



# DEPOSITORY SYSTEM



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# DEPOSITORY

The Depositories Act defines a depository as “a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under subsection (1A) of section 12 of Securities and Exchange Board of India Act, 1992.”

A depository is a firm where in the securities of an investor are held in an electronic form in the same way as a bank holds money. It carries out the transactions of securities by means of book keeping entry, without any physical movement of securities. Depository system essentially aims at eliminating the voluminous and cumbersome paper work involved in the scrip-based system and offers scope for ‘paperless’ trading through state-of-the-art technology. It is an institution which maintains an electronic record of ownership of securities.

# CONSTITUENTS OF DEPOSITORY SYSTEM

There are essentially four players in the depository system:-

- The Depository Participants
- The Beneficial Owner/Investor
- The Issuer
- The Depository

# DEPOSITORY PARTICIPANTS

The DP is the link between the investor and depository. An investor who opens a DEMAT account with a DP can utilize the services offered by the depository. While the DP processes the instructions of the investor, the account and records thereof is maintained with the depository. A DP is thus a "service centre" for the investor.

According to SEBI guidelines, financial institutions, banks, stockbrokers, etc. are eligible to act as DP's. The investor who is known as beneficial owner (BO) has to open a DEMAT account through any DP for dematerialization of his holdings and transferring securities.

## **BENEFICIAL OWNER:**

Beneficial owner is a person whose name is recorded as such with a depository. It means a person who is engaged in buying and selling of securities issued by the companies and is registered his/ her securities with the depository in the form of book entry. And he/ she has all the rights and liabilities associated with the securities.

## **ISSUER:**

The issuer is the co. which issues the securities. It maintains a register for recording the names of the registered owners of securities and the depositories. The issuer send a list of shareholders who opt for the depository system. And only those co.'s can issue the securities which are registered under stock exchanges.

# DEPOSITORIES

At present there are two depositories in India:

- National Securities Depository Ltd.(NSDL)
- Central Depository Services Ltd.(CDSL)

# NATIONAL SECURITIES DEPOSITORY LTD.

This is the first depository org. promoted by IDBI,UTI and NSE. The depositories ordinance was promulgated by the govt. of India in SEP, 1995. The SEBI issued guidelines for depositories in MAY, 1996.NSDL was set up to provide electronic depository facilities for securities being traded in capital market. NSDL has minimum net worth of Rs. 100 crores. It deals with shares in dematerialized form through depository participants who are agents of investor banks, stockbrokers and financial institutions.



# CENTRAL DEPOSITORY SERVICES LTD.

CDSL is the second depository in India, set up to meet the objective the Act & to fulfill the user's need. It secured "Certificate of Commencement" of business on FEB. 8, 1999 from SEBI. This was promoted by Bombay Stock Exchange Limited (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, and Union Bank of India.

CDSL aims to retain the entire data of the investors in the central database of CDSL. The balances in the investors' account recorded and maintained with CDSL can be obtained through the DP. The DP is required to provide the investor, at regular intervals, a statement of account, which gives the details of the securities holdings and transactions.

# FUNCTIONS OF NSDL & CDSL

- Enables Dematerialization and Rematerialization of eligible securities.
- Ensuring the safety and soundness of Indian capital market by developing settlement solutions that increase efficiency, minimize risk and reduce costs.
- Effect settlement of securities traded on the exchanges as well as Off-market trades through book entry.
- Enable surrender and withdrawal of securities to and from the depository.
- Maintain investor holdings in the electronic form.

# FUNCTIONING OF DEPOSITORY SYSTEM

The following are some of important facilities offered by depository system:

- Dematerialization
- Rematerialization
- Account opening
- Pledging or hypothecation of dematerialized securities
- Freezing of Demat account
- Custody of securities
- Nomination facility

# DEMATERIALIZATION

- Dematerialisation (“DEMAT” in short form) signifies conversion of a share certificate from its physical form to electronic form for the same number of holdings which is credited to your DEMAT account which you open with a Depository Participant (DP).

