

# Project on demat account



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The term Demat, in India, refers to a dematerialised account. For individual Indian citizens to trade in listed stocks or debentures. The Securities Exchange Board of India (SEBI) requires the investor to maintain a Demat account. In a demat account shares and securities are held in electronic form instead of taking actual possession of certificates. A Demat Account is opened by the investor while registering with an investment broker (or sub broker). The Demat account number which is quoted for all transactions to enable electronic settlements of trades to take place.

Access to the demat account requires an internet password and a transaction password as well as initiating and confirming transfers or purchases of securities. Purchases and sales of securities on the Demat account are automatically made once transactions are executed and completed. | | Advantages of Demat The demat account reduces brokerage charges, makes pledging/hypothecation of shares easier, enables quick ownership of securities on settlement resulting in increased liquidity, avoids confusion in the ownership title of securities, and provides easy receipt of public issue allotments.

It also helps you avoid bad deliveries caused by signature mismatch, postal delays and loss of certificates in transit. Further, it eliminates risks associated with forgery, counterfeiting and loss due to fire, theft or mutilation. Demat account holders can also avoid stamp duty (as against 0.5 per cent payable on physical shares), avoid filling up of transfer deeds, and obtain quick receipt of such benefits as stock splits and bonuses. Indian Market Scenario

Indian capital market has seen unprecedented boom in its activity in the last 15 years in terms of number of stock exchanges, listed companies, trade volumes, market intermediaries, investor population, etc. However, this surge in activity has brought with it numerous problems that threaten the very survival of the capital markets in the long run, most of which are due to the large volume of paper work involved and paper based trading, clearing and settlement. Until the late eighties, the common man kept away from capital market and thus the quantum of funds mobilized through the market was meager. A major problem, however, continued to plague the market. The Indian markets were drowned in shares in the form of paper and hence it was problematic to handle them. Fake and stolen shares, fake signatures and signature mismatch, duplication and mutilation of shares, transfer problems, etc. The investors were scared and were under compensated for the risk borne by them. The century old system of trading and settlement requires handling of huge volumes of paper work.

This has made the investors, both retail and institutional, wary of entering the capital market. However, lack of modernization become a hindrance to growth and resulted in creation of cumbersome procedures and paper work. However, the real growth and change occurred from mid-eighties in the wake of liberalization initiatives of the Government. The reforms in the financial sector were envisaged in the banking sector, capital market, securities market regulation, mutual funds, foreign investments and Government control.

These institutions and stock exchanges experienced that the certificates are the main cause of investors` disputes and arbitration cases. Since the paper

work was not matching the rapid growth so there was a need for a better system to ensure removal of these impediments. Government of India decided to set up a fully automated and hightechnologybased model exchange that could offer screen-based trading and depositories as the ultimate answer to all such reforms and eliminate various bottlenecks in the capital market, particularly, the clearing and settlement system in stock exchanges. 1] A depository in very simple terms is a pool of pre-verified shares held in electronic mode which offers settlement of transactions in an efficient and effective way. Object Of Demat System India has adopted this system in which book entry is done electronically. It is the system where no paper is involved. Physical form is extinguished and shares or securities are held in electronic mode. Before the introduction of the depository system by the Depository Act, 1996, the process of sale, purchase and transfer of shares was a huge problem and the safety perspective was zero.

Demat Benefits The benefits are enumerated as follows: . Its a safe and convenient way to hold securities . Immediate transfer of securities is there . There is no stamp duty on transfer of securities . Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc. . There is a major reduction in paperwork involved in transfer of securities, reduction in transaction cost etc. . No odd lot problem, even one share can be sold thus there is advantage .

Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately; • Transmission of securities is done by DP eliminating correspondence with companies; • Automatic credit

into demat account of shares, arising out of bonus/split/consolidation/merger etc. • Holding investments in equity and debt instruments in a single account. Benefit to the Company The depository system helps in reducing the cost of new issues due to less printing and distribution cost.

