E–ALERT: RECENT AMENDMENTS TO THE COLOMBO PORT CITY LEGAL AND REGULATORY FRAMEWORK

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The Colombo Port City Economic Commission Act, No. 11 of 2021 (**the "CPEC Act"**), enacted in May 2021, establishes the Colombo Port City Special Economic Zone (**the "Port City"**) and creates the Colombo Port City Economic Commission (**the "Commission"**) as the administrative and regulatory authority for activities carried on in and from the Port City. The CPEC Act sets out the overarching legal and regulatory framework governing, among other matters, the licensing and authorisation of persons to operate within the Port City, the exercise of regulatory oversight by the Commission as a single-window facilitator, and the granting of exemptions and investment incentives (including in respect of specified written laws) for qualifying businesses, particularly those designated as Businesses of Strategic Importance.

The Colombo Port City Economic Commission (Amendment) Act, No. 01 of 2026 (**the "Amendment Act"**), first proposed by the Cabinet in mid-2025 and enacted by Parliament on 20th January 2026, was reportedly introduced as part of a series of structural reforms to Sri Lanka's investment incentive regime in the context of the country's ongoing IMF-supported economic programme. In effect, the amendments recalibrate several core features of the original Port City framework, by narrowing the scope and duration of tax-related exemptions, introducing more prescriptive and quantifiable criteria for the designation of Businesses of Strategic Importance, and enhancing regulatory oversight, monitoring and compliance obligations. Collectively, these changes arguably reflect a shift toward a more constrained, rules-based and fiscally monitored incentive regime than that contemplated under the CPEC Act as originally enacted.

In addition, the regulatory framework has been also revised by the Colombo Port City (Guidelines on the Grant of Exemptions or Incentives to Businesses of Strategic Importance) Regulations, No. 1 of 2025 dated 20 September 2025 (**"2025 BSI Regulations"**) and the Colombo Port City Community Rules, No. 01 of 2025 dated 11 December 2025 (**"Community Rules"**), issued under the CPEC Act.

This e-alert seeks to examine the key changes that have been introduced to the Port City legal and regulatory framework, under the Amendment Act, the 2025 BSI Regulations and the Community Rules.

1) AMENDMENTS TO THE CPEC ACT

A) Removal of the income tax exemption for employees

The Amendment Act restricts the income tax exemption previously granted in respect of the employment income of employees of Authorised Persons[1] (**"APs"**) carrying out business activities within the Port City. Accordingly, the employment income of both resident and non-resident employees:

- of APs who obtained registration/licencing prior to the date of commencement of the relevant section of the Amendment Act will be exempt from the income tax requirement for a transitional period of 3 years commencing from the month immediately after the month on which the Amendment Act comes into effect; and

- of APs who obtain registration/licencing on or after the date of commencement of the Amendment Act (**"New Authorised Persons"**) will be fully subject to income tax as set out under the Inland Revenue Act, No. 24 of 2017 (as amended) (**"Inland Revenue Act"**).

SPA Comments

This change arguably reflects a significant adjustment to the Port City incentives framework. The tax-free treatment of employment income, alongside payment in designated foreign currency, available for all 'Authorised Persons', was a key feature of the original regime for attracting businesses to the Port City. Imposing a 3-year sunset clause for existing APs, and removing it altogether for New Authorised Persons, is likely to influence future investment structuring and cost assessments.

B) Monitoring of offshore banking businesses

The Amendment Act introduces a consolidated regulatory framework for Offshore Banking Business (**"OBB"**) carried on in and from the Port City, with prudential regulation and supervisory oversight now vested directly in the Central Bank of Sri Lanka (**"Central Bank"**).

Under the original CPEC Act, the regulatory regime applicable to OBB activities was to be prescribed by regulation by the President (or the Minister assigned the subject of the Colombo Port City, where applicable), with the concurrence of the Minister of Finance and the Monetary Board of the Central Bank. This structure deferred the allocation of regulatory authority to subsidiary legislation and contemplated a multi-layered supervisory framework.

The amended framework now expressly governs OBB activities under Part VIII of the CPEC Act and aligns their regulation with Sri Lanka's broader banking supervisory regime, particularly following the replacement of the Monetary Board with the Governing Board of the Central Bank under the Central Bank of Sri Lanka Act, No. 16 of 2023, thereby establishing a unified regulatory authority for banking activities.

In terms of licensing, a company or body corporate incorporated outside Sri Lanka and authorised to carry on banking business in its jurisdiction of incorporation may apply to the Commission for a licence to engage in OBB activities under the CPEC Act. However, banks licensed under the Banking Act, No. 30 of 1988 that carry out operations from the Port City with the approval of the Central Bank are expressly exempted from the requirement to obtain a separate OBB licence under Part VIII of the CPEC Act.

