

# Demat account essay sample

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In India's banking terminology, the term DEMAT Account refers to a deposit made at an Indian financial institution that can be used for investing in shares of stocks and other financial assets. Securities are held electronically in a DEMAT Account, thereby eliminating the need for physical paper certificates.

#### Definition

Demat account is a safe and convenient means of holding securities just like a bank account is for funds. Today, practically 99.9% settlement (of shares) takes place on demat mode only. Thus, it is advisable to have a Beneficiary Owner (BO) account to trade at the exchanges.

#### DEMAT Account Example:

For example, a DEMAT Account became available after India adopted the DEMAT system for the electronic storing of stock shares and other securities in 1996. DEMAT is short for "Dematerialized" and such accounts require that an investor open an account with an investment broker linked to a savings or other funded account. Access to a DEMAT Account requires both an Internet and transaction password, and such accounts allow for the transfer of securities without any physical certificates changing hands. This feature helps prevent problems such as: loss, forgery or theft of the certificates and makes the process of buying and selling securities much more efficient.

#### Why 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.

#### Advantages of demat

The bonus/right shares allotted to the investor will be immediately credited into his account. There is no risk due to loss on account of fire, theft or mutilation. Transaction costs are usually lower than that in the physical segment. A demat account also helps avoid problems typically associated with physical share certificates. For example: delivery failures caused by signature mismatch, postal delays and loss of certificate during transit. Further, it eliminates the risks associated with forgery and due to damaged stock certificates. Demat account holders also avoid stamp duty (as against 0.5 per cent payable on physical shares) and filling up of transfer deeds. The biggest advantage of having demat account is that you don't have to pay for stamp since these are electronically stored which reduces the transaction cost.

#### Disadvantages of Demat

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. For dematerialized securities, the

role of key market players such as stock-brokers needs to be supervised as they have the capability of manipulating the market. Multiple regulatory frameworks have to be conformed to, including the Depositories Act, Regulations and the various Bye-Laws of various depositories. Agreements are entered at various levels in the process of dematerialization. These may cause worries to the investor desirous of simplicity. There is no provision to close a demat account, which is having illiquid shares. The investor cannot close the account and he and his successors have to go on paying the charges to the participant, like annual folio charges etc. After liquidating the holdings, many Indian investors don't close their dp account. They are unaware that DPs charge even on accounts with nil holdings. Have questions?

Q. Can I open more than one demat account with only one DP in identical names? A. Yes. You can open more than one demat account in identical names. There is no restriction on the number of demat accounts you can open with the same/other DP's. Q. Can a depository account be opened with four holder's names? A. Yes, a depository account can be opened in the name of four holders but the account can be operated only for the dematerialisation of shares held in the same combination. Once the shares are dematerialised the securities should be transferred and Demat Account should be closed. No shares can be credited by purchase or transferred from any other account. Hence for such accounts, the standing instruction for credits will be ' N' .

Q. Can someone else operate my demat account on my behalf on the basis of Power of Attorney? A. Yes. If you authorize any person to operate your account by executing a power of attorney, that person can operate the account on your behalf. However, you need to submit a Notarised copy of the POA to your DP. Ensure that the POA has the signatures of both, the Donor and the Donee. The POA holder is also subject to KYC norms of the bank. However if the POA is submitted at the time of account opening, it is mandatory that the holder signs the account opening document. How does it work?

A Depository is like a bank where securities are held in electronic form. There are two Depositories in India – National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Under the Depositories Act, investors can use the services of these Depositories through Depository Participants (DP) such as HDFC Bank. There are a number of benefits:

Settlement of securities are traded on exchanges and as well as off-market transactions Shorter settlements enhance liquidity

No stamp duty on the transfer of securities held in Demat form Changing your address, registering a power of attorney and even signatures can be effected in Demat accounts by submitting requests along with the relevant documents to the Depository Participant Benefits of Demat Account

- A safe and convenient way to hold securities;
- Immediate transfer of securities;
- No stamp duty on transfer of securities;
- Elimination of risks associated with physical certificates such as bad delivery, fake

securities, delays, thefts etc.; • Reduction in paperwork involved in transfer of securities; • Reduction in transaction cost; • No odd lot problem, even one share can be sold; • Nomination facility Benefit For Investors

Demat account has become a necessity for all categories of investors for the following reasons/ benefits: • SEBI has made it compulsory for trades in almost all scrip's to be settled in Demat mode. Although, trades up to 500 shares can be settled in physical form, physical settlement is virtually not taking place for the apprehension of bad delivery on account of mismatch of signatures, forgery of signatures, fake certificates, etc. • It is a safe and convenient way to hold securities compared to holding securities in physical form.. • No stamp duty is levied on transfer of securities held in Demat form. • Instantaneous transfer of securities enhances liquidity.

