



# Depositories Act, 1996

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A Depository is an organization like a Central Bank where the securities of a shareholder are held in the electronic form at the request of the shareholder through the medium of a Depository Participant.

To utilize the services offered by a Depository, the investor has to open an account with the Depository through a Depository Participant.

According to Section 2(e) of the Depositories Act, 1996 ***“Depository means a company formed and registered under the Companies Act, 2013 and which has been granted a certificate of registration under Section 12(1A) of the SEBI Act, 1992”.***

# BENEFITS OF DEPOSITORY SYSTEM

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- Elimination of bad deliveries
- Elimination of all risks associated with physical certificates
- Immediate transfer and registration of securities
- Faster disbursement of non-cash corporate benefits like rights, bonus, etc'
- Reduction in brokerage by many brokers for trading in dematerialized securities
- Elimination of problems related to change of address of investor, transmission, etc
- Elimination of problems related to selling securities on behalf of a minor

# DEPOSITORY PARTICIPANT

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Just as a brokers act an agent of the investor at the Stock Exchange; a Depository Participant (DP) is the representative (agent) of the investor in the depository system providing the link between the Company and investor through the Depository.

## Characteristics of a DP

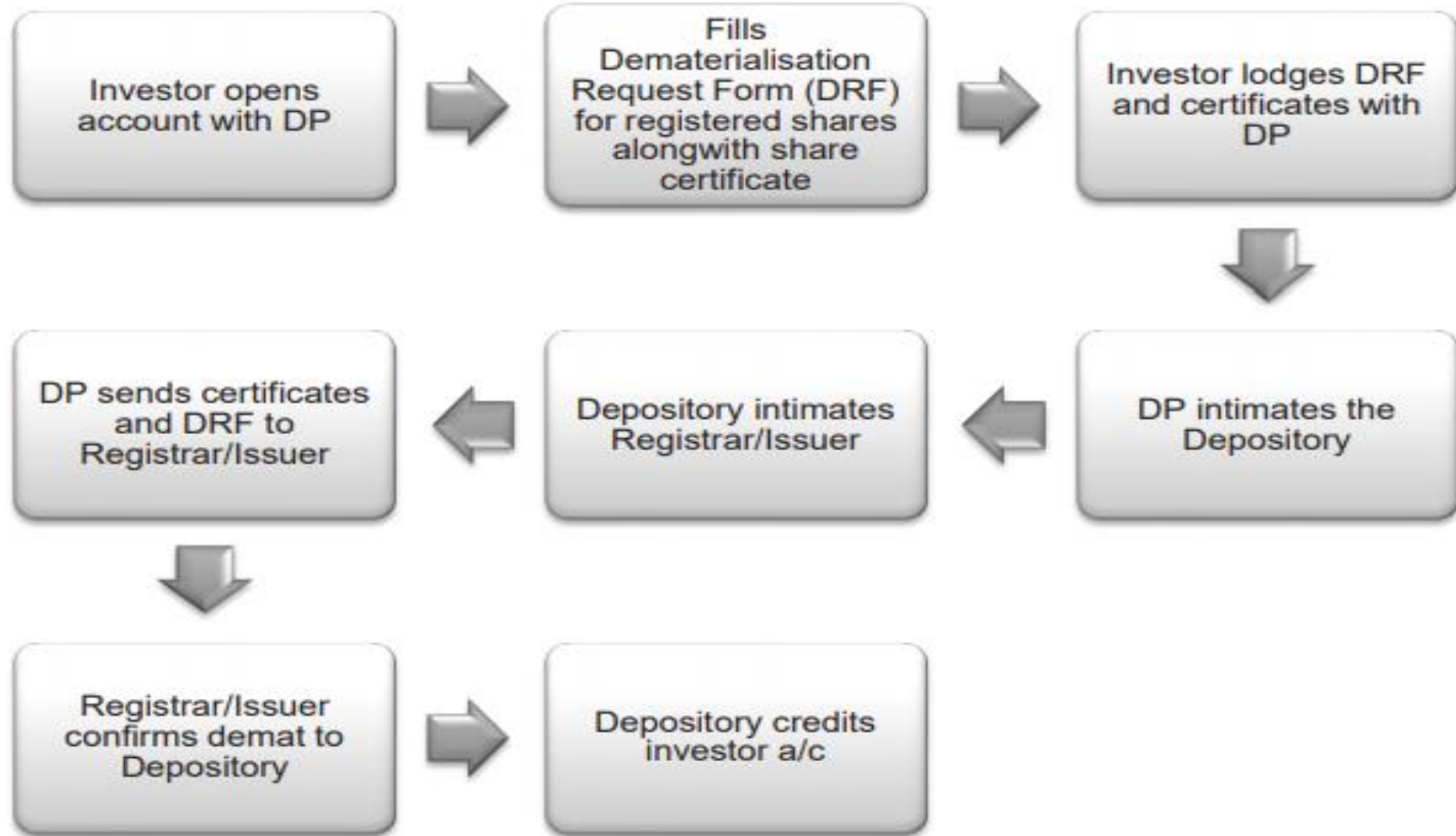
- Transmission requests/nomination
- Acts as an Agent of Depository
- Customer interface of Depository
- Functions like Securities Bank
- Account opening
- Facilitates dematerialisation/rematerialisation
- Instant transfer on pay-out
- Enables off market transfers
- Settles trades in electronic segment
- Pledge/enforcement of pledge etc.

