

CSDs: Sri Lanka CDS (Sri Lanka)

Date: 22 Jul 2009

SMI Markets: Sri Lanka

CMIRR Markets: Sri Lanka

Multiple Settlement Banks Appointed for CDS

Following a request for proposal issued in June 2009, the Colombo Stock Exchange (CSE) appointed the following commercial banks to function as settlement banks for the Central Depository Systems (CDS):

1. Bank of Ceylon
2. Commercial Bank of Ceylon PLC
3. HSBC
4. Sampath Bank PLC

Currently, the CSE operates a single settlement bank model, with Sampath Bank being the appointed settlement bank of the CDS. With the multiple settlement bank model, brokers will continue to settle cash with their preferred settlement bank on a net basis on settlement date. The settlement banks will then settle cash on a net basis between themselves via the CDS settlement account maintained with each settlement bank.

Brokers are required to select their preferred settlement bank by 31 July 2009. Nonetheless, brokers will be allowed to change their settlement bank on a future date with due notice to the CDS. The implementation date of this new model has not yet been announced.

CSD Risk Impact

Sri Lanka CDS (Sri Lanka)

CSD Rating: BBB

CSD Flash Impact: Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BBB

Flash Impact = Positive

The use of multiple settlement banks will spread the cash deposit risk borne by investors. The funds for settlement will not be concentrated in one commercial bank; hence, this arrangement will help reduce the settlement risk associated with failure of the single nominated settlement bank. Furthermore, market participants will have flexibility in choosing their settlement bank. Overall, this is expected to have a 'Positive' impact on Counterparty risk. However, the extent to which the counterparty risk could be mitigated also depends on the selection criteria of the settlement banks.

Market Information Impact

Sri Lanka

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Sri Lanka

Market Rating: A-

Market Flash Impact: Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BB

Flash Impact = Positive

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