

WHAT IS DEPOSITORY ?

By analogy, a depository is a bank for securities. When an investor deposits securities with a depository, the investor's account with the depository is created for the deposit, and the securities are sent for transfer in the name of the depository. Therefore, the beneficial ownership of the securities will be with the investor but the legal ownership will be with the depository. In other words, the investor will continue to get all the benefits like, interest, dividend, right, bonus and voting right but instead of the investor's name, the depository registers maintained by the company.

When all or a majority of investors deposit their securities in a depository, the registers of the company will contain only the depository's name instead of the thousand of investors, at that time, if the investors sell or purchase securities, only the accounts maintained by the depository have to be updated and there will not be any need to change the registers maintained by the company. The updating of ownership account with depository can be done by means of deposit/ withdrawal slips.

The depositories work in a completely computerised environment with electronic linkages with the points of origination for the transactions that may cause the change in ownership of

FUNCTIONS OF THE DEPOSITORY

(A) **Maintain investor holding in electronic form:-**

Depository, through its participants, will maintain account balances for individual investors that will reflect their portfolio of securities.

(B) **Provide for dematerialisation and rematerialisation of securities :-**

Dematerialisation :- It is a process by which physical Certificates of Investors are destroyed and equivalent securities are credited in electronic mode.

Rematerialisation :- It is a term used for converting electronic holding back into physical Certificates if so desired by the investor.

(C) **Effect settlement of securities traded on exchanges :-**

Trades carried out on the exchange are settled through the transfer in depository. For settlement of trade on the exchange, the depository interacts with clearing corporation for delivery and receipt obligations. The clearing corporation plays a vital role in affecting the settlement concluded in the stock exchange.

(D) **Allow for receipt of allotment in the electronic form :-**

In the cases of fresh public issue investors can opt for receiving his allotment in electronic mode.

(E) **Providing pledging/ hypothecation facilities for stocks held with it :-**

If investor wants to pledge or hypothecate stocks with others like banks, the depository will provide facility.

