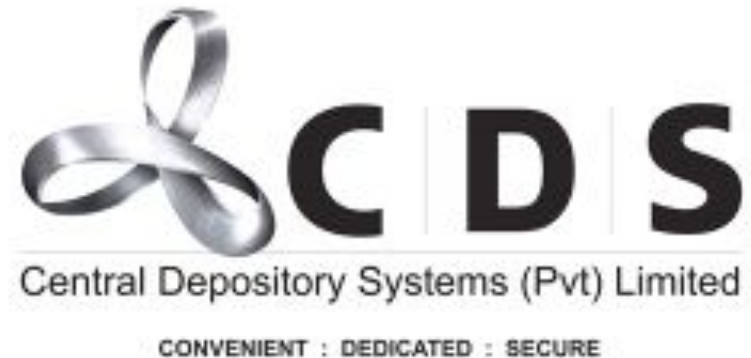


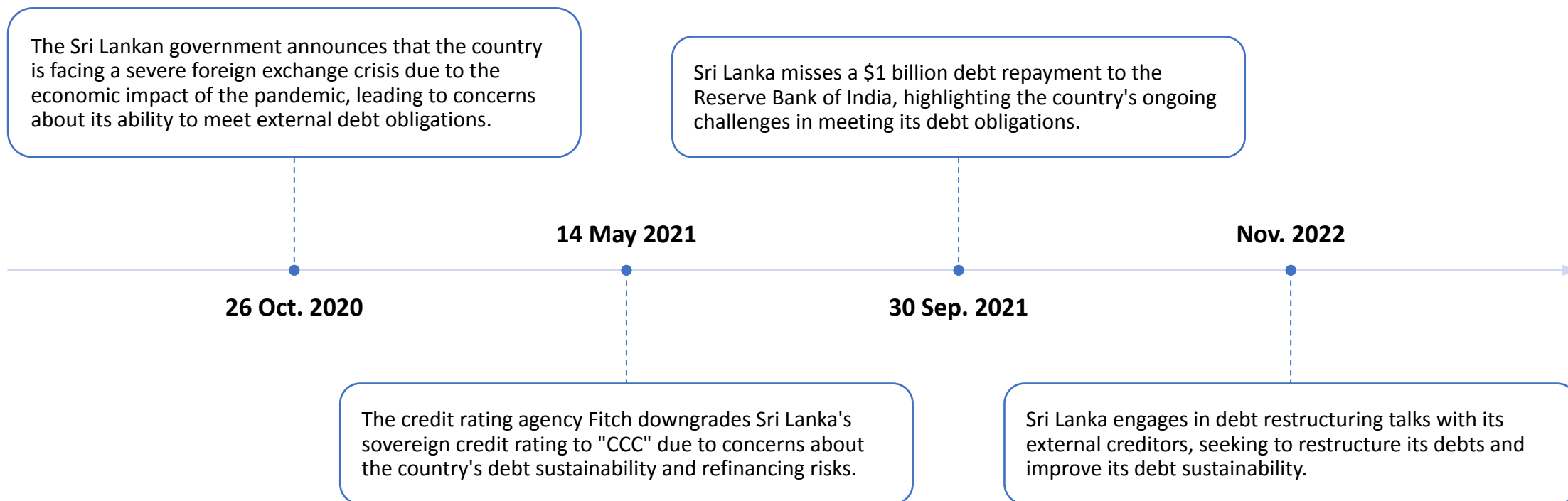
# Beyond Default:

How CDS Sri Lanka  
Survived and Soared  
during a Defaulting  
Economy



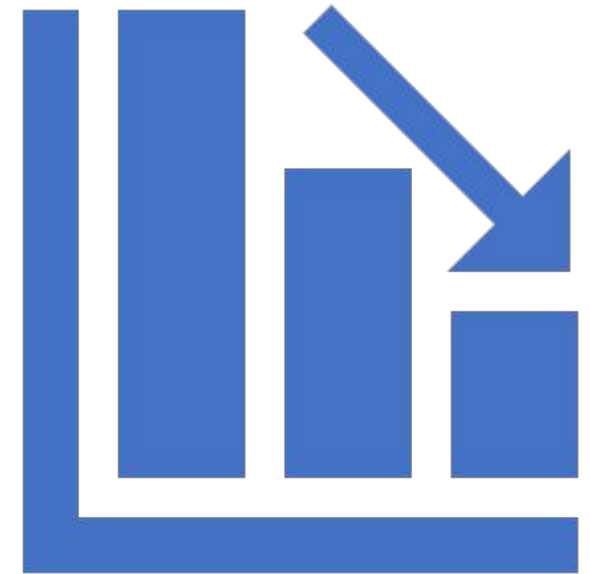
# Background

The impact of a defaulting economy is significant and wide-ranging. When a country faces difficulties in meeting its debt obligations, it can lead to various risks and challenges for the capital market.



