

## FAQ-Dematerialisation

### FREQUENTLY ASKED QUESTIONS

ON

### DEMATERIALISATION

**Disclaimer:** These FAQs are not the interpretation of law but provide only a simplistic explanation of terms / concepts related to the depository system. All information has been updated till September 30, 2008. For full particulars of laws governing the depository system, please refer to the Acts/Regulations/Guidelines/Circulars appearing under the Legal Framework Section.

#### Understanding Depository System

#### 1. What is a Depository?

A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities.

#### 2. How is a depository similar to a bank?

It can be compared with a bank, which holds the funds for depositors. A Bank – Depository analogy is given in the following table:

BANK-DEPOSITORY – AN ANALOGY

BANK	DEPOSITORY
Holds funds in an account	Holds securities in an account
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the BO account holder
Facilitates transfer without having to handle money	Facilitates transfer of ownership without having to handle securities
Facilitates safekeeping of money	Facilitates safekeeping of securities

#### 3. How many Depositories are registered with SEBI?

At present two Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) are registered with SEBI.

#### 4. Who is a Depository Participant?

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investor and provides depository services. Public financial institutions, scheduled commercial banks, foreign banks operating in India with the approval of the Reserve Bank of India, state financial corporations, custodians, stock-brokers, clearing corporations /clearing houses, NBFCs and Registrar to an Issue or Share Transfer Agent complying with the requirements prescribed by SEBI can be registered as DP. Banking services can be availed through a branch whereas depository services can be availed through a DP.

#### 5. What is the minimum networth required for a depository?

The minimum networth stipulated by SEBI for a depository is Rs.100 crore.

#### 6. How many Depository Participants are registered with SEBI?

As on September 30, 2008, a total of 711 DPs (266 NSDL, 445 CDSL) are registered with SEBI.

#### 7. Is it compulsory for every investor to open a beneficial owner (BO) account to trade in the capital market?

As per the available statistics at BSE and NSE, 99.9% transactions take place in dematerialised mode only. Therefore, in view of the convenience of trading in dematerialised mode, it is advisable to have a beneficial owner (BO) account for trading at the exchanges.

However to facilitate trading by small investors (Maximum 500 shares, irrespective of their value) in physical mode the stock exchanges provide an additional trading window, which gives one time facility for small investors to sell physical shares which are in compulsory demat list. The buyer of these shares has to demat such shares before further selling.

#### 8. What are the benefits of availing depository services?

The benefits are enumerated below:-

A safe and convenient way to hold securities;

Immediate transfer of securities;

No stamp duty on transfer of securities;

Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.

Reduction in paperwork involved in transfer of securities;

Reduction in transaction cost;

No odd lot problem, even one share can be traded;

Nomination facility;

Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately;

Transmission of securities is done by DP eliminating correspondence with companies;

Automatic credit into demat account of shares, arising out of bonus/split/consolidation/merger etc.

Holding investments in equity and debt instruments in a single account.

### **Account Opening**

#### **9. How can services of a depository be availed?**

To avail the services of a depository an investor is required to open a Beneficial Owner (BO) account with a Depository Participant (DP) of any depository.

#### **10. How can one open an 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 which serve as proof of identity (POI) and proof of address (POA) as specified by SEBI. Apart from these PAN card has to be shown in original at the time of account opening from April 01, 2006.

All applicants should carry original documents for verification by an authorized official of the DP, under his signature.

Investor has to sign an agreement with DP in a depository prescribed standard format, which gives details of 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 a unique account number, which is also called BO ID (Beneficial Owner Identification number) and used for all future transactions.

#### **11. What are all charges an investor has to pay for opening and maintenance of a BO account?**

SEBI has rationalised the cost structure for dematerialisation by removing account opening charges, transaction charges (for credit or *buy transactions* of securities), custody charges and account closing charges. Custody charges are now paid by the issuer companies. Broadly, investors are required to pay the charges towards:-

- *Dematerialisation and Rematerialisation of their securities*
- *Annual account maintenance charges*
- *Transactions fees (only for sell transactions)*

The DP may revise the charges by giving 30 days notice in advance.

Further, SEBI has also advised the DPs to submit to their Depository their tariff/charge structure every year latest by 30<sup>th</sup> April and changes made therein, along with the date of effect to enable the investors to have a comparative analysis of the tariff/charge structure of various DP's. The information received by the depositories is put up on their websites.

#### **12. Why should an investor give his bank account details at the time of BO account opening?**

Bank account details are necessary for the protection of interest of investors. When any cash or non cash corporate benefits such as rights or bonus or dividend is announced for a particular scrip, depositories provide to the concerned issuer /it's RTA, the details of the investors, their electronic holdings as on record / book closure date for reckoning the entitlement of corporate benefit.

