

**INDIAN FINANCIAL SYSTEM
M.COM SEMESTER II**

DEPOSITORY

Dr. GEETIKA T. KAPOOR

Department Of Commerce

FINANCIAL SERVICES

Financial services are the economic services provided by the finance industry, which encompasses a broad range of organizations that manage money, including banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and Government sponsored enterprises.

Including Depositories and Custodians

NEED FOR DEPOSITORY

- In order to overcome the various problems associated with dealing in physical shares, such as :-
 - Problems of theft, fake and/ or forged transfers.
 - Share transfer delays due to signature mismatches.
 - Much paperwork.
 - Time consuming process.
 - Cost of transfer (stamp duty), etc.
- The Govt. of India in 1996, enacted the Depositories Act 1996 to start depository services in India.

DEPOSITORY

- According to the Depositories Act 1996, Depository means:-
 - A company formed and registered under the Companies Act, 1956 and
 - Which has been granted a certificate of registration under the SEBI Act, 1992.
- The first depository was set way back in 1947 in Germany.
- **Depository** is an institution or a kind of organization which holds securities with it in De-Mat form, in which trading is done among shares, debentures, mutual funds, derivatives, F&O and commodities. The intermediaries/ DP's perform their actions in variety of securities at **Depository** on behalf of their clients
- **Currently there are two depositories operational in India.**
- National Securities **Depository** Ltd. - NSDL - Having 1.39 crores Demat A/c as on 30-06-2015.
- Central **Depository** Services Ltd. - CDSL - Having 98 lac Demat A/c as on 30-06-2019.

DEPOSITORY SYSTEM

- ✓ Depository system is also known as “Scripless Trading System”.
- ✓ It is an organization which holds the securities of a shareholder in the form of electronic accounts (dematerialized form), in the same way a bank holds the money.
- ✓ A custodian of its client’s securities.
- ✓ Interfaces with its investors through its agents called “depository participants”.

DEPOSITORY PARTICIPANT

- A depository participant (DP) is an agent of the depository who is authorized to offer depository services to all the investors.
- DP is the intermediary between the investor and the depository.
- A DP has to be registered with the SEBI.
- A DP is just like a branch of a bank.
- An investor can open an account through the DP only known as a Demat a/c. A demat account is opened on the same lines as that of a Bank Account
- Prescribed Account opening forms are available with the DP, needs to be filled in. Standard Agreements are to be signed by the Client and the DP, which details the rights and obligations of both parties.
- Along with the form the client requires to attach Photographs of Account holder, Attested copies of proof of residence and proof of identity needs to be submitted along with the account opening form.