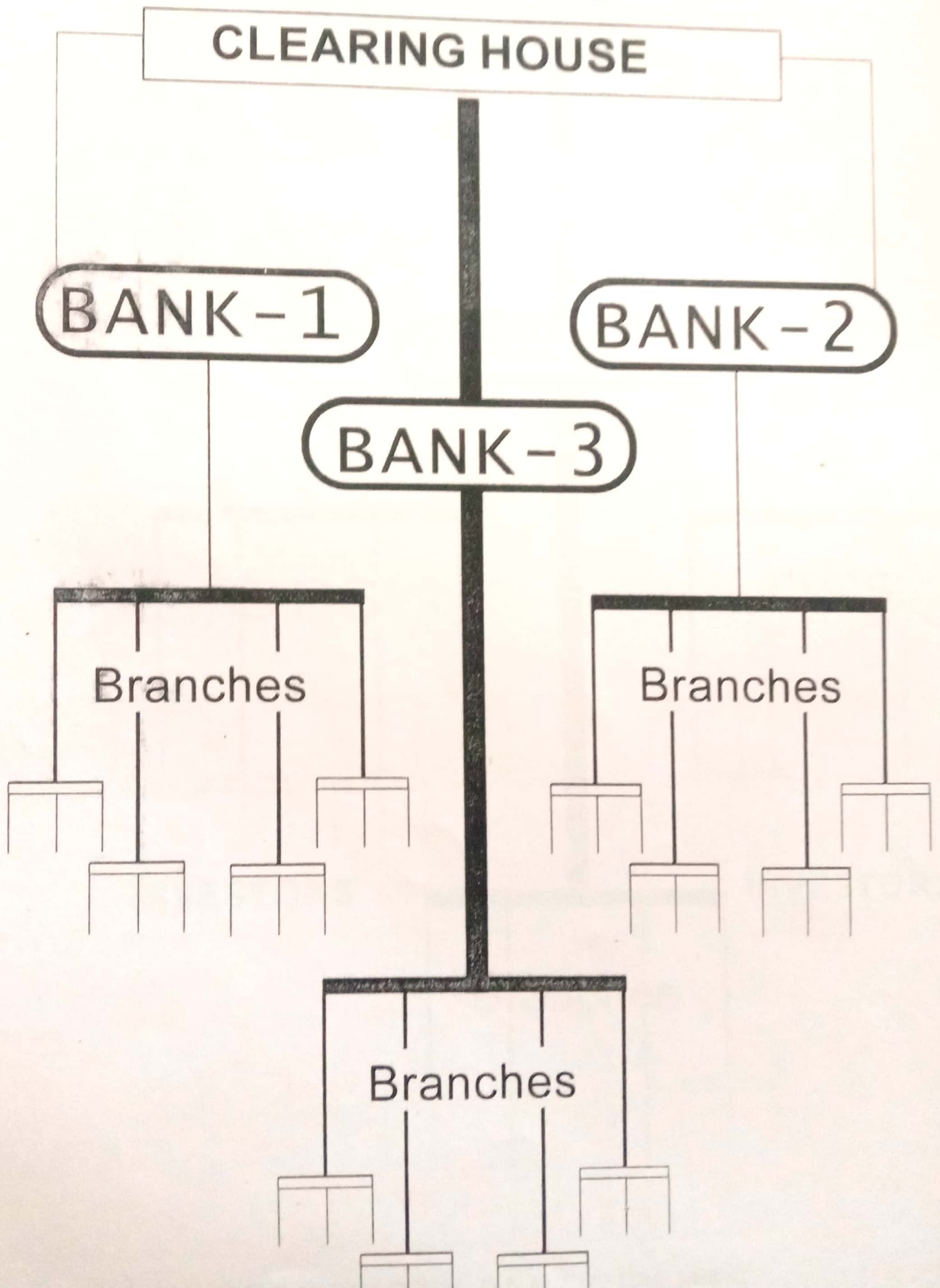
Ideally a depository should be owned by an entity which is trustworthy and neutral to any industrial group. The entity should command recognition and confidence of investors. In India, only public financial institutions, banks or stock exchange etc. can promote or sponsor a depository. Depositories have to cater the needs of all the investors across the country and the world in certain cases. The investors can be serviced through business partners called as depository participants. Depositories are liable to indemnify the investors for any loss caused to them by depository or depository participants. In a depository environment physical certificate will have no relevance.

