
BRIDGING GAPS IN SECURITIES LAW: THE MARKET OPPORTUNITIES AND THE REGULATORY PATHWAYS OF FRACTIONAL SHAREHOLDING IN INDIA

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ABSTRACT

This study explores the rise of fractional share investments and its potential to transform domestic capital markets. By enabling investors to acquire fractions of expensive equities, fractional ownership lowers barriers to entry, promotes diversification, and supports financial inclusion. Although countries such as the U.S., U.K., Singapore, and Japan have already embraced this model through broker-dealer and platform-based mechanisms, Indian legislation such as the Companies Act, 2013, currently bars issuing less than one full share. In response to growing interest, the SEBI has urged creating a regulatory framework that balances investor access with safeguards. The paper reviews the benefits of fractional investing, contrasts India's settlement and clearing mechanisms with global approaches, and highlights how distributed ledger technology could facilitate transparent, efficient, and secure trading. It further examines implications for corporate governance, including taxation, voting rights, and initial public offerings. Building on SEBI's experience with Differential Voting Rights, the study recommends reforms tailored for India, emphasising statutory amendments, technological innovation, and regulatory clarity. The paper concludes that fractional shares can democratize participation, strengthen inclusivity, and enhance the long-term resilience of India's financial system.

Introduction

SEBI has recently called on the central government to establish a clear regulatory framework for fractional share investments.¹ With this model gaining momentum worldwide, SEBI recognises its potential to democratise investing by allowing retailers to purchase portions of expensive stocks. Nonetheless, India's present regulatory and technological framework is not structured to accommodate such a system. Globally, fractional investing has risen in popularity alongside the growth of online trading platforms.² It allows individuals to acquire less than one full share of a company or an exchange-traded fund (ETF), thereby lowering entry barriers to expensive equities and supporting portfolio diversification even with limited capital.³ Despite its advantages, the concept is still new in India and its broader implications remain largely unexplored by regulators and the market.

The Companies Act, 2013 explicitly prohibits such investments. Under §4(1)(e)(i),⁴ subscribers to a company's MOA must agree to at least one full share, and Schedule I, Table F further reinforces this restriction.⁵ By requiring a minimum of one complete share, the Act effectively rules out fractional holdings. While the model could improve retail access to equity markets, concerns regarding transaction transparency and associated costs persist. SEBI has therefore urged the government to devise a regulatory mechanism that can balance investor accessibility with systemic safeguards.

This paper explores the need for and potential benefits of fractional investing in India in Part II, followed by a comparative study of India's settlement and clearing systems with global practices in Part III. It then evaluates the existing legal framework and the implications of fractional shares for investors, corporations, and regulators in Part IV. Part V examines regulatory approaches adopted in other jurisdictions, proposing reforms tailored for India. It emphasizes the role of technology, particularly distributed ledger technology, in building a reliable infrastructure for fractional trading. In Part VI, the discussion extends to

¹ Dhaval Bothra and Mukund Arora, *Bridging Markets: Legal Implications and Solutions for Fractional Share Investment in India*, NUJS Law Review (2023).

² Nikhil Aggarwal, *The Rise of Fractionalized Assets: Reshaping Portfolio Allocation for the Next Generation of Indian Investors*, The Economic Times (April 2025).

³ Shashank Shekhar and Utkarsh Sharma, *Advancing Investor Access to Fractional Shares in India: Assessing the Regulatory Landscape*, Law School Policy Review (March 2023).

⁴ The Companies Act, 2013.

⁵ The Companies Act, 2013.

possible consequences on voting rights, taxation, and initial public offerings. The final section concludes with recommendations. Overall, the paper aims to show a structured roadmap for introducing investment in fractional shares, highlighting both legal reform and technological adaptation as essential steps for making the model viable.