Objectives of depository

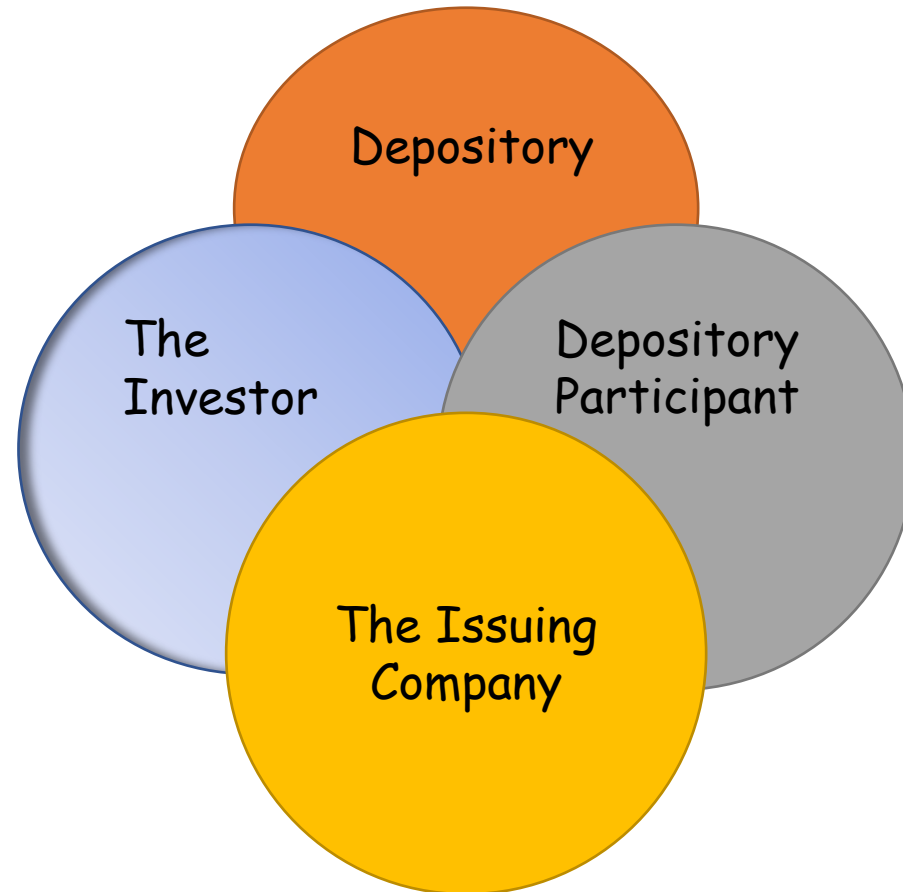


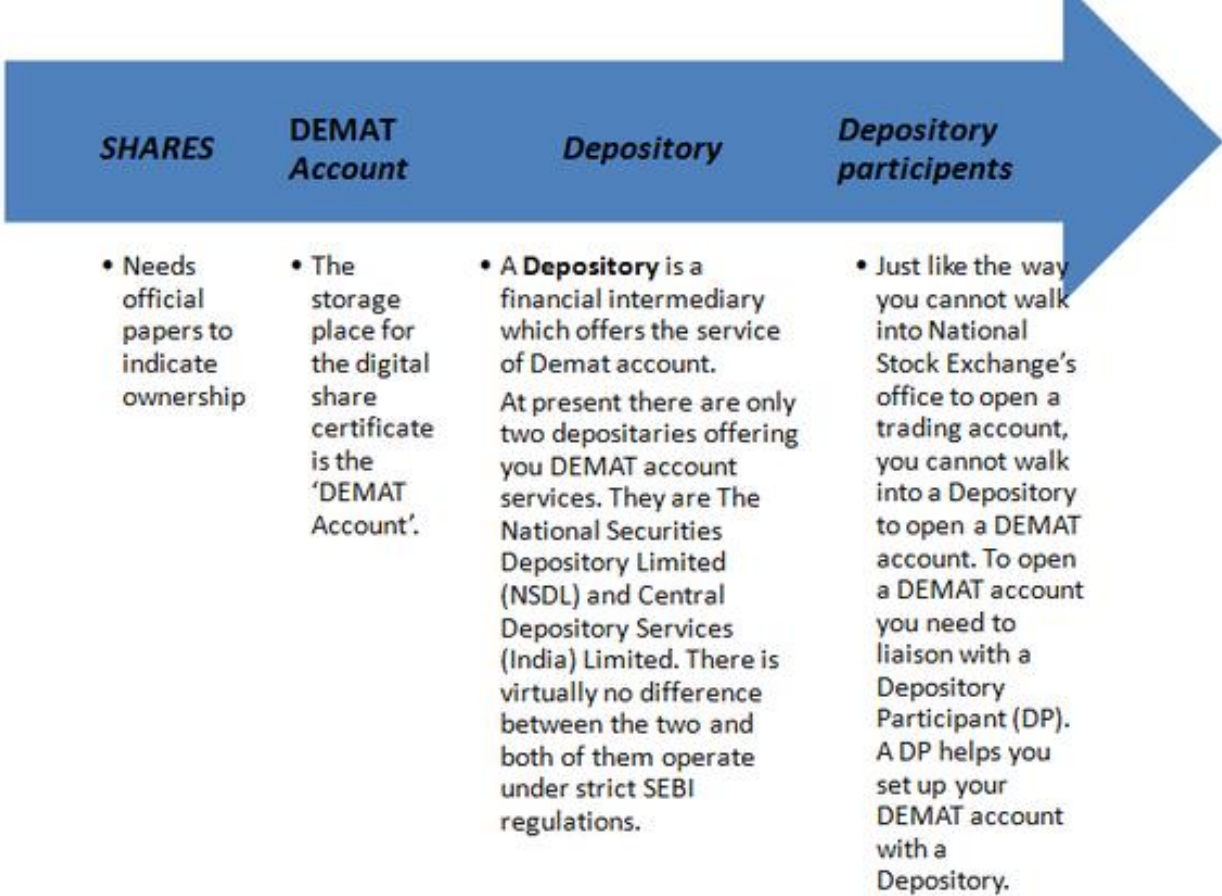
SERVICES PROVIDED BY A DEPOSITORY

- Dematerialisation (usually known as demat) is converting physical certificates of Securities to electronic form
- Rematerialisation, known as remat, is reverse of demat, i.e. getting physical certificates from the electronic securities
- Transfer of securities, change of beneficial ownership
- Settlement of trades done on exchange connected to the Depository
- Pledging and Unpledging of Securities for loan against shares
- Corporate action benefits directly transfer to the Demat and Bank account of customer

Constituents of Depository System

- There are basically four participants:-





Opening an account

Choosing a depository participant.

Obtaining the relevant account opening form from the chosen DP.

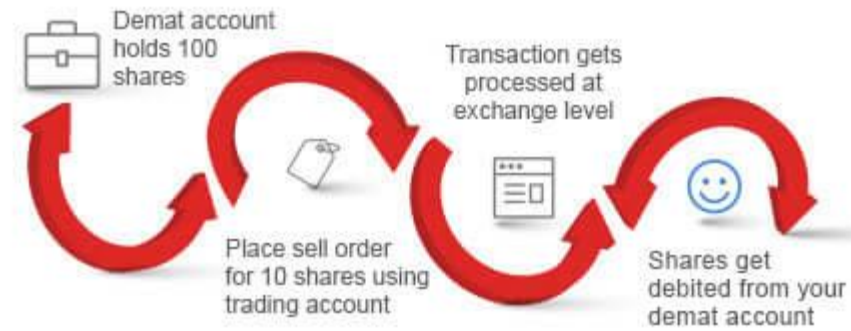
Getting into an agreement with the DP (Client-DP Agreement).