HDFC Bank also facilitates registration of SPEED-e (NSDL) & Easiest (CDSL). These internet-based transaction allows you to submit delivery instructions electronically, via the SPEED-e / Easiest website. This way, you have security when processing transactions, without the hassle of preparing and submitting instruction slips. With facilities like ' IDEAS' & Easi, you can view the current transactions and balances of your Demat Account in real-time.

## Concepts and Processes

### Depository Concepts

A Depository is like a bank where securities are held in electronic form.

There are two Depositories in India – National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Under the Depositories Act, investors can use the services of these Depositories

through Depository Participants (DP) such as HDFC Bank. Dematerialisation of Securities

This involves converting your Physical Securities into an electronic format. Since Stock Exchange transactions can be handled in Demat form only, it is good to hold your securities in electronic form. This way, it's easy to make a transfer to another account and you will not attract stamp duty.

#### Instruction Slip Processing

Instruction slips are just like cheque leaves, but they must be clearly signed by all account holders. Make sure you keep them securely and submit on time for timely execution. Nomination

Nomination can be made only by individuals holding beneficiary owner accounts on their own behalf singly or jointly. Non- individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, Holder of power of attorney cannot nominate. If the account is held jointly, all joint holders will sign the nomination form. Nomination in respect of the beneficiary owner account stands rescinded upon closure of the beneficiary owner account. Similarly, the nomination in respect of the securities shall stand terminated upon transfer of the securities.

Transfer of securities in favour of a Nominee shall be valid discharge by the Depository against the legal heir. The cancellation of nomination can be made by individuals only holding beneficiary owner accounts on their own behalf singly or jointly by the same persons who made the original nomination. On cancellation of the nomination, the nomination shall stand rescinded and the Depository shall not be under any obligation to transfer

the securities in favour of the Nominee. A minor can be nominated. In that event, the name and address of the Guardian of the minor nominee shall be provided by the beneficial owner. Birth certificate of minor nominee, Guardian proof of identity is required. Closure of Account

Closing an account requires the submission of a form signed by all members. If there is any holding in the account this should be transferred before closure, which requires a valid Demat Account number. Goal of Demat System

India adopted the Demat System for electronic storing, wherein shares and securities are represented and maintained electronically, thus eliminating the troubles associated with paper shares. After the introduction of the depository system by the Depository Act of 1996, the process for sales, purchases and transfers of shares became significantly easier and most of the risks associated with paper certificates were mitigated. Documents Required For Demat Account[3]

To open a Demat account you have to provide documents which fulfill the requirements of KYC (Know Your Customer) norms. You have to sign a contract with Stock broker. Generally the documents are: PAN (Compulsory)

Bank statement (last 6 months)

One cancelled cheque

Address Proof

Income Tax Return

Two colour photos



Definition of ' Dematerialization - DEMAT' The move from physical certificates to electronic book keeping. Actual stock certificates are slowly being removed and retired from circulation in exchange for electronic recording. Demat conversion

Converting physical records of investments into electronic records is called " dematerialising" of securities. In order to dematerialise physical securities, investors must fill in a Demat Request Form (DRF), which is available with the DP and submit the same along with physical certificates. Every security has an ISIN (International Securities Identification Number). A separate DRF must be filled for each ISIN. The complete process of dematerialisation is outlined below: The investor surrenders the certificates for dematerialisation to the DP. DP updates the account of the investor.

Note : The Account Opening Charges are waived off for the 1st year.