Understanding the Opportunities and Merits of Fractional Shareholding in India

Distributed ledger technology can be applied in different ways to support fractional share trading,⁶ but its adoption in India must be considered in light of how necessary such a system actually is. Currently, only seventeen Indian companies have share prices above ₹10,000. Among them, MRF Ltd. has consistently held the top spot as the costliest stock, touching a peak of ₹96,973 in February 2021.⁷ By comparison, the United States has a far larger pool of high-value stocks: around 661 companies trade at prices as high as ₹37,500, with 58 firms exceeding ₹160,000 per share and eight above that threshold.⁸ The priciest of all is Berkshire Hathaway, which climbed to USD 539,180 (roughly ₹4.45 crore) in March 2022.⁹ This contrast suggests that before investing in DLT solutions for fractional trading in India, policymakers must first examine whether the need is as pressing as in markets like the U.S.

Given these figures, the utility of fractional investing appears greater in the U.S. than in India. Other factors such as inflation, the dominance of institutional investors, and lower per-capita income also influence demand. In countries with modest household incomes, investors may struggle to set aside funds for equity purchases. Still, enabling small-ticket investments could expand participation, boost liquidity, and energise markets.

For Indian investors, mutual funds already serve as an accessible alternative to direct fractional ownership, allowing portfolio diversification with limited resources. Yet fractional shares differ in offering direct stock ownership, greater customisation, cost efficiency, dividend reinvestment, and real-time liquidity.¹⁰ While mutual funds pool money to buy portfolios of securities and allocate units proportionally, fractional shares allow investors

⁶ Alexis Collomb et al., *distributed ledger technology (DLT): What impact on the financial sector?*, Digiworld Economic Journal 103 (2016).

⁷ Tyre Major MRF Reclaims Title as India's Highest-Priced Stock, Times of India (June 2025).

⁸ Wes Moss, *The Decline in U.S. Stocks to Choose From: What It Means for Investors*, Forbes (February 2025).

⁹ Derek Saul, *Berkshire Hathaway Stock Rises 4% to New Record, Making Warren Buffett \$6 Billion Richer*, Forbes (February 2025).

¹⁰ Bothra and Arora, *Supra* Note 1.

to hold a percentage of individual stocks themselves. In this sense, mutual funds provide indirect fractional exposure, while fractional trading delivers a more transparent and personalised experience.

Fractional shares also hold potential to improve India's market efficiency. By lowering the cost of entry, they encourage wider participation from retail investors, which in turn can enhance price discovery and align valuations more closely with fundamentals. For middle and lower-income groups, fractional ownership provides an affordable way to build exposure to blue-chip and high-value equities, fostering long-term wealth creation. The smaller increments also let individuals rebalance portfolios with minimal financial strain. Importantly, this model can strengthen a culture of savings and investment by giving brokers tools to guide clients through manageable, low-risk entry points into equity markets.

A. United States of America

In India, brokers are primarily market participants linking the exchange with investors.¹¹ By contrast, in the United States, brokers may function both as agents and as dealers, giving them greater flexibility in executing trades.¹² This dual function enables U.S. brokers to either trade on their own account or forward client transactions directly to trading venues or intermediaries. Another difference is that Indian brokers do not engage in payment for order flow; instead, all trades must go through recognised exchanges such as the Multi-Commodity Exchange of India or the National Stock Exchange.

Trading practices differ from one jurisdiction to another. In India, investors place trades through an account connected with an intermediary, and the acquired holdings are stored electronically in a demat account. To provide these demat facilities, brokers must be registered with depositories such as the NSDL or the CSDL. In contrast, In the U.S., individuals are not required to maintain a demat account; assets can be registered either under their own ownership or under that of the brokerage firm.¹³ U.S. brokerage houses often generate income through securities lending or margin financing, which allows them to retain securities on their

¹¹ Navleen Kaur and Gurinder Singh, *Role of brokers/institutional investors to induce investment in Indian stock markets*, International Journal of Advanced Research (Indore) 3, no. 7 (2015): 1545-1562.

¹² Robert H Mundheim, *Professional responsibilities of broker-dealers: the suitability doctrine*, Duke Law Journal (1965): 445.

