



Feature Interview

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Colombo:

CSE's Depository arm CDS capitalizing on technology to diversify business

Central Depository Systems (Pvt) Ltd (CDS), a fully owned subsidiary of the Colombo Stock Exchange (CSE) is announcing a number of new offerings focused on raising-the-bar in the services offered to its stakeholders. In this in-depth interview, Mr. Nalin Fonseka, Head of CDS speaks on the thinking behind these new offerings and how they will benefit the Sri Lankan capital market going forward.

CDS today is announcing a number of new business initiatives, but let's first talk about where CDS stands at present.

CDS when it was first launched in 1991, was a timely introduction to the Sri Lankan capital market, arriving during an age of low liquidity levels and inefficiencies triggered by a manual clearing process and the exchange of physical documents. CDS sparked the process of dematerialization (DEMAT) and introduced electronic settlement to Sri Lanka.

We are tasked with the responsibility of acting as the country's sole depository for securities listed on the Colombo Stock Exchange, and was established to specialize in the settlement of securities, transactions and the safekeeping of securities on behalf of domestic and international investors.

Today, CDS handles DEMAT operations, accounts services, corporate action services and clearing & settlement services to its stakeholders – all possible as a result of a transformational journey of constant innovation, stakeholder focus and technical advancement. Currently the CDS has dematerialized over 96% of listed securities – a benchmark for depositaries in the South Asian region.

A number of depositaries around the world are expanding on their traditional role to be more customer facing, by offering new services and leveraging on technology. As for CDS in Sri Lanka, we are staying true to our vision to look beyond our core function, and we are constantly looking at means through which we could offer better value to stakeholders of the Sri Lankan capital market. We are well in the process of aligning with our stakeholders even further with our new service offerings and are focused on developing into a more customer centric, customer experience driven organization. It is a transformational period for CDS.

What has CDS done in recent times to move beyond this traditional scope?

We have expanded our service offering to include Corporate Action services and Registrar services for companies listed on the CSE and also privately held unlisted companies, which is essentially a forward integration into our value chain.

The introduction of this new service by CDS has, I must say been well received by listed companies at large, where since launching, CDS has on-boarded eight companies for registrar services. Our registrar services offer coverage for corporate actions such as Dividends, Rights Issues, Capitalizations of Reserves, Mandatory Offers, Voluntary Offers, Sub- Divisions of Shares and Capital Reductions. In addition, new service introductions also include CDS maintaining the company's share ledger, attending to regulatory and statutory requirements and delivering other forms of administrative support functions for listed entities. CDS has established a new unit to handle these areas of services which is different from the operations of the depository.

The fact that CDS has been at the heart of the Sri Lankan stock market offers us vital differentiation and uniquely positions CDS to effectively deliver these services. Considering that these services are linked to our core services, we also have the ability to offer cost efficiencies and considerable convenience to listed companies and their investors.

How will the investor community benefit from these new introductions?

e-Dividend payments for an instance have the potential to offer tremendous value and convenience to investors. Companies make dividend payments via cheques at present, which often could result in delays and a longer process through which investors would receive their payments.

Companies registering with CDS for registrar services now have the ability to electronically transfer dividends directly to an investor's bank account, which is a seamless process where investors would receive their dividend payment on the date of payment without delays. This service, as of now is only available to companies subscribing to CDS registrar services, but with this introduction we anticipate that the service will be well-received by all investors, which will result in other Registrar service providers in the market also facilitating e-dividend payments – benefitting the investment community at-large. Like I said before, the wider objective here is to introduce initiatives that would help raise the bar in service levels across the value chain in the Sri Lankan capital market and not only CDS.

Through e-Dividend payments, listed companies on the other hand, are provided with an opportunity to better serve their investors through innovation. Our focus is on providing tailor-made customized solutions to corporates where we understand their specific requirements with relation to registrar services and service them in a timely and efficient manner.

The introduction of these new services places CDS in par with regional and international depositories, with evidence of many success stories of depositories effectively diversifying into related business areas to offer value to stakeholders. We have every reason to believe that CDS will be successful in doing the same here in Sri Lanka as well.

What does the near future hold in terms of other technology driven introductions?

We intend to introduce an end-to-end digital CDS account opening process in the near future, which will go a long way in making the market accessible around the country and also in broad-basing our local investor base, which is pivotal to the progress of the Sri Lankan stock market in the long-run.

With the introduction of this new service, CDS will have the ability to capture and verify information on prospective investors digitally through a mobile application in real-time in a convenient and secure manner. This will facilitate a faster and smoother account opening process for prospective investors, offering them the option of not engaging in what would be perceived as a lengthy, paper-work driven, physical application process.

The first step of this endeavor is to fully digitize the documentation process, and we are presently working with Stockbroker firms to this end. As the next step, Stockbroker firms will be given the authority to directly create CDS accounts on behalf of clients, which will provide investors the opportunity to trade almost immediately – as opposed to the present system where the account opening formalities would take a few days as both the CDS and the Stockbroker firm would have to coordinate.

This new service will complement other forms of recently introduced technology driven solutions in the CDS account handling process, including e-statements and the web portal for online CDS account management, CDS e-connect.

Implementing a fully-fledged E-IPO system to facilitate a more efficient and convenience driven IPO process and E-Voting for shareholders is also being planned and worked on at present and we expect a roll- out in the near future.

The ‘ease of doing business’ is a key parameter for prospective investors when selecting a service provider in the investment services space which CDS operates in, and it is important that CDS positions itself in this manner going forward, because the rest of the financial services industry is strongly driven through secure and convenient solutions.



Mr. Nalin Fonseka – Head of Central Depository Systems (Pvt) Limited (CDS)

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 16 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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