

**E-ALERT:
RECENT DEVELOPMENTS IN
SRI LANKA'S FOREIGN
EXCHANGE REGULATORY
FRAMEWORK**

SEPTEMBER 2026

Background

The Central Bank of Sri Lanka (“CBSL”) recently published new regulations and an order introducing significant changes to Sri Lanka's existing foreign exchange regulatory framework. These include:

- the Foreign Exchange (Overseas Investments Made by Persons Resident in Sri Lanka) Regulations No. 1 of 2026, published in Gazette Extraordinary No. 2493/36 dated 18 June 2026 (“Regulations No. 1 of 2026”), which came into operation with effect from 20 June 2026. This regulation rescinded the Foreign Exchange (Classes of Capital Transactions Undertaken Outside Sri Lanka by a Person Resident in Sri Lanka) Regulations No. 1 of 2021, published in Gazette Extraordinary No. 2213/34 dated 03 February 2021 (“Regulations No. 1 of 2021”); and
- an order issued under Section 22 of the Foreign Exchange Act No. 12 of 2017 (“FEA”), published in Gazette Extraordinary No. 2493/38 dated 18 June 2026.



REGULATIONS NO. 1 OF 2026

The new regulations introduce significant changes to the framework governing overseas investments by persons resident in Sri Lanka. The table below provides a side-by-side comparison of some of the key changes introduced by the new regulations:

Transaction	Regulations No. 1 of 2021	Regulations No. 1 of 2026	Comments
Permitted overseas investments by resident individuals.	Individuals were expressly permitted to invest in ordinary shares, units, preference shares, corporate bonds, debentures, sovereign bonds (subject to specified limits) and shares issued under an ESOP or ESOS.	Resident individuals (excluding emigrants and non-nationals) are now permitted to make investments (subject to specified limits) only in overseas ESOPs or ESOSs. Residents are however permitted to acquire overseas assets from non-residents/ make overseas investments, utilizing foreign assets/ foreign exchange held in a bank account in or outside Sri Lanka, and such investments will not be subject to the limits specified under these regulations.	The new regulations significantly narrow the permitted categories of overseas investments by resident individuals, limiting investments to overseas ESOPs and ESOSs. However, the regulations preserve the ability of residents to acquire overseas assets or make overseas investments using foreign assets or foreign exchange, which was already permitted under the provisions of the FEA.

Transaction	Regulations No. 1 of 2021	Regulations No. 1 of 2026	Comments
Permitted overseas investments by (i) partnerships (ii) companies incorporated in Sri Lanka or body corporates established under any law of Sri Lanka (iii) EPF or other superannuation funds approved by the Commissioner General of Labour.	These investors were permitted to invest (subject to specified limits) in ordinary shares, preference shares, debentures, corporate bonds, units and sovereign bonds. Separately investors under (i) and (ii) were permitted to set up and maintain an overseas office in a foreign country.	These investors are now permitted to invest (subject to specified limits) in ordinary shares issued by companies incorporated outside Sri Lanka which entitle the investor to the majority of the voting rights of such company, or otherwise confer the right to appoint a majority of the directors or equivalent management positions of such company, or contractual or legal right to have control over corporate decisions of such company through legally binding agreements or arrangements. Separately investors under (ii) and (iii) are permitted to invest in overseas offices (subject to specified limits).	The new regulations shift from permitting a broad range of passive overseas investments to focusing on strategic investments that provide the Sri Lankan investor with control or significant decision-making rights in an overseas entity, while continuing to permit investments in overseas offices.