¹³ D Melbha, *A Market Potential of Open the Demat Account and trading Account for Trading in Stock Exchange*, International Journal of Research in Business Management (2017): 107-114.

books while offering commission-free trading. Fractional shares in the U.S. are managed solely by the investor's broker-dealer.

Investor protection is reinforced by the U.S. SEC's NBBO, which ensures that customer trades are executed at competitive, fair-market prices. The NBBO Rules establish the highest bid and lowest ask across major exchanges for each security. Brokers are required to match or better these quotes when filling client orders. This framework limits market risk for brokers, as trades are executed near prevailing prices, with exposure typically confined to the bid-ask spread.

In the U.S., fractional trading is governed by broker-dealer rules.¹⁴ For example, if a stock trades at \$500, a securities intermediary might authorise clients to buy portions in increments as small as \$10, representing 0.2% of a full share. The securities intermediary maintains the complete share in its inventory while tracking each client's fractional holding through internal diary entries. Consequently, if 3 investors purchase \$100, \$170, and \$130 of the stock, their partial ownership is recorded in the broker-dealer's books, while the total exposure remains capped at the full share value of USD 500.

Beyond the U.S., fractional share trading is common in jurisdictions like the U.K. and Japan.¹⁵ In these markets, investors can acquire fractions of listed securities through brokers or investment platforms. Typically, the broker or platform remains the legal owner of the whole shares while distributing fractional entitlements among clients, thereby facilitating participation by smaller investors.

B. United Kingdom

Fractional share investing is becoming increasingly widespread in the U.K., especially among small-scale investors.¹⁶ A number of major online brokers and investment applications, including platforms like Trading 212 and Freetrade, now allow customers to purchase fractional stakes in companies traded on the London Stock Exchange as well as in international markets such as the NYSE. This system enables individuals to diversify their

¹⁴ Fanto Poser, *Broker-Dealer Law and Regulation*. Vol. 1. Wolters Kluwer Law & Business, 2021.

¹⁵ Sarah A Wagman, *Laws Separating Commercial Banking and Securities Activities as an Impediment to Free Trade in Financial Services: A Comparative Study of Competitiveness in the International Market for Financial Services*, Michigan Journal of International Law 15 (1993): 999.

¹⁶ Bothra and Arora, *Supra* Note 1.

holdings without committing large sums of money. Instead of acquiring a full unit of stock, the brokerage holds entire shares in its own name and allocates proportional interests to users based on how much they contribute.¹⁷ For instance, someone with just £50 can still gain exposure to Tesla's equity by purchasing a fraction of a share, which the platform makes available by dividing complete shares into smaller denominations.

The United Kingdom's regulatory landscape has also adapted to accommodate this practice. The Financial Conduct Authority, which supervises financial services, requires firms to provide clarity and fairness in their handling of fractional ownership. Although the underlying securities are recorded under the broker's name, investors are entitled to economic returns, including returns from dividends and increases in share value, but in numerous instances, investors are denied participation in voting rights. Overall, this framework has broadened participation in equity markets by lowering entry costs and giving retail investors access to shares that would otherwise remain unaffordable.

C. Singapore

Fractional share trading has been expanding as both domestic and international investors look for affordable ways to diversify their holdings. Investment platforms such as Syfe Trade now allow users to buy partial shares of companies listed on major exchanges, including those in the U.S. and Singapore.¹⁸ The Monetary Authority of Singapore regulates this space, ensuring compliance with national securities laws. The structure resembles practices in other jurisdictions: platforms or brokers retain full shares in custody and allocate fractions to individual investors. This model lets people with limited funds invest in otherwise expensive stocks, such as Amazon or Alphabet, by acquiring small portions instead of entire shares.

The surge in retail participation has been fuelled by accessible digital platforms that combine fractional ownership with tools like automated portfolio rebalancing and thematic strategies, simplifying entry for first-time investors. Similar to the UK, both dividends and profit from share appreciation are transferred to account holders, but participation in voting is frequently curtailed by platform rules. On balance, trading fractional shares in Singapore has played a key role in widening access to equity markets, enabling more individuals to participate

¹⁷ David P Brown, *Why do we need stock brokers?*, Financial Analysts Journal 52, no. 2 (1996): 21-30.