Customers who have a banking relationship with HDFC Bank to provide a debit authorisation for the recovery of service charges. Common Clauses

The above charges are exclusive of Service Tax and Education Cess which is currently @ 12. 36% and other levies levied by Government bodies / statutory authority from time to time, which will be charged as applicable All charges / service standards are subject to revision at the Bank's sole discretion and as informed by circulars sent by ordinary post / courier. The Annual Maintenance Charges are levied, in advance, for a period of one year at the beginning of the period. The value of the transaction will be in accordance with rates provided by Depository. The transaction charges will

be payable monthly. The charges quoted above are for the services listed. Any service not quoted above will be charged separately.

The pledge services will include individual pledge creation request, closure requisition, pledge invocation receipt and pledge invocation delivery. The operating instructions for the joint accounts must be signed by all the holders. All instructions for transfer must be received at the designated branches of the Bank at least 24 hours before the execution date. The charges for processing of instructions submitted on the execution date (accepted at client's risk) will be 0.25 % on the value of transaction, minimum of Rs. 25/- per instruction. In case of non-recovery of service charges due to inadequate balance in your linked bank account or inadequate advance fees or invalid bank account, the Depository services for your account will be temporarily discontinued. Any request for resuming the services will be charged at Rs. 250/- and services will be resumed in a minimum of three working days from the date of receipt of request with us and payment of all dues. Fees involved

There are four major charges usually levied on a demat account: account opening fee, annual maintenance fee, custodian fee and transaction fee. Charges for all fees 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[1] and AXIS Bank, do not have one. However, players such as Kotak Securities,[2] Sushil Finance, ICICI Bank, Globe Capital, Karvy Consultants and Bajaj Capital Limited do impose an opening fee. State Bank of India does not charge any account opening

charge while other maintenance and transaction charges apply. Most players levy this when re-opening a demat account. However, the Stock Holding Corporation offers a lifetime account opening fee, which allows the investor to hold on to his/her demat account for a long period. The fee is also refundable. Annual maintenance fee

This is also known as folio maintenance charges, and is generally levied in advance. It is charged on annual or monthly basis.

This fee is charged monthly and depends on the number of securities (i. e. ISINs) held in the account. It generally ranges between Rs 0. 5 to Rs 1 per ISIN per month. DPs will not charge a custody fee for an 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, which is 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. Some DPs also charge the investor even if the 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 (physical-to-electronic) and remat (electronic-to-physical) requests.

For demat transactions, 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 has charged Rs 25 as the request fee and Rs 3 per certificate as the variable fee. However, SBI has charged only the variable fee, as 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 that 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 the holders also hold a savings account with the DP, they can provide a debit authorisation to the DP for paying this charge. Finally, once choosing a DP, it would be prudent to keep all accounts with that DP, so that tracking of capital gains liability is easier. This is because when 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. Indian Banking System 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. An investor must have his/her PAN card in original at the time of opening of the account (mandate 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 the 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 BOID (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.

## References

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### Abstract

The trading on stock exchanges in India used to take place through open outcry without use of information technology for immediate matching or recording of trades. This was time consuming and inefficient. This imposed limits on trading volumes and efficiency. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully automated screen based trading system where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party. Screen based electronic system electronically matches orders on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It allows faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets.

It enables market participants, irrespective of their geographical locations, to trade with one another simultaneous, improving the depth and liquidity of the market. It provides full anonymity by accepting orders, big or small, from members without revealing their identity, thus providing equal access to everybody. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process entirety. The sucked liquidity from other exchanges and in the very first year of its operation, NSE became the leading stock exchange in the country, impacting the fortunes of

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other exchanges and forcing them to adopt SBTS also. Today India can boast that almost 100% trading take place through electronic order matching.

In order to promote dematerialization of securities, NSE joined hands with leading financial institutions to establish the national securities depository Ltd. (NSDL), the first depository in the country, with the objective of enhancing the efficiency in settlement systems as also to reduce the menace of fake/forged and stolen securities. This has ushered in an era of dematerialised trading and settlement. SEBI has made dematerialised settlement mandatory in an ever -increasing number of securities in a phased manner, thus bringing about an increase in the proportion of shares delivered in dematerialised form. There is an increasing preference to settle trades, particularly in high value securities, in demat form. Such high level of demat settlement reassures success of rolling settlement. What is DEMAT

In India , a demat account, the abbreviation for dematerialised account, is a type of banking account which dematerializes paper-based physical stock shares. Conversion of Securities from Physical (Paper) Mode into Electronic Mode is Called Dematerialisation. The Client opens Demat Account with any DP. Upon Demat, the Certificates are destroyed and credit entry of exactly equal number of Securities is created in Depository in Electronic mode. The B. O. account of holder is credited and the securities loose their identities. The dematerialised account is used to avoid holding physical shares: the shares are bought and sold through a stock broker. This account is popular in India . The market regulator, securities and exchange board of India (SEBI) mandates a demat account for share trading above 500 shares. As of April

2006, it became mandatory that any person holding a demat account should possess a permanent account number (PAN), and the deadline for submission of PAN details to the depository lapsed on January 2007.

