

# ***“Risk arising for CSDs facilitating Foreign Investors and their Mitigating Factors”***

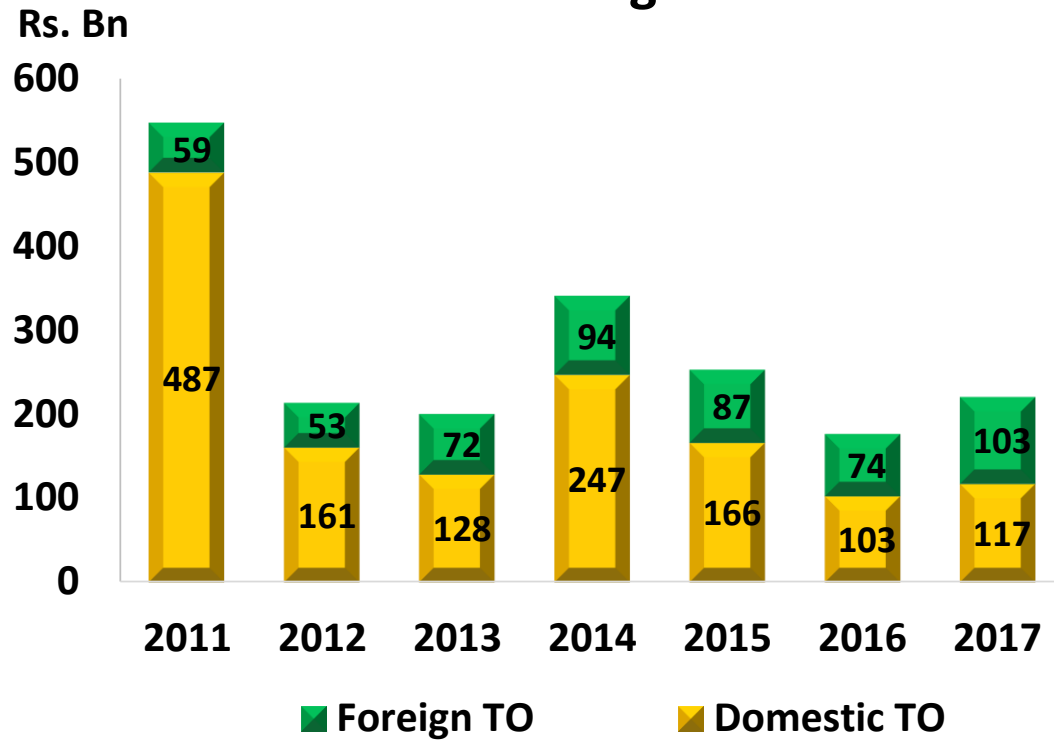


Central Depository Systems (Pvt) Limited

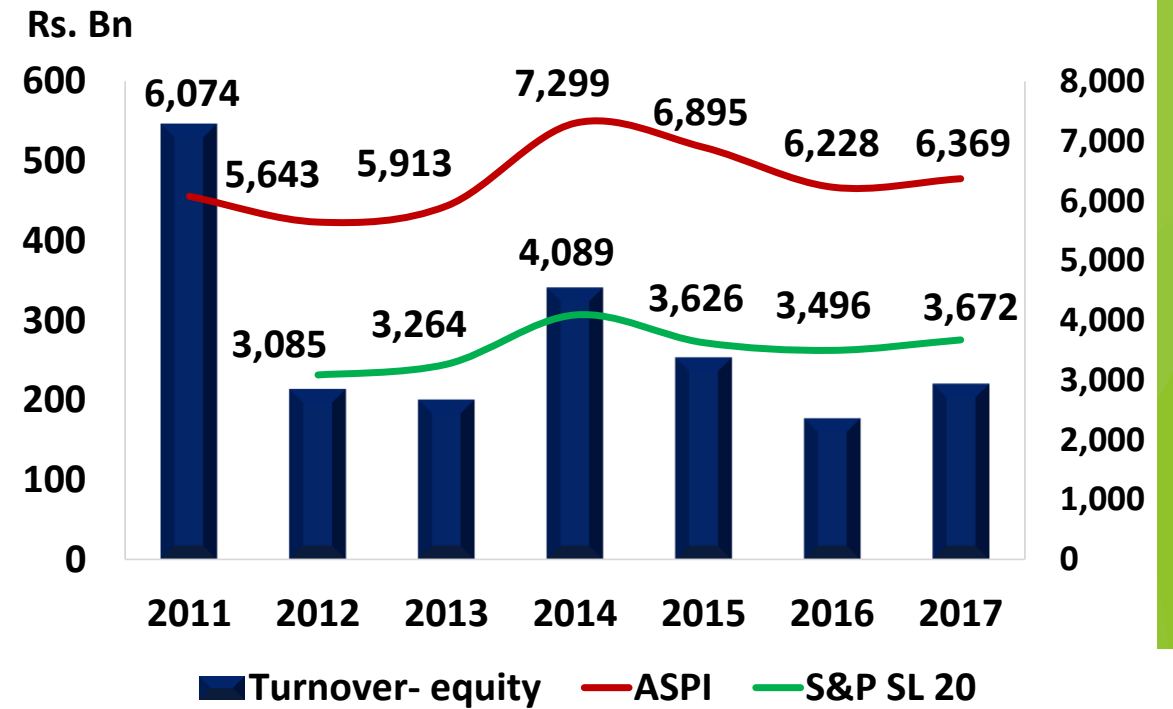
**SRI LANKA**

# Highest Foreign Turnover Value since 2011

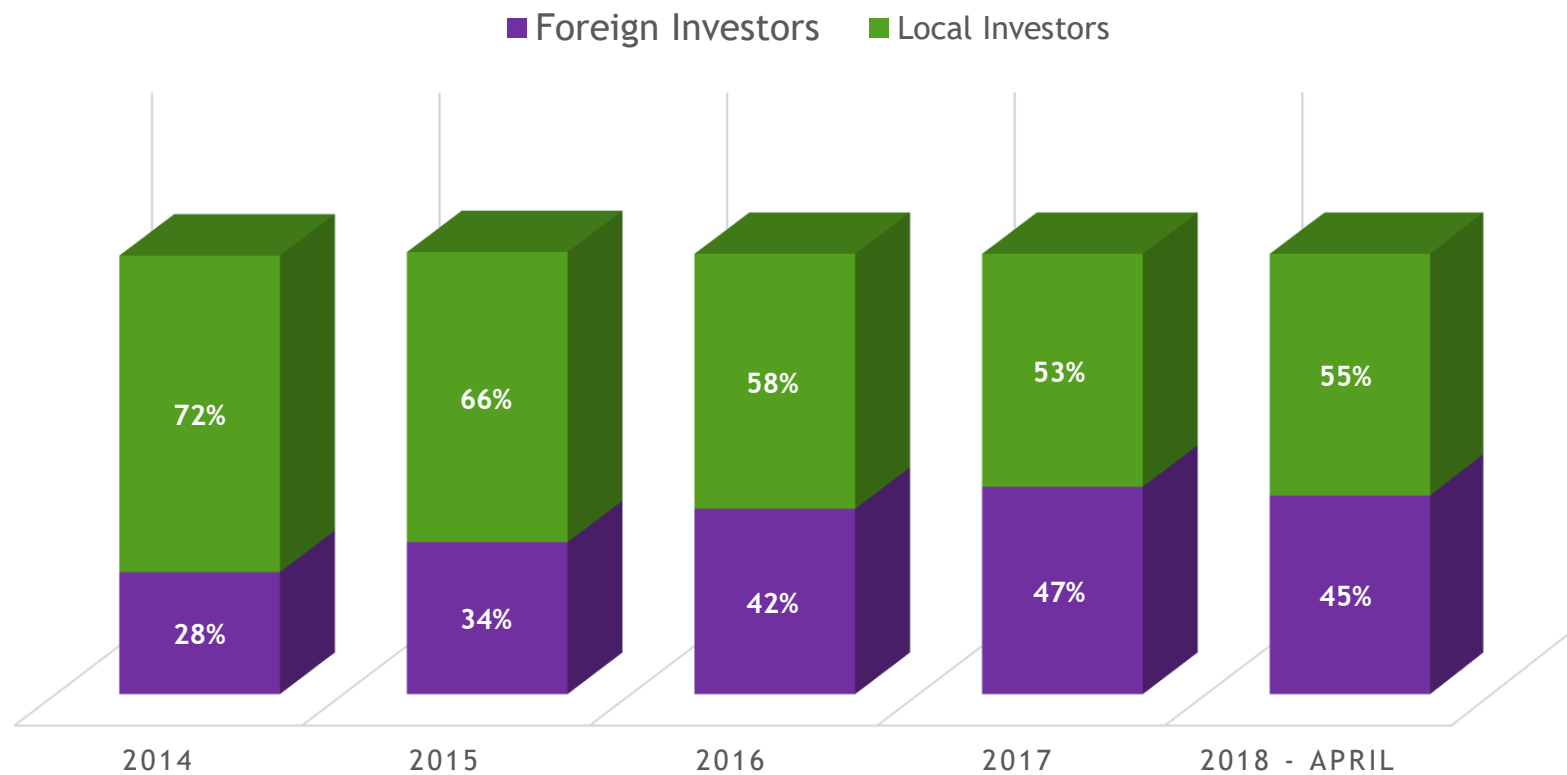
## Turnover - Foreign & Domestic



## Turnover & ASPI



# *Contribution of Foreign Investors in Colombo Stock Exchange*



# Business Model of the CDS

Since the inception the CDS mainly focused on few key stakeholders;

- ❖ CDS Accountholders.

- Local
- Foreign

- ❖ Stock Brokers.

- ❖ Custodian Banks.

- ❖ Issuers.

Entire business revolved around them and had been the basic model to provide services.



# Risks with reference to: foreign investors

- ❖ Counter Party Risk
- ❖ Asset Commitment Risk
- ❖ Asset Servicing Risk
- ❖ Asset Safety Risk
- ❖ Operational Risk.



# Counterparty risk

Significant counterparty risk exists for the seller due to the lack of DVP settlement.

## Measures taken

- ❖ Risk is partly mitigated by a broker exposure monitoring system and a margining system.
