

Dematerialisation

Q. 1 What is Demat and what are its benefits?

Dematerialization ('Demat' in short form) signifies conversion of a share certificate from its present physical form to electronic form for the same number of holding.

It offers scope for paperless trading through state-of-the-art technology, whereby share transactions and transfers are processed electronically without involving any share certificate or transfer deed after the share certificates have been converted from physical form to electronic form.

Demat attempts to avoid the time consuming and complex process of getting shares transferred in the name of buyers as well its inherent problems of bad deliveries, delay in processing/fraudulent interception in postal transit, etc.

Dematerialization of shares is optional and an investor can still hold shares in physical form. The Depositories Act 1996 has been enacted to regulate the matters related and incidental to the operation of Depositories and demat operations. Two Depositories are in operation - National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL).

Following are the benefits of demat:

1. Elimination of bad deliveries
2. Elimination of all risk associated with physical certificates
3. No stamp duty on transfers
4. Immediate transfer/trading of securities
5. Faster settlement cycle
6. Faster disbursement of non cash corporate benefits like rights, bonus etc.
7. SMS alert facility
8. Periodic status reports and information available on internet
9. Ease related to change of address of investor
10. Elimination of problems related to transmission of demat shares
11. Ease in portfolio monitoring
12. Ease in pledging the shares

Q. 2 How does the Depository System operate?

The operations in the Depository System involve the participation of a Depository, Depository Participants, Company/Registrars and Investors. The company is also called the Issuer.

A **Depository** (NSDL and CDSL) is an organization like a Central Bank, i.e. Reserve Bank where the securities on an investor are held in electronic form, through Depository participants.

A **Depository Participant** is the agent of the Depository and is the medium through which the shares are held in the electronic form. They are also the representatives of the investor, providing the link between the investor and the company through the Depository.

To draw analogy, the Depository system functions very much like the banking system. A bank holds funds in accounts whereas; a Depository holds securities in accounts for its clients. A bank transfers funds between accounts whereas; a Depository transfers securities between accounts.

In both systems, the transfer of funds or securities happens without the actual handling of funds or securities. Both the banks and the Depository are accountable for safe keeping of funds and securities respectively.

Q. 3 How do I demat my shares?

First, you will have to open an account with a Depository Participant (DP) and get a unique Client ID number. Thereafter, you will have to fill up a Dematerialization Request Form (DRF) provided by the DP and surrender the physical shares, which you want to be dematted to the DP.

The DP upon receipt of the shares and the DRF, will send an electronic request to the company's registrar and share transfer agent through the Depository for confirmation of demat. Each request will bear a unique transaction number.

The DP will simultaneously surrender the DRF and the shares to the company's registrar and share transfer agent with a covering letter requesting the registrar and share transfer agent of the company to confirm demat. The company's registrar and share transfer agent after necessary verification of the documents received from the DP, will confirm demat to the Depository.

This confirmation will be passed on from the Depository to the DP, which holds your account. After receiving this confirmation from the Depository, the DP will credit the account with the shares so dematerialized. The DP will hold the shares in the dematerialized form thereafter on your behalf. And you will become beneficial owner of these dematerialized shares.

Q. 4 Once my shares are dematted, can I ever get them converted into physical shares?

If you are holding shares in electronic form, you still have the option to convert your holding in physical form by submitting a Rematerialization Request Form (RRF) through your DP in the same manner as Dematerialization. Upon receipt of such request from your DP, the company will issue share certificates for the number of shares so rematerialized.

Q. 5 What are the charges to be paid to demat one's physical shares? Will the company pay it or do I have to pay for it?

The charges differ from DP to DP and therefore you will have to contact your DP for the same. The charges for demat have to be borne by the shareholder.

Q. 6 I have purchased some shares in Physical (paper) form. Can I directly give the share certificates to my Depository Participant for dematting them in my favor?

Prior to dematting your shares, they have to be registered in your favor. Hence, you have to necessarily lodge the share certificates with a duly executed transfer deed with the company's registrar and share transfer agent.

Q. 7 How do I get my dividends on dematted shares? Will I get the Annual Report after I demat my shares and would I be able to attend the AGM?

The Depository Participants will give the list of demat account holders and the number of shares held by them in electronic form on the Record date to the company (Beneficiary Persons, known as Benpos in short). On the basis of Benpos, the company will issue dividend warrants in favor of the demat account holders.

The rights of the shareholders holding shares in demat form are at par with the holders in physical form. Hence you will be eligible to get the Annual Report and will have the right to attend the AGM as a shareholder.

Q. 8 What are the chances of any fraud/disputes in using a demat account? Whom should I approach in such cases?

Common risk factors applicable to trading in physical shares like mismatch in signatures, loss in postal transit, etc., are absent since the dematted shares are traded scrip less.

However, in the unlikely event of any other dispute, the concerned Depository Custodian viz. NSDL/CSDL or SEBI would have to be approached for resolving such issues.

Q.9 Can I pledge my shares in demat form for the purpose of availing any funding/loan arrangement with my bankers?

Yes. You will have to contact your DP for this.