Dematerialisation is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited in the investor's account with its DP. In order to dematerialize certificates; an investor will have to first open an account with a DP and then request for the dematerialisation of certificates by filling up a dematerialisation request form [DRF], which is available with the DP and submitting the same along with the physical certificates. The investor has to ensure that before the certificates are handed over to the DP for demat, they are defaced by marking “ Surrendered for Dematerialisation” on the face of the certificates. Objective of the Study

- The main objective of the study is to know about the potential of the market regarding people's dealing in share market.
- To know the role of Demat Account .
- To know the procedure of opening DEMAT ACCOUNT.
- The objective is to know that how many people in the city are aware of the UNICON SECURITIES PVT. LTD.
- To know where people have already opened their demat a/c and on what basis. Procedure for Opening an Account

A demat account are opened on the same lines as that of a Bank Account. Prescribed Account opening forms are available with the DP, needs to be filled in. Standard Agreements are to be signed by the Client and the DP,



which details the rights and obligations of both parties • The DP officials will make available the relevant account opening form (depending on whether the client is a retail investor or corporate client/clearing member) and specify the list of documents regarding references that should be submitted along with the form. It will also give a copy of the relevant agreement to be entered with the client, in duplicate. • The client will submit the duly filled in account opening form and client has to visit personally for opening the account in DP. The DP officials have to do in person verification and affix the “ IN PERSON VERIFICATION” stamp on the account opening form.

It should also furnish such documents regarding references, as specified by the DP, along with the account opening form. After executing the agreement the client has to forward it to the DP. • The DP officials will verify that the account opening form is duly filled in. It will also verify the enclosed documents, if any. Incomplete forms will be forwarded to the client for rectification. • For Corporate Clients, the DP officials will verify if the board resolution for the authorized signatories is enclosed. • In case the documents are not proper, the DP officials will reject the form and intimate the client of the same, stating the reasons for doing so. • If the form is in order; the DP officials will accept the same and affix the stamp “ verified with original” on each and every proof after seeing the original proofs. • After completion of all documentation, the DP officials will verify the pan from income tax website. And affix the stamp “ PAN VERIFIED” with date and sign on the stamp.

- The DP officials will enter the client details as mentioned in the account opening form in the DPM (software provided by NSDL & CDSL to the Participant) screen provided for the purpose. In case of NSDL A/c opening the SR. Assist will capture all the details in the DPM and record the client's signature (on the form) as specimen for authorizations in the future.
- After entering client details in the system, a client account number will be generated by the DPM. The DP officials will enter this in the account opening form. After that the officers will verify the details in the DPM captured by the SR. Assist. and activate the account.
- The DP officials are not allowed to give the demat a/c no to the clients until the a/c is activate, this is applicable for both NSDL & CDSL.
- When the demat a/c is activated the DP officials have to send the client master and the copy of agreement between DP and client at the client's address

DEMAT Process

- The registered holder of the securities makes the request.
- Securities must be recognised by Depository as eligible.
- Client submits DRF & physical certificates to DP. DP checks securities.
- Client defaces certificates and DP punches two holes on name of company.
- DP enters demat request in system for Depository.

- DP dispatches certificates along with DRF to R&T.
- Depository records the details and sends to R&T.
- R&T agent verifies the details and confirms to Depository.
- Depository credits the demat securities to BO a/c of client and intimates DP electronically.
- DP issues statement to client

Reference :

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[www.nseindia.com](http://www.nseindia.com)

List of Banks offering Demat:

State Bank of India, HDFC Bank, ICICI Bank, Dena Bank, Bank of Baroda,

ORIENTAL BANK OF COMMERCE