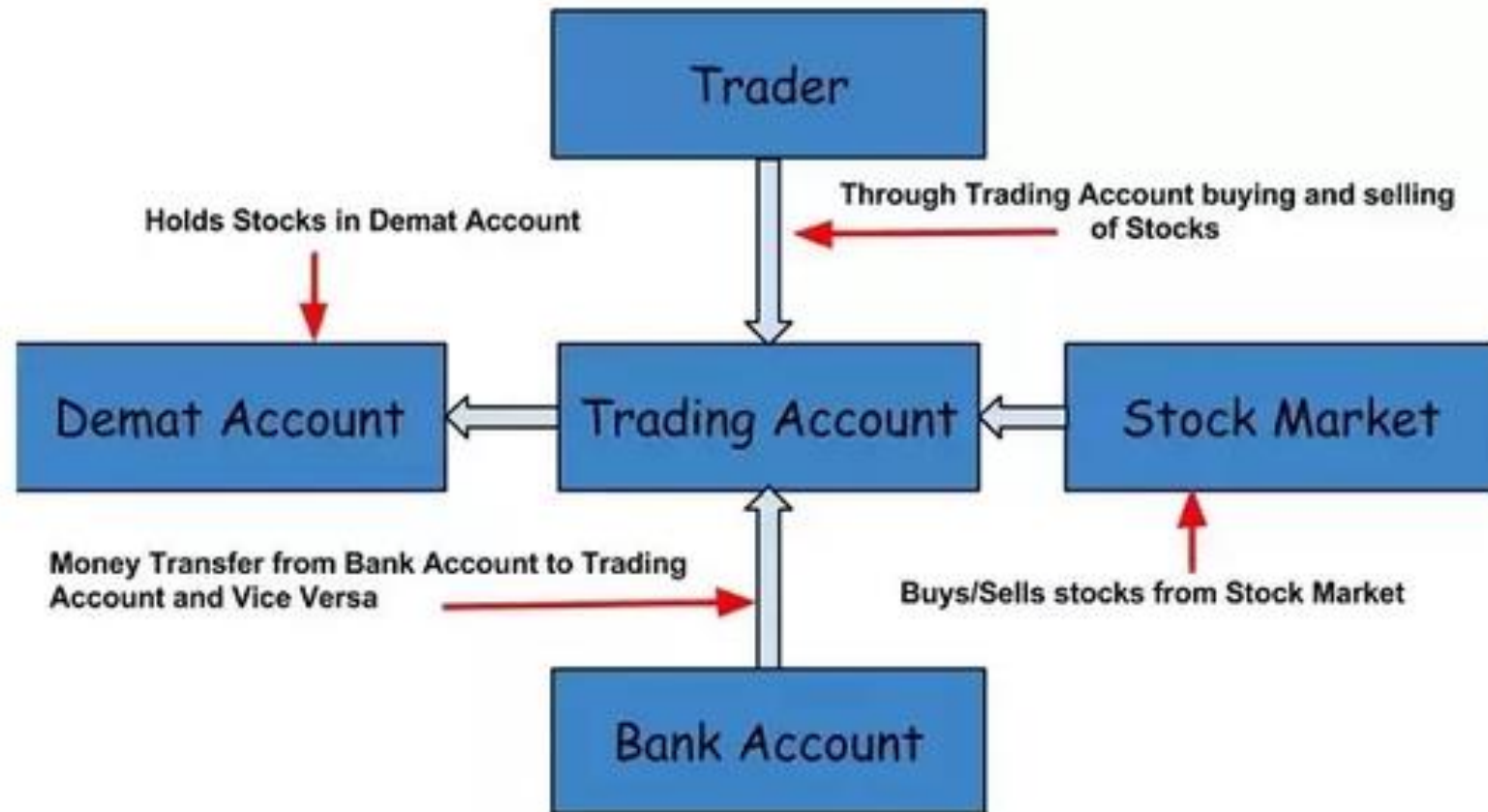
Obtaining a client account number or client ID number.

BUY ORDER



SELL ORDER





Who can be a depository participant?

A Public Financial Institution.

A Scheduled Commercial Bank.

A Foreign bank operating in India with the approval of RBI.

State Financial Corporations.

A Clearing house or Clearing corporations.

Non-banking Financial Companies.

Stock-brokers.

Custodians.

A Registrar to an issue or Share transfer agent.

A Bank – A depository An analogy

Bank	Depository
▪ Holds funds in an account.	Holds securities in an account.
▪ Transfers funds between accounts on the instruction of the accountholder.	Transfers securities between accounts on the instruction of the accountholder.
▪ Facilitates transfer without having to handle money.	Facilitates transfer of ownership without having to handle securities.
▪ Facilitates safekeeping of money.	Facilitates safekeeping of securities.

Sample



बैंक ऑफ बड़ोदा Bank of Baroda

Central Back Office DP Operations, Baroda Sun Tower, Ground Floor, BKC, Bandra East, Mumbai-400051

Application Form for Opening a Demat Account

Individual NRI Foreign National

CDSL

(To be filled by the Depository Participant)

SOL ID _____ / **SR.No.** _____

Application No.	DP Internal Reference No.	Date	D	D	M	M	Y	Y	Y	Y
DP ID	1 3 0 1 8 7 0 0	Client ID								

I / We request you to open a Demat Account in my / our name as per the following details:-

Type of Account (Please tick whichever is applicable)

Status	Sub - Status
<input type="checkbox"/> Individual	<input type="checkbox"/> Individual Resident <input type="checkbox"/> Individual-Director <input type="checkbox"/> Individual Margin Trading A/C (MANTRA) <input type="checkbox"/> Individual Director's Relative <input type="checkbox"/> Individual HUF / ACP <input type="checkbox"/> Individual Promoter <input type="checkbox"/> Others (specify)
<input type="checkbox"/> NRI	<input type="checkbox"/> NRI Repatriable <input type="checkbox"/> NRI Non-Repatriable <input type="checkbox"/> NRI - Depository Receipts <input type="checkbox"/> NRI Repatriable Promoter <input type="checkbox"/> NRI Non-Repatriable Promoter <input type="checkbox"/> Others (specify)
<input type="checkbox"/> Foreign National	<input type="checkbox"/> Foreign National <input type="checkbox"/> Foreign National - Depository Receipts <input type="checkbox"/> Others (specify)

