

UNIT-IV

DEPOSITORY SYSTEM

DEPOSITORY SYSTEM:

- ◉ Meaning - objectives - Interacting
Institutions - Depository process -
Benefits

MEANING OF DEPOSITORY SYSTEM

- It is a system whereby the transfer and settlement of shares take place not through the traditional method of transfer deeds and physical delivery of shares but through the modern system of effecting transfer of ownership of securities by means of book entry on the ledgers or the depository without the physical movement of shares.

- The new system, thus, eliminates paper work, facilitates automatic and transparent trading in securities, shortens the settlement period and ultimately contributes to the liquidity of investment in securities.

- ◉ A depository is a financial intermediary which offers service of demat account. This demat account is a digital vault for electronic shares. Trading and demat account are interlinked. Currently, in India, there are only two depositories providing service of demat account.
 - ◉ **NSDL (National Securities Depository Limited)**
 - ◉ **CDS(Central Depository Services (India) Limited)**

- ◉ There is virtually no difference between the two and both operate under strict guidelines of SEBI.
- ◉ Just like that, one cannot go to the stock exchange for trading.
- ◉ We need a broker to do that. In the same way for the demat account, a depository participant (DP) is required.
- ◉ A DP acts as an agent to the depository. DP is also governed by SEBI rules.

OBJECTIVES OF THE DEPOSITORY SYSTEM

- ⦿ It removes the occurrences of forgery, duplicate share certificates, and bad deliveries.
- ⦿ This can increase the liquidity of securities by making a way for easy transfer.
- ⦿ Also, it can avoid the delay caused in the transfer of securities.
- ⦿ Furthermore, it reduces the cost of a transaction for the investors.

- ⦿ It enables withdrawal and surrender from the securities with great ease.
- ⦿ It also maintains a perfect record of the holdings for an investor. This is because all the details are stored in electronic form.
- ⦿ This also provides infrastructure for services in capital markets.
- ⦿ By complying with global standards, it does attract foreign investors.

STRUCTURE OF DEPOSITORY SYSTEM

- ◉ Central Depository
- ◉ Share Registrar Transfer Agent
- ◉ Clearing and Settlement Corporation
- ◉ Depository Participant

CENTRAL DEPOSITORY:

- ◉ Central depository is an organization with which all the shares, belonging to the shareholders are kept and the electronic system takes care of them.

SHARE REGISTRAR:

- ◉ Share Registrar is an authority who controls the issue of securities. Along with this, the transfer agent arranges for the transfer of securities in the case of buying or selling of securities.

CLEARING AND SETTLEMENT CORPORATION

- ◉ This agency settles the transfer of funds between the seller and buyer.

DEPOSITORY PARTICIPANT (D.P)

- ◉ He is like a share broker and he trades as per the instructions of the shareholder in and outside the stock exchange.
- ◉ An ID Account number is given by the Depository Participant (D.P) to every shareholder when he/she opens an account for dematerializing the securities.

- ◉ D.P is a representative in the depository system on behalf of the shareholder and he only intimates to the shareholder periodically the securities account held by the customer. As per SEBI regulations, financial institutions, banks, stockbrokers, etc., can be Depository Participants.

FACILITIES OFFERED BY DEPOSITORY SYSTEM

- ◉ Dematerialisation
- ◉ Rematerialisation
- ◉ Electronic settlement of trade
- ◉ Nomination facility
- ◉ Electronic credit of securities allotted in public, rights and bonus issue.
- ◉ Pledging or hypothecation of dematerialised securities.
- ◉ Freezing of demat accounts.
- ◉ Stock lending/borrowing facilities, etc.

ADVANTAGES OF THE DEPOSITORY SYSTEM

- ◉ Reduction in paper work.
- ◉ Elimination of risks associated with physical securities such as theft, forgery, mutilation, loss of share certificates etc.
- ◉ Elimination of bad delivers.
- ◉ Increased liquidity of securities through speedy settlement and reduction in delays in registration.
- ◉ Low transaction costs for purchase and sale of securities compared to physical mode.

- ⦿ No stamp duty on transfer of securities.
- ⦿ Facilities the issuer companies to update the information regarding shareholders and to communicate with them in better ways.
- ⦿ Attract foreign investors and promoting foreign investment.
- ⦿ Emergence of healthy and efficient capital market.
- ⦿ Greater opportunity for the development of sophisticated custodial services etc.