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# DEPOSITORY SYSTEM CONTRIBUTIONS IN INDIA TOWARDS THE GROWTH OF THE INDIAN SECURITIES MARKET

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## ABSTRACT

The deposit system is a system or mechanism by which a trader can transfer its financial instrument to another trader by electronic means that ensure this transaction's settlement as quickly as possible. It is also known as an exchange system of scripless because it does not retain the financial instrument in physical mode.

In India, the depository system has made a substantial contribution to the development of the securities market, which is crucial for the growth and development of the market because it is transparent and automatic. There are different functions of depository systems through which it provides better securities they are like, *Dematerialisation, corporate activities, pledge and hypothecation, linkages with clearing framework* in India currently there are two depository systems which are registered with SEBI. They are, namely NSDL and CDSL.

This document will focus on India's two registered deposit schemes. I.e., NSDL and CDSL concerning their functions and regulations by which it provides securities and also, to develop other depository functions by which it seeks securities. It will also examine the contributions of these two systems to the growth of the Indian securities market.

**Keywords:** CDSL, Depository System, NSDL, SEBI, Securities.

## **CHAPTER-I**

### **Introduction**

The Depository hypothesis goes back to the mid-nineteenth century when the world's first Depository was established in Germany. As the name infers, the Depository is an association set up by market regulators to advance electronic administration of shields and inventories.

“As indicated in the Black's Law vocabulary, "depository" is portrayed as the institution's social ability to tolerate a shop”. The position where it is located is one that keeps it in trust, as a "depository." The depository's job is to retain the object (shares or other assets) fairly regarded and restore it to the concerned-on request. Thus, it is much of a shop on behalf of market holders who own securities (such as shares, debentures, notes, government securities, mutual funds, etc.). Because the shares are deposited with him in confidence, it behaves as a guardian of the proprietor. He is, thus, a guardian to the holders of the shares in the same way.

In the securities market, “an investor (referred to as a Beneficial Owner (BO))” may use the services of a depository by opening a Dematerialisation (Demat) account through a registered Depository Participant(s) (DPs) and then trading his securities.

The above explanation subsequently shows that a proficient and completely created protections storehouse framework is important to keep up and improve the exhibition of the area, which is one of the vital highlights of a develop capital market. The customary settlement and clearing instrument has been demonstrated unable because of operational disappointments, exchange delays, validation, transmissions, bogus endorsements and fabrication, in this way blocking the solid improvement of the capital area.

Any nation's financial improvement depends on the existence of an appropriate monetary system. It is the monetary structure that makes the essential monetary investments that advance the stability and way of life of a nation's individuals to build goods and businesses. The free advancement of properties to more useful exercises and thus encourages speculation is a proficient working of the monetary system offices. Consequently, the monetary system offers savers and finance experts with intermediation and advances a smoother economic transition of events. To promote the purchase of financial instruments, the monetary market

occurs and includes two essential industry segments, namely the stock market and the currency market. For the most part, in medium and long-term speculations (development for one year), the capital market bargains whilst the money market bargains in temporary projects (development as long as a year).

Large-scale problems with securities transactions in India in 1992 showed that the current settlement method wasn't working and that Demat transactions needed an effective regulator right away. This made India realize that it needed a more advanced depository system. So, a depository system was made to help traders, stock issuers (fundraisers in the business of private securities), intermediaries, and the whole country. The Depositories Act of August 1996 lays out the rules for how securities held in depository institutions can be changed and taken out of physical form. The main reason for passing this act was to make it easier and safer for securities to be transferred freely.