Once licensed, OBB operators are subject to Central Bank supervision in accordance with international banking standards, including requirements relating to minimum capital and capital adequacy, liquidity thresholds, risk management frameworks, public disclosure and market discipline. The Central Bank is empowered to issue directions, impose corrective measures and recommend the suspension, revocation or cancellation of licences where regulatory breaches or prudential concerns arise.

[1] under section 75 of the CPEC Act, an Authorised Person means a person to whom a registration, licence, authorisation or such other approval as required in terms of this Act has been issued or granted by the Commission, subject to any condition as may be stipulated therein.

C) Scope of OBB activities under the Amendment Act

Under the previous provisions of the CPEC Act, OBBs were permitted to accept savings, time and demand deposits from both APs and non-residents in designated foreign currencies. Under the recent amendments, it is only non-residents from whom OBBs are permitted to accept such deposits, unless special approval has been obtained from the Central Bank for accepting such deposits, or lending in foreign currency to APs or residents as well. In granting such approval, the Central Bank is required to satisfy itself that the envisaged transaction (or transactions) will not be detrimental to its statutory objective to achieve and maintain domestic price and financial system stability, and its ability to effectively carry out the prudent and effective management of international reserves under the provisions of the Central Bank of Sri Lanka Act No. 16 of 2023.

SPA Comments

The amendments to section 46 of the CPEC Act appear to be directed at strengthening regulatory control and supervisory oversight over OBB activities carried on within the Port City, particularly in their interactions with resident entities and other persons. By expressly bringing such activities within the prudential supervision of the Central Bank and subjecting certain transactions to prior approval and exchange control oversight, the revised framework aligns OBB operations more closely with Sri Lanka's broader exchange control, financial stability and macroeconomic management objectives. This represents a clear shift away from the relatively ring-fenced offshore model contemplated under the CPEC Act, toward a more integrated and centrally supervised regime.

The Amendment Act further expands and clarifies the scope of permissible activities of an OBB, expressly providing for engagement with licensed commercial banks in Sri Lanka for limited operational and funding purposes. In this regard, an OBB is now permitted to:

- borrow in any designated foreign currency from banks licensed under the Banking Act, No. 30 of 1988, subject to such terms and conditions as may be specified by the Central Bank; and

- open and maintain a non-interest-bearing rupee account with any licensed commercial bank in Sri Lanka for the purpose of meeting operational expenses, provided that any funds credited to such account are derived solely from the conversion of foreign currency remitted into Sri Lanka.

SPA Comments

Notably, while OBBs are expressly permitted to open and maintain non-interest-bearing rupee accounts with licensed commercial banks in Sri Lanka for operational purposes, the Amendment Act restricts the source of funds that may be credited to such accounts to amounts derived solely from the conversion of foreign currency remitted into Sri Lanka. The absence of an express carve-out permitting the credit of rupee funds arising from other permitted OBB activities may give rise to operational and liquidity constraints, particularly in circumstances where an OBB has obtained the prior approval of the Central Bank to accept rupee deposits from APs or other residents. The practical implications of this structural limitation may however depend on the manner in which the Central Bank exercises its approval and supervisory powers in this regard.

D) Regulatory framework for BSIs

The Amendment Act also introduces a suite of changes that materially reshape the regulatory approach to Businesses of Strategic Importance ("BSIs"). These amendments enhance the degree of administrative discretion and fiscal oversight exercised by the Commission and the Government in relation to the designation of BSIs and the structuring, duration and continuation of associated incentives and exemptions. At the same time, the revised framework provides greater clarity around the criteria, parameters and processes applicable to BSI designation and review, thereby recalibrating the original Port City incentives regime toward a more policy-responsive and performance-oriented model. In particular:

- the criteria for the identification and designation of businesses as BSIs are to be prescribed by regulation;

- the granting of tax-related exemptions is now subject to a technical analysis by the Ministry of Finance, taking into account inputs provided by the Commission;

- matters to be prescribed by regulation include minimum investment thresholds and categories, minimum job creation requirements, and the nature of exemptions and incentives granted, which may be reviewed, at the discretion of the Ministry of Finance, upon the expiry of 5 years; and

- the previous 40-year validity period for exemptions and incentives has been removed and replaced with a validity period to be prescribed by regulation.