# DEMATERIALIZATION

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- Dematerialization is a process by which the physical share certificates of an investor are taken back by the Company and an equivalent number of securities are credited his account in electronic form at the request of the investor.
- An investor will have to first open an account with a Depository Participant and then request for the dematerialization of his share certificates through the Depository Participant so that the dematerialized holdings can be credited into that account.
- This is very similar to opening a Bank Account.

## PROCEDURE FOR DEMATERIALISATION

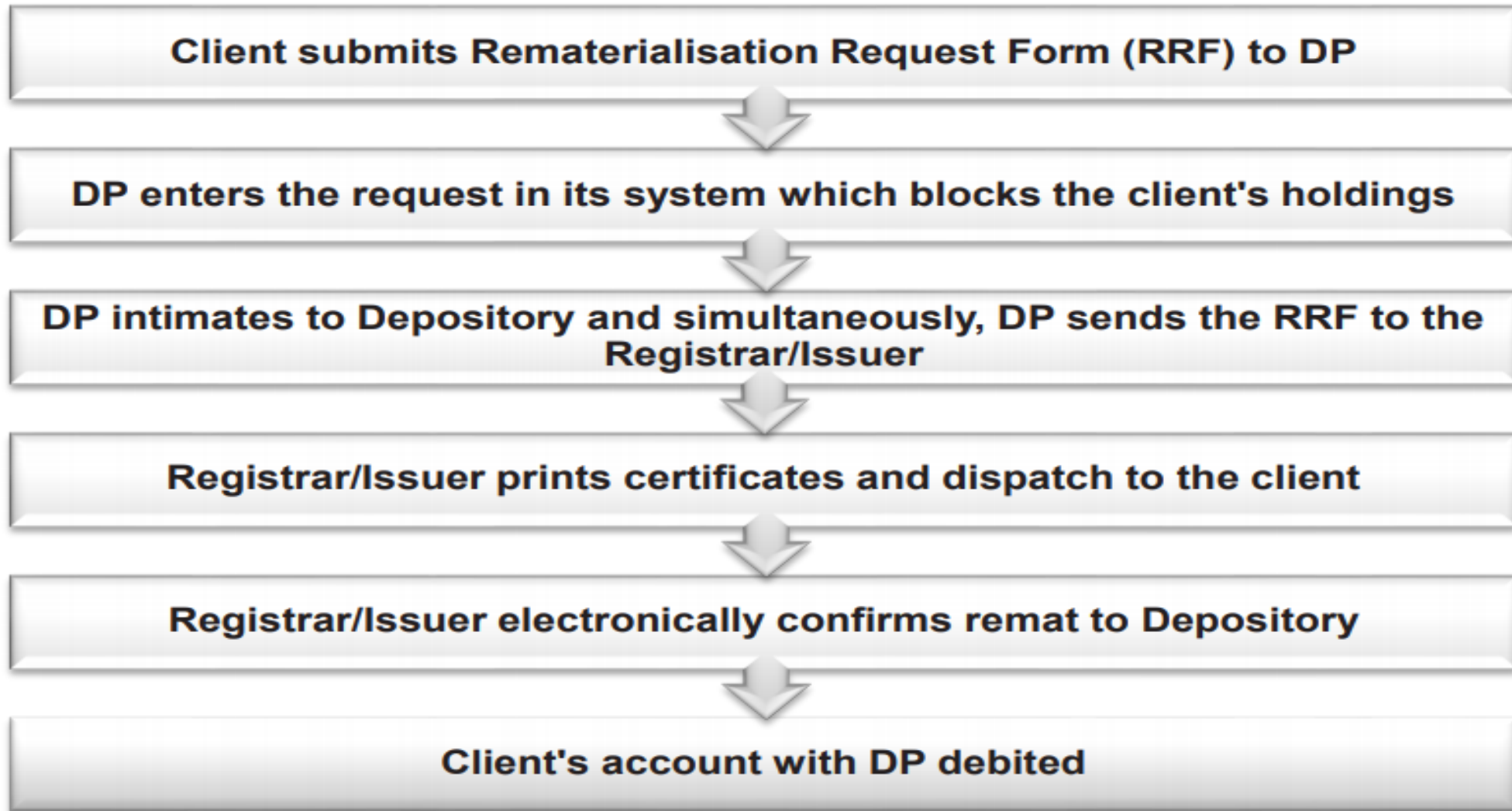


# REMATERIALISATION

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Rematerialisation is the process of converting securities held in electronic form in a demat account back in physical certificate form. For the purpose of rematerialisation, the client has to submit the rematerialisation request to the DP with whom he has an account. A client can rematerialise his dematerialised holdings at any point of time. The securities sent for rematerialisation cannot be traded.

## PROCEDURE FOR REMATERIALISATION





# Fungibility

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The Act envisages that all securities held in depository shall be fungible i.e. all certificates of the same security shall become interchangeable in the sense that investor loses the right to obtain the exact certificate he surrenders at the time of entry into depository.

It is like withdrawing money from the bank without bothering about the distinctive numbers of the currencies.

# AUDIT UNDER SEBI (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996

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Regulation 55A of SEBI (Depositories and Participants) Regulations, 1996 provides that every issuer shall submit audit report on a quarterly basis to the concerned stock exchanges audited by a practising Company Secretary or a qualified Chartered Accountant, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

