

Central Depository Systems (Pvt) Limited

**New Risks arising from Operational, Strategic and Financial
Areas in the Industry**



Central Depository Systems (Pvt) Limited

Convenient : Dedicated : Secure

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BACKGROUND

Sri Lankan capital market has been volatile since the end of civil war in 2009. Investor confidence was boosted and market rallied for about two to three years. Though there were lot of positives, last decade has exposed the Sri Lankan capital market to some risk areas;

1. Technology.
2. Cyber.
3. Financial.



Risks - CDS

Risk	Applicable
Operational - Cyber Security	Yes
Strategic - Fintech	Yes
- Non core competencies	Yes
Financial - Core Revenue	Yes
Regulatory - Cost of compliance	Yes

Operational

- **Cyber Security**

Risk is increasing continuously due to the technological advancements and gradual connectivity to outside world. A cyberattack is a malicious and deliberate attempt by an individual or organization to breach the information system of another individual or organization. Usually, the attacker seeks some type of benefit from disrupting the victim’s network. We have witnessed that the attacks could occur everyday. In business sense this could be highly damaging for the business in many aspects.

A policy was formulated by the Colombo Stock Exchange the parent company of Central Depository Systems (Pvt) Limited in 2013 to set up “Information Security” policy framework in order to address the risk.



Cyber Security Risk Mitigation Strategy

- ISO 27001 Certification.
- Information Security Policy.
- Asset Management Policy.
- HR Security Policy.
- Physical Security Policy.
- Access Control Policy.
- Incident Management Policy.



Strategic

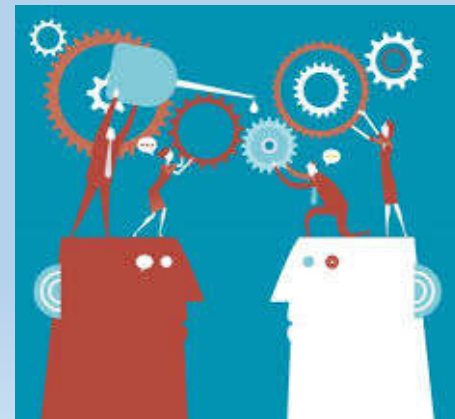
- **Fintech**

The entire landscape could turn up side down. At the rate of change which occurs around us with regard to fin-tech developments, are we dynamic enough to respond.

- **Non core competencies due to diversification**

Due to core revenues seen sharp declines the CDS began its diversification process in 2014. Main challenges are;

- People.
- Processes.
- Resources.



Strategic Risk Mitigation

- **Fintech**

The CDS is going to set up a team to look in to the possibilities of researching used cases when it comes to fin-tech. The CDS started having discussions with a firm which specializes in blockchain technology to see the possibilities.

- **Non core competencies due to diversification**

Significant measures taken to address the following;

- **People.**

Recruitment, and training.

- **Processes.**

Adopting robust processes to compete with current players in the market.

- **Resources.**

Physical resources such as space, computers, and other electronic items are very expensive. But management is in the process of making careful assessments and provide the same.



Financial

- **Decline of IPOs due to current economic conditions.**

This is mostly due to the economic conditions internally and externally the country faces. Government's strict fiscal management policy has negatively impacted the confidence of the potential issuers since their cost structures have been stressed.

- **Decline of core trading revenues.**

Investors have sought multiple avenues in the last decade in order to mitigate investment risks and regulators stepping up stricter policies have led to the decline in core revenues gradually.



Financial Risk Mitigation

- **Diversification of revenue schemes.**

Diversification of revenue schemes have begun by the introduction of Registrar Services and Corporate Action Services by the CDS. Moreover, the CDS has identified new business areas outside capital markets where the CDS can provide services utilizing its expertise.

- **Commercialization of traditional services provided by the CDS.**

The CDS has been providing most of the traditional services free of charge. It has been proposed to the board of directors to impose and increase fees currently charged from the stakeholders.



Regulatory



Compliance Requirements and Stricter Controls

Capital market regulator and the Central Bank have been stepping up its regulatory controls through the Financial Transaction Reporting Act 2006 and multiple directives to discipline the market. The CDS being the central party to market participants is a vital coordinator between regulators. Provision of information and restricting access as and when regulators direct have been on the rise. In this light the CDS has to spend more resources on monitoring and developing systems to cater to the ever growing regulatory requirements.

- Financial Transaction Reporting Act (FTRA) 2006
- [Prevention Of Money Laundering Act, No. 5 of 2006](#)
- [Financial Intelligence Unit Guidelines.](#)

Policy

Developing, Maintenance, and administration of systems to cater to increasing regulatory requirements.

Eg: We reengineered our report generation systems in recent years and prioritized data structures to suit the regulatory requirements.