In Germany, in 1947, the first deposit was established. By the end of 2004, the world had 22 depositories, and by the end of 2014, the total had exceeded 250. The Stock Holding Company of India Limited (SHCIL) initiated the depository transfer in India in July 1992. A scheme funded by the US government, in partnership with Price Waterhouse. International Corporation for Development. In December 1993, under “Shri R. Chandrashekharan, Chairman of SHCIL, the Government of India formed a Technical Group. SEBI has set up a seven-member action squad to address the varying systemic and organizational requirements of the depository framework. In September 1995, given the wide range of problems and questions, the Depositories Ordinance was promulgated by the Indian Government. In August 1996, Parliament passed the Depositories Act, which laid down the legal basis for securities dematerialization and book-entry transition.”[19] As a result of this Act, businesses, perhaps depository members, who wanted to be companies licensed in the company act (agents of the depository). Electronic book entries for dematerialisation and transition of possession are made by the depository. Investors have the option of physically holding, dematerializing or carrying securities that are already owned in dematerialized form. New laws were enacted in order to encourage depositories to deal with mutual funds and UTI units, shares of statutory entities, and public corporations.

One of the first depository institutions founded in India was the National Securities Depository Limited (NSDL). Mostly, there are 3 institutions in India which lead in this field, which are,

“Industrial Development Bank of India (IDBI), the Unit Trust of India (UTI) and the National Stock Exchange of India (NSE)”, which began operating on 8 November 1996, are supported by NSDL. “The ITAD database is made up of a variety of information from banks in India. The second computerized depository for the stock exchange is the Central Depository Services (India) Limited (CDSL)”. It is the mechanism by which values of stocks are communicated. It is provided by the full-fledged BSE IT department. The Company has a certificate of commencement of operation dated 23 February 1984 from the “Securities and Exchange Board of India (SEBI)”.

## **OBJECTIVE OF THE STUDY**

In India, the concept of screen-based electronic internet trading and settlement procedures are currently being conducted on the stock exchanges. Everyone is conscious of the reality that buyers are scattered around different places and places. The issue that the transaction and distribution process poses, though, is the fact that this is primarily related to the fact that there is not a formal relationship between these locations. Although the performance of the Indian Depository System needs to be calculated and improved, At the same time, the realization that electronic trading is important contributes to the system and that even a small proportion of electronic trading is better than zero.

## **HYPOTHESIS OF THE STUDY**

“By using depositories, like CDSL & NSDL, investors can now be more proactive and secure when conducting online trading.”

## **RESEARCH METHODOLOGY**

“The researcher chose to review the views of stock market investors on different matters concerning the DSS, the incentives being provided by various firms to their investors, the difficulties they have encountered, the conflict resolution being organised with the concerned investors, and their investment decisions.”

## **CHAPTERISATION:**

1. Depository System-an Introduction.

2. “Role of NSDL and CDSL in Indian Capital Market.”
3. Key Features of the depository System of India.
4. Research Findings.
5. Conclusion.

## “LITERATURE REVIEW”

1. **“Bhatt & Bhatt (2012) in the paper *“Financial Performance Evaluation of depositories in India (A comparative study of NSDL & CDSL)”*** It examines the way in which the trend of electronisation of securities market operations, especially Dematerialisation, has enabled the Indian capital market to step a long way and scale to an unparalleled degree. India has seen dramatic growth in the stock sector. The review of the growth and advancement of NSDL and CDSL in monetary terms clearly shows that both stores have seen a remarkable bounce in terms of opened Demat accounts; demated appreciation and amount of protections, figures of repayment and the volume and number of depository representatives. The report indicates that in the last eight financial years, both depositories have been functioning financially efficiently and successfully.”
2. **“Chaudhary & Malik (2011) in their paper *“Depository system in India: An appraisal”*** Supports the opinions of the bulk of Indian Shares Market members with a 57 per cent interest in NSDL. Therefore, for the bulk of members in the scheme, it serves as the largest agency. The paper also notes that, based on its observations, most respondents were satisfied with the Depository's prevailing fee structure, which is a sign that the NSDL-followed established fee structure is benign.”
3. **“Kaur (2013) in her paper *“Investors preference between DEMAT & REMAT and awareness regarding depository & its various laws”*** explains the depositories scheme of India with fair attention to the explanations why investors would choose a REMAT and DEMAT at some stage in the future. In closing, she notices that the growth rates of DEMAT account holders have been rapidly rising over the past few years.