¹⁸ Wagman, *Supra* Note 15.

in both domestic and global investment opportunities without needing large initial capital.

D. Japan

Japan, with its well-regulated and technologically advanced financial system, has also introduced fractional share trading.¹⁹ Major brokerages such as Rakuten Securities and Monex Group now provide this service, enabling small investors to gain exposure to premium equities traded on the TSE as well as international markets like the U.S. and Europe. The Japanese model follows the same structure seen in other jurisdictions: brokers or platforms purchase whole shares, which are then divided into fractional portions for clients.²⁰ This arrangement enables small investors to buy into large companies such as Toyota, Sony, or costly global stocks like Apple and Netflix without having to commit to a full share purchase. For many Japanese households, this offers a cost-effective path toward portfolio diversification.

Oversight is provided by the Financial Services Agency, which enforces strict standards on investor protection and disclosure. Investors benefit from dividends and capital gains, though, as in most fractional systems, voting rights typically remain with the broker or platform. The robust digital systems in Japan, combined with a receptive approach toward financial innovations, have enabled fractional investing to expand quickly, broadening access for younger and lower-income investors and supporting greater financial inclusion.

Comparing this with India highlights key structural differences. In India, ownership is tightly linked to dematerialised accounts, and securities are always recorded directly in the investor's name through depositories, ensuring transparency but leaving little room for partial shareholding. The absence of the "street name" system common in countries such as Canada and Australia creates difficulties in recognising and tracking fractional ownership. As a result, India's settlement and clearing system, designed around full share units, would require substantial regulatory and infrastructural reforms to accommodate fractional trades.

¹⁹ Beth A Simmons, *The international politics of harmonization: The case of capital market regulation*, International organization 55, no. 3 (2001): 589-620.

²⁰ *Id.*

By contrast, U.S. brokers, who can operate both as agents and dealers, enjoy greater flexibility. They employ practices such as payment for order flow and benefit from National Best Bid and Offer rules, which mandate fair pricing and reduce their exposure to market risk.²¹ Similarly, in the U.K., Singapore, and Japan, fractional trading has become a mainstream investment channel, allowing brokers and platforms to hold full shares in inventory while allocating fractional entitlements to clients. These models expand investor choice, enhance portfolio flexibility, and promote financial inclusion, demonstrating why fractional share trading has been easier to integrate abroad than in India.

Company Law Committee's Recommendations on Fractional Share Ownership

As noted in the Company Law Committee's 21.03.2022 report, the issue of fractional share ownership was discussed.²² The Committee noted that under Section 4(1)(e)(i) of the 2013 Act, subscribers to a company's memorandum cannot commit to a fraction of a share. In addition, Table F in Schedule I reinforces this prohibition. Despite these restrictions, the Committee observed that fractional holdings can sometimes arise unintentionally from corporate events like mergers, issuance of rights, or bonus share distributions, and these instances create chances for investors to participate in the market.

To address investor needs, the Committee proposed amendments to the 2013 Act that would expressly allow certain companies to issue, hold, and transfer fractional shares under regulated conditions. The idea was to make investments in high-value companies more accessible to retail investors who may not be able to purchase entire shares. However, the Committee emphasised that this relaxation should only cover fractional shares created straight by the companies themselves, rather than resulting from business reorganisations or restructurings.²³ Furthermore, all such shares should be issued exclusively in dematerialised form, meaning they would exist as electronic records maintained by depositories rather than physical certificates, ensuring secure and efficient ownership tracking.

The Committee also recommended that rules governing fractional share issuance and ownership for listed entities should be framed in coordination with SEBI.

²¹ Poser, *Supra* Note 14.

