

## MEANING AND NEED OF SCRIPLESS ( DEMAT) TRADING :-

Demat securities trading is a transaction of securities through a central depository or electronic book entry (EBE) settlement system. In the conventional system, share certificates are sent by investors to stock holder who then send these to the clearing house of stock exchange or selling orders and reseving the process buying orders.

In scrip - less trading this process of to -ing and fro- ing is replaced by CD or EBE settlement system. The concept is similar to banks, where money moves from one accout to another without actual currency changing hands.

The present system of issue and transfer of securities in India involves a lot of time and efforts as well as money. There is always confusion about filling up share transfer form enclosing the share certificates and affixing correct amount of stamp duty in proper manner. Legal battles have been fought right up to supreme court on transfer and transmission of shares and affixation of stamp duty, but problems continue to muliply.

The traditional process of transfer involves following Formalities :-

- ☺ The selling broker sending the blank transfer form to the selling client
- ☺ The selling client signing the transfer form and sending the same along with the share certificates to the selling broker.
- ☺ Selling broker delivering these documents to the buying broker either directly or through clearing house
- ☺ The buying broker sending the transfer forms to the buying client
- ☺ The buying broker returning the transfer form to the buying client after signing it.
- ☺ The buying broker sending the document to the company for registration
- ☺ The company sending the certificates back to the buying broker
- ☺ Finally the buying broker dispatching the certificates to the buying client.

In addition to all above mentioned formalities following compliance are also required to take care of :

- ☺ Share transfer form to be presented to the prescribed authority for stamping.
- ☺ Determination of the value of adhesive stamps
- ☺ Affixation and cancellation of stamps affixed on share transfer forms
- ☺ Revalidation of transfer forms if these are delivered after the expiry date - on closing the register of members after twelve months from the date of presentation whichever is later.

With **METEROIC** rise in the volume of business in the Indian capital market during the last couple of years the paper work is becoming more and more tedious due to problems of late or bad deliveries and odd lots in the stock exchange functioning. In fact company management, stock holders, and stock brokers are fed up with existing system of issue and transfer of securities, which also give way to change the direction of traditional transfer system and switch over to new **DEPOSITORY SYSTEM** i.e. in **DEMATERIALIZED FORM** - a so called solution to almost all problem existing presently in the transfer system of securitise of in the capital market. This system bears the trading worldwide.

The **DEPOSITORY SYSTEM** enable the conversion of physical securities into electronic form through a process of dematerialisation of certificates. The securities in the depositories are fungible and cease to have any distinctive number. It is like depositing and withdrawing money from banks without bothering about the distinctive number of the currency notes.

## ADVANTAGE OF ELECTRONIC TRADING OF SECURITIES:-

- ☺ There will not be any transfer delays.
- ☺ There will not be any bad delivery in demat securities due to signature differences, as DP will check the signature differences.
- ☺ Chances of Forgery will be eliminated.
- ☺ Loss of share certificates means loss of legal title for a while where as loss of a statement of holding of demate share does not alter ownership.
- ☺ In physical share / securities, in case of death of one of the joint holder, the survivor have to send the share certificates along with executes transfer deed and a copy of the death certificate to every company and wait for each one to send back a new certificate with only survivor's name endorsed on it. the above would take much of time. But in case of demat shares, the survivor has to submit the death certificate to the DP and give an off market transfer instruction to debit all the shares in all companies standing in the joint name and credit another securities account which will be in the survivors name.
- ☺ On transfer deed of physical share, we have to pay 0.5% stamp duty on trasfer but it is fully waived in demat shares.
- ☺ Brokers dealing in demat shares may charge brokerage between 0.25% to 0.75% compared to 1% in physical system of shares, as the risk is less in demat shares.

☺ the cost of transfer of physical shares is also more. We have to bear the registered post/courier cost between Rs. 15\ to Rs. 30\ apart from stamp duty. If share come back as bad delivery it will give the problem of chasing everything afresh through broker. But in demat shares the DP will charge the rate from 0.06% to 0.11% on purchase and 0.01% to 0.05% on sales and there is no fear of any Bad Deliveries.

## DISADVANTAGES

- ☹ For custody of demat shares , we have to pay custody charges to DP every year on the current value of the share we hold. This varies from nil to 0.08% for different DPs.
- ☹ Depository Participants impose a demat charge in certificate basis. It varies from Rs. 2/- to 10/- per certificate plus postal/ courier charges.
- ☹ In case of remat i.e. conversion of demat certificate into physical, DPs charge will Rs. 10/- to 15/- per certificate or 0.1% to 0.2% of the value of securities, whichever ever is higher, so this is costlier.
- ☹ There is always inherent danger of identification of owner of any securities by GOI to find out at a glance the total worth of securities in the name of any person if he holds one DP a/c number. In case of physical shares, it is difficult and time consuming.

Thus in its real form from the arrangement of Depository System and within it so called DEMATSYSTEM may prove beneficial in the times to come for the capital market functioning. If and when the investors find the use of Depository system, they will seek the services. the Depository service will gradually reach investors within the country as happened with National Stock Exchange. Investor then will become impatient if the securities is not admitted to the Depository system. The corporate should be ready right now to offer depository services.