The Indian government requires holding securities in both physical aspects (e.g. shares in stocks, cash, etc.) as well as in electronic format. (e.g. in the form of Securities Depository Receipts). However, it was reported that in the future, only public limited corporations (PLCY), which do not have their stocks in the form of bonds, are going to transact the capital exchange. When performing research among students, the respondents show the value of Dematerialisation, and it is convenient to establish the service as well. A majority of the investors have, over time, been leaning away from switching to DEMBOLISE due to the various advantages and ease it postures because of the electronic representations, such as credit statements and dividends, which make for more clearance.”

4. “**Olekar & Talwar (2013)** in their paper “*Online trading & DEMAT account in India – Some issues*” since noticing and messing with the Depository Members, banks agreed to make up for the shortfall by offering a lower service fee.”
5. “**George (1996)** in his article “*Towards a paperless settlement system*” Examines the position of the National Securities Depositories Restricted in revolutionising the nationwide method of paperless stock settlement. He also clarified the depositories measures and participants because the USDT method is a success. He also emphasised the logic and relevance of a regulatory body's role in ensuring the performance of the depository framework.”

## CHAPTER-II

### ROLE OF NSDL AND CDSL

#### 1. NSDL

“Via service providers such as “**Depository Participants (DPs)**”, issuance firms and their registrars, equity transfer representatives and clearing companies/stock exchange clearinghouses, NSDL conducts its operations. These companies are NSDL's corporate associates and are incorporated into the depository structure of NSDL to provide investors and clearing representatives with different services. Via NSDL's depository participants, the investor can get depository services.”

On June 7 1996, NSDL was registered by SEBI as India's first depository to promote the

dematerialised trade and settlement of shares. IDBI, UTI and NSE are supporting the NSDL to establish electronic depository facilities for shares exchanged in the country's stock and debt markets. NSDL has been developed to meet the challenging needs of the capital markets of India. NSDL would dematerialise scripts and substitute them with electronic entries in the first step of operations. From that point forward, this store, supported by the organizations of public importance liable for the country's financial development, has built up a public framework of worldwide quality that oversees the majority of the dematerialised trade and settlement in the Indian capital market. Distinctive storehouse networks are regularly settled under the Depositories Act. The NSDL attempts to help speculators and specialists in the nation's financial exchange through imaginative and adaptable innovation frameworks.

NSDL presents multiple overt and indirect advantages, such as:

- Elimination of poor deliveries
- The removal of all physical credentials.
- No stamp tax
- Exchanging and reporting shares
- Faster resolution.
- Non-cash business incentives like privileges, incentive, etc.
- The selling in dematerialised shares by multiple brokers.
- The decline in physical documentation.
- Report periodicity.
- Elimination of issues created by shifts of address.
- Elimination of issues linked to shares transmission.

## 2. CDSL

“Alongside driving banks, the CDSL was supported by BSE Ltd. mutually with the banks. Baroda Bank, HDFC Bank, and Standard Chartered Bank, India's Union Bank. CDSL was define up with the objective of offering simple, trustworthy and safe store offices at a sensible rate to all market members. The adjusts detailed and recorded in the financial specialist account are It is important to get support with CDSL by means of the DP. The DP is required to give the speculator an assertion of record, which incorporates data of the protections resources and exchanges, at regular stretches. Paper-based credentials that were likely to be fraudulent forged, fabricated resulting in bad deliveries have been largely replaced by the depository method. CDSL provides the conversion of shares efficiently and instantaneously.

BSE Ltd. has advanced CDSL alongside the Bank of India, the Bank of Baroda, the State Bank of India, and the HDFC Bank. BSE Ltd. has been involved with this project since its inception and has made a significant contribution to its progress. The firm's capital is 104.50 billion rupees (INR). Further,

- It makes a controlled saving of advantageous holdings for individual investors.
- Dematerialisation and re-materialisation of securities
- A per-share accounts for payment of transactions in electronic securities.
- When distributing new shares, assign by a lot.
- “Appropriation of non-money corporate acts.
- “Freezing/locking of specialist adjusts.
- “A promise and hypothecation of shares.”

