



A Change In Perspective For Depositories And Their System

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Abstract: A recent development in the settlement & trading of securities has been sparked by dematerialization.. The capital market of India has welcomed technical progress by allowing electronic securities trading.. Depositories and the dematerialization of securities were made possible by the Depositors Act of 1996. The purpose of this research is to evaluate India's dematerialization progress. Data for the study came from National Stock Exchange of India Ltd. (NSE), India's major stock exchange

Index Terms – Depositories, Dematerialisation

Introduction

Before the 1990s, trading on Indian Stock Exchanges occurred by open outcry rather than the instantaneous matching or recording of trades made possible by information technology. This was ineffective and time-consuming. Physical trading put restrictions on trade volumes, and brokers used to control the bodies that governed stock exchanges, which naturally resulted in conflicts of interest. The ownership transfer mechanism was incredibly inefficient because each transfer required paper securities to be registered with the issuer, together with an endorsement on the security certificate serving as proof of ownership. A large percentage of transactions would result in poor delivery because of incorrect paperwork compliance, and the transfer process would frequently require a lot more time than the two months allowed by the Companies Act. There were many instances of theft, forgery, certificate mutilation, and other anomalies. Furthermore, It was within the issuer's rights to decline to transfer a security. The additional expenses and settlement delays decreased liquidity, prolonged the time it took to resolve investor grievances, and occasionally made them unresolvable.

Before changes started to be implemented in 1992–1993, the financial market was extremely segregated. The reform process started with the establishment of the Securities and Exchange Board of India (SEBI). In order to verify unfair trade practices, increase market efficiency, improve transparency, and raise the Indian market to global norms. In order to guarantee efficient market regulation, the SEBI Act of 1992 was passed, endowing SEBI with legal authority to regulate the securities market, promote the expansion and development of the securities industry, and protect the interests of securities investors. As a first step in modernizing the securities market through enhanced technology and the implementation of best practices in management, the National Stock Exchange was established in 1995. In order to prevent operator interests from controlling exchange governance, the exchange's independent governing council was initially intended to be unrepresented by brokers. The NSE introduced the Screen-based Trading System (SBTS), which reduces time, cost, error risk, and fraud opportunities by electronically (computer driven) matching buyers and sellers in an order-driven system or locating the best price for the customer in a quote-driven system. Trades are completed quickly, and a large number of players can trade at once, allowing price-sensitive information to be incorporated into current prices more quickly. The ability to view the entire market was made available by SBTS, which contributes to enhanced market transparency and investor confidence. In order to remove counterparty risk, the NSE established a clearing firm that will offer a legal counterparty guarantee for every deal. In April 1996, the National Securities Clearing Corporation Ltd. (NSCCL) opened

for business. Because NSCCL is always the counterparty, the danger of a default is reduced. In the meantime, the Depositories Act of 1996 was passed to create depositories for securities with the goal of guaranteeing the quick, accurate, safe, and free transferability of those securities in order to avoid the issues associated with transfer by physical delivery of securities. The primary duties of depositories include dematerializing securities kept in a depository, making it easier to maintain ownership information in book entry form and permitting the transfer of public limited companies' securities freely, with certain restrictions. The Depositories Act of 1996, the Securities and Exchange Board of India (Depositories & Participants) Regulation of 1996, the bye-laws authorised by SEBI, and the Business Rules formulated in compliance with the Regulations and bye-laws are the principal regulations that oversee the operations of the depositories.

In order to promote competition in the service, the Act permits the establishment of numerous depositories around the nation. There are currently two depositories in the nation to promote service competition. Currently, SEBI has two depositories registered. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). All Beneficial owners, agents of issuers, securities custodians, additional depositories, and clearing houses must cooperate with depository in any way that is essential to the efficient, accurate, and timely clearing and settlement of securities transactions as well as the conduct of business.