DEPOSITORY SYSTEM

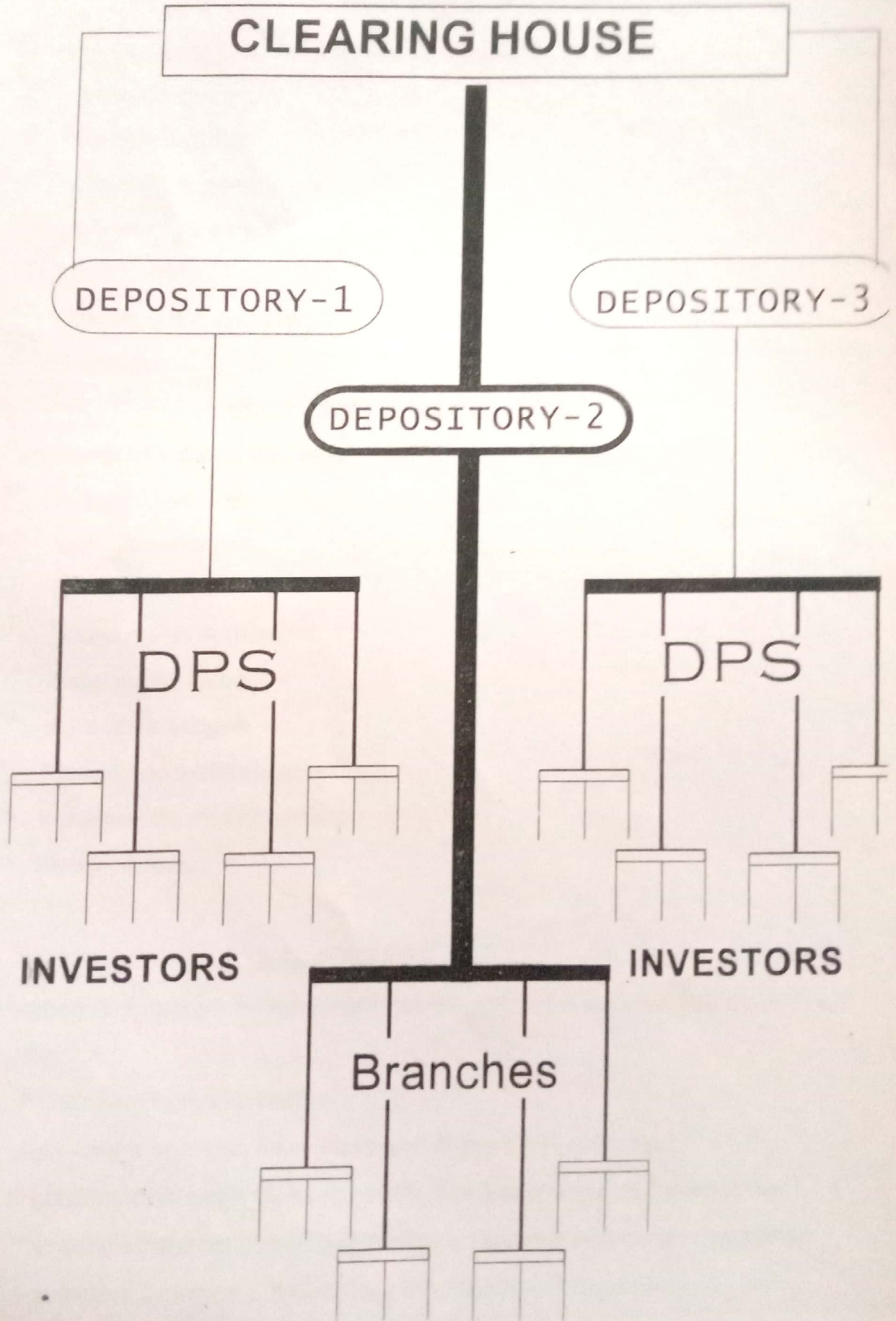
DEPOSITORY SYSTEM is concerned with conversion of securities from physical to electronic form, settlement of trades in electronic segment, electronic transfer of ownership of Shares and electronic custody of securities. All securities in the depositories are identical in all respect and are thus fungible. The ownership and transfer of securities takes place by means of electronic book entries, avoiding the risk associated with the paper. Depository system is not MANDATORY, it is optional and it is left to the investor to decide whether he wants the securities to be dematerialised. the system results in instant transfers as compared 6 to 8 weeks time under physical mode.

The Govt. of India enacted the DEPOSITORIES ACT in August 1996, paving the way for setting up depositories in India. Pioneering the concept of depositories in India and ushering in an era of paperless settlement of securities, National Securities Depositories Ltd. (NSDL) commenced business in December in 1996 as India's first depository.

WORKING OF DEPOSITARY :The Banking System:



THE DEPOSITARY SYSTEM



DPs = DEPOSITORY PARTICIPANTS

CONSTITUENTS OF DEPOSITORY

The constituents of depository are as follows :-

- ☞ Issuer or company
- ☞ Issuers register
- ☞ Depository participants
- ☞ Clearing members
- ☞ Stock Brokers
- ☞ Clearing coporations
- ☞ Investors.

FUNCTIONAL ASPECTS

Functional aspects of depository system would include :-

- ☞ Account opening
- ☞ Dematerialisation
- ☞ Rematerialisation
- ☞ Clearing and settlement
- ☞ Initial public issues
- ☞ Corporate actions
- ☞ Pledge and hypothecation
- ☞ transmission and nomination
- ☞ Reconciliation.

AGREEMENTS

In depository system folloing agreements are to be entered into by various entities:-

- ☞ Agreement between clients
- ☞ Agreement between depository and depository participant
- ☞ Agreement between clearing house, stock exchange and depository
- ☞ Tripartite agreement among depository, registrar and issuer company
- ☞ Agreement between the clearing corporation and depository.