

# PREFACE

This final report titled " A STUDY OF DEMATERIALISATION OF ELECTRONIC TRADING OF SECURITIES " is to acquaint with the capital market reforms including in it the most widest topic relating to transfer of trading in shares securities. Mainly investors do have the ability to push market indices up and pull it down significantly, it means the role they are playing in the capital and financial market is of paramount interest for both the companies issuing capital in the market as well as market regulators or agencies as SEBI or DCA etc.

In the secondary market dealing in securities takes place by and with help of market intermediaries own as brokers etc. and to improve their functioning and the interest of investors, it was decided in the year 1996 by an enactment " THE DEPOSITORIES ACT, 1996" to make it compulsory for certain blue chip companies to use and adopt the system of electronic trading i.e. in depository system. To -make trading of securities totally paperless and screen based in the stock exchange. The system of dealing the same in such manner made the share certificates useless and the same are required to be stored in - computer built accounts in DEMAT form. The lacuna involved in physical transfer of shares are expected to be removed with this innovative system .

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## INTRODUCTION

The long prevailing scrip based system of securities transactions involve enormous paper works involving certificates and transfer deeds. Indians are fond of possession. They are very possessive about the assets they own - be it a flat or house, vehicle, bullion, jewellery or even financial assets. Investors love to hold physical share certificates acquired by them long back. The globalization and maturing of Indian capital market has introduced a new concept of depository which deprives the investors of being proudly possessed with the physical certificates. It renders the physical form of certificates useless and brings about a host of benefits to corporate worlds as well as to the investors.

The depository system is taken as beneficial in removing inter-alia following problems :-

- Bad deliveries due to signature difference
- Mistake in completion of transfer deeds
- Tearing and mutilation of certificates
- Fake certificates
- Fraudulent interception of certificate in transit
- Cost of transfer stamp duty
- Processing time taken by the company
- Investors unawareness
- Postal delays and changes etc.

Therefore as a part of capital market reforms a need was felt the introduction of scrip - less depository system of securities movements, culminating in the promulgation of Depositories Ordinance, 1995 (later promulgated in 1996) and later in the enactment of the Depositories Act, 1996 (with effect from September 20, 1995) since has introduced so many changes in the enactment and other concerned laws.

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## E - COMMERCE AND DEMATERIALISATION

The evolution of information technology has brought in many changes in the business activity and it is needless to say that those who have not yet reaped the benefit are lagging behind.

E- Commerce is the latest concept, which helps the executives to take a broader view, and to understand that technology will re - defined the very rule of business. Although there is a belief in certain corners that E - commerce is nothing but building a web - site. It is not so rather the truth is that it is about establishing a global, informative and direct channel for the products aimed at just about everyone who will buy the new concept of selling. It can be termed as E - com, E - business, E - shop, E- market, E - everything.

While bringing the concept of E - commerce to the Business and investors life, may be somewhat innovative in India. As Depository Act, 1996 has widen the view of securities transfer and lessen the efforts, timings involved in it. Thus for the same purpose of E-commerce Stock Exchange too are brought under such concept and a new arrangement of DEMATERIALISATION OF SECURITIES has been given birth. The placing of Purchase and Sales Orders for securities, Auctioning of securities / liabilities, issuance of notice to brokers etc. are all can be possible in electronic form.

The National Stock Exchange is an electronic stock exchange system that legally recognizes a range of electronic transaction. The NSDL ( National Securities Depository Limited) is among the very few depositories in the world to go in for direct dematerialization of securities where the records of persons holding securities are stored solely in electronic form with total exclusion of paper

## DEPOSITORY PARTICIPANTS

(DP) they are the approved agents of depository M/s NSDL will transfer securities only in the accounts of DP and NSDL will not deal with any customer directly. DPs are linked to NSDL through VSAT (Very Small Aperture Terminal ) technology.

At present nearly all DPs have just one link each; only main office of a DP is directly connected to NSDL. Only this office can carry out all functions like mat, demat, purchase or sale transaction, pledging, statement generation etc.

So many branches of one DP have to depend upon one main office for confirming all transactions.

They are practically business collecting agencies and work like a post office between main office, which is connected to NSDL and investors. Only if we have efficient DP, we can expect good result otherwise we will be losing also when any important instructions like sell or purchase is not timely passed on to their main office for getting it executed. The main office also should be prompt enough to get it executed.

Some of the DPs are

- CANARA BANK
- STATE BANK OF INDORE
- CHOLAMANDALAM SECURITIES
- EAST INDIA SECURITIES
- SHRIRAM INVESTMENTS
- KOTAK SECURITIES
- INDUSIND BANK
- KARVY CONSULTANT
- STOCK HOLDING CORPORATION
- COIMBATORE CAPITAL
- RAJNARAIN FINANCIAL
- MAFATLAL FINANCIAL
- UTI SECURITIES
- INDIAN OVERSEAS BANK
- VYSYA BANK
- INDUSTRIAL DEVELOPMENT BANK OF INDIA; ETC.

There are more than 70 DPs existing with their branches spread throughout India. But recently the Department of Telecommunication has allowed DPs to link their network to NSDL through WAN ( Wide Area Network). This will help branches also to execute the instructions of their clients timely and directly.

## CLEARING MEMBER ACCOUNT (CM A/C)

One clearing member pool account is opened per card / exchange to settle trade in the dematerialized form for each broker. The broker can use this account for clearing house purpose only and cannot hold his securities in it. This is purely transitory account for the purpose of tallying the debit and credit of transaction of clearing house as a whole.

## CLEARING CORPORATION / CLEARINGHOUSE:-

As bank's clearing house, all purchases and sales of all the brokers attached to the clearing house will be settled. Overall all sales should match with all purchases and the net differences should always be zero.

## EXCHANGE, WHICH WILL DEAL WITH DEMAT SECURITIES :-

Compulsory demat trading applies to only exchanges linked to NSDL since only they can offer trading and settlement in demat shares. At present these are the National Stock Exchange, Delhi Stock Exchange, Bangalore Stock Exchange, Ludhiana Stock Exchange, Calcutta Stock Exchange.