

Why the Foreign Exchange Act is important to Company Secretaries in Sri Lanka

The Foreign Exchange Act, No. 12 of 2017 (FEA), is an essential piece of legislation in Sri Lanka that governs all foreign exchange transactions, replacing the outdated Exchange Control Act of 1953. Its enactment marked a significant shift towards liberalizing the country's foreign exchange framework, aligning it with modern economic practices and international standards.

By liberalizing capital flows, establishing a dedicated regulatory body, and implementing stringent compliance measures, the Act aims to encourage more open, transparent, and stable economic environment and these reforms are focusing on attracting foreign investments, enhancing economic growth, and ensuring the country's financial stability in an increasingly interconnected global economy.

Knowledge and applicability of FEA is integral to a Company Secretary's role in Sri Lanka, especially in companies with international dealings. It ensures legal compliance, enables smooth foreign transactions, and helps mitigate legal and financial risks.

Here's why the Foreign Exchange Act is important to Company Secretaries in Sri Lanka:

Company Secretaries are responsible for ensuring that the company complies with all applicable laws and regulations. The Foreign Exchange Act regulates: Foreign currency transactions Inward and outward remittances Acquisition or disposal of foreign assets Dealings in foreign securities Failure to comply can result in penalties for the company and its officers.

2. Facilitation of Foreign Investments

If the company is receiving foreign direct investments (FDIs), the Company Secretary must ensure:

- Proper reporting to the Central Bank of Sri Lanka (CBSL)
- Adherence to sectoral caps and investment guidelines
- Maintenance of appropriate documentation for approvals and disclosures



3. Handling of Foreign Currency Accounts

Companies may open and operate foreign currency accounts. The Company Secretary must ensure these are:

- Properly approved
- Used within permitted activities
- Reported to the CBSL

4. Board and Shareholder Advisory

The Company Secretary advises the Board and shareholders on:

- Legal implications of foreign exchange transactions
- Limitations under the law
- Risk mitigation measures related to forex exposure

5. Documentation and Reporting Obligations

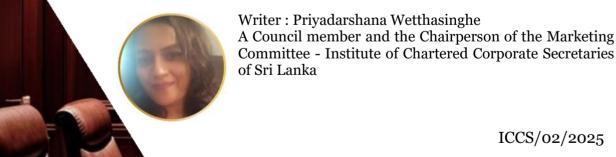
The Act requires detailed records and periodic reports to be maintained and submitted. Company Secretaries are often tasked with:

- Filing annual and ad-hoc returns related to forex transactions
- Keeping statutory records of foreign shareholders or investments
- Assisting auditors and regulators during inspections

6. Cross-border Mergers and Acquisitions

In M&A transactions involving foreign parties, Company Secretaries ensure:

- Proper approvals from the CBSL or relevant authorities
- Due diligence on exchange control matters
- Legal documentation reflects compliance with forex laws



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