## CHAPTER-III

### KEY FEATURES OF THE INDIAN DEPOSITORY SYSTEM

1. **“Multi-Depository System:** The depository model in the Indian multi-deposits systems offers a specific benefit to each customer. Depositories, sometimes as



independent firms, may offer depository services.” To be a depository as per the Act and Banking Regulations (BR), the following must be lawful and compliant: 1(i) A business should be established under the Companies Act, 2013. 2(ii) The company should have obtained registration from the Securities and Exchange Board of India. SEBI has two depositories, namely:

- NSDL.
- CDSL.”

2. **Depository services through depository participants:** Banks may offer their services in collateralised debt agreements to borrowers via debtholders named depository member. This duration commences once these are named with the intent to purchase, offer, distribute, commit, sell, acquire, grant, lend, pass or otherwise dispose of the securities under Section 23 of Securities and Exchange Board of India (Change of Security) Regulations, 1996 and other relevant conditions.
3. **Dematerialisation:** The Indian paradigm for corporate existence has a provision for Dematerialisation of shares. Even if the market is still focused on paper, this reinforces the trend of going toward zero paper-based securities transactions. “For the Dematerialisation of paper documents, a mechanism is placed into effect to transform physical certificates (certificates) to electronic format (a record) and credit the account of the depository participant.”
4. **Fungibility:** The shares that you possess don't have any noteworthy characteristics, besides the one where they have the specific number, the number in the folio, or the number that's in the Certificate. “Once securities get dematerialised, they lose their identification in terms of share certificate, distinctive numbers and folio numbers. Thus all securities of the same type are similar and interchangeable.” Where the type of entirely paid-up stock is involved, there is no reason to differentiate between the equity shares of various types, such as "excluding preference shares," "equity shares" and "special equity shares."
5. **“Registered Owner/ Beneficial Owner:** The ownership of shares kept in depository systems is divided between the owner of the shares and the beneficial owner. A client

of a depository whose name is entered in the depository's register as such. A beneficial owner represents a financial interest in a depository that is stated on the Form 1. Although the share certificates are recorded in the name of the depository, the owner owns the shares as though they were registered in the owner's own name. NSDL/CDSL is the operator of the Issuer's dematerialised shares, but the Beneficial Owner retains ownership rights and obligations. The beneficial owner of the security is liable for all the duties and rights associated with the possession.

6. **Free Transferability of shares:** Ownership of shares may be passed equally to others, and the ownership is reflected on the share registry.

## CHAPTER-IV

### RESEARCH FINDINGS

“A Depository System operates by holding securities in the electronic casing and allowing trades to be set up with an intermediary, a “Depository Participant (DP)”, acting as an administrator. Based on the set hypothesis and collected data, some important findings were as follows:

1. “The securities demat system was introduced in India towards the end of 1996 with the creation of NSDL as the first Depository. In August 1998, CDSL was set up to accelerate the growth of electronic securities in India.”
2. The speed at which India has dematerialised its securities is exceptional. The only markets that it has left behind are the “UK, Japan, France, Germany and Australia”.
3. The use of a Demat system by businesses is the primary advantage for both in terms of cost and convenience. Companies get updated lists of investors every week from the depositories and are saved from the hassles of printing and dispatching of certificates and effecting securities transfer. Various issues associated with fake, forged, stolen and duplicate certificates are also solved once the company joins any depository.
4. Since its inception until now, the Demat system has experienced significant growth. At present, two fully functional depositories in India have the right to dematerialise securities. Since the introduction of the demat system, many physical securities have

been dematerialised under different companies by the investors spread all over the country.

