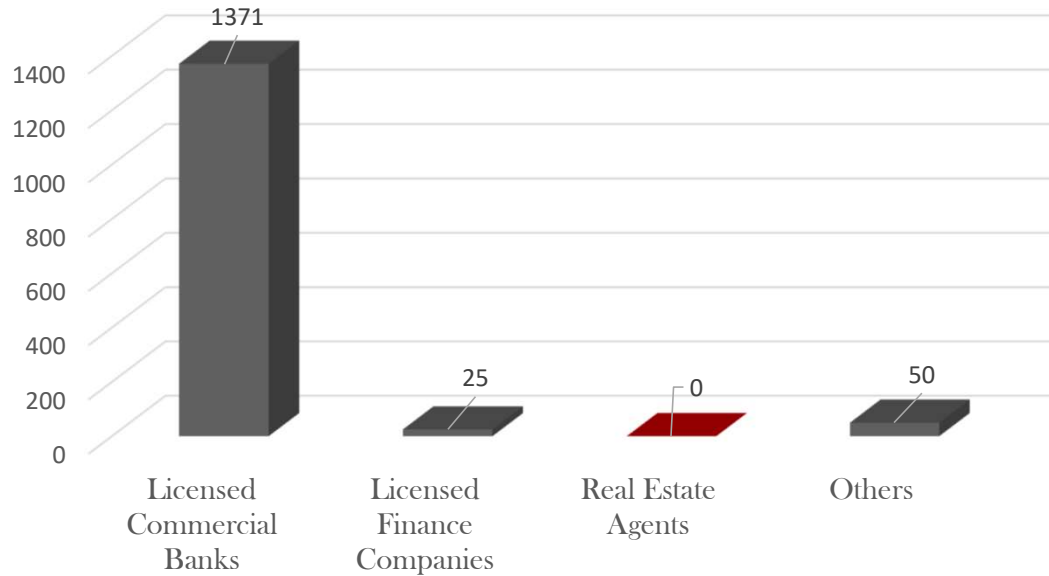


- Must participate in Training Sessions conducted by the FIU, on AML/CFT obligations.
- Should be knowledgeable on relevant Money Laundering and Terrorist Financing risk of the sector.
- Should be contactable.
- If resigns from the Institution, he/she should inform it to the Chief Executive Officer/Managing Director or Owner and the CEO/Managing Director/Owner should immediately appoint a new person as the Compliance Officer using the 'CO Declaration Form' and inform the Director/FIU with immediate effect.

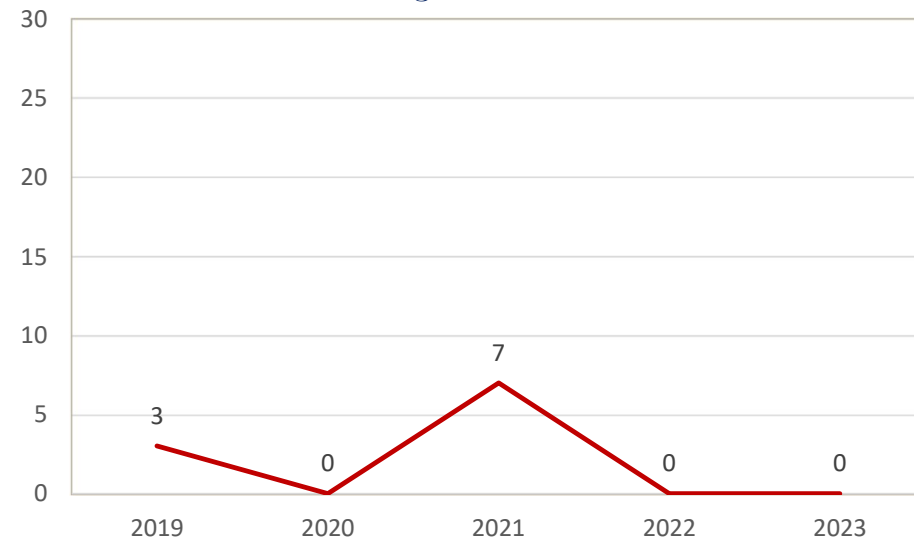


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No. of STRs reported in 2022



Year wise STRs reported by Real Estate Agents



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Compliance Officer Declaration

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 (AML) and Countering the Financing of Terrorism (CFT) Compliance Obligations and New Developments", is to be held on 26th June 2023 at the Centre for Banking Studies - Rajagiriya.