Transaction	Regulations No. 1 of 2021	Regulations No. 1 of 2026	Comments
Permitted limits for overseas investments	Permitted limits included: - Partnerships - USD 300,000 for life time. - Companies listed on the Colombo Stock Exchange ("CSE") – USD 2,000,000, per calendar year. (i) Companies not listed on the CSE;(ii) other regulated or licensed entities under the CBSL or Securities and Exchange Commission of Sri Lanka or Insurance Regulatory Commission of Sri Lanka; (iii) EPF or any other provident fund approved by the Commissioner General of Labour - USD 500,000, per calendar year. - An individual or sole proprietorship of such individual (in aggregate) - USD 200,000 for lifetime. · In respect of investments in ESOPs or ESOSs by individuals - up to the amount specified in the prospectus of ESOP/ ESOS. - In respect of investments in banking operations by banks – up to the limit imposed by the regulator in the investee country. - In respect of setting up and maintaining overseas offices - a company or partnership is permitted to invest up to USD 300,000 per calendar year. Banks were permitted to invest up to USD 500,000 per calendar year in setting up branch offices.	Permitted limits now include: - Partnerships - maximum of USD 50,000 or 20% of partners' equity as per the audited financial statements of the immediately preceding financial year, whichever is lower, for the lifetime. - Companies listed on the CSE - maximum of USD 2,000,000 or 20% of net assets as per the audited financial statements of the immediately preceding financial year, whichever is lower, per annum. - Companies not listed on the CSE – maximum of USD 500,000 or 20% of net assets as per the audited financial statements of the immediately preceding financial year, whichever is lower, per annum. - Insurance companies and EPF or any superannuation fund approved by the Commissioner General of Labour – maximum of USD 500,000 or 20% of net assets as per the audited financial statements of the immediately preceding financial year, whichever is lower, per annum. - In respect of investments in ESOPs or ESOSs by resident individuals (excluding emigrants and non-nationals) - annual aggregate limit of USD 20,000. - Banks and finance companies - subject to the applicable laws and regulations in Sri Lanka for expansion of banking and finance business. However, these regulations state that any income or any capital proceeds derived from permitted overseas investments made by eligible persons and repatriated to Sri Lanka to the credit of the Outward Investment Account of such persons after the effective date of these regulations in compliance with these regulations, may be utilized for permitted overseas investments made by such persons without being subject to the specified investment limits.	The new regulations generally introduce more restrictive investment limits, with several investment limits now being linked to the investor's net assets or equity, rather than fixed dollar thresholds alone.



Transaction	Regulations No. 1 of 2021	Regulations No. 1 of 2026	Comments
Additional limit for exporters of goods and services	No specific investment limit was provided for exporting companies.	Exporting companies are entitled to an additional limit over and above the above-mentioned limits on overseas investments The additional investment limit shall be equivalent to 10% of the total foreign exchange earnings repatriated to Sri Lanka and converted to Sri Lankan Rupees during the immediately preceding financial year (in compliance with the Repatriation of Export Proceeds into Sri Lanka Rules No. 01 of 2024), calculated in United States Dollar terms, as certified by the auditor of the company.	The introduction of a separate investment threshold for exporting companies may provide an additional incentive for exporters to repatriate their foreign exchange earnings to Sri Lanka, as the amount repatriated and converted into Sri Lankan Rupees will determine the additional overseas investment capacity available to that company. This may also encourage greater compliance with the Repatriation of Export Proceeds into Sri Lanka Rules. It is however unclear how this additional investment limit would apply to service exporters, who are not required to mandatorily convert their foreign exchange earnings under those rules.
Receipt of income and capital proceeds from overseas investments	Income or capital proceeds of specified permitted investments were required to be brought into Sri Lanka within 3 months of receipt of same.	Income or capital proceeds of specified permitted investments (including income derived from overseas assets/ investments inherited by a person resident in Sri Lanka or derived from investments made in ESOPs or ESOSs) are now required to be brought into Sri Lanka within 1 month of receipt of same.	The time period for repatriating income or capital proceeds has been shortened from 3 months to 1 month from the date of receipt, with the requirement now extending to a wider range of permitted investments.
Guarantees and liens	Shares acquired by a resident investor in an overseas investee may be set as a lien, to secure the investee's facilities to be obtained from a financial institution or to facilitate a contract to be undertaken by such investee. Where a company incorporated in Sri Lanka (investor) is a shareholder of a company incorporated outside Sri Lanka (investee), it could issue a corporate guarantee of up to USD 1,000,000 on behalf of that investee to raise facilities from a financial institution or facilitate a contract to be undertaken by that investee. The guarantee value should be proportionate to the investor's shareholding in the investee.	Shares or debt securities of an overseas investee acquired by an eligible investor (except for individuals and partnerships) may be set as a lien to enable the overseas investee to obtain financing facilities from a financial institution. Eligible investors (except for individuals and partnerships) may provide a financial guarantee to enable a company incorporated outside Sri Lanka or overseas offices in which the investor has invested, to raise financing facilities from a financial institution. This is subject to certain conditions such as the maximum aggregate value of such guarantees (other than guarantees issued by banks) being USD 1,000,000 or the value of 50% of the resident investor's net assets as per the audited financial statements of the immediately preceding financial year (whichever is lower), and the value of the contingent liability undertaken by way of a guarantee should not exceed the portion of the financing facility that corresponds to the resident investor's shareholding in the overseas investee.	The new regulations now expressly permit the use of debt securities as lien to assist an overseas investee in obtaining financing facilities. The new regulations narrow the permitted purpose of guarantees, as guarantees may now only be provided to facilitate financing facilities to be obtained by the overseas entity, removing the previous ability to provide guarantees in connection with other contracts to be undertaken by the investee. At the same time, the new regulations introduce a more detailed financial cap, limiting aggregate guarantees to the lower of USD 1 million or 50% of the investor's net assets, while retaining the requirement that the guarantee value be proportionate to the investor's shareholdings.