The audit report is required to give the updated status of the register of members of the issuer and confirm that securities have been dematerialized as per requests within 21 days from the date of receipt of requests by the issuer and where the dematerialization has not been effected within the said stipulated period, the report would disclose the reasons for such delay.

# INTERNAL AUDIT OF OPERATIONS OF DEPOSITORY PARTICIPANTS

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The two Depository service providers in India, viz., National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDSL) have allowed Company Secretaries in Whole-time Practice to undertake internal audit of the operations of Depository Participants (DPs).

Every Participant shall ensure that an internal audit in respect of the operations of the Depository is conducted at intervals of ***not more than three months*** by a qualified Chartered Accountant or a Company Secretary holding a certificate of Practice and a copy of the internal audit report shall be furnished to the Depository.

Every Participant shall ensure that an internal audit shall be conducted in respect of the participant's operations relating to CDSL by a qualified Chartered Accountant in accordance with the provisions of the Chartered Accountants Act, 1949 or by a Company Secretary in practice in accordance with the provisions of the Company Secretaries Act, 1980, at such intervals as may be specified by CDSL from time to time. A copy of Internal Audit report shall be furnished to CDSL

# CONCURRENT AUDIT

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- The process of demat account opening, control and verification of Delivery Instruction Slips (DIS) is subject to Concurrent Audit.
- Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary(ies) holding a certificate of practice for conducting the concurrent audit.
- However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors.
- In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the Clients and verified by the officials of the Participants.

## ROLE OF COMPANY SECRETARY:

- Right to Legal Representation
- Internal Audit of Depository Participants
- Reconciliation of Share Capital Audit
- Concurrent Audit of Depository Participants

