



DEMATERIALIZATION OF SHARES – Advantageous for all stakeholders

Introduction:

In order to mitigate the risks associated with share trading in paper format, concept of dematerialization was introduced in Indian Financial Market. Dematerialization (Demat) in short is the process through which an investor's physical share certificate gets converted to electronic format which is maintained in an account with the Depository Participant (DP). The ownership thereof is entered into and retained in a fungible form on a Depository by way of electronic balances. The name of the Shareholder is registered as a Beneficial Owner.

Depository

Depository is the body which is responsible for storing and maintaining investor's securities in demat or electronic format. In India there are two depositories i.e. NSDL and CDSL.

Advantages of Demat

Dealing in demat format is beneficial for investors, brokers and companies alike. It reduces the risk of holding shares in physical format from investor's perspective. From share issuing company's perspective, issuance in demat format reduces the cost of new issue as papers are not involved. Efficiency and timeliness of the issue is also maintained while companies deal in demat format.

There are a lot of other benefits with respect to common investor and the same are listed below.

- **No stamp duty** payable on transfer of shares.
- **Safer and quicker** process of transfer/ trading of shares.
- Faster settlement cycle.
- Faster disbursement of non-cash corporate benefits like rights, bonus etc.
- Demat format reduces the risk of bad deliveries.
- Time and money is saved as you are not dealing in paper now. You need not go to the notary, broker for taking delivery or submitting the share certificate.
- Liquidity is very high in case of demat format as whole process is automated.
- All the benefits of corporate action like bonus, stock split, rights etc. are managed through the depository leading to elimination of transit losses.
- Interest on loan against demat shares are less as compared to physical shares.
- One needs to pay less brokerage in case of demat shares.
- Periodic status reports and information available on internet thereby facilitating convenience in monitoring shareholding in all the companies.

Procedure to be followed for dematerialization of shares:

- The Shareholder has to fill up a Demat Request Form (DRF) and has to submit to the Depository Participant (DP) the DRF as well as the defaced share certificate;
- The concerned DP will verify the details and if found in order, it will generate a Demat Request Number (DRN) and intimate the Depository and Registrar and Share Transfer Agent (RTA) through e-system. Simultaneous to this, the DP will send the DRF and share certificate to RTA;
- RTA will verify the details of the electronic request as well as those mentioned in the DRF and Share Certificates with the records maintained by it;

When demat request is found valid in all respects:

- RTA will update the Register of Members and then validate the request; it will then electronically confirm the DRN to Depository and DP;
- The Depository will credit the DP's account and consequently, the DP will update the investor's demat account and inform the investor accordingly.

When demat request is found invalid for any reasons:

- RTA will electronically reject the DRN and intimate the same with reasons of rejection to the Depository and DP. The Depository and the DP will cancel the DRN from its system, respectively;
- RTA will then return the DRF and Share Certificates to the DP with an objection memo stating the grounds of objection/ rejection.

To conclude, the shareholders are recommended dematerialize their holdings so as to achieve the aforementioned benefits and reducing the risks associated with holding of shares in physical form