

Demat FAQ

1. What exactly 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 in the investor's account with his Depository Participant [DP]. In order to dematerialise his certificates, an investor first has to open an account with a Depository Participant. He then has to request for the dematerialisation of his certificates by filling up a dematerialisation request form [DRF], which is available with his DP.

2. Is dematerialisation compulsory?

No. According to the Depositories Act, 1996, an investor has the option to hold shares either in physical or in dematerialised form.

3. Which share certificates can I dematerialise?

You can dematerialise only those certificates that are already registered in your name and belong to the list of securities admitted for dematerialisation at NSDL. Shares held in street name (blank transfers) cannot be dematerialised. A number of blue-chip companies have already joined NSDL. This list is steadily growing and you can get an updated list of these companies from NSDL.

4. How long does the process of dematerialisation take?

Dematerialisation normally takes about 30-45 days.

5. Do dematerialised shares have distinctive/certificate numbers?

No. Your dematerialised shares do not have any distinctive or certificate numbers. These shares are fungible - which means that 100 shares of a security are the same as any other 100 shares of that security.

6. Can odd lot shares be dematerialised?

Yes. Odd lot share certificates can also be dematerialised.

7. Can I partly dematerialise my shareholding?

Yes. The shareholding can be dematerialised either fully or partly as desired.

8. What are the benefits of dematerialising the share certificate?

When the shares are brought through the Depository System, the shares are credited to your account with the DP. This rules out problems like bad delivery, fake certificates, shares under litigation, signature difference of transferor(s) etc. Additionally, you do not need to fill a transfer form for transfer of shares and affixing share transfer stamps. (There is, however, a nominal fee to be paid to the DP). You also save on time and cost since posting of certificates is not required. Most of all, you are freed from the risk of loss of certificates or fraudulent interception of certificates.

9. Do I get my original share certificates?

No. As the share certificates, on dematerialisation, are cancelled, you will not receive the same share certificates on rematerialisation. The shares, represented by dematerialised share certificates, are fungible and, therefore, certificate numbers and distinctive numbers become irrelevant.

10. Can I convert my electronic holdings back into certificates?

Yes. You may convert your securities into physical form, by requesting your Depository Participant for rematerialisation of the same. ('Rematerialisation' refers to the conversion of electronic holdings back into certificates). Your Depository Participant will forward your request to NSDL after verification that you possess the required balances. NSDL, in turn, intimates the registrar who will print the certificates and despatch them to you.

11. Do I get back the same certificates after rematerialisation?

You may or may not be allotted certificates, which have the same distinctive and certificate numbers. This, however, does not really matter. You will usually be allotted a new folio number. If you already have an existing folio number, you may be allotted the same.

12. What is the process of effecting transactions through the Depository?

Once you have opened an account with a Depository Participant, you can buy or sell shares in the electronic form, provided the seller/buyer also holds shares in the electronic form. You can sell the shares in the depository mode through any share broker (presently, a Member of National Stock Exchange). All you need to do is to provide him the details of your account with the DP, with a delivery instruction to debit your share account with the number of shares sold by you. When you buy shares in the depository mode, you must, similarly, inform the broker about your depository account details so that the shares bought would be credited to your account with the DP.

13. How do I know that my demat account has been updated after each transaction by the DP?

You are given a pass book or statement of account by the Depository Participant which is periodically updated to inform you of the status of your account.

14. How do I buy, sell or transfer shares?

For any transaction to be effected, clear instructions have to be given to the Depository Participant, in the prescribed forms, provided at the time of opening the DP account. These instructions have to be authorised and should reach the DP well in time for settlement. Your account is immediately debited or credited after settlement.

15. How do I get rights and bonus shares when allotted?

These are credited to your account with the Depository Participant, at your option.

16. Can shares in a public issue be allotted in electronic form? (How can one receive bonus and right shares and dividend?)

You can get shares allotted in a public issue in electronic form. You need to mention details of your DP account no. and DP ID no. in your application form. Your bonus/rights shares can be received in electronic form too. For this, you

have to indicate details of your DP account no. and DP ID, to the company, in your bonus entitlement/rights application form. You will receive the dividend amount directly from the company, as per the existing system.

17. How does the company pay dividend on dematerialised shares?

The dividend warrants, for all shares, whether held in electronic form or as share certificates, are sent by the Company directly to the Shareholders.

18. Are there options with regard to the manner in which corporate benefits may be received?

A client may choose between the physical or electronic mode of holdings, in case of a rights issue or optional conversion of debentures to shares. Corporate entitlements (such as bonus), however, will be made in the same form as their original holdings.

19. How will the investor receive dividend/interest, if any, on the securities he is holding?

NSDL gives the issuer/ R&T agent of the security for which dividend has been announced a list of beneficial owners as of the record/ book closure date.

Based on this list provided by NSDL, the issuer/ R&T agent directly forwards dividend payment to the investor, as in case of the physical environment. Presently, NSDL does not handle cash corporate actions.

Demat Advantages

The Indian capital market has witnessed an unprecedented growth in the past few years, which was made possible by the modernisation in the trading and settlement systems. Automation of the trading mechanism has given us a trading system comparable with the best in the world. The establishment of a settlement guarantee mechanism removed the counter-party risk in stock exchanges.