Regulatory oversight of BSI performance

The Amendment Act also introduces an express framework for the monitoring and evaluation of BSI performance, an area that was not previously addressed in detail under the CPEC Act. Under the revised regime, BSIs are subject to ongoing performance assessment against approved key performance indicators, coupled with enhanced tax compliance and reporting obligations. In particular:

- ex post performance monitoring – the Commission may, from time to time, assess a BSI's performance against its approved key performance indicators and publicly disclose the outcomes and fiscal impact of the incentives granted. Where a BSI is found to be non-compliant, the Commission may issue a notice of non-compliance specifying the relevant deficiencies, timelines for corrective action and, where necessary, a compliance plan. Failure to remedy such non-compliance within the prescribed period may result in the restriction, suspension or revocation of incentives and exemptions, or the imposition of administrative penalties;

- procedural safeguards – prior to taking corrective or enforcement action, the Commission is required to issue a show cause notice affording the BSI a reasonable opportunity to be heard;

- tax compliance – every AP is required to file tax returns in accordance with the Inland Revenue Act;

- fiscal transparency – the Ministry of Finance is required to publish an annual report on its official website detailing the tax expenditures associated with all BSIs; and

- discretionary review – the tax holidays, exemptions and incentives granted to a BSI may, at the discretion of the Ministry of Finance, in consultation with the Commission, be reviewed upon the expiry of 5 years.

SPA Comments

The introduction of an express performance monitoring and review framework for BSIs marks a notable shift in the Port City incentives regime, with incentives and exemptions increasingly linked to ongoing performance, tax compliance and measurable economic outcomes. While the framework provides greater visibility into the monitoring and review architecture, certain aspects of its practical operation remain to be clarified, including how key performance indicators applicable to a BSI are determined and whether they may be revised over time. To the extent such indicators encompass qualitative considerations in addition to objectively measurable quantitative metrics, this may introduce an additional layer of interpretive discretion, with potential implications for the predictability and stability of incentive packages granted to BSIs.

E) Other noteworthy amendments

Waiver of fees

Except for a non-refundable processing fee, no other fees will be charged by the Commission to an applicant intending to engage in business in the Port City until such applicant has been issued both a license and a certificate of registration in terms of section 26(3) and section 26 (4) of the CPEC Act.

Applicability of foreign exchange laws

As amended, section 36 of the CPEC Act provides that the conversion of Sri Lanka Rupees into a designated foreign currency, in respect of funds received from the supply of goods or services to citizens or residents of Sri Lanka within the Port City, is subject to the provisions of the Foreign Exchange Act, No. 12 of 2017 ("Foreign Exchange Act"), rather than being governed by regulations issued specifically under the CPEC Act.

SPA Comments

By expressly subjecting the conversion of Sri Lanka Rupees into designated foreign currency to the Foreign Exchange Act, the Amendment Act appears to re-align Port City transactions involving rupee receipts with Sri Lanka's general exchange control framework. In the absence of further regulations or directions facilitating such conversions, APs presently receiving rupee payments for goods or services provided within the Port City may not be able to freely convert such funds into foreign currency, and may instead be required to utilise those funds for permitted current and limited capital transactions (including for dividend outflows to offshore shareholders), broadly consistent with the position applicable to onshore businesses. The extent to which this position may be modified in practice is likely to depend on the issuance of subsidiary legislation such as regulations and/or directions under the Foreign Exchange Act (or modification of existing subsidiary legislation).

2) UPDATE TO THE BSI REGULATIONS

The Colombo Port City (Guidelines on the Grant of Exemptions or Incentives to Businesses of Strategic Importance) Regulations (**the "BSI Regulations"**) are issued under the CPEC Act and constitute the principal subsidiary legislative framework governing the designation of BSIs and the nature, scope and duration of exemptions and incentives that may be granted to such businesses. The first set of BSI Regulations was issued in August 2023 (**"2023 BSI Regulations"**), and was subsequently revised in September 2025, within a period of 2 years, reportedly following input received in the context of Sri Lanka's IMF-supported economic reform programme. While the CPEC Act establishes the overarching statutory basis for the grant of incentives within the Port City, the BSI Regulations operationalise this framework by prescribing the eligibility criteria, categorisation, incentive structures and applicable conditions for Primary and Secondary BSIs. Set out below are the key changes introduced under the 2025 BSI Regulations.

A) Primary BSIs

Eligibility criteria

Under the 2025 BSI Regulations, an entity may be designated as a Primary Business of Strategic Importance ("Primary BSI") only if it satisfies prescribed minimum investment and employment thresholds in connection with the leasing and development of land within the Port City. Primary BSIs are categorised as follows:

Category A	Minimum investment of USD 100 million per plot (or a pro-rated amount for subdivided plots) and the creation of at least 300 jobs.
Category B	Minimum investment of USD 500 million per plot and the creation of at least 300 jobs.
Category C	Minimum investment of USD 1 billion per plot and the creation of at least 300 jobs.
Category D	Applicable to marina or social infrastructure projects, requiring a minimum investment of USD 25 million per plot and the creation of at least 100 jobs.