It increases the efficiency of the registrars and transfer agents and the Secretarial Department of the company. It provides better facilities for communication and timely services with shareholders, investor etc. Benefit to the Investor The depository system reduces risks involved in holding physical certificated, e. g. , loss, theft, mutilation, forgery, etc. It ensures transfer settlements and reduces delay in registration of shares. It ensures faster communication to investors. It helps avoid bad delivery problem due to signature differences, etc. It ensures faster payment on sale of shares. No stamp duty is paid on transfer of shares.

It provides more acceptability and liquidity of securities. Benefits to Brokers The depository system reduces risk of delayed settlement. It ensures greater profit due to increase in volume of trading. It eliminates chances of forgery – bad delivery. It increases overall of trading and profitability. It increases confidence in investors. Demat conversion Converting physical holding into electronic holding (dematerialising securities) In order to dematerialise physical securities one has to fill in a DRF (Demat Request Form) which is available with the DP and submit the same along with physical certificates one wishes to dematerialise.

Separate DRF has to be filled for each ISIN Number. The complete process of dematerialisation is outlined below: • Surrender certificates for dematerialisation to your depository participant. • Depository participant

intimates Depository of the request through the system. • Depository participant submits the certificates to the registrar of the Issuer Company. • Registrar confirms the dematerialisation request from depository. • After dematerialising the certificates, Registrar updates accounts and informs depository of the completion of dematerialisation. • Depository updates its accounts and informs the depository participant. Depository participant updates the demat account of the investor. Demat Options Banks score over others Around 200 “ depository participants” (DPs) offer the demat account facility. A comparison of the fees charged by different DPs is detailed below. But there are three distinct advantages of having a demat account with a bank — quick processing, accessibility and online transaction. Generally, banks credit your demat account with shares in case of purchase, or credit your savings accounts with the proceeds of a sale on the third day. Banks are also advantageous because of the number of branches they have.

Some banks give the option of opening a demat account in any branch, while others restrict themselves to a select set of branches. Some private banks also provide online access to the demat account. So, you can check on your holdings, transactions and status of requests through the net banking facility. A broker who acts as a DP may not be able to provide these services.

**Fees Involved** There are four major charges usually levied on a demat account: Account opening fee, annual maintenance fee, custodian fee and transaction fee. All the charges vary from DP to DP. Account-opening fee

Depending on the DP, there may or may not be an opening account fee. Private banks, such as HDFC Bank and UTI Bank, do not have one. However, players such as ICICI Bank, Globe Capital, Karvy Consultants and the State

Bank of India to do so. But most players levy this when you re-open a demat account, though the Stock Holding Corporation offers a lifetime account opening fee, which allows you to hold on to your demat account over a long period. This fee is refundable. Annual maintenance fee This is also known as folio maintenance charges, and is generally levied in advance. Custodian fee This fee is charged monthly and depends on the number of securities (international securities identification numbers — ISIN) held in the account. It generally ranges between Rs 0.5 to Rs 1 per ISIN per month. DPs will not charge custody fee for ISIN on which the companies have paid one-time custody charges to the depository. Transaction fee The transaction fee is charged for crediting/debiting securities to and from the account on a monthly basis. While some DPs, such as SBI, charge a flat fee per transaction, HDFC Bank and ICICI Bank peg the fee to the transaction value, subject to a minimum amount.

The fee also differs based on the kind of transaction (buying or selling). Some DPs charge only for debiting the securities while others charge for both. The DPs also charge if your instruction to buy/sell fails or is rejected. In addition, service tax is also charged by the DPs. In addition to the other fees, the DP also charges a fee for converting the shares from the physical to the electronic form or vice-versa. This fee varies for both demat and remat requests. For demat, some DPs charge a flat fee per request in addition to the variable fee per certificate, while others charge only the variable fee.

For instance, Stock Holding Corporation charges Rs 25 as the request fee and Rs 3 per certificate as the variable fee. However, SBI charges only the variable fee, which is Rs 3 per certificate. Remat requests also have charges

akin to that of demat. However, variable charges for remat are generally higher than demat. Some of the additional features (usually offered by banks) are as follows. Some DPs offer a frequent trader account, where they charge frequent traders at lower rates than the standard charges.