# Challenges Faced by the CDS & Sri Lankan Capital Market due to Defaulting Economy

- **Investor Confidence & Sentiment** – Investors became wary of the economic stability and sustainability of the country, leading to a decline of investment activity.
- **Stock Market Volatility** – Uncertainty and negative sentiments resulted in sharp price fluctuations making it more challenging for the investors to make informed decisions.
- **Capital Outflows** – Investors both domestic and foreign withdrew their investments from the capital market due to heightened risks associated with a defaulting economy. Capital outflows resulted in declining stock prices and reduced market capitalization. Certain listed issuers de-listing from the CSE.



# Challenges Faced by the CDS & Sri Lankan Capital Market

## Contd.



**Cost of Production** - Fuel shortage as a result of disruption of trade activities (imports) resulted in higher costs of production for businesses. Increased costs squeeze our profit margins, leading to lower corporate earnings.



**Inflationary Pressures** - Rising inflation eroded the purchasing power, increased the input costs and lead to interest rate hikes. These factors dampened investor sentiment and negatively impacted the stock market performance and impacted the other business areas of CDS as well



**Brain Drain** – with the political and social instability and inflationary pressure, a considerable number of skilled professionals and talented individuals chose to leave the country in search of better economic prospects and opportunities elsewhere

# Challenges Faced by the CDS & Sri Lankan Capital Market

## Contd.

- **Power crisis** – strict schedule of power cuts due to issues with fuel importing for power generation, maintaining power plants and distribution networks
- **IT vendor costs** – With depreciation of LKR due to dwindled forex reserves, payments for licensing renewals were drastically increased.
- **Procurement issues** due to CBSL restrictions on forex



# Potential Risks Faced by the CDS due to Challenges

- **Operational Risks** - Risk of errors, failures, or disruptions in the operational processes due to travelling issues, social & political unrest and due to loss of skilled employees
- **Systemic Risk** - Failure within the entire financial system that can impact securities depository services due to widespread financial crisis, liquidity shortage and significant market volatility
- **Counterparty Risk** – Participant fails to meet its financial or contractual obligations.
- **Cybersecurity Risk** – As we increasingly rely on digital systems and technology, there is an increased risk of cybersecurity breaches. Hackers and cybercriminals may target CDS system to gain unauthorized access to sensitive information, manipulate transactions, or disrupt the system



# How we Survived & Soared

## Digitalization

- Fully digitalized depository operations as a method of remotely working (work from home)
- as a method of cost reduction
- enhanced stakeholder engagement – with CDS Accountholders, Company Secretaries/Registrars, CDS Participants, Margin Providers, Wealth Managers
- as a revenue diversification – eIPO, eRights, eWarrants
- Additional cyber security measures from endpoint to perimeter by introducing additional encryption methods and strengthening data center operations

# How we Survived & Soared

## Kept our eye on Profit Margins

- MoUs, agreements & partnerships with vendors to tackle sudden price hikes
- Cost reduction by Digitization & automation of processes
- Acquisition of a competitor to increase market share

## Tackling Counterparty Risk

- Introduced DvP
- Increased margin requirements of stockbrokers



# How we Survived & Soared

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# How we Survived & Soared

## Tackled Forex issues related to licensing & IT procurements

- Negotiated with vendors for a middle price for licensing
- Paid to agents based in Sri Lanka in LKR without making \$ payments to vendors based in foreign countries
- Paid directly to principals by negotiating with Banks
- Negotiated with vendors on shipping routes to meet deadlines and project timeframes
- Main system developers are based in Sri Lanka. **This was a unique advantage for Sri Lanka**
- We foresaw the issues and maintained our own forex reserve



Central Depository Systems (Pvt) Limited

CONVENIENT : DEDICATED : SECURE

# How we Survived & Soared

## Employee Retention

- Digitalized operations for employees to remotely work
- Facilitate infrastructure for work from home
- Perks & benefits to counter the inflation



# How we Survived & Soared



Enhanced Communication & CDS account holder Education programs



Investor Protection Measures - Dispute resolution mechanisms introduced by CSE and investor grievance handling procedures to address complaints and resolve disputes promptly.



Collaboration and Engagement: engaging in collaborative efforts with CDS participants, institutional investors, and industry associations. Regular consultations, feedback sessions, and forums to address concerns, gather input, and collectively work towards maintaining investor confidence and sentiment.

# Thank you

Vindhya Colombage  
vindhya@cse.lk

