

9. Depository System

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. In physical mode, securities are held in form.

- a) **Paper**
- b) Dematerialization
- c) Electronic

2. Risk of losing certificates exists in mode.

- a) **Physical**
- b) Dematerialised
- c) Digital

3. In Depository System, securities are held in form.

- a) Scrip based
- b) **Electronic**
- c) Physical

4. is the institute which facilitates electronic holding of securities.

- a) Depository participant
- b) Issuer
- c) **Depository**

5. There is no payment of when securities are demated.

- a) Octroi
- b) Wealth Tax
- c) **Stamp Duty**

6. Depository Act was passed in

- a) 1919
- b) **1996**
- c) 1999

7. India has a depository system.

- a) Sole
- b) **Multi**
- c) Single



8. is a constituent of depository system.
a) Government
b) Issuer
c) Trust
9. is the oldest depository in India.
a) Dow Jones
b) NSDL
c) CDSL
10. Demat account is opened by
a) Beneficial Owner
b) CDSL
c) SEBI
11. Demated shares are.....
a) Non-transferable
b) Fungible
c) Bearer
12. is a unique code given to a security.
a) IBM
b) BBM
c) ISIN
13. In India ISIN for corporate securities is allotted by
a) NSDL
b) Central Govt.
c) State Govt.
14. has to apply for ISIN.
a) Company
b) Depository participant
c) Depositors
15. has to pay charges to maintain Demat Account.
a) Investor
b) Issuer
c) Depository
16. NSDL is promoted by
a) NSE



- b) BSE
- c) FTSE

17. CDSL is promoted by

- a) NSE
- b) BSE**
- c) FTSE

B) Match the pairs.

Group 'A'	Group 'B'
a) Bad Delivery	1) 1956
b) Depository Act	2) A 12 digit number/code
c) ISIN	3) Connects Government and Bank
d) Depository	4) Second Depository and Investor
e) CDSL	5) The Issuer Company
f) Depository	6) Problem faced in physical mode.
g) Beneficial owner	7) A 10 digit number/code.
	8) Connects Depository and Investor.
	9) First Depository in the world.
	10) Coustodian of securities in electronic form.
	11) Problem faced in electronic mode.
	12) 1996
	13) Government Organisation.
	14) The investor.

Ans:

Group 'A'	Answers
a) Bad Delivery	6) Problem faced in physical mode.
b) Depository Act	13) 1996
c) ISIN	2) A 12 digit number/code
d) Depository	8) Connects Depository and Investor.
e) CDSL	4) Second Depository and Investor
f) Depository	10) Coustodian of securities in electronic form.



g) Beneficial owner

14) The investor.

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. This mode of holding securities may result in loss and theft of certificates.

Ans: Physical mode

2. The organization which holds the securities in electronic mode.

Ans: Depository

3. This system eliminates storing of certificates.

Ans: Depository

4. This system allows faster and easier transfer of securities.

Ans: Depository

5. The oldest Depository of India.

Ans: NSDL

6. The country where depository system started for the first time.

Ans: Germany

7. The registered owner of securities.

Ans: Beneficial Owner (B.O.)

8. The Agent of the Depository.

Ans: DP

9. This process converts securities into electronic form from physical form.

Ans: Demat

10. This process converts securities into physical form from electronic form.

Ans: Remat

11. This means securities are without distinctive identity number.

Ans: Fungibility

12. This is the unique code for security given in depository system.

Ans: ISIN

D) State whether the following statements are true or false.



1. Physical mode of holding securities is risky.

Ans: True

2. Allotment of securities take longer time when in physical mode.

Ans: True

3. Transfer of securities is easier in electronic mode.

Ans: True

4. Bad delivery is likely in Depository System.

Ans: False

5. Depository system began in the USA for the first time in the world.

Ans: False

6. India has a multi Depository System.

Ans: True

7. Depository system is very similar to banking system.

Ans: True

8. DP is a constituent of Depository System.

Ans: True

9. DP is an agent of Depository.

Ans: True

10. A Bank can work as a DP.

Ans: True

11. DRF is required for conversion from physical to electronic.

Ans: True

12. ISIN is a unique code given to the specific securities.

Ans: True

E) Find the odd one.