This represents a shift from the earlier BSI regime (pursuant to the 2023 BSI Regulations), under which Primary BSI status was not categorised and eligibility was assessed largely by reference to a single minimum investment threshold of USD 100 million (or a pro-rated amount for subdivided plots), without mandatory employment requirements. The 2025 BSI Regulations introduce a categorised framework with materially higher and tiered investment thresholds, ranging (as mentioned) from USD 100 million to USD 1 billion per plot (other than for marina or social infrastructure projects), together with prescribed job creation requirements. The regulations also do not clarify whether such employment thresholds are intended to be satisfied solely through direct employment or whether indirect employment may be taken into account as well.

Exemptions and incentives

Under the 2023 BSI Regulations, a Primary BSI was entitled to elect between two alternative long-term incentive schemes:

- a 25-year corporate income tax holiday, followed by a concessionary corporate income tax rate of 50% of the prevailing rate for a further 10 years; or

- an enhanced capital allowance of 300% on qualifying depreciable assets used within the Port City, with any unrelieved losses capable of being carried forward for up to 40 years.

In addition, Primary BSIs were entitled to exemptions from the enactments listed in Schedule II to the CPEC Act (other than the Inland Revenue Act, where applicable) for a fixed period of 25 years.

Under the 2025 BSI Regulations, the incentive structure for Primary BSIs has been recalibrated and limited. A Primary BSI is now entitled to:

- specified customs-related exemptions under the Customs Ordinance, the Ports and Airports Development Levy Act and the Sri Lanka Export Development Act only during the applicable project implementation period; and

- a full exemption from corporate income tax on all gains and profits, commencing upon the expiry of the project implementation period, for a fixed duration determined by category, as follows:

Category A	10 years
Category B	12 years
Category C	15 years
Category D	8 years

Each category is subject to a prescribed maximum project implementation period, ranging from 4-8 years. The earlier long-term tax holiday model, the post-holiday reduced tax rate, and the enhanced capital allowance regime extending up to 40 years, are therefore no longer available.

B) Secondary BSIs

Eligibility criteria

Under the 2025 BSI Regulations, an entity is designated as a Secondary Business of Strategic Importance ("Secondary BSI") where it is identified as a BSI but does not satisfy the investment and employment creation thresholds applicable to Primary BSIs.

This marks a departure from the earlier regime, under which Secondary BSI status could be independently established by reference to the nature of the business activities carried on, together with a range of defined qualitative and quantitative criteria, including global revenue thresholds, employment creation, start-up valuation, and contributions to economic and social development.

Exemptions and incentives

Under the 2023 BSI Regulations, a Secondary BSI was entitled to exemptions from the enactments listed in Schedule II to the CPEC Act for a fixed period of 25 years, notwithstanding the potential absence of significant capital investment.

Under the 2025 BSI Regulations, the incentives available to Secondary BSIs are more limited in scope and duration. A Secondary BSI is now entitled to:

- customs-related exemptions under the Customs Ordinance, the Ports and Airports Development Levy Act and the Sri Lanka Export Development Act only until the commencement of commercial operations; and

- a concessionary corporate income tax (CIT) rate of 7.5% on all gains and profits for a period of 4 years, commencing from the start of commercial operations, after which the entity becomes fully taxable under the Inland Revenue Act.

In addition, both Primary and Secondary BSIs under the current regulations benefit from exemptions from the applicability of certain non-tax enactments set out in Schedule II to the CPEC Act - including the Betting and Gaming Levy Act, the Entertainment Tax Ordinance, the Foreign Exchange Act and the Termination of Employment of Workmen (Special Provisions) Act - from the date of publication of the Gazette Order designating the business as a BSI.

3) COMMUNITY RULES

The Community Rules set out a framework which governs the conduct and responsibilities of owners and occupiers of condominium parcels or premises within the Port City. Owners and occupiers are required to ensure that such premises are utilised for its permitted use as specified in the Colombo Port City (Development Control Regulations) No. 1 of 2023 dated 2 June 2023. General obligations are imposed on owners or occupiers which, inter alia, pertain to the (i) carrying out of activities, including business activities with reasonable care and diligence, (ii) maintenance of premises in a safe and secure condition and (iii) compliance with the directions issued by the Estate Manager in relation to public health and safety, fire safety and other matters relating to common user facilities.

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