



Delivery Vs Payment

FREQUENTLY ASKED QUESTIONS (FAQ)

1. Do you know?

Currently, when you sell your shares, ownership to the shares is transferred to the buyer immediately. But you will receive the payment only after 3 trading days (T+3).

This risk is eliminated with the introduction of DVP.

2. Do you know?

Currently, if you purchase shares you are able to sell those shares immediately. But you will have to pay for the purchased shares only after 3 trading days from the purchase day. (T+3, trade day plus three days)

Even after the introduction of DVP, it will remain unchanged.

3. Do you know?

Currently you are able to borrow money to purchase shares from your stockbroker (broker credit) or a margin provider.

Even after the introduction of DVP, it will remain unchanged

4. Do you know?

Currently the transaction cost for "Day Trading" is relatively low compared to other share transactions.

Even after the introduction of DVP, it will remain unchanged.

5. Do you know?

Currently, when you purchase shares you have to pay for those shares 3 days from the purchase day (T + 3).

Even after the introduction of DVP, it will remain unchanged.

6. Do you know?

Currently, after you sell shares, those shares are removed from your CDS account and credited to the account of the person who bought the shares.

After the introduction of DVP, the shares are credited to the account of the person who bought the shares only after 3 days from the purchase day (T + 3), the settlement day. Nevertheless, there is no impediment for the buyer to sell the shares immediately upon purchase.

7. Do you know?

One of the reasons that foreign investors are reluctant to invest in our stock market is because a DVP settlement system does not exist.

The introduction of DVP reduces the risk to the investor selling shares since the ownership of the shares are transferred only after the seller receives payment. This could lead to more foreign investors coming to our stock market.

8. Do you know?

Introduction of a DVP system will result in changes being made to the systems of stockbroking companies. Therefore, it does not have any negative impact on investors.

9. Do you know?

The introduction of a DVP system is the result of many years of work. It is an internationally accepted standard and stockbroking companies have been preparing for the introduction of a DVP system for a long time and at present their systems are in place for this change. Test runs have been conducted for several months and further test runs will continue in the future.

10. Do you know?

The Colombo Stock Exchange will continue to educate the stockbrokers and investors on the DVP system and will address any doubts.

1. What is the importance of establishing DvP to the CSE?

The introduction of DVP is aimed at strengthening the overall credibility and integrity of the market, minimizing the asset commitment risk and establishing a globally accepted mechanism.

This is an important step that we will take towards developing the market infrastructure to work towards establishing a Central Counter Party System (CCP) which will in turn facilitate the introduction of new products like financial derivatives .

The CSE is already using this method of Delivery vs Payment (DVP) in the secondary market for corporate Debt securities. Introducing this method for shares will be a new milestone in the Stock market.

2. What is the current settlement mechanism and how does that change with DVP?

Presently upon a transaction being executed, shares will move immediately on Trade Day itself from the Seller's CDS account to Buyer's CDS account but the settlement for the transaction falls due only on the 3rd Day after the transaction day . (T + 3) thus exposing the seller to a 3 day asset commitment risk .

With DVP, the shares will be moved from the sellers CDS account to the Buyers CDS account only on the settlement day . i.e on the third day after the transaction day upon the fund confirmation from the Buyers Stock Broker .

With this mechanism the shares and funds are exchanged on the same day thus minimising the asset commitment risk and settlement risk .

Asset Commitment Risk – until the buyer commits the payment the seller is exposed to this risk.

Settlement risk – Risk associated with default by the Buyer to the Seller.

3. What is the main change that an investor will face with DVP ?

Investors need not to change their trading pattern with DVP implementation. Similar to the current system you can sell what you buy today, payment needs to be arranged through your Stock broker on the 3rd day after the trade date . You can continue to use your Broker credit facilities or margin trading facilities obtained from margin providers without any change .

The only change for an Investor is that the shares will move physically from the sellers CDS account to the buyers CDS account on the settlement date (T+3)

4. What is the impact to Day trading? Do we have to wait for three days to sell the shares that we bought today?

There is no impact to Day trading . If you do a purchase today, you will be able to sell the shares on the same day even though the shares will come to your CDS account only on the T+3 date. The system will record your purchase transaction . Hence, you will be able to continue buying and selling on the same day with the day trading fee benefit as done presently .

5. Will there be a change in the Settlement Day ?

No . The settlement day will remain as the third day following the transaction day (T + 3)

6. Will DVP curtail Broker Credit or Margins Facilities

There is no impact to the existing credit system provided by the brokerage firms or margin providers. They could continue as done presently.

There will be no changes to the existing stock holdings purchased via margin facility and/or brokerage firm credit. DVP is independent of Broker Credit / margin credit. Investors could continue the same trading patterns with the respective broker firms and margin providers. There are no changes to limits etc.

7. Will short selling be allowed with the DVP ?

Short selling will not be permitted for clients of Stock broker Firms.

In the event of a shortfall in securities, the CSE will introduce a rectification mechanism by way of a Buy-In board where the short position can be covered through a buy in board.

The settlement cycle for the Buy in Board will be T + 1

8. What are the changes to corporate actions with DVP implementation?

There will be no effect to the corporate action entitlement. Any investor who hold or purchase shares the day before the Ex-date will be eligible for the particular corporate action similar to the current practice.

9. Is there any additional fee for the transaction with DVP

There will not be any changes to the transaction fee or the day trading concession. It will be the same upon DVP implementation.

10. How can clarify any concerns I may have

You can contact your Investment Advisor or the Colombo Stock Exchange on 0112356456