²² Kashish Ali and Anshika Gubrele, *Company Law Committee Report 2022 Suggests Many Amendments, Including Issue of Fractional Shares*, LiveLaw (July 2022)

²³ *Id.*

Importantly, the proposal was limited to new fractional shares issued by companies and did not extend to temporary fractional holdings created through corporate events. In addition, the Committee acknowledged regulatory experimentation already underway in India. The International Financial Services Centres Authority recently permitted fractional share trading within its “regulatory sandbox framework.”²⁴ Functioning IFSCs, this sandbox enables market participants, including the NSE IFSC, to experiment with new financial instruments under eased regulatory conditions while still protecting investors.

The sandbox approval demonstrates IFSCA’s willingness to explore fractional investing in India. However, the Committee highlighted that this remains a temporary measure and does not equate to permanent legalisation. For fractional share trading to become a mainstream feature of Indian capital markets, legislative amendments and broader regulatory approval would still be required. Nevertheless, the outcomes of sandbox experiments could shape future policy: if fractional trading proves effective and beneficial within the sandbox, it increases the likelihood of long-term adoption across the financial system.

Reimagining Clearing and Settlement in India through Distributed Ledger Technology

In India, clearing and settlement functions are carried out by multiple institutions within the existing regulatory framework. This section considers the potential of distributed ledger technology in transforming these processes. Currently, settlement depends on the involvement of various intermediaries, which adds layers of complexity.²⁵ A blockchain-based shared ledger could simplify this structure by enabling real-time registration of securities ownership, supporting fractionalisation of shares, reducing reliance on intermediaries, and streamlining the overall mechanism. The discussion also notes the current prohibition on fractional share issuance and underscores the importance of collaboration between regulators, market participants, and technology providers to develop a compliant blockchain-based infrastructure. Regulatory backing is seen as critical for DLT to reshape roles and responsibilities across India’s financial ecosystem.

From a technical standpoint, fractionalisation would require either a new settlement architecture altogether or significant modifications to the operations of existing

²⁴ Ivo Jenik and Kate Lauer, *Regulatory sandboxes and financial inclusion*, CGAP, Washington, DC (2017).

²⁵ Nitin K Tyagi and Mukta Goyal, *Blockchain-based smart contract for issuance of country of origin certificate for Indian customs exports clearance*, *Concurrency and Computation: Practice and Experience* 35, no. 16 (2023): e6249.

institutions. At present, trade obligations in India are consolidated and managed by NSE Clearing,²⁶ which aggregates transactions during a trading window, balances positions, and defines the responsibilities of member firms. Settlement of these obligations is then executed through the transfer of funds and securities. Market data flows directly from providers into order books, while clearing corporations, custodians, and depositories collectively ensure smooth processing.²⁷ Currently, NSE Clearing facilitates the transfer of securities via electronic book entries to the two main depositories, CDSL and NSDL, whose records ultimately reflect final ownership. Securities are credited in real time in accordance with brokerage instructions, ensuring accurate documentation of holdings.

A. Framework For Clearing And Trade Settlement

The emergence of fractionalised cryptocurrencies demonstrated how investor participation can be widened and other asset classes can benefit from similar models of divisibility.²⁸ Blockchain, or distributed ledger technology, is particularly suited to extend this concept to equity markets by enabling fractional shareholding. DLT functions operate as a decentralised, secure record-keeping system in which transactions are stored in sequential blocks, linked sequentially, and validated through consensus mechanisms. Once recorded, transactions are nearly impossible to alter, thereby guaranteeing integrity. Among its advantages are enhanced transparency through open recordkeeping, efficiency via faster and lower-cost settlement, improved security through encryption, and while removal of unnecessary middlemen. Moreover, distributed ledger technology enables smart contracts, automated agreements programmed with preset conditions, which can automate compliance and execution.²⁹ Within the proposed framework, DLT would underpin a single secure ledger of securities ownership, providing automation and real-time synchronisation while simplifying the existing multi-layered process.

It is, however, important to distinguish between the broad transformative potential of DLT and its practical applications to fractionalisation. A complete overhaul of India's securities settlement system may not be necessary; rather, DLT can be strategically

²⁶ Ali and Gubrele, *Supra* Note 22.