Sole / First Holder's Details (To be filled by the applicant in **BLOCK LETTERS** in English)

First Name										
Middle Name										
Last Name										
Father / Husband Name										
Title	<input type="checkbox"/> Mr. <input type="checkbox"/> Mrs. <input type="checkbox"/> Ms. <input type="checkbox"/> Other					Suffix				
Correspondence Address (Please attach proof)										
City						State				
Country						PIN				
Telephone No.						Mobile No.				
PAN						Fax No.				
Permanent Address (Attach proof if different from Correspondence Address)										
City						State				
Country						PIN				
Telephone No.						Fax No.				
Date of Birth	D	D	M	M	Y	Y	Y	Y	E-mail ID	
Qualification	<input type="checkbox"/> High School <input type="checkbox"/> Graduate <input type="checkbox"/> Post Graduate <input type="checkbox"/> Doctorate <input type="checkbox"/> Professional Degree <input type="checkbox"/> Under High School <input type="checkbox"/> Illiterate <input type="checkbox"/> Others (please specify) _____									
Nationality	<input type="checkbox"/> Indian <input type="checkbox"/> Others (specify) _____									
Sex	<input type="checkbox"/> Male <input type="checkbox"/> Female									
Occupation	Service: <input type="checkbox"/> Central Govt. <input type="checkbox"/> State Govt. <input type="checkbox"/> Public / Private Sector <input type="checkbox"/> NGO <input type="checkbox"/> Statutory Body <input type="checkbox"/> Professional <input type="checkbox"/> Business <input type="checkbox"/> Student <input type="checkbox"/> Retired <input type="checkbox"/> Housewife <input type="checkbox"/> Others (please specify) _____									
Nature of business: (Products/services provided)										
Financial Details:	<input type="checkbox"/> Up to Rs.1,00,000					<input type="checkbox"/> Rs.1,00,001 to Rs.2,00,000				
Income Range per annum:	<input type="checkbox"/> Rs.2,00,001 to Rs.5,00,000					<input type="checkbox"/> More than Rs.5,00,000				