5. As opposed to the physical stock exchanges, the demat system has resulted in the considerable increase in investor convenience levels and service quality, while at the same time curtailing the high frequency of error involved in physical trading. There is a direct positive association between the number of investors benefited through the depository model, receiving corporate benefits through demat system, with the number of investors joining the demat system.
6. The crux of the effective implementation of the depository framework is that investors should be taken unique and full care, and they should be taught with some “Charter of Rights” to be observed by the “DPs”.
7. In the past, NSDL took up this burden through its efforts in the form of “**Investors Depository Meets (IDMs)**”, nation-wide advertisement campaign in leading newspapers, the website of NSDL, monthly bulletin known as ‘Nest Update’, DP Directory, Investors Guide to the Depository System and Help-desk of Depository. But all these efforts of the NSDL have their own weaknesses.
8. The above study indicates that securities market participants are approaching the short term sale or purchasing of securities (within a few days, weeks or months). This also shows that the fact that the method is more fitting and appealing for market traders is even more significant. Although there are many advantages for long-term investors in the primary market in terms of corporate benefits, protection against duplicity of shares, early allocations in IPOs and no tension in holding share certificates in physical mode.
9. Unfortunately, without paying any heed to the needs and problems of small long-term investors who are not regular traders, India's Demat scheme was implemented. These investors have several complaints against the Demat scheme, the key complaint being high demat charges, which were one of the other non-conversion conditions for some of the securities of the investors.
10. A explanation for lack of transfer of securities holdings from real asset to securities form is because long term investors do not care about capital gains and do not convert

their securities holdings from real to securities form.

11. The DPs and their arms are developing rapidly, but this is not seen in an exponential development. Compared to other countries, the number of dependents cases in India is comparatively smaller to take a major effect on the market.
12. It is expected that “SEBI, being the chief regulatory body of the Indian securities market”, should make some serious guidelines to mitigate the problem that investors are facing in terms of resolution of pending Demat requests and the resolution of grievances. It has been brought to our attention that some corporate Demat applications have been denied several times; this can be due to the fact that these companies are not very involved with us, however, we do accept that it is best if the matter is resolved by the SEBI instead of the insolvent company's management. The Securities and Exchange Board of India should issue some guidelines to resolve this issue entirely without taking too much time to resolve.

## **CHAPTER-V**

### **CONCLUSION**

The paper concludes that the number of beneficiary accounts, the number of companies opting for the Demat facility, the number of depository participants, the number of service centers of depository participants, the amount of Demat Shares/Securities and Demat Custody in “NSDL & CDSL is significantly increased (Value of Dematerialized Securities)”. In addition, a positive average annual growth rate also demonstrates growth in a sound direction for the Indian Capital Market.

The points enumerated above are clear in their suggestions. In a nutshell in brief, it can be concluded taking the objectives of the study that:

1. In India, the depository system was gradually introduced in a planned and systematic manner, starting from the voluntary acceptance of investors to the mandatory requirement laid down by SEBI for trading in Demat securities only. Although the scheme, DPs and issuer companies were welcomed by investors, there is a lack of desired popularity of Demat services in India.

2. Retail securities market investors are certainly benefiting from the implementation of entry-based computerized depository systems, improved facilities, greater interest protection, strong elements of accessibility, quality and transparency in securities market operations.
3. While depositories try their best, their efforts are not fruitful and rewarding on the basis of “Investors' Education and Awareness”. To accelerate awareness among present and prospective Demat system users, “DPs” should also join hands with depositories.
4. With Demat comfort in mind, the method is expensive for investors who choose to keep securities in their Demat accounts for an extended period of time and are not regular securities market traders.
5. In overcoming the chances of early evils of physical handling of securities, the method has proven to be effective and efficient. In addition, shorter settlement times and quicker transfer of shares, regardless of geographical limitations, have been facilitated.
6. Under the “Depositories Act, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009” and the Bye-laws of depositories, there are various clauses and provisions to protect the interests of demat account holders.

However, it would be too much to expect retail investors to be aware of all the provisions, by-laws, regulations and rules available for the enforcement of their rights and defense against any negligence or fraud committed by the DPs, rather than requiring them to be aware of so many actions.

## **CHAPTER-VI**

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