

Media Release

28th December 2021

Setting up of a Central Counterparty Mechanism

The new Securities and Exchange Commission of Sri Lanka (SEC) Act which came into force from 19th September 2021 contains provisions which enable the setting up of a Central Counterparty (CCP). Further, the need for setting up a CCP in order to enhance the efficiency of post trade risk management had been spoken of for a long period of time and as the first step towards this, the launch of Delivery vs Payment (DvP) mechanism was successfully completed on 16th August 2021. Accordingly the SEC and the Colombo Stock Exchange (CSE) engaged in several rounds of discussions to determine how such a project could be taken forward.

The initiative was considered as part of the SEC 's broader vision of taking the Capital Market of Sri Lanka to the next phase of growth and having noted the benefits of such an initiative, the Commission resolved that steps be taken in this regard as early as possible and decided that the task be undertaken by a joint Committee comprising of members of the SEC and the CSE. It was also decided to have a close dialogue with the Central Bank of Sri Lanka (CBSL) since the CBSL is in the process of setting up of a CCP mechanism for government securities which is also one of the policy actions under the Capital Market Development Project of the Asian Development Bank (ADB).

Accordingly, the Chairman of the SEC Mr. Viraj Dayaratne PC has nominated Commission Member Mr. Sunil Lankatilaka to head the Joint Committee which will include Director General, Mr. Chinthaka Mendis and Acting Director Capital Market Development, Mr. Prabash Wanigatunga from the SEC. The CSE has nominated Mr. Dilshan Wirasekera Director , Mr.Suren De Silva Director , Mr.Rajeeva Bandaranaike CEO , Mr.Renuke Wijayawardhane CRO, Ms. Dulani Warnakulasooriya Head ERM and Ms.Lankesha Molligoda Head Compliance and Regulatory

Policy . The Committee’s key mandate will be to identify the manner of implementation of a CCP and to recommend the entire procedure including matters pertaining to procurement. The expectation is that it could be completed before the end of next year. The first meeting of the Committee will be held during the first week of January 2022.

Benefits of having a CCP mechanism

A CCP can offer significant benefits to the Financial Market in Sri Lanka and can be considered as part of the critical Financial Market Infrastructure that is needed and is of national interest. The effectiveness of CCPs in acting as firewalls have been proven in other markets especially during the global financial crisis in 2008 where they successfully contained the contagion of losses resulting as consequences of default by certain financial institutions spreading to other financial institutions active in markets cleared by those CCPs.

In order to complete the transitioning of the market towards adopting a full-blown CCP mechanism for clearing and settlement that would not only enhance the post trade risk management but also unlock the potential for the launch of other complex and new instruments such as derivatives, for which provision is made in the SEC Act.

Further, having a robust post trade management mechanism in place is one of the requirements considered by foreign portfolio investors in identifying the most suited investment destinations. As such, upon implementing a CCP mechanism, Sri Lanka would be able to lure much needed foreign investment flows to the country. Moreover, as per the MSCI Market Classification Framework, having a well-functioning clearing and settlement system based on the broad framework published by the Bank for International Settlements including a DVP will positively contribute towards in the efforts of elevating the CSE to “emerging market” status from the current frontier market status.

Issued by

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