The disbursement of cash benefits such as dividend is credited directly by the Issuer/it's RTA to the beneficiary owner through the ECS (Electronic Clearing Service wherever available) facility or by issuing warrants on which

bank account details are printed for places where ECS facility is not available. The bank account number is mentioned on the dividend and warrant to avoid any fraudulent misuse. The bank account details will be those which are mentioned in account opening form or modified details that had been intimated subsequently by the investor to the DP.

### **13. Can an investor change the details of his bank account?**

Yes. However, the investor must inform the DP regarding change in the bank account and corresponding change in MICR / IFSC code while updating their bank account details with DP. In the depository system monetary benefits on the security balances are paid as per the bank account details provided by the investor at the time of account opening. The investor must ensure that any subsequent changes in bank account details are informed to the DP.

### **~~15.~~14. What should be done if the address of the investor changes?**

Investor should immediately inform his DP along with necessary documents, who in turn will update the records. This will obviate the need of informing different companies.

### **~~14.~~15. What would be the charges for account closure and securities transfer due to account closing?**

SEBI has advised that from January 09, 2006, no charges shall be levied by a depository on DP and consequently, by a DP on a BO, when a BO transfers all the securities lying in his account to another branch of the same DP or to another DP of the same depository or another depository, provided the BO Account/s at transferee DP and at transferor DP are identical in all respects. In case the BO Account at transferor DP is a joint account, the BO account at transferee DP should also be a joint account in the same sequence of ownership.

All other transfer of securities consequent to closure of account, not fulfilling the above-stated criteria, would be treated like any other transaction and charged as per the schedule of charges agreed upon between the BO and the DP.

### **16. Can multiple accounts be opened?**

Yes. An investor can open more than one account in the same name with the same DP and also with different DPs. For all the accounts, investor has to strictly comply with KYC norms including Proof of Identity, Proof of Address requirements as stipulated by SEBI and also provide PAN number. The investor has to show the original PAN card at the time of opening of demat account.

### **17. Does the investor have to keep any minimum balance of securities in his account?**

No.

### **18. Is it necessary to have account with the same DP as broker has?**

No. Depository / DP can be chosen by investor as per convenience irrespective of the DP of the broker.

### **19. Can an investor open a single account for securities owned in different ownership patterns such as securities owned individually and securities owned jointly with others?**

No. The Demat account must be opened in the same ownership pattern in which the securities are held in the physical form. e. g. if one share certificate is in the individual name and another certificate is jointly with somebody, two different accounts would have to be opened.

### **20. What is required to be done if one has physical certificates with the same combination of names, but the sequence of names is different i.e. some certificates with 'A' as first holder and 'B' as second holder and other set of certificates with 'B' as first holder and 'A' as the second holder?**

In this case the investor may open only one account with 'A' & 'B' as the account holders and lodge the security certificates with different order of names for dematerialisation in the same account. An additional form called "Transposition cum Demat" form will have to be filled in. This would help you to effect change in the order of names as well as dematerialise the securities.

**21. Can an investor operate a joint account on "either or survivor" basis just like a bank account?**

No. The demat account cannot be operated on "either or survivor" basis like the bank account.

**22. Can someone else operate the account on behalf of the BO on the basis of a power of attorney?**

Yes. If the BO authorises any person to operate the account by executing a power of attorney and submit it to the DP, that person can operate the account on behalf of the BO.

**23. Can addition or deletion of names of accountholders is permitted after opening the account?**

No. The names of the account holders of a BO account cannot be changed. If any change has to be effected by addition or deletion, a new account has to be opened in the desired holding pattern (names) and then transfer the securities to the newly opened account. The old account may be closed.

**24. Can an investor close his demat account with one DP and transfer all securities to another account with another DP?**

Yes. The investor can submit account closure request to his DP in the prescribed form. The DP will transfer all the securities lying in the account, as per the instruction, and close the demat account.

**25. What if there are any discrepancies in the statement of holdings?**

In case of any discrepancy in the statement of holdings, investor can contact his DP and in case of discrepancies in corporate benefits, one can approach the company / its Registrar and Transfer Agent. If the discrepancy is not resolved, the investor may approach concerned Depository (NSDL or CDSL).

**26. Whether investor can freeze his account(s)?**

Investor can freeze his account and/or ISIN and/or specific number of securities under an ISIN for any given period of time as per applicable Regulations of SEBI and Bye Laws of the respective depository.

**Dematerialisation**

**27. What is dematerialisation?**

Dematerialisation is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited into the BO's account with his DP.