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

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

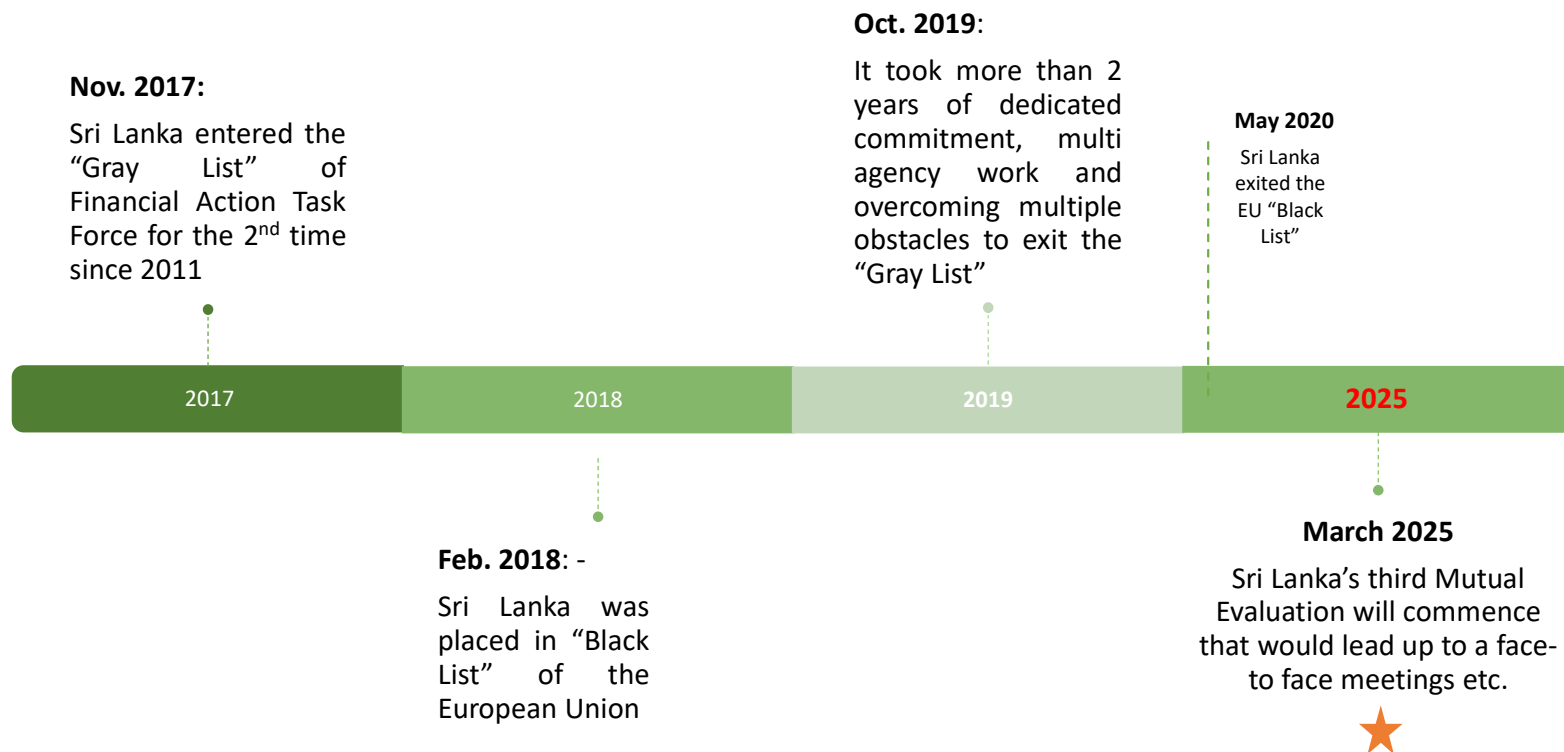
[See More](#)

New Circular 02/2023 - Institutional Compliance of Real Estate Sector under the Financial

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

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

AML/CFT International & National Commitments





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.



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THANK YOU