Demat account holders are generally required to pay the DP an advance fee for each account which will be adjusted against the various service charges. The account holder needs to raise the balance when it falls below a certain amount prescribed by the DP. However, if you also hold a savings account with the DP you can provide a debit authorisation to the DP for paying this charge. Finally, once you choose your DP, it will be prudent to keep all your accounts with that DP, so that tracking your capital gains liability is easier.

This is because, for calculating capital gains tax, the period of holding will be determined by the DP and different DPs follow different methods. For instance, ICICI Bank uses the first in first out (FIFO) method to compute the period of holding. The proof of the cost of acquisition will be the contract note. The computation of capital gains is done account-wise. Opening an account Steps involved in opening a demat account First an investor has to approach a DP and fill up an account opening form.

The account opening form must be supported by copies of any one of the approved documents to serve as proof of identity (POI) and proof of address (POA) as specified by SEBI. Besides, production of PAN card in original at the time of opening of account has been made mandatory effective from April 1, 2006. All applicants should carry original documents for verification by an authorized official of the depository participant, under his signature. Further,



the investor has to sign an agreement with DP in a depository prescribed standard format, which details rights and duties of investor and DP.

DP should provide the investor with a copy of the agreement and schedule of charges for their future reference. The DP will open the account in the system and give an account number, which is also called BO ID (Beneficiary Owner Identification number). The DP may revise the charges by giving 30 days notice in advance. SEBI has rationalised the cost structure for dematerialisation by removing account opening charges, transaction charges for credit of securities, and custody charges vide circular dated January 28, 2005.

Further, SEBI has vide circular dated November 9, 2005 advised that with effect from January 9, 2006, no charges shall be levied by a depository on DP and consequently, by a DP on a Beneficiary Owner (BO) when a BO transfers all the securities lying in his account to another branch of the same DP or to another DP of the same depository or another depository, provided the BO Account/s at transferee DP and at transferor DP are one and the same, i. e. identical in all respects.

In case the BO Account at transferor DP is a joint account, the BO Account at transferee DP should also be a joint account in the same sequence of ownership. Disadvantages of Demat The disadvantages of dematerialization of securities can be summarised as follows: Trading in securities may become uncontrolled in case of dematerialized securities. It is incumbent upon the capital market regulator to keep a close watch on the trading in dematerialized securities and see to it that trading does not act as a detriment to investors.

The role of key market players in case of dematerialized securities, such as stock-brokers, needs to be supervised as they have the capability of manipulating the market. Multiple regulatory frameworks have to be confirmed to, including the Depositories Act, Regulations and the various By-Laws of various depositories. Additionally, agreements are entered at various levels in the process of dematerialization. These may cause anxiety to the investor desirous of simplicity in terms of transactions in dematerialized securities.

However, the advantages of dematerialization outweigh its disadvantages and the changes ushered in by SEBI and the Central Government in terms of compulsory dematerialization of securities is important for developing the securities market to a degree of advancement. Freely traded securities are an essential component of such an advanced market and dematerialization addresses such issues and is a step towards the advancement of the market.

Transfer of Shares between DPs To transfer shares, we need to fill the Depository Instruction Slip Book (DIS).

Firstly we need to check, whether both Demat account's Depository Participant is same or not (CDSL or NSDL) If both of them are different, then we need an INTER Depository Slip (Inter DIS). If they are same, then we need INTRA Depository Slip (Intra DIS). For example: If we have one Demat account with CDSL and other Demat account with NSDL, then we need an Inter DIS. Generally, brokers issue Intra DIS, so do check with broker. Once we identify the correct DIS, fill the relevant information like scrip name INE number quantity in words and figures and submit that DIS for the transfer to the broker with signatures.

The transferor broker shall accept that DIS in duplicate and acknowledge receipt of DIS on duplicate copy. Do try to submit that DIS when market is on. Accordingly, date of submission of DIS and date of execution of DIS can be same or a difference of one day is also acceptable. For transfer, you shall also pay the broker some charges. Remember: DIS is almost like a cheque book. Accordingly, it can not be misused if issued blank. So deposit only a completely filled in Slip to broker. Do cut out unfilled rows so that none can fill them later on.