**28. How can one convert physical holding into electronic holding i.e. how can one dematerialise securities?**

In order to dematerialise physical securities one has to fill in a DRF (Demat Request Form) which is available with the DP and submit the same along with physical certificates that are to be dematerialised. Separate DRF has to be filled for each ISIN. The complete process of dematerialisation is outlined below:

- Surrender certificates for dematerialisation to your DP.
- DP intimates to the Depository regarding the request through the system.
- DP submits the certificates to the registrar of the Issuer Company.
- Registrar confirms the dematerialisation request from depository.

- After dematerialising the certificates, Registrar updates accounts and informs depository regarding completion of dematerialisation.
- Depository updates its accounts and informs the DP.
- DP updates the demat account of the investor.

### 29. What is an ISIN?

ISIN (International Securities Identification Number) is a unique 12 digit alpha-numeric identification number allotted for a security (E.g.- INE383C01018). Equity-fully paid up, equity-partly paid up, equity with differential voting /dividend rights issued by the same issuer will have different ISINs.

### 30. Can odd lot shares be dematerialised?

Yes, odd lot share certificates can also be dematerialised.

### 31. Do dematerialised shares have distinctive numbers?

Dematerialised shares do not have any distinctive numbers. These shares are fungible, which means that all the holdings of a particular security will be identical and interchangeable.

### 32. Can electronic holdings be converted back into physical certificates?

Yes. The process is called rematerialisation. If one wishes to get back his securities in the physical form he has to fill in the RRF (Remat Request Form) and request his DP for rematerialisation of the balances in his securities account. The process of rematerialisation is outlined below:

- Make a request for rematerialisation.
- Depository participant intimates depository regarding the request through the system.
- Depository confirms rematerialisation request to the registrar.
- Registrar updates accounts and prints certificates.
- Depository updates accounts and downloads details to depository participant.
- Registrar dispatches certificates to investor.

## Trading / Settlement

### 33. What is the procedure for selling dematerialised securities?

The procedure for buying and selling dematerialised securities is similar to the procedure for buying and selling physical securities. The difference lies in the process of delivery (in case of sale) and receipt (in case of purchase) of securities.

#### **In case of purchase:-**

The broker will receive the securities in his account on the payout day.

The broker will give instruction to its DP to debit his account and credit BO's account.

BO will give 'Receipt Instruction' to DP for receiving credit by filling appropriate form. However BO can give standing instruction for credit to his account that will obviate the need of giving Receipt Instruction every time.

**In case of sale:-**

BO will give delivery instruction through Delivery Instruction Slip (DIS) to DP to debit his account and credit the broker's account. Such instruction should reach the DP's office at least 24 hours before the pay-in, failing which, DP will accept the instruction only at the BO's risk.

**34. What 'Standing Instruction' is given in the account opening form?**

In a bank account, credit to the account is given only when a 'pay in' slip is submitted together with cash/cheque. Similarly, in a depository account 'Receipt in' form has to be submitted to receive securities in the account. However, for the convenience of BOs, facility of 'standing instruction' is given. If you say 'Yes' for standing instruction, you need not submit 'Receipt in' slip everytime you buy securities. If you are particular that securities can be credited to your account only with your consent, then do not say 'yes' [or tick ] to standing instruction in the application form.

**35. What is delivery instruction slip (DIS)? What precautions do one need to observe with respect to Delivery Instruction Slips?**

To give the delivery one has to fill a form called Delivery Instruction Slip (DIS). DIS may be compared to cheque book of a bank account. The following precautions are to be taken in respect of DIS:-

Ensure and insist with DP to issue DIS book.

Ensure that DIS numbers are pre-printed and DP takes acknowledgment for the DIS booklet issued to investor.

Ensure that your account number [client id] is pre-stamped.

If the account is a joint account, all the joint holders have to sign the instruction slips. Instruction cannot be executed if all joint holders have not signed.

Avoid using loose slips.

Do not leave signed blank DIS with anyone viz., broker/sub-broker, DPs or any other person/entity.

Keep the DIS book under lock and key when not in use.

If only one entry is made in the DIS book, strike out remaining space to prevent misuse by any one.

BO should personally fill in target account-id and all details in the DIS.

If the DIS booklet is lost / stolen / not traceable, the same must be intimated to the DP immediately in writing. On receipt of such intimation, the DP will cancel the unused DIS of the said booklet.

**36. Is it possible to give delivery instructions to the DP over Internet and if yes, how?**

Yes. Both NSDL and CDSL have launched this facility for delivering instructions to your DP over Internet, called SPEED-e and EASI respectively. The facility can be used by all registered BOs after paying the applicable charges.

**37. Is it possible to get securities allotted in public offering directly in the electronic form?**

Yes, it is possible to get securities allotted to in Public Offerings directly in the electronic form. In the public issue application form, there is a provision to indicate the manner in which an investor wants the securities to be allotted. He has to mention the BO ID, name and DP ID on the application form. Any allotment made will be credited into the BO account.