²⁷ Raghav Pathak, *Interoperability, Legal Interpretation and Application of Smart Contracts, DLT & Blockchain in India*, Sweet and Maxwell, Online Journal of International Banking Law and Regulation, (2024).

²⁸ Soyeon Kim, *Fractional ownership, democratization and bubble formation-the impact of blockchain enabled asset tokenization*, AMCIS Proceedings (2020).

²⁹ Pathak, *Supra* Note 27.

deployed to enhance targeted functions, such as ownership tracking, reconciliation, and post-trade transparency, without disrupting the existing book-entry model.³⁰ This approach envisions a shared, continuously updated ledger that records securities ownership and settlement activity in real time. By integrating DLT into the post-trade environment, intermediaries and additional infrastructure could be minimised, while still retaining regulatory oversight. In effect, DLT would complement the current architecture, making securities transfers more seamless, transparent, and tamper-proof.

A central feature of this proposal is converting key market participants such as depositories, clearing banks, and custodians into nodes of a blockchain network. In such a system, transactions are settled on a “delivery versus payment” basis, meaning ownership is transferred only upon simultaneous payment, thereby reducing settlement risk. Fractional ownership could be supported without leaving residual unsold fractions; remaining shares could be absorbed by designated market makers. This ensures that participants either complete transactions in full or exit without incomplete fractions. Under this structure, depositories and clearing corporations would continue recording securities in book-entry form but would now exchange data directly through a blockchain, creating a unified and immutable record of trades and settlements. The framework also recognises that multiple DLT variants exist, and interoperability among them is essential. A flexible structure allowing different blockchain systems to interact would enable participants to adopt the technology best suited to their operational needs, while still engaging seamlessly with other actors in the settlement network.

Global precedents lend credibility to this approach. For instance, NASDAQ’s Linq platform in 2015 successfully executed and recorded a private securities trade on blockchain.³¹ The Bank of Japan’s “Project Stella” examined DLT’s utility in interbank payments and securities settlement.³² Similarly, Germany’s Bundesbank piloted the “Blockbuster” prototype to test its applicability in interbank transactions,³³ while Singapore’s “Project Ubin” explored blockchain-based models for securities clearing and settlement in

³⁰ David C Donald and Mahdi H Miraz, *Multilateral transparency for securities markets through DLT*, Fordham Journal of Corporate and Financial Law 25 (2019): 97.

³¹ Mélodie Lamarque, *The blockchain revolution: new opportunities in equity markets*, PhD diss., Massachusetts Institute of Technology (2016).

³² Michinobu Kishi, *Project Stella and the impacts of fintech on financial infrastructures in Japan*, ADBI Working Paper Series No. 1017 (2019).

³³ Michael Anderson Schillig, *The Too-Big-to-Fail Problem and the Blockchain Solution*, Berkeley Bus. LJ 19 (2022): 126.

collaboration with industry stakeholders.³⁴ These initiatives demonstrate the viability of DLT in strengthening efficiency, reducing settlement risks, and facilitating innovation in financial markets.

B. SEBI's Push Towards Blockchain Integration in Securities Markets

By issuing a recent directive on Security and Covenant Monitoring via DLT frameworks, SEBI notified market stakeholders that depositories are in the process of adopting DLT for several core functions.³⁵ This initiative underscores the regulator's acknowledgement of blockchain as a viable solution for enhancing transparency and efficiency in the securities market. Complementing this effort is SEBI's regulatory sandbox framework, which allows registered intermediaries to test emerging financial technologies with a limited set of clients under controlled conditions. Such a sandbox could provide an ideal environment to pilot the proposed framework for fractional share trading.

Importantly, neither the Securities Contracts (Regulation) Act, 1956,³⁶ The Depositories Act, 1996,³⁷ nor the SEBI (Depositories and Participants) Regulations, 2018,³⁸ prescribe the use of any particular technology. This technological neutrality in the legal framework is advantageous, as it enables regulators to experiment with and integrate new tools such as DLT, without first needing legislative amendment. Both SEBI's DLT circular and NSE's sandbox demonstrate a clear policy orientation towards fostering innovation, allowing capital market institutions to enhance efficiency while remaining compliant with existing legal obligations.