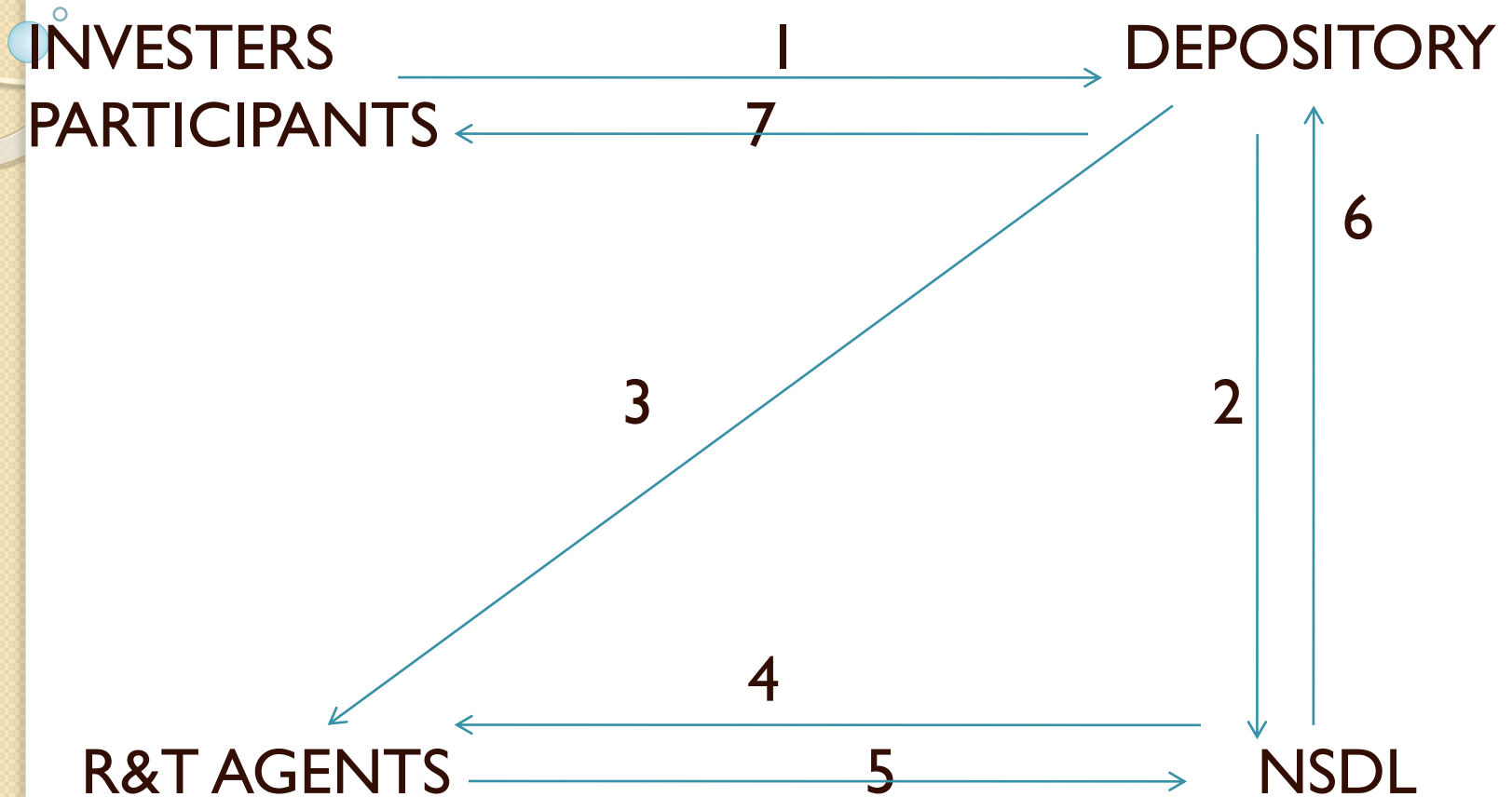
Dematerialisation is a process by which the physical share certificates of an investor are taken back by the Company and an equivalent number of securities are credited in an electronic form at the request of the investor. An investor will have to first open an account with a Depository Participant and then request for the dematerialisation of his share certificates through the Depository Participant so that the dematerialised holdings can be credited into that account.

# REMATERIALIZATION

Rematerialisation is the exact reverse of Dematerialisation.

It refers to the process of issuing physical securities in place of the securities held electronically in book-entry form with a depository. Under this process, the depository account of a beneficial owner is debited for the securities sought to be Re-materialised and physical certificates for the equivalent number of securities are issued. A beneficial owner holding securities with a depository has a right to get his electronic holding converted into physical holding at any time. The beneficial owner desiring to receive physical security certificates in place of the electronic holding should make a request to the issuer or its R&T Agent through his DP in the prescribed re-materialization request form (RRF).

# PROCESS OF DEMAT & REMAT



# OPEN A DEMAT ACCOUNT

- First an investor has to approach a DP and fill up an account opening form. The account opening form must be supported by copies of any one of the approved documents to serve as Proof of identity(POI) and proof of address (POA) as specified by SEBI. Besides, production of PAN card, photograph and proof of bank statement is also mandatory at the time of opening of account.
- All applicants should carry original documents for verification by an authorized official of the depository participant, under his signature.
- Further, the investor has to sign an agreement with DP in a depository prescribed standard format, which details rights and duties of investor and DP.
- DP should provide the investor with a copy of the agreement and schedule of charges for their future reference.
- The DP will open the account in the system and give an account number, which is also called BO ID (Beneficiary Owner Identification number).



# PLEDGING OR HYPOTHECATION OF DEMAT SECURITIES

The investor can also borrow against securities placed with depositories by creating a pledge on his share portfolio in his Demat account. The procedure of pledging is as follows:-

- Both the investor(pledger) and lender(pledgee) must have depository accounts.
- The investor has to initiate the pledge by submitting the details of securities to be pledged in a standard form to his DP.
- The pledgee has to conform the request through his DP.
- Once this done, the investors securities are pledged.
- All transactions between the pledger and pledgee are handled as per the usual practice followed outside the depository system.



# FREEZING OF DEMAT ACCOUNT

An account holder may freeze the account for debits as well as credits. If such instruction is issued, the status of the account will change to 'Suspended for All' after the execution of the instruction. Further, no debits and credits can be made in the account unless the account holder issues unfreeze instructions.

This facility is beneficial to clients who do not use their account for long periods. By freezing their account for debits and credits, they can avoid undue credits to their accounts in addition to preventing debits.

## **CUSTODY OF SECURITIES:**

The act of maintaining share portfolio of investors in the electronic form is the custody service. The investors get additional services such as regular statement of accounts, which shows its various balances, maintenance of details of his account like address, bank account number etc.

## **NOMINATION FACILITY:**

when an investor opens a DEMAT account, he has to fill up a demat request form(DRF). The form also asks the investor to fill up the name of nominee. Thus after his death, the shares will automatically transferred in the nominee's name provided he is also maintaining a DEMAT account.

# ADVANTAGES OF DEPOSITORY SYSTEM

1. Quick transfer of funds and securities
2. Elimination of all risk associated with physical certificates.
3. No stamp duty
4. Minimized chances of fraud, theft of securities
5. Statement of accounts
6. Provides more acceptability and liquidity of securities
7. Reduction of paperwork
8. Direct disbursement of non cash benefits



# DISADVANTAGES

1. Lack of control
2. Need for greater supervision
3. Complexity of the system



*THANKS*