- ❖ Settlement guarantee fund administered by the Securities and Exchange Commission.
- ❖ Cash settlement is through settlement banks, but the exposure is slightly diminished through the use of four commercial settlement banks. (All commercial banks providing settlement services are licensed and regulated by the Central Bank of Sri Lanka).



# Asset commitment risk

Though the Securities settle on real time basis the sellers have to wait until T+3 to receive cash. This exposes them to a three day asset commitment period.





# Asset servicing risk

Issuers obtain corporate action information directly from CDS. CDS does not provide proxy voting or tax reclaim services.

The CDS takes due care in maintaining the database. It is still a centralized environment when it comes to the listed securities in Sri Lanka. Account openings and data updates are carried out by the depository keeping no space for any violation of standards maintained. Constant data audits and verifications ensure data accuracy and timely dissemination of information. Further the CDS has developed the necessary network infrastructure to connect with the issuers.

Recently the CDS launched a new revenue based service to process corporate actions directly from the CDS, again ensuring timely and accurate processing of corporate actions.





# Asset safety risk

Securities in CDS Sri Lanka are all in dematerialized form and safekept in segregated client accounts. Assets are registered under CDS as trustee; entitlements and rights related to the securities belong to beneficial owners.



# Operational risk

The CDS has identified its key operational risk areas which have significance. Accounts services, dematerialization process, and depository system have been identified as key risk areas.

## Measures taken

- ❖ Reasonable controls have been put in place that are examined through regular internal audits.
- ❖ Partial operational audits are also undertaken on a monthly basis as part of an annual plan.
- ❖ System audits are conducted every two years.
- ❖ The DR site is located 10 kilometers from the main site and can be activated within one hour. This is tested every 6 months.





**THANK YOU FOR  
YOUR ATTENTION**  
**ANY QUESTIONS?**