Nevertheless, fractional share issuance can only occur within a formal framework approved by the authorities. A coordinated approach involving regulators, intermediaries, and technology providers would be needed to address statutory barriers such as §4(1)(e)(i) of the 2013 Act, which currently prohibits the subscription of less than one share. A feasible model would be a platform utilising blockchain infrastructure specifically intended for

³⁴ Weihua Cai, *The application and development of CBDC in the "Belt and Road": Take Singapore Ubin Project and m-CBDC Bridge as examples*, In 2022 4th International Conference on Economic Management and Cultural Industry (ICEMCI 2022), pp. 1445-1449, Atlantis Press (2022).

³⁵ *Operational guidelines for 'Security and Covenant Monitoring' using Distributed Ledger Technology (DLT)*, Securities and Exchange Board of India, SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2022/ 38 (March 2022).

³⁶ The Securities Contracts (Regulation) Act, 1956.

³⁷ The Depositories Act, 1996.

³⁸ SEBI (Depositories and Participants) Regulations, 2018.

partial ownership. Under such a system, companies opting to issue fractional shares would tokenise them into digital units recorded on the blockchain. Smart contracts would govern issuance, trading, settlement, and corporate actions such as dividend distribution, ensuring compliance with securities law. Investors could access these fractions through licensed intermediaries, supported by enhanced safeguards such as biometric authentication and investor education initiatives.

It is also important to note that the adoption of DLT does not require an entirely new legislative framework. Existing obligations under the Depositories Act, 1996, can be met through blockchain-based processes. For instance, §19A's requirement that depositories maintain a record of accounts is consistent with DLT's immutable and transparent ledger system.³⁹ Similarly, under §7,⁴⁰ a participant-initiated securities transfer could be validated and recorded on a blockchain in real time, providing all parties with immediate access to tamper-proof entries. Likewise, §12 procedures for pledging or hypothecating securities could be automated through DLT, with prior depository consent transparently recorded on the ledger.⁴¹ Once validated, the transaction would generate an irreversible entry, thereby expediting the process while ensuring compliance.

However, if technological integration significantly alters the role of existing entities, as may occur with DLT, regulatory clarification will be necessary. A shift towards blockchain-enabled securities management redefines the responsibilities of depositories, custodians, intermediaries, and even technology providers. While DLT can streamline functions such as covenant monitoring, issuance, settlement, and asset pledging, these transformations also raise questions about accountability and oversight. To fully harness blockchain's potential, legislators and regulators will need to provide detailed guidance, close interpretive gaps, and coordinate with market participants to ensure both innovation and investor protection remain at the forefront.

Corporate Implications of Fractional Share Sales

The introduction of fractional shares is likely to produce a range of distinctive consequences for issuing companies, reshaping the way they operate and raise funds. By

³⁹ The Depositories Act, 1996, §19A.

⁴⁰ The Depositories Act, 1996, §7.

⁴¹ The Depositories Act, 1996, §12.

allowing investors to purchase portions of a share rather than a whole unit, this development could fundamentally alter capital-raising practices and the corporate landscape more broadly. The implications are far-reaching, requiring firms to carefully evaluate the challenges and opportunities before integrating such mechanisms into their strategies. This section examines the potential corporate effects of share fractionalisation, with particular attention to three critical areas: the impact on shareholder rights, the structuring of initial IPOs, and the tax treatment of fractional shares. Each of these dimensions carries unique considerations for companies, regulators, and investors, highlighting the importance of proactive planning and regulatory clarity in adapting to this transition.

