

DEPOSITORY SYSTEM AND ITS PROCESS

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Abstract: The earlier settlement system in Indian stock exchanges was not so efficient, till we see the Technology introduction in the post-liberalization era. The Stock exchanges competition, increase in the players number and traditional system changes led to tremendous enhancement in the volume of the activity. Has it was unable to take care of the securities transfer in a quick way, the movement was also problematic has the securities were in the form of physical certificates. This led to the face the problems like delay in the settlement process, theft, forgery, mutilation and bad deliveries and also to added costs. So to avoid such problems, The Depositories Act 1996 was enacted.

Index terms: Depository, Demat, Demat Account, NSDL & CDSL.

I. Introduction:

A depository organisation holds the shareholders securities in an e

Depository in a simple way can be explained as securities are held in depository accounts has the bank holds the deposits in the accounts. And the ownership transfer of securities is also done in a very simple way of account transfers. This method avoids all the risks and hassles normally faced by the investors associated with paperwork. Similarly, the transacting cost in a depository system is considerably lower as compared to the Certificates transacting.

The paper-based settlement of trades caused substantial problems in Indian capital Market, like bad delivery and delayed transfer of title till recently. The enactment of Depositories Act in August 1996, helped to solve the problem for the Indian Government.

II. Meaning of a Depository:

An institution which holds your securities in a dematerialised form is called as Depository. Therefore, here a Depository is an institution which holds our Shares, Government Bonds, Mutual funds etc on our behalf, just like a Bank which holds our Fixed Deposits, Cash and Recurring Deposits etc.

The Depositories Act 1996 was enacted, led the following to happen: a) Free transferring of Public limited companies securities, by certain exceptions, b) Providing for maintenance of ownership records in a book entry form and c) Securities Dematerializing in the depository mode. For performing the above tasks, NSDL & CDSL (two depositories) have come up, which were formed with the purpose of ensuring free transferability of securities with speed, accuracy and security.

III. Definition of the Depository:

According to section 2(e) of the Depository Act, 1996, “Depository means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under section 12(1A) of Securities and Exchanges Board of India Act, 1992”

The Germany Depository defines “A Depository has a file or a set of files in which data is stored for the purpose of safe keeping or identity authentication”.

According to the Bank for International Settlements (BIS), depository is “a facility for holding securities which enables securities transactions to be processed by book entry, physical securities may be immobilized by the depository or securities may be dematerialized (so that they exists only as electronic records)”.

IV. Objectives of a Depository:

- This reduces the time of Securities transfer.
- Avoids the settlement risks that are involved in the Securities.
- Also reduces the investors cost of Securities transaction.
- Here a system will be created for the central handling of the Securities.
- Service infrastructure in the capital market is also facilitated by the depository system.
- Helps to with stand with the global standards.

V. Process of Depository:

Companies which would like to issue the securities to the investor in the form of physical or through the depository. The company over here is called as an Issuer. A depository helps in holding securities in the electronic form and also their transactions to be processed by book entry. The Depository participant (DP), plays a vital role in this process. The Depository participant (DP), is an agent of the depository, offers depository services to investors.

According to SEBI guidelines, financial institutions, banks, custodians, etc. are eligible to act and are called as Depository participant (DPs). The investors are called as Beneficial Owner (BO). The Beneficial Owner (BO) has to open a Demat account through any Depository participant (DP) for holdings dematerialisation and Securities transferring.

- Dematerialisation or Demat Account can be explained as an account which holds the investor's securities in an electronic form. The Securities are like shares, debentures, mutual fund etc

VI. Objectives of the Study:

Study has been taken up with the following specific objectives:

- To know about the Depository System.
- To learn about the Concept of Depository.
- To know about Process of Depository.
- To learn about Central Depository Services India Limited (CDSL) and National Securities Depository Limited (NSDL)

VII. Research Methodology: As the study is conceptualized one, as such no research study has been made.

VIII. There are Depositories formed to facilitate this process. There are 2 Central Depositories in India

1) Central Depository Services India Limited (CDSL):

CDSL was promoted by Bombay Stock Exchange Ltd. which has thereafter divested its stake to leading banks as "Sponsors" of CDSL. CDSL commenced from 1999. It was set up with an objective of 'providing convenient, dependable and secure depository services at affordable cost to all market participants'.

2) National Securities Depository Limited (NSDL):

Established in August 1996 and is the first and largest depository system in India. This was promoted by institutions like IDBI, UTI and NSE of India, which are of national stature responsible for economic development of the country. From its inception, it helped in building up of the national infrastructure of international standards. Handled the most of the securities held and settled in the Indian capital market in an electronic form.

NSDL uses innovative and flexible technology systems to support the investors and brokers in the capital market of the country. It aims at ensuring the safety and soundness of Indian marketplaces by developing settlement solutions. With this it aims at increasing the efficiency, minimizing the risk and reducing of the costs in the Market. At NSDL, we play a quiet but central role in developing products and services that will continue to nurture the growing needs of the financial services industry.

IX. Parties involved in Depository System:

- Depository: Who facilitates the smooth functioning of trading of the Securities and ensure the investors about their investment in securities.
- Depository Participant (DP): Person provides the service of opening a demat account to the investor.
- Investor: Is an Individual who invests in the securities.

X. Benefits of Depository system:

1. Depository system takes hold of all securities in the country listed in that particular stock exchange.
2. Introduction of electronic system enables speedy transactions and accuracy.
3. In a depository system, the security holders can sell and buy securities by which liquidity is brought to the securities.
4. Blank transfers are avoided and holding of shares in Benami names is also prevented.
5. Registration and stamp charges for the sale of securities could be easily collected by the government which was evaded under the previous system.
6. Depository promotes more activity in the capital market as trading in genuine share. is ensured under Depository system.
7. Depository avoids use of stationery and prevents delay in registration of transfers.
8. Dividend and interest on securities are properly distributed through this system and in the case of convertible debentures, on the due date, the securities are converted into company shares.
9. Depository acts as collateral security for the raising of loans from any financial institution.

XI. Conclusion:

Even though country has faced the success in following the system, it has some weaknesses. They are handling of multiple depositories and clearing and settlement corporation's activities. The only way is to avoid these are to create and awareness in the Demat trading.

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