



Media Release

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Colombo:

CSE Clear to Operate as Sri Lanka's Central Counterparty for Equity Transactions.

The Colombo Stock Exchange (CSE) is set to launch a Central Counterparty (CCP) framework next month, marking a significant advancement in the evolution of Sri Lanka's capital market infrastructure. This move is aimed at enhancing the safety, efficiency, and transparency of the market, ensuring the smooth settlement of trades.

Since August 2021, the CSE has been operating under a Delivery versus Payment (DvP) settlement mechanism, ensuring that securities are delivered to the buyer only when the payment is made. This mechanism minimizes settlement risk and asset commitment risk by synchronizing the exchange of securities and funds. A comprehensive margin framework was also introduced with the DvP implementation. However, as the trading volumes grow, the bilateral nature of DvP could pose issues such as higher operational complexity and increased credit and settlement risk.

To address these inefficiencies, CSE has progressively worked towards CCP implementation by establishing a separate entity, obtaining the necessary regulatory approvals, making system modifications, and creating stakeholder awareness. These progressive steps mark the journey from a simple DvP model to a sophisticated, CCP-led settlement ecosystem.

The new company incorporated, CSE Clear (Pvt) Limited, is a fully owned subsidiary of the CSE that will act as the CCP for all equity transactions executed at the CSE. CSE Clear is a licensed clearing house, regulated by the Securities and Exchange Commission of Sri Lanka (SEC).

In essence, in the current settlement model, there is no guarantee of settlement; if one party defaults, all other parties are exposed, which can lead to cascading failures in the market. In summary, a CCP plays a critical role in modern financial markets - acting as an intermediary between trading parties, guaranteeing trades, managing risks, and providing the infrastructure to keep exchanges operating safely and efficiently even during times of market stress.

The introduction of the CCP brings with it several key benefits:

- **Risk Mitigation:** Eliminates counterparty default risk by guaranteeing trades.
- **Operational Efficiency:** Enables netting of trades, reducing the volume of settlements.
- **Market Confidence:** Builds trust by enhancing the reliability of the settlement process.
- **Default Management:** Implements robust risk frameworks and default funds to protect the system.
- **Increased Liquidity:** Boosts trading activity and fund availability.
- **Global Recognition:** Aligns with international standards, making the market more attractive to foreign investors.

Expressing his thoughts on the upcoming launch, Mr. Rajeeva Bandaranaike, Chief Executive Officer of the CSE said, “With a CCP in place, Sri Lanka's capital market becomes more resilient, trustworthy, and globally competitive. It serves as a foundation for deeper market development enabling higher volumes, more sophisticated instruments, and broader investor participation. This advancement will support the CSE in introducing new products to the market, such as derivatives (futures and options) and other complex instruments. Furthermore, the robust risk management framework provided by a CCP gives investors the confidence to engage in more advanced trading strategies, including short selling—marking a significant step forward in the evolution of Sri Lanka’s financial market infrastructure.”

About CSE

The Colombo Stock Exchange (CSE) operates the only stock market in Sri Lanka and is responsible for providing a transparent and regulated environment where companies and investors can come together. The CSE is a company that is limited by guarantee established under the Laws of Sri Lanka. The CSE is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) and is a mutual exchange consisting of 15 Members and 13 Trading Members. All Members and Trading Members are licensed by the SEC to operate as Stockbrokers. For more information, please visit: www.cse.lk.

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