Though the advent of automated trading brought with it several associated benefits such as transparency in trading and equal opportunity for market players all over the country; the problems related to settlement of trades such as high instances of bad deliveries and long

settlement cycles have continued. As an answer to the myriad settlement problems, National Securities Depository Ltd. (NSDL) was inaugurated in November 1996 as the first depository in the country.

The introduction of scripless holding and transaction of securities provides various benefits to investors viz. -

1> Elimination of bad deliveries - In the depository environment, once holdings of an investor are dematerialised, the question of bad delivery does not arise i.e. they cannot be held "under objection". Statistically, in the physical environment, about 20% of delivered stock constitutes bad deliveries. Of these, about 1% is ultimately absorbed by the system as bad delivery cost. Rectification of objection usually involves extensive follow up by the investor. Also, the investor cannot sell the securities till they are registered.

This means that in the physical environment, every fifth person taking delivery of stock gets securities, the genuineness to which there is a doubt whereas he parts with genuine funds.

2> Elimination of all risks associated with physical certificates - Dealing in physical securities have associated security risks of theft of stocks, mutilation of certificates, loss of certificates during movements through and from the registrars, thus exposing the investor to the cost of obtaining duplicate certificates and advertisements, etc. This problem does not arise in the depository environment.

3> No stamp duty for transfer of equity instruments & units of mutual funds in the depository (In case of physical shares, stamp duty of 0.5% is payable on transfer of shares). Immediate transfer and registration of securities -in the depository environment, once the securities are credited to the investors account on pay out, he becomes the legal owner of the securities.

4> Faster settlement cycle

The exclusive demat segments follow rolling settlement cycle of T+2 i.e. the settlement of trades will be on the 2nd working day from the trade day. This enables faster turnover of stock and more liquidity with the investor. Pay in & pay out of securities & funds is on the same day for scripless trades - In the exclusive demat segments the settlement of trades (both securities and funds) is on the 2nd working day from the trade day. This means that a buyer who parts with funds on the 2nd working day, gets the securities on the same day evening and a seller who parts with securities on the 2nd working day gets funds on the same day evening. This reduces the funding cost for a broker (in case of institutional trades) that they have to bear in

the physical segment. In the physical segment, the settlement period is spread over a period of 3-4 days.

5> Faster disbursement of non cash corporate benefits

NSDL provides for direct credit of non cash corporate entitlements like rights, bonus, etc. to an investors account, thereby ensuring faster disbursement and avoiding risk of loss of certificates in transit reduction in rate of interest on loans granted.

6> Lower interest cost and margins

Banks charge lower rate of interest on credit against pledge of dematerialised securities as dematerialised securities eliminates the following hassles/ risks - getting securities registered in their name at the time of book closure and risk of stocks coming under objections when they are sent to the company's registrar for registration, if the pledgee defaults in repayment. Increase in maximum limit of advances from Rs. 10 lakh to Rs. 20 lakh per borrower and reduction in minimum margin from 50% to 25% by banks for advances against dematerialised securities as per the Monetary and Credit Policy for the first half of 1998-99 announced by the Reserve Bank of India. Reduction in brokerage of 0.25% to 0.5% by many brokers for trading in dematerialised securities.

7> Lower brokerage cost.

Brokers charge lower brokerage to investors as dealing in dematerialised securities reduces their back office cost of handling paper and also eliminates the risk of being the introducing broker. Reduction in handling of huge volumes of paper periodic status reports to investors on their holdings and transactions, leading to better controls.

8> Wider market

Dematerialised securities can be delivered in the dematerialised or physical segment from April 1998 at those stock exchanges where trading in dematerialised securities is allowed. But physical securities are not allowed to be delivered in dematerialised segment, making dematerialised stocks held with the investors more liquid than physical stocks. All these lead to substantial reduction in transaction costs in dematerialised securities as compared to physical securities.

Safety Features

How will an investor know that the DP has updated his account after each transaction?

At least once every fortnight, the DP will give the investor a statement of holdings and a transaction statement, which details out the current balances and the various transactions done through that depository account. In addition, NSDL forwards a statement of holding every month to randomly selected list of beneficial owners, which acts as a counter check.

What is to be done if there are any discrepancies in the statement of holdings?

In case of any discrepancy in the statement of holdings, the investor can contact his DP. If the discrepancy cannot be resolved at the DP level, the investor may approach NSDL.

NSDL also sends out statement of holdings to clients of DPs picked at random. In case the balance in the investors account as indicated by his DP does not tally with the balance as indicated by NSDL, the investor may contact his DP/ NSDL for clarification.

What happens if the investor loses his statement of holdings?

The investor may inform his DP and obtain a duplicate statement of holdings. The loss of statement of holding will not affect his actual holdings.

What security does an investor have if the only proof of my holdings in the depository is merely a piece of paper indicating his account balance?

There are various checks and balances in the depository design to ensure safety of the investor holdings.

What happens when a DP goes bankrupt?

In all such cases there is absolutely no need for an investor to be unduly concerned as enough provisions are there for the investor to transfer his account from the defunct DP to another DP or get the securities rematerialised. There cannot be any lien on the account holder's assets by creditors belonging to the DP or NSDL and therefore

the account holder's assets are absolutely safe. There is no credit risk in case of a defunct NSDL or its DPs.

How confidential are the depository account details?

There are strict systems and procedures established to protect the confidentiality of investor information at the depository to ensure that the personal information about the client and his holdings is not accessible to any unauthorised person.