Transaction	Regulations No. 1 of 2021	Regulations No. 1 of 2026	Comments
Reporting requirements	The Board of Directors of the investor company which had made a permitted investment in an unlisted company outside Sri Lanka, was required to evaluate the progress of such investment annually, and forward a report on the same to the Department of Foreign Exchange with a copy to the respective authorised dealer or restricted dealer, on or before 31 March, of the following year.	Residents holding overseas assets/ investments that were not funded through outward remittances and for which income or capital proceeds have not been realized, including assets/investments received for no consideration, must submit an annual self-declaration of such assets and investments to the Department of Foreign Exchange and the Inland Revenue Department by 31 March of the following year. Separately, residents holding overseas assets/ investments, including assets/ investments received for no consideration, must submit an annual declaration to the relevant authorised dealer by 31 March of the following year. Authorised dealers are also required to submit this information to the Department of Foreign Exchange and the Inland Revenue Department.	The new regulations place greater emphasis on ongoing reporting and regulatory oversight of overseas assets and investments, including by introducing specific reporting requirements for ESOP/ESOS remittances. Notably, the new regulations also introduce direct reporting to the Inland Revenue Department, in addition to the Department of Foreign Exchange, thereby strengthening the authorities' visibility over overseas assets, investments and related income and capital proceeds.

RESTRICTIONS ON OUTWARD REMITTANCES FOR CAPITAL TRANSACTIONS

Section 22 of the FEA permits the Minister of Finance (with the approval of the Cabinet of Ministers), by an order published in the Gazette, to take steps as may be necessary to restrict or regulate remittances of foreign exchange into or out of Sri Lanka. The initial order under Section 22 of the FEA was issued back in April 2020 in response to the foreign exchange crisis at the time. Since then, several such orders have been issued, each lasting no more than 6 months at a time, either by way of extensions to the restrictions/ limitations imposed under a previous order or a new order. On 18 June 2026, the latest order issued under Section 22 of the FEA was published in Gazette Extraordinary No. 2493/38 ("**2026 Order**").

REMITTANCES THROUGH AN OUTWARD INVESTMENT ACCOUNT ("OIA")

The 2026 Order has suspended making payments through the OIA by persons resident in Sri Lanka for overseas investments permitted under Regulations No.1 of 2026, with the exception of certain transactions that meet the limits and conditions specified therein.

Notwithstanding the suspension, the following eligible persons resident in Sri Lanka (investors) are permitted, subject to the following limits, to make direct investments^[1] for the purpose of expanding business^[2] overseas:

- i. company incorporated in Sri Lanka and listed on the CSE - up to USD 750,000 or an amount less than or equivalent to 20% of the net assets of the investor as per the audited financial statements of the immediately preceding financial year, whichever is lower;
- ii. company incorporated in Sri Lanka and not listed on the CSE - up to USD 200,000 or an amount less than or equivalent to 20% of the net assets of the investor as per the audited financial statements of the immediately preceding financial year, whichever is lower;
- iii. licensed bank - subject to the provisions of the Banking Act No. 30 of 1988 (as amended) and secondary legislation issued thereunder, for expansion of banking and finance business;

[1] "Direct investments" has been defined as:

(a) investments in ordinary shares issued by companies incorporated outside Sri Lanka which entitle the investor to the majority of the voting rights of such company, or otherwise confer the right to appoint a majority of the directors or equivalent management positions of such company or contractual or legal right to control over corporate decisions of such company through legally binding agreements or arrangements, and/or,

(b) investments in overseas offices made by eligible persons.

- iv. licensed finance company - subject to the Finance Business Act, No. 42 of 2011 and secondary legislation issued thereunder, for expansion of finance business.