Important intermediaries in India's securities industry are the depositories. Dematerializing securities and facilitating book-entry transactions is the main purpose of a depository. When securities in physical form are destroyed and their equivalent value is deposited into the beneficiary owner's account, this process is known as dematerialization of securities. Within the depository system, accounts belonging to Registered Owners and Beneficial Owners are responsible for ownership of dematerialized securities.. In the issuer's records, the depository is the registered owner of the dematerialized securities; however, the beneficiary owner retains ownership rights and obligations. The beneficial owner of the security is responsible for all obligations, liabilities, and rights underlying the security. India has embraced the dematerialized depository route. A depository can only offer services through its participants; it cannot provide services directly. Investors benefit from efficient settlements, reduced transaction execution costs, and less risks of theft and forgeries in a depository system.

In the early stages of capital market reforms, banks and other institutions tried to freeze their sizable holdings in order to overcome the issues with paper-based securities. The process of immobilizing securities involves depositing or keeping the actual security certificates with a security depository, which serves as a custodian. Book entries are used for all subsequent transactions involving such immobile securities. When needed, the actual owners are free to take the physical securities from the custodial agency. The Stock Holding Corporation of India (SHCIL) was established primarily to serve as a custodian for the securities of numerous public sector banks and other institutions. Additionally, a few banks and other financial organizations began charging smaller investors for "Custodial" services. The function of custodians and their business activities have changed since the securities were dematerialized.

System of depository

A depository is the main component of a depository system. An institution that holds investor securities in electronic data format is known as a depository. It is comparable to a bank for stocks. Through its representatives, referred to as Depository Participants (DPs), it communicates with regular investors. Investors must first register with the DP for a Demat Account in order to use depository services., and they will transfer the details to the Depository. Through a DP, an investor can utilize the depository services. A depository provides a range of services. Dematerialization stands out among the others. The process of converting physical financial instruments into their electronic book entry form is known as dematerialization. Dematerialization is required in order to trade shares, according to Securities and Exchange Board of India (SEBI) regulations. Investors do, however, have the choice to hold assets in person. Apart from the process of dematerialization, a depository also provides services such as rematerialization, which involves transforming electronic securities into physical form, pledging or hypothecating dematerialized securities, and providing investors with corporate perks like dividends and bonus shares. NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services of India) Ltd.) are the two depositories that now provide depository services in India.

Investors benefit from dematerialized trading and settlement in a number of ways.

- 1. Elimination of bad deliveries** - There is no longer a concern about faulty deliveries because the dematerialization process gets rid of the actual share certificates and the transfer document.
- 2. The removal of all hazards** connected to physical certificates, such as the possibility of stock theft, certificate loss during transit from the Registrars, and certificate mutilation. These put the investor at risk of

paying for advertisements, duplicate certificates, etc.
 3. In the depository system, **Stamp Duty is not applicable** when transferring securities.
 4. A quicker **market settlement cycle** is made possible by electronic forms of settlement.
 5. A depository enables investors' accounts to be directly credited with **non-cash benefits to corporations** such as rights, bonus shares, etc.

According to **Table 1.1** When demat shares are held without being traded, an investor saves 6.5–10 basic points. They also save a larger sum (14–44.5) when demat shares are transacted ten times annually.

The analysis of dematerialization in the Indian capital market is as follows:

The dematerialization process at NSDL and CDSL is displayed in Table 1.2

According to the table, the number of DPs living under NSDL increased progressively between 1996–1997, 2009–2010 and 2022–23, going from 24 to 286 and 282. An increase is seen at CDSL, which began operations in 1999–2000. Additionally, there are now 58,866 DP locations (compared to 24 in 1996–97 and 11,170 in 2009–10) (2022–23). There is also an increase at CDSL. By 2009–10 to 2022–23, the amount of dematerialized shares at NSDL had expanded significantly to 35,114 to 3,16,951 crore, compared to 7,795 to 60,122 crore at CDSL.

Electronic trading and settlement of securities transactions is made possible by dematerialization.

The state of dematerialized securities trading in India is displayed in Table 1.3. (NSE's Cash Segment)

Table 1.3 Illustrates the gradual increase in the number of listed firms from 135 to 1470 and 2168 between 1994–1995 to 2009–2010 and 2022–23. The quantity of deals also rose over that time, rising from 3 lakhs to 16,816 lakhs and 35,920 lakhs. Demat securities traded over that time have grown from 8,542 lakhs to 22,15,530 lakhs and 48,49,568 lakhs. The demat turnover has also increased astronomically, from Rs. 23818 crores to Rs. 41,38,023 crores and 1,02,50,868 crores. In conclusion, Demat mode trading has surged significantly over the time in terms of both quantity and value.