A. Tax Implications of Fractional Shareholding

As per the Income Tax Act of 1961, profits earned through the sale of shares are taxable. Gains from securities retained under 36 months are classified as short-term and taxed as ordinary income, whereas gains on holdings beyond that period are considered long-term and attract a 20% concession with indexation benefits.⁴² Under §43, dividend receipts are treated as taxable income, and share transactions are subject to the Securities Transaction Tax.⁴³

The tax implications for investors may vary depending on whether fractional shares are treated identically to whole shares. A rise in overall trading activity resulting from fractionalisation could alter the quantum of tax revenues collected by the government. International practice, however, suggests consistency: in the U.S.A., taxation of fractional shares follows the same rules that apply to capital gains as complete shareholdings. Accordingly, when designing a tax regime for fractional shares, India should examine models adopted in other jurisdictions. Given that India already follows a progressive income tax structure, alignment with international principles would ensure fairness, predictability, and administrative simplicity in the treatment of fractional share investments.

B. Comparison with the Australian Tax Regime

To illustrate, Australia offers a useful comparative model since it also follows a progressive income tax system.⁴⁴ Fractional shares in Australia are treated in the same manner

⁴² The Income Tax Act, 1961, § 2 (42A).

⁴³ The Income Tax Act, 1961, §43.

⁴⁴ Chung Tran and Nabeeh Zakariyya, *Tax progressivity in australia: Facts, measurements and estimates*, Economic Record 97, no. 316 (2021): 45-77.

as complete shares, with capital gains tax applying to profits or losses realised on their sale.⁴⁵ The underlying basis is the principle of income equivalency, which requires taxation not merely of nominal or cash receipts but of the taxpayer's real economic benefit. This ensures that both monetary and non-monetary gains are subject to tax in a fair and consistent manner.

According to guidance from the Australian Taxation Office, fractional shares are taxed in line with capital gains provisions applicable to comparable property.⁴⁶ The capital gain or loss is computed by comparing the acquisition price of the fractional holding with its sale price, with the purchase price being whatever was paid for that fraction. This approach strengthens equity within the tax system by ensuring that gains from fractional ownership are taxed on the same basis as other income sources. It also simplifies compliance, as the same rules apply across asset classes. Importantly, the clarity and uniformity of this regime contribute to predictable obligations for investors while securing government revenue through transparent reporting of taxable gains.

Adopting a similar model in India could ensure fairness, improve compliance efficiency, and align domestic taxation of fractional shares with international standards. This would not only accommodate emerging investment practices but also encourage greater participation in capital markets by making tax treatment clearer and more predictable.

C. Rights of Shareholders

Those shareholders entitled to vote have the ability to influence key corporate matters, including choosing board members, sanctioning significant deals, and modifying governance policies. When granted, such rights enhance both participation and a sense of ownership.⁴⁷ Extending voting rights to fractional shareholders, however, raises a series of complications. The practical value of a fractional vote is often limited, since small holdings rarely alter the outcome of a ballot; assigning a clear and practical worth to such entitlements in share transactions remains a challenge. The significance of fractional voting rights also depends heavily on a company's governance structure and the voting thresholds applicable to

⁴⁵ Maheswaran Sridaran, *Taxation of capital gains and horizontal equity: a review of the Australian perception*, Austl. Tax F. 20 (2005): 41.

⁴⁶ *Id.*

⁴⁷ David Yermack, *Shareholder voting and corporate governance*, Annual Review of Financial Economics 2, no. 1 (2010): 103-125.

different kinds of resolutions. In some cases, these rights may prove largely symbolic, with insufficient influence to affect either board elections or strategic decision-making.

To address these complexities, India could look at SEBI's structure for DVRs as a useful reference point. The DVR regime, introduced under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2013,⁴⁸ allows companies, particularly those operating in technology-intensive fields such as IT, biotechnology, and data analytics, to issue shares carrying fewer voting rights than ordinary equity, while ensuring parity with respect to dividend entitlements.⁴⁹ The framework is characterised by a set of carefully designed safeguards. For instance, DVRs may only be issued to promoters in executive roles, and the promoter group must not exceed a net worth cap of ₹5,000 million.

The issuance of such shares requires shareholders' approval through special resolution, and the ratio between DVRs and ordinary shares must remain within the range of 2:1 to 10:1.⁵⁰ In addition, restrictions are ensuring that only one class of DVR shares is permitted, that they remain locked in