Furthermore, direct investments by a company incorporated in Sri Lanka that are financed entirely through (i) permitted loans obtained by the investor from a person resident outside Sri Lanka, and/or (ii) proceeds of investments made by persons resident outside Sri Lanka in debt securities (with a minimum tenure of 7 years) or shares issued by the investor company, are not subject to the suspension. Similarly, investments in ESOPs or ESOSs, made by eligible resident individuals (excluding emigrants and non-nationals) as well as investments by an eligible investor, that are necessary to fulfil the regulatory requirements in the investee's country, applicable on investments already made in that country, are not subject to the suspension.

The 2026 Order still limits outward remittances on capital transactions through a Business Foreign Currency Account (BFCA) held by persons resident in Sri Lanka for the purpose of expansion of business overseas, up to USD 500,000 and outward remittances on capital transactions through a Personal Foreign Currency Account (PFCA) held by persons resident in Sri Lanka, up to USD 25,000.

Investments exceeding the limits permitted under Regulations No. 1 of 2026 may be considered by the CBSL on a case-by-case basis, provided they fall within the categories of (i) direct investments financed through permitted loans from persons resident outside Sri Lanka/ proceeds of investments made by persons resident outside Sri Lanka in debt securities or shares; and (ii) subsequent investments made to comply with regulatory requirements in the investee's country (as more fully explained above).

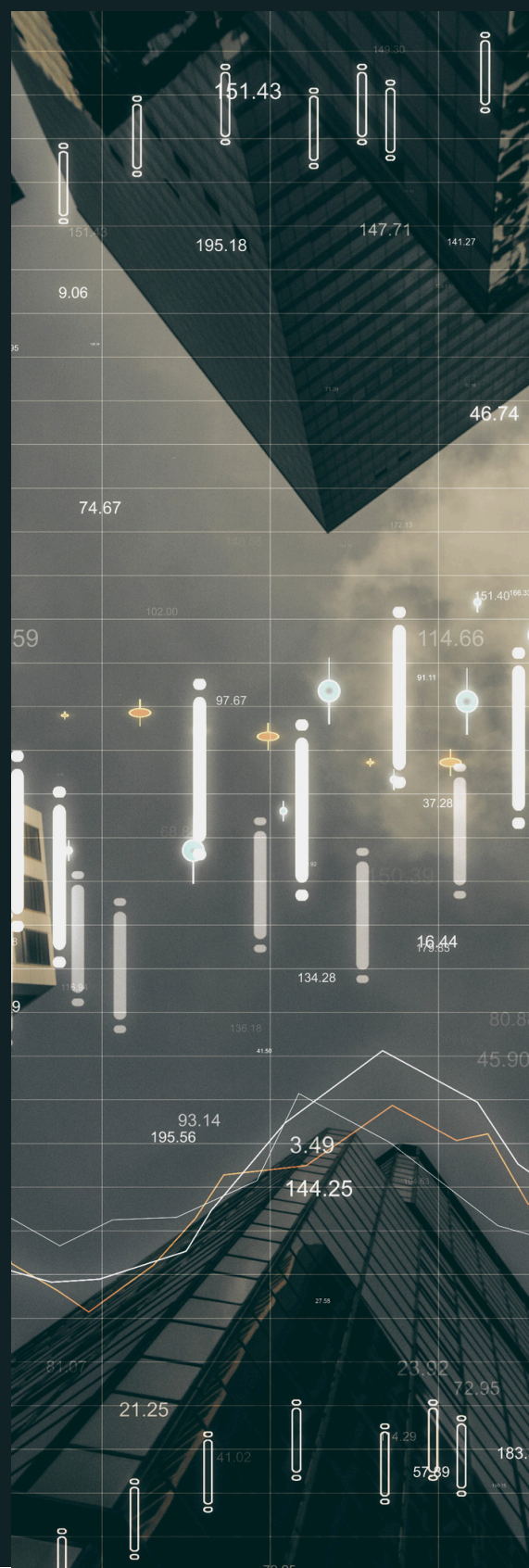
The 2026 Order is only valid for a period of 6 months from 20 June 2026.

[2] "Expansion of business" has been defined as either:

(a) expansion of activities directly related to the existing product line or service offerings. This includes increasing production/service capacity or expanding the range of products or services offered within the existing line of products or service offerings, and/or

(b) vertical integration of activities through the supply chain. This may include either:
i. backward integration where the activities directly related to the sourcing of raw materials or components used in the existing line of products or service offerings, and/or

ii. forward integration where the activities that constitute acquiring or establishing control over entities closer to the end customer, limited to activities directly related to the distribution including warehousing, marketing, and retailing of existing products or service offerings.



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