## **Pledging**

### **38. Can one pledge the dematerialised securities?**

Yes. Pledging dematerialised securities is easier and more advantageous as compared to pledging physical securities.

### **39. What should one do to pledge electronic securities?**

The procedure to pledge electronic securities is as follows:

- Both BOs, investor (pledgor) and the lender (pledgee) must have BO account with the same depository;
- Pledgor will have to instruct DP to create pledge in prescribed standard form (Pledge Request Form) with the details of the securities;
- The lender (pledgee) has to confirm the request through his/her DP;
- Once this is done, securities are pledged.
- All financial transactions between the pledgor and the pledgee are handled as per usual practice outside the depository system.

### **40. What is the procedure for closure of pledge after repayment of loan?**

After the repayment of loan, pledgor can request for a closure of pledge by instructing the DP in a prescribed format. The pledgee on receiving the repayment will instruct his DP accordingly for the closure of the pledge.

### **41. Can pledgor (investor) change the securities offered in a pledge?**

Yes, if the pledge (lender) agrees, pledgor (investor) may change the securities offered in a pledge.

### **42. Who will receive the corporate benefits on the pledged securities?**

The securities pledged are only blocked in the account of pledgor (investor) in favour of the pledge (lender). The pledgor would continue to receive all the corporate benefits.

## **Transaction Statement**

### **43. How does one know that the DP has updated the account after each transaction?**

The DP provides a Transaction Statement periodically, which gives details of current balances and various transactions made through the depository account. If desired, DP may provide the Transaction Statement at intervals shorter than the stipulated ones, probably at a cost.

Depositories also provide SMS Alert facility for demat account holders whereby investors can receive alerts for debits (transfers) to their demat accounts and for credits in respect of corporate actions for IPO and offer for sale. Under this facility, investors can receive alerts, a day after such debits (transfers)/credits take place. These alerts are sent to those account holders who have provided their mobile numbers to their Depository Participants (DPs).

### **44. At what frequency will the investor receive his Transaction Statement from his DP?**

DPs have to provide transaction statements to their clients once in a month, if there is any transaction and if there is no transaction, then once in a quarter.

DPs also provide transaction statement in electronic form under digital signature subject to their entering into a legally enforceable arrangement with the BOs to this effect.



**45. What is to be done if there are any discrepancies in transaction statement?**

In case of any discrepancy in the transaction statement, BO can contact his DP. If the discrepancy cannot be resolved at the DP level, BO should approach the Depository.

**46. Whom should BO contact in case of any investor complaint / problem / query?**

In case of any investor complaint / problem / query one may first contact his DP. If DP is unable to solve the complaint / problem / query one should approach concerned depository. If one is not satisfied one may approach SEBI. One may also approach SEBI directly.

**Nomination****47. Who can nominate?**

Nomination can be made only by individuals holding beneficial accounts either singly or jointly. Non-individuals including society, trust, body corporate, karta of Hindu Undivided Family, holder of power of attorney cannot nominate.

**48. Who can be a nominee?**

Only an individual can be a nominee. A nominee shall not be a society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family or a power of attorney holder.

**49. Why is it important to nominate?**

Nomination is helpful in smooth transmission of shares upon the death of the BO/s. The nomination once made can be changed at a later date as desired by the BO/s.

**Transmission of dematerialised securities****50. What is transmission of dematerialised securities?**

Transmission is the process by which securities of a deceased account holder are transferred to the account of his legal heirs / nominee. Process of transmission in case of dematerialised holdings is more convenient as the transmission formalities for all securities held in a demat account can be completed by submitting documents to the DP, whereas in case of physical securities the legal heirs/nominee/surviving joint holder has to independently correspond with each company in which securities are held.

**51. In the event of death of the sole holder, how the successors should claim the securities lying in the demat account?**

The claimant should submit to the concerned DP an application Transmission Request Form (TRF) along with the following supporting documents

1. In case of death of sole holder; where the sole holder has appointed a nominee
  - Notarised copy of the death certificate
2. In case of death of the sole holder; where the sole holder has not appointed a nominee
  - Notarised copy of the death certificate

And anyone of the below mentioned documents -

- Succession certificate
- Copy of probated will

- Letter of Administration

The DP, after ensuring that the application is genuine, will transfer securities to the account of the claimant.

The major advantage in case of dematerialised holdings is that the transmission formalities for all securities held with a DP can be completed by interaction with the DP alone, unlike in the case of physical share certificates, where the claimant will have to interact with each Issuing company or its Registrar separately.

### **Inter Depository Transfers**

**52. If a BO holds an account with NSDL/CDSL, can he receive securities from an account in CDSL/NSDL?**

Yes. Inter depository transfers are possible without any additional costs.

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