1. Elimination of storage of Certificates, Theft of Certificates, Torn Certificates.

Ans: Elimination of storage of Certificates

2. NSDL, CDSL, NBFC

Ans: NBFC

3. Depository, DP, RBI.

Ans: RBI

4. DP, BO, State Government.

Ans: State Government

5. Issuer, BO, Central Government.

Ans: Central Government

6. DRF, RRF, PPF

Ans: PPF

F) Complete the sentences.

1. Central location for keeping securities in demated form is

Ans: Depository

2. Freezing of debit/credit of securities is possible in

Ans: Depository

3. First Depository of the world started in the year

Ans: 1947

4. The Indian Depository Act was passed in the year ,.....

Ans: 1996

5. Link between Depository and Investor is

Ans: DP

6. Account of securities of the Investors is maintained by

Ans: DP

7. The process which converts physical securities in electronic form is

Ans: Demat

8. The process which converts digital securities in physical form is

Ans: Remat

9. The Issuer company must register with

Ans: Depository

10. The unique code identifying a security is

Ans: ISIN



11. The first depository of India is

Ans: NSDL

G) Select the correct option from the bracket.

(I)

Group 'A'	Group 'B'
a) Dematerialization	
	2) DP
c) First depository of world	
d) CDSL	

(1999, Agent of Depository, Germany, physical to electronic)

Ans:

Group 'A'	Group 'B'
a) Dematerialization	1) Physical to electronic
b) Agent of Depository	2) DP
c) First depository of world	3) Germany
d) CDSL	4) 1999

(II)

Group 'A'	Group 'B'
a) First depository in India	
	2) Rematerialisation
c) Fungibility	
	4) ISIN

(12 digit code, NSDL, Electronic to physical, No distinctive number)

Ans:

Group 'A'	Group 'B'
a) First depository in India	1) NSDL

b) Electronic to physical	2) Rematerialisation
c) Fungibility	3) No distinctive number
d) 12 digit code	4) ISIN

H) Answer in one sentence.

(1) What is Depository System?

Ans. Depository system hold securities in electronic form, where transfer and settlements of securities are done electronically.

(2) Give examples of action termed as corporate action.

Ans. Examples of corporate actions are Payment of dividend, issue of bonus shares, Offering of rights shares, Merger and Acquisitions, etc.

(3) When was Depository Act passed in India?

Ans. In India, Depository act was passed in 1996.

(4) What is a D.P. ?

Ans. D.P. is the agent of depository registered under the SEBI Act and acts as a link between Depository and the Investor.

(5) What is Dematerialisation ?

Ans. Dematerialisation is a process whereby a client can get physical certificates converted into electronic mode.

(6) What is Rematerialisation ?

Ans. Rematerialisation is the process where by a client can get his electronic securities converted into physical certificates.

(7) What is ISIN ?

Ans. ISIN stands for International Securities Identification Number and is a 12 digit code that assists in identifying securities such as stocks, equities, bonds, debt, etc.

(8) Name the depositories in India.



Ans. NSDL and CDSL are the two depositories in India, which are registered with SEBI.

[I] Correct the underlined words and rewrite the following sentences.

(1) Electronic mode of holding securities is risky.

Ans. Physical mode of holding securities is risky.

(2) Allotment and Transfer of securities is time consuming in electronic mode.

Ans. Allotment and Transfer of securities is time consuming in physical mode.

(3) Banking system leads to a scrip less capital market.

Ans. Depository system leads to a scrip less capital market.

(4) Storage of Certificates is not required in Physical mode of holding.

Ans. Storage of Certificates is not required in Electronic/ Depository mode of holding.

(5) India has a single Depository system.

Ans. India has a multi Depository system.

(6) Depository Participant in India has to register under the partnership act.

Ans. Depository Participant in India has to register under the SEBI Act.

(7) Demat accounts are opened and maintained by the Depository.

Ans. Demat accounts are opened and maintained by the DP.

(8) Securities are fungible in Physical mode.

Ans. Securities are fungible in Electronic mode.

(9) ISIN is a code given to a company.

Ans. ISIN is a code given to a security.



(10) ISIN of Indian Government securities is issued by NSDL.

Ans. ISIN of Indian Government securities is issued by RBI.

[J] Arrange in proper order.

(1)

(a) Gets Statement of Accounts

(b) Open Demat Account

(c) Submit DRF

Ans:

(b) Open Demat Account

(c) Submit DRF

(a) Gets Statement of Accounts

(2)

(a) Investor (BO) submits application for securities to issuer company

(b) Depository intimates the D.P. about crediting BO's Account

(c) Issuer company gives details of allotment to Depository.

Ans: (a) Investor (BO) submits application for securities to issuer company.

(c) Issuer company gives details of allotment to Depository.

(b) Depository intimates the DP about crediting BO's Account.

Q.2. Explain the following terms/concepts:

(1) Depository system

Ans.(a) Under Depository System, securities / shares are held in an electronic form. The Depository System maintains accounts of the shareholders, enables transfer, collects dividends, bonus shares, etc. on behalf of the shareholder. This system is also called as 'Scripless Trading System'.

(b) In India the Depository System was introduced by passing the Depository Act in 1996. The Depository System resembles the Banking system in many aspects.

(2) Dematerialization

Ans. (a) Dematerialization is the process wherein share certificates or other securities held in physical form are converted into electronic form.

(b) These shares / securities are credited to demat account of an investor which has to be opened with a depository participant.

(3) Rematerialization

Ans. (a) Rematerialization is the process of conversion of electronic holdings of securities into physical certificate form.

(b) For rematerialization, the investors have to fill up a Remat Request Form (RRF) and submit it to the depository participant.

(4) Fungibility

Ans: (a) In financial terms, Fungibility is the ability of a good or asset to be interchanged with other individual goods or assets of the same type. Some financial assets are fungible while some are not fungible.

(b) The securities held in electronic form are fungible. They are interchangeable, substitutable and cannot be distinguished from each other.

(5) ISIN

Ans. (a) An International Securities Identification Number (ISIN) uniquely identifies a security. The ISIN code is a 12-character alphanumeric code that serves for uniform identification of a security.

(b) ISIN's in any country are allotted by National Numbering Agency (NNA) of that country.

Q.3. Study the following case / situation and express your opinion.

(1) Mr. Z holds 100 shares of Peculiar Co. Ltd. in Physical mode and wishes to convert the same in electronic mode:



Questions:

(a) Mr. Z holds a Saving Bank Account with CFDH Bank Ltd. Can he deposit his shares in this account for demat?

Ans. In the above case, Mr. Z holds a Saving Bank Account. Therefore, he cannot deposit his 100 shares in saving bank account for demat.

(b) What type of account is needed for the same?

Ans. Mr. Z wishes to convert the shares into electronic mode. Thus, he needs to open Demat Account for the same.

(c) Is it the RBI which will be the custodian of shares of Mr. Z after demating?

Ans. No, RBI will not be the custodian of shares of Mr. Z. It is the Depository, who will be the custodian of Mr. Z's shares.

(2) Mr. R holds 100 shares of Peculiar Co. Ltd. in Demat mode:

Questions:

(a) He wants to transfer one share each to his wife, daughter and son. Can he do so?

Ans. Yes, Mr. R can transfer a share to his wife, daughter and son. He can do so by transferring the shares into their Demat Accounts.

(b) Does he need to submit DRF or DIS if he wants to transfer his shares?

Ans. Yes. For transferring of shares, Mr. R needs to submit DIS (Delivery Instruction Slip), For this, the slip need to be filled and signed with the details of the security sold.

(c) Can he nominate his wife in his demat account?

Ans. Yes. Mr. R can nominate his wife in his demat account. For this, a particular procedure need to be followed.

(3) Mrs. Z wishes to open a Demat account in her name:

Questions:

(a) Can she open the account going to Mumbai office of NSDL?

Ans. Mrs. Z can open Demat account with Depository Participant. Thus, she cannot open the account going to Mumbai office of NSDL.



(b) Is she required to pay for opening of account and its maintenance?

Ans. Yes. For opening and maintaining of Demat Account certain amount is required to pay. Thus, she is also required to pay for opening of account and its maintenance.

(c) Does she have to send the shares to respective company for demating?

Ans. No. Mrs. Z cannot send the shares to respective company. It is the Depository Participant (DP) who can send the shares on behalf of Mrs. Z to respective company for demating.

(4) Mr. L wants to demat his 25 shares of Peculiar Co. Ltd. bearing certificate No. 100 and distinctive No. 76 - 100.

Questions:

(a) Which form is he required to fill as a written request to the DP?

Ans. In the above case, Mr. L wants to demat his 25 shares. Thus, for this he is required to fill DRF - Demat Request Form for demating his shares.

(b) Does he have to fill instrument of transfer if he wishes to transfer the same after demat?

Ans. Yes. For transferring of shares after demat, Mr. Z needs to submit DIS (Delivery Instruction Slip). For this, the slip need to be filled and signed with the details of the security sold.

(c) Does he have to quote certificate no. and distinctive no. if he wishes to transfer his shares after it is in demat form?

Ans. No. Mr. Z does not have to quote certificate no, and distinctive no. if he wishes to transfer his shares after it is in demat form. He can transfer it without quoting any certificate and distinctive number of the shares.

(5) Mr. S holds 50 shares of Peculiar Co. Ltd. in demat form. The company has declared a dividend of 5/- per share and Bonus of 1:1 to its shareholders.

Questions:

(a) How will Mr. S get his dividend?

Ans. Mr. S holds 50 shares and company has declared a dividend. So, Mr. S's account



will be directly credited with dividend amount. Thus, in this way he can get his dividend.

(b) Will he get Bonus share in Physical or demat?

Ans. Mr. S holds 50 shares of Peculiar Co. Ltd in demat form. So, he will get Bonus Share in his demat account. Bonus shares are the shares given to its existing equity shareholders.

(c) Who is entitled to dividend and Bonus - Mr. S or the depository? (NSDL in this case)

Ans. Mr. S holds 50 shares of Peculiar Co. Ltd and company has declared a dividend and Bonus. So, in such case, Mr. S is entitled to receive dividend and Bonus not the depository.

Q.4 Distinguish between the following.

1. Dematerialization and Rematerialization

Dematerialization	Rematerialization
1. Meaning: Process of converting Physical certificates of securities into electronic form.	It is the process of conversion of electronic form of securities into physical form.
2. Conversion: Here, the paper form of securities is converted in to digitally/ electronically held securities.	Here, the electronic records are converted into physical/paper form securities.
3. Use of Form: It uses 'DRF' : Viz.'Dematerialization Request Form' from Investor to the DP.	It uses 'RRF': viz Rematerialization Request Form from Investor to the DP.
4. Sequence: This is an initial process. It is a primary and Principal function of the depository.	This is a reverse process. It is a secondary and supporting function of depository. Already demated securities are remated.
5. Identification of Securities: Demated securities have no distinctive numbers. They are fungible.	Remated securities will have certificate and distinctive numbers as issued by company.
6. Securities Maintenance Authority: Depository is the custodian of securities and records.	The issuing company is the record keeping authority. Securities are maintained by the investor.



7. Difficulty of Process: Demat is an easy process. Also its not a time consuming process.	Remat is not only a time consuming but also a complex process.
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Q.5 Answer the brief.

1. Explain disadvantages of physical mode of holding securities.

Ans: disadvantages of physical mode of holding securities are as follows:

Physical mode of holding securities : It means securities are held in the form of paper certificates. It has following disadvantages :

1) Risk : Certificates of papers can be lost, damaged, torn, stolen, misplaced during transit, etc.

2) Efforts in Duplicating : Obtaining duplicate certificates (if original certificate is lost) involves time, efforts and money.

3) Delay in allotment of securities : Allotment of new securities takes longer time.

4) Delay in Transfer and Transmission of securities : More time is involved in transfer and transmission of securities as it involves actual handling of physical certificates.

5) Risk of Bad Delivery : Delivering certificates which are torn, forged, etc. creates problems in buying and selling of securities.

2. Explain any four advantages of Depository system to Investor.

Ans: 1) Elimination of Risk : All risks associated with physical certificates like delays, lost, theft, mutilation, bad deliveries, etc. are totally eliminated.

2) Security against Loan: Dematerialised securities are preferred by banks and financial institutions as security against loan.

3) No concept of Lots' : The system of odd and even lot stands abolished. The market lot is one share for dematerialised securities.

4) Nomination Facility : Individual Investors can avail of nomination facility. This simplifies the process in the event of the death of the investor.

3. Explain four advantages of Depository system to the Company.



Ans: Advantages of Depository system to the Company are as follows:

1) Up-to-date Information: The up-to-date information about investors is provided by the depository

2) Reduction in costs and efforts : Costs, efforts and time involved in printing and distribution of certificates in cases of new issues, bonus, transfers, etc. is saved.

3) Better Investor - Company Relationships : The complaints arising out of loss of certificates, signature differences, long lapses of time in executing requests, etc. is substantially reduced. It leads to better communication with investors and increased goodwill for the company.

4) International Investment : Under Depository System, better and quicker services can be provided and this attracts investments from abroad.

4. Explain Depository as constituent of Depository System.

Ans. (a) A depository is a firm wherein the securities of an investor are held in electronic form and which carries out the transactions of securities by means of book entry.

(b) It functions as a custodian of securities of its clients. It also provides different services related to different transactions in such securities.

(c) It is responsible for safe-keeping of the investor's securities and there is no direct access of investor with the Depository.

(d) It works as a link between the company and investors. The depository eliminates the risk of bad deliveries such as loss, theft, fraudulent, mutilation of certificates, etc.

(e) At present in India, there are two depositories. They are:

- National Security Depository Limited (NSDL)

- Central Depository Services Limited (CDSL)

5) Explain DP as the constituent of Depository system.

Ans: (a) A Depository Participant is an agent of the depository. It functions as a bridge between the depository and the beneficial owners.



(b) It maintains the ownership records of every beneficial owner in book entry form.

(c) It enjoys rights and obligations as specified under SEBI (Depository and Participants) Regulations of 1996. The DP maintains account of securities of each investor and has a unique number for identification.

(d) Following can work as DP's:

- Financial Institutions
- Banks
- Approved Foreign Banks
- Custodians responsible for overseeing operations of assets/fund.
- Stock Brokers
- Clearing Corporation
- NBFC (Non-Banking Financial Company)
- Registrar to an Issue or Share Transfer Agents.

Q.6. Justify the following statements :

(1) Electronic holding of securities is safer than physical holding.

Ans. Justification:

(a) The process of holding securities in electronic form is known as Dematerialization. Depository is the custodian of the securities and it is the most secure and safe way of holding securities.

(b) In physical holding of shares, there is a limitation like certificates can be lost, damaged, stolen, torn, etc. Whereas, securities in electronic mode eliminates the risk which existed in physical holding.

(c) Under this system, transactions of shares carried out in electronic form. Thereby the process involved in it is fast, secure and safe.

(d) So, shares are held in electronic form with depository so as to avoid fraud, thefts,

forgery of shares certificates. Thus, it is rightly justified that, electronic holding of securities is safer than physical holding.

(2) Depository provides easy and quicker transfer of shares.

Ans. Justification:

(a) Depository is a system or an organisation which holds the securities in demat form. In other words, shares are held in electronic form.

(b) Under this system, efforts in filling transfer forms and lodging the documents is eliminated. Also the stamp duty levied on transfer of physical shares is not applicable.

(c) Processing time in transfer of securities is reduced and neither the securities nor the cash is tied / held up for unnecessarily long time.

(d) Thus, it is rightly justified that, Depository provides easy and quicker transfer of shares.

(3) Depository system results in reduced time, cost and efforts.

Ans. Justification:

(a) Under depository system, shares are kept in electronic form. So, electronic transaction of securities / shares save time.

(b) It eliminates handling of huge volumes of paper work involved in filing the transfer deeds.

(c) Also, it reduces the efforts in filling transfer forms and lodging the documents with the company.

(d) Thus, it is rightly justified that, depository system results in reduced time, cost and efforts.

(4) Depository system is very similar to the Banking system.

Ans. Justification:

(a) The Depository System resembles the Banking system in many aspects. The bank transfers money without handling money. The depository system transfers securities / shares without handling securities / shares.

(b) A bank facilitates safe keeping of money. The depository system facilitates safe keeping of securities / shares.

(c) A bank holds funds in an account. The depository system holds securities / shares in an account.

(d) The bank transfer funds between accounts on the instruction of account holders. The depository system transfer securities / shares between accounts on the instruction of account holders. Thus, it is rightly justified that, Depository system is very similar to the Banking system.

(5) DP is an important constituent of Depository system.

Ans. Justification:

(a) A Depository Participant is an agent of the depository. It functions as a bridge between the depository and the beneficial owners.

(b) The DP maintains account of securities of each investor and has a unique number for identification.

(c) It enjoys rights and obligations as specified under SEBI (Depository and Participants) Regulations of 1996.

(d) DP directly deals with customers and send statement of accounts periodically to them.

Thus, it is rightly justified that, DP is an important constituent of Depository system.

(6) Depository system allows both physical to electronic and electronic to physical conversion.

Ans. Justification:

(a) Dematerialization is a process of converting physical certificates of securities into electronic form. Whereas, Rematerialization is the process of conversion of electronic form of securities into physical form.

(b) Under Demat, the client has to surrender the certificates along with the Demat Request Form (DRF). The DP forwards certificate and DRF to the Depository who in turn forwards it to the Issuer. After confirmation from Issuer, the Depository will credit the securities in the Demat A/c with DP.

(c) Under Remat, the client have to fill up a Remat Request Form (RRF) and submit it to the depository participant. The DP forwards the request to depository and issuer after verifying the client's balances, prints the certificates and despatches the



same to the client. After that, the Depository via the DP debits account of the client with those securities.

(d) Thus, it is rightly justified that, Depository system allows both physical to electronic and electronic to physical conversion.

(7) ISIN is necessary component of Demat.

Ans. Justification:

(a) An International Securities Identification Number (ISIN) uniquely identifies a security. The ISIN code is a 12-character alphanumeric code that serves for uniform identification of a security. ISIN's in any country are allotted by National Numbering Agency (NNA) of that country.

(b) In India, the task of issuing ISIN for various securities has been assigned by the Securities and Exchange Board of India (SEBI) to the National Security Depository Limited (NSDL).

(c) For the government securities, the allotment of the ISIN code is regulated by the Reserve Bank of India (RBI).

(d) The company has to apply for ISIN for its securities of documents like prospectus. It is also needed for the companies seeking to raise capital whether debt or equity to investors in demat mode.

Thus, it is rightly justified that, ISIN is necessary component of Demat.

Q.7 Answer the following questions.

1. What is Depository System and explain its advantages.

Ans:

Meaning : (a) Under Depository System, securities / shares are held in an electronic form. The Depository System maintains accounts of the shareholders, enables transfer, collects dividends, bonus shares, etc. on behalf of the shareholder. This system is also called as 'Scripless Trading System'.

(b) In India the Depository System was introduced by passing the Depository Act in 1996. The Depository System resembles the Banking system in many aspects.

BENEFITS / ADVANTAGES OF DEPOSITORY SYSTEM A) To Investors :

1) Elimination of Risk : All risks associated with physical certificates like delays, lost, theft, mutilation, bad deliveries, etc. are totally eliminated.



2) Safety : It is the most safe and secure way of holding securities. The entire system functions under the Depository Act and is monitored by SEBI. eg. The Investor can keep his account in a 'Freeze / Lock' mode to avoid prevent unexpected debit or credit or both by giving instructions to the DP.

3) Easy Transfer of shares :

(a) Efforts in filling transfer forms and lodging the documents is eliminated (b) Also the stamp duty levied on transfer of physical shares is not applicable. (c) Processing time in transfer of securities is reduced and neither the securities nor the Cash is tied / held up for unnecessarily long time.

4) Updates and Intimation : The investor is provided with the status of the holdings and transactions by DP and occasionally by the Depository too.

5) Security against Loan: Dematerialised securities are preferred by banks and financial institutions as security against loan,

6) No concept of Lots: The system of odd and even lot stands abolished. The market lot is one share for dematerialised securities.

7) Nomination Facility : Individual Investors can avail of nomination facility. This simplifies the process in the event of the death of the investor.

8) Automatic Credit: The account of investor is automatically credited/debited in case of change initiated by the company which impacts the securities. This is called 'Corporate Action'. Few examples which can be termed as Corporate Action are : Payment of Dividend, Issue of Bonus Shares, Offering of Rights Shares. Early Redemption of Debentures, Mergers and Acquisitions, etc.

B) To Companies:

1) Up-to-date Information: The up-to-date information about investors is provided by the depository

2) Reduction in costs and efforts: Costs, efforts and time involved in printing and distribution of certificates in cases of new issues, bonus, transfers, etc. is saved.

3) Better Investor - Company Relationships : The complaints arising out of loss of certificates, signature differences, long lapses of time in executing requests, etc, is substantially reduced. It leads to better communication with investors and increased goodwill for the company

4) International Investment: Under Depository System, better and quicker services can be provided and this attracts investments from abroad.

2. Explain the constituents of Depository system.

Ans: All operations under the Depository System is performed by Depository with the help of its constituents as explained below:

(1) The Depository:
Constituents of Depository System

(1) The Depository:

1) It is an organization like the Central Bank where securities are held in electronic form at the investor's request.

2) It also provides different services related to different transactions in such securities.

3) It is responsible for safe-keeping of the investor's securities.

4) There is no direct access of investor with the Depository.

5) It works as a link between the company and investors.

(2) Depository Participant (DP) :

1. It is the agent of Depository

2. DP is registered under the SEBI Act. It enjoys rights and obligations as specified under SEBI (Depository and Participants) Regulations of 1996.

3. It is an intermediary appointed by Depository.

4. DP acts as a link between Depository and the investor.

5. It directly deals with customers. It sends statement of accounts periodically.

6. It functions like a securities bank.

7. It facilitates Dematerialisation.



8. It credits securities in the event of Rights Issue, Bonus Issue, etc.
9. It handles instant transfers of pay-outs like dividend, interest, etc.
10. It settles trade electronically.

11. Following can work as DP's :

- a) Financial Institutions*
- b) Banks*
- c) Approved Foreign Banks*
- d) Custodians : Responsible for overseeing operations of assets/fund.*
- e) Stock Brokers*
- f) Clearing Corporation*
- g) NBFC (Non Banking Financial Company)*
- h) Registrar to an Issue or Share Transfer Agents*

12. The DP maintains account of securities of each investor.
13. The DP has a unique number for identification.

(3) The Beneficial Owner (BO):

1. The BO is the investor of securities who has availed the services of Depository Participant
2. BO is entitled to all rights, benefits and is subject to all liabilities with respect to securities held by Depository.
3. The BO can also be called as client of Depository and DP
4. BO Client is required to open a Demat account with the DP for electronic holding of securities. BO has to pay charges to the DP for availing the services of DP.



5. BO is given a unique account number in which securities are held.

(4) The Issuer Company :

1. It means the company which has issued the securities which are dematerialized.
2. It must register with the Depository.