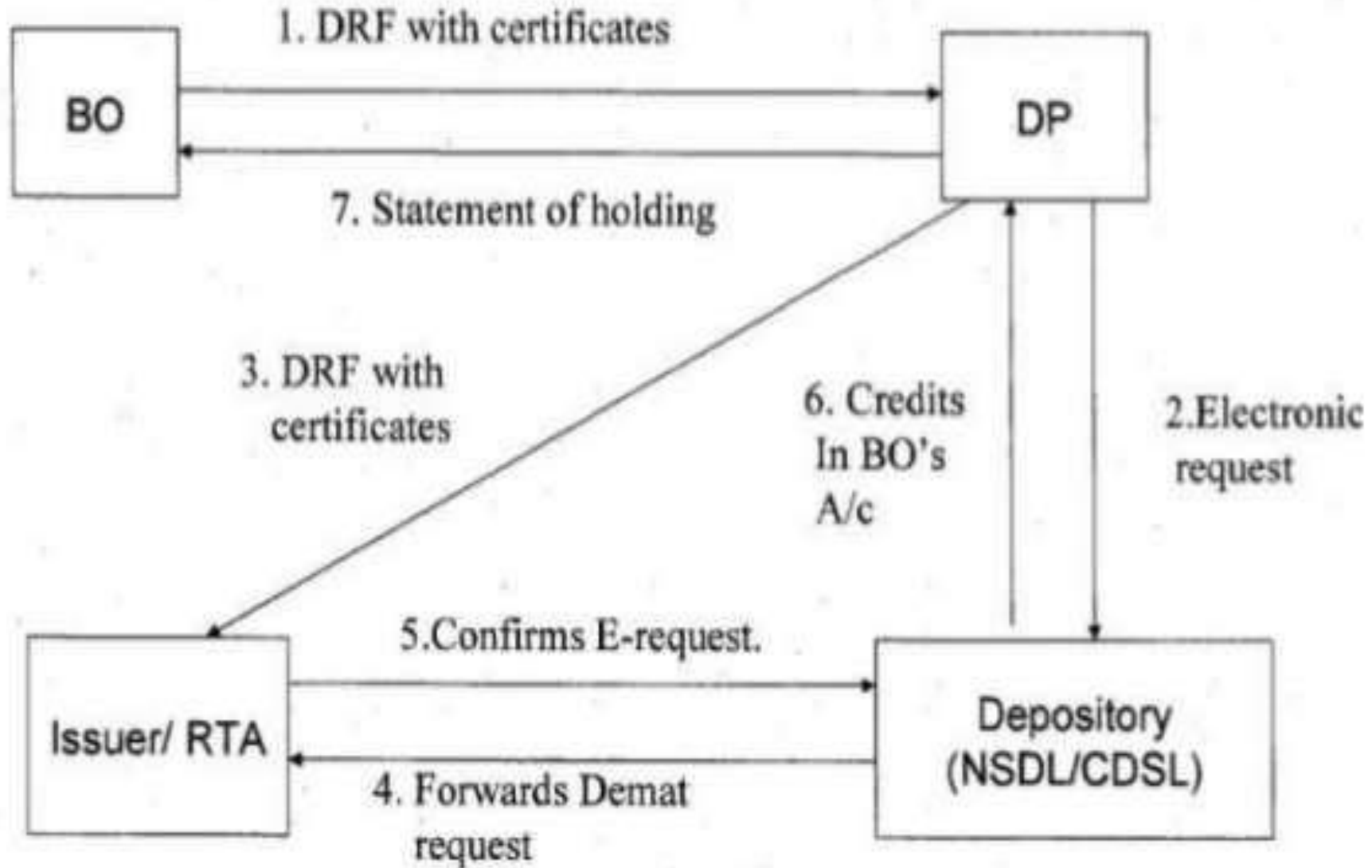
Dematerialisation

The process of converting share certificates or other securities held in physical form into electronic form is called dematerialization.

PROCEDURE OF DEMATERIALIZATION OF SECURITIES

1. Opening Client's Demat Account.
2. Submission of Demat Request and Scrip Certificate by Investor.
3. Forwarding of DRF and Scrip Certificate to Registrar.
4. Forwarding A Copy of DRF to Depository.
5. Confirmation of Receipt to DRF by Depository.
6. Updating of Records by Depository.
7. Confirmation by the Depository.
8. Updating of Records by Depository.
9. Confirmation by Depository.
10. Updating the Records of Depository Participant.
11. Confirmation of Dematerialization.

Dematerialisation process



BENEFITS

Benefits of depository system –

- Elimination of bad deliveries, elimination of risks associated with physical certificates, Immediate transfer & registration of securities
- Faster disbursement of non cash benefits rights, bonus etc. Reduction in brokerage, Reduction in handling of paper & periodic reports to investor
- Elimination of problems related to change of address of investor, transmission etc.

Benefits To the nation:

- Growing and more liquid markets
- Increase in competitiveness in the international market place attracting many investors
- Improved prospects for privatisation of public sector units by creating a conducive environment
- Considerable reduction in delay
- Minimises settlement risk and fraud restoring investors' faith in the capital markets

To the investing public

- Reduction of risks associated with loss, mutilation, theft and forgery of physical scrip
- Elimination of financial loss from loss of physical scrip
- Greater liquidity from speedier settlements
- Reduction in delays in registration
- Faster receipt of corporate benefits
- Reduced transaction costs through greater efficiency

To issuers:

- Up-to-date knowledge of shareholders' names and addresses
- Reduction in printing and distribution costs of new issues
- Easy transfer of corporate benefits
- Improved ability to attract international investors without having to incur expenditure of issuance in overseas markets

DRAWBACKS OF DEPOSITORY SYSTEM IN INDIA

Multiple- depository model

Absence of clearing and settlement corporations

Lack of interest in demat trading among retail investors

Existence of differential rates

Increasing costs- DP's debit client accounts for holding their account

THANK YOU