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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

Issued By Employees' Provident Fund Department

Date 26 June 2012

EPF welcomes S&P Clarification re. their recent Banking Industry Country Risk Assessment (BICRA)

The Employees' Provident Fund (EPF) welcomes the clarification made by Standard and Poor's (S&P) today that there was "no information of any specific incidences occurring" of "a potential conflict of interest" due to the Central Bank's oversight of the EPF which is "a large investor in Sri Lankan banking stocks".

In the clarification, S&P has also stated that they "expect the central bank to have mechanisms to limit this risk". In this connection, the EPF wishes to re-affirm that the Central Bank has the required mechanisms to limit any risk referred to, particularly because the EPF functions independently of the Bank Supervision Department, Public Debt Department, and other departments of the Central Bank, with the required firewalls having been established for such purpose. These firewalls are particularly effective, since in terms of Section 45(1) of the Monetary Law Act, No. 58 of 1949, every officer and servant of the Central Bank is legally bound to preserve and aid in preserving secrecy with regard to all matters in performing their duties. Consequently, in its investment decision making process, the EPF does not enjoy any advantage with privileged information from the Bank Supervision Department or any other Department, and only accesses publicly available information and research, which other investors too access. Hence, no conflict of interest or unfair practice arises in the EPF's investment process.

Further, in terms of Section 5(1)(e) of the EPF Act, the Monetary Board is empowered to invest the moneys of the Fund in such securities as it considers fit, and sell such securities as well. Hence, the EPF has clear authority to invest in the share market, including the banking and finance sector. In this regard, the EPF also wishes to state that it would be highly prejudicial to the EPF members, if the EPF, as the country's biggest Fund, were to refrain from investing in the best performing sector in the Colombo Stock Exchange, namely, the banking and finance sector.