The largest stock exchange in India, NSE, displays its cash sector settlement figures in

Table 1.4.

The table indicates that between 1998–1999 to 2009–2010 and 2022–23, the provided quantity grew from 27991 lakhs to 4,73,952 lakhs and 1,207,491 lakhs; in the demat mode, grew from 6179 lakhs to 4,73,952 lakhs and 1,206,021 lakhs. Additionally, the delivered quantity grew from 66204 lakhs to 9,16,460 lakh and 2,675,679 lakhs. During that time, The amount increased from Rs. 11571 crores to Rs. 9,16,460 crores and Rs.2,674,231Cores. By 2003–04, 100% of the settlement had been completed in demat form.

Conclusion

The Government of India launched the Depository System, a shift in the capital market paradigm with the passage of the Depositories Act, 1996. Electronic trading and settlement of securities transactions are made possible by technology. Investors can deal in securities in a transparent and hassle-free manner thanks to electronic trading. The paper's revelation of the dematerialization process indicates that the new structure has been gradually adapted by the Indian capital market. Even if dematerialization is optional for investors who own securities, there has been a significant increase in electronic trading and settlement. The country will benefit from the securities dealing system the Depository System provided in meeting the infrastructure and international standard needs. This will facilitate the influx of further foreign investors into the nation. Accepting the current approach to dealing in securities signifies the start of a few efforts, such as the dematerialization of the dealing in other documents, etc., for which appropriate changes must also be made.

A Few Selected References

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The cost comparison for a sustained investor purchasing and trading shares valued at Rs. 10,000 is displayed in the following table.

Table 1.1

(Figures: Base Points)

	Without Transactions			With Transaction 10 times per Year		
Heads	Physical Securities	Demat Securities	Savings	Physical Securities	Demat Securities	Savings
Brokerage	7.5-10	5.0-7.5	2.5-5.0	7.5-10	50-75	25-50
Stamping	5	-	5	-	-	-
Postage	1-3	-	1-3	-	-	-
Company Objection	1-3	-	1-3	-	-	-
Settlement Charges	-	.05-.10	-(.05-.10)		5-10	-(5-10)
Custody (5 Years)	-	2.5-5.0	-(2.5-5.0)		.5-1.0	-(.5-1.0)
Total	-	-	6.5-10	-	-	14-44.5

Source: Investor Guide (NSDL)

Table 1.2. Dematerialization progress at CDSL and NSDL

Period	Live DPs NSDL	Location DPs NSDL	Demat (Crore) NSDL	Quantity	Live DPs CDSL	Location DPs CDSL	Demat (Crore) CDSL	Quantity
1996-97	24	24	2		NA	NA	NA	
1999-00	124	1,425	1,550		56	NA	NA	
2002-03	213	1,718	6,876		177	212	821	
2005-06	223	3,017	17,472		304	4,178	3,125	
2007-08	251	7,204	23,690		410	6,372	4,982	
2008-09	275	8,777	28,287		461	6,934	7,082	
2009-10	286	11,170	35,114		490	8,590	7,795	
2010-11	293	12,767	47,082		503	9,768	13,357	
2011-12	282	14,033	57,918		566	10,644	15,179	
2012-13	282	14,641	68,600		577	12,601	17,731	
2013-14	278	14,444	79,463		574	11,381	20,601	
2014-	273	15,960	92,679		575	16,359	22,282	

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2015-16	270	26,765	1,09,954	583	16,764	22,755
2016-17	264	27,389	1,31,643	588	17,489	25,523
2017-18	276	30,385	1,50,553	593	17,473	28,381
2018-19	277	30,741	1,86,617	597	19,460	36,188
2019-20	279	30,874	2,35,038	599	20,352	45,573
2020-21	276	36,044	2,43,352	592	20,689	47,442
2021-22	277	57,026	2,77,353	584	21,728	56,757
2022-23	282	58,866	3,16,951	585	20,269	60,122

Source: Handbook of Statistics Indian Securities market 2010,2015 & 2023

Table 1.3. Cash Segment of NSE

Trends in Equity Cash Segment							
Period	NSE						
	No. of Companies Listed	No. of Trades (Lakh)	Traded Quantity (Lakh)	Turnover (₹ crore)	Demat Securities Traded Quantity (Lakh)	Demat Turnover (₹ crore)	Market Capitalisation (₹ crore)
1994-95	135	3	1391	1805	-	-	363350
1998-99	648	546	165327	414474	8542	23818	491175
2002-03	818	2398	364065	617989	364049	617984	537133
2006-07	1228	7847	855456	1945287	855456	1945287	3367350
2009-10	1470	16816	2215530	4138023	2215530	4138023	6009173
2010-11	1,574	15,507	18,24,515	35,77,410	18,24,515	35,77,410	67,02,616
2011-12	1,646	14,377	16,16,978	28,10,893	16,16,978	28,10,893	60,96,518
2012-13	1,666	13,605	16,59,160	27,08,279	16,59,160	27,08,279	62,39,035
2013-14	1,688	14,432	15,33,716	28,08,488	15,33,716	28,08,488	72,77,720
2014-15	1,733	18,328	23,61,779	43,29,655	23,61,779	43,29,655	99,30,122
2015-16	1,808	18,518	22,01,771	42,36,983	22,01,771	42,36,983	93,10,471
2016-17	1,817	19,760	26,24,534	50,55,913	26,24,534	50,55,913	1,19,78,421
2017-18	1,931	24,914	37,71,836	72,34,826	37,71,836	72,34,826	1,40,44,152
2018-19	1,931	28,532	37,49,976	79,49,004	37,49,976	79,49,004	1,49,34,227
2019-20	1,949	31,460	46,74,057	89,98,811	46,74,057	89,98,811	1,12,43,112
2020-21	1,968	46,328	74,29,579	1,53,97,908	74,29,579	1,53,97,908	2,02,95,813
2021-22	2,065	55,710	76,10,250	1,65,66,257	76,10,250	1,65,66,257	2,62,19,159
2022-23	2,168	35,920	48,49,567	1,02,50,868	48,49,567	1,02,50,868	2,80,19,281

Source: Handbook of Statistics Indian Securities market 2010 & 2023

Table 1.4 Settlement Data for the NSE Cash Segment**Settlement Data for the NSE Cash Segment**

	Delivered Quantity	Delivered Value	Delivered Quantity in Demat Mode	Percentage of Demat Quantity Total Quantity	Delivered Value in Demat Mode (Rs.Crore)	Percentage of Demat Value Total value
Period	(Lakhs)	(Rs.Crore)	(Lakhs)			
1998-99	27,991	66,204	6,179	22.1	11,571	17.5
2002-03	82,305	87,895	82,305	100	87,895	100
2006-07	2,38,571	5,43,533	2,38,571	100	5,43,533	100
2009-10	4,73,952	9,16,460	4,73,952	100	9,16,460	100
2010-11	497,367	978,015	497,367	100	978,015	100
2011-12	443,232	784,407	443,232	100	784,407	100
2012-13	459,349	796,784	459,349	100	796,784	100
2013-14	423,330	822,378	423,330	100	822,378	100
2014-15	637,776	1,275,894	637,776	100	1,275,894	100
2015-16	618,225	1,251,732	618,225	100	1,251,732	100
2016-17	724,495	1,478,867	724,495	100	1,478,867	100
2017-18	951,308	2,018,375	951,308	100	2,018,375	100
2018-19	844,261	1,949,508	844,261	100	1,949,508	100
2019-20	1,065,619	2,075,783	1,065,619	100	2,075,783	100
2020-21	1,542,925	2,950,887	1,539,794	100	2,948,629	100
2021-22	1,701,158	3,827,571	1,702,608	100	3,826,063	100
2022-23	1,207,491	2,675,379	1,206,021	100	2,674,231	100

Source: Handbook of Statistics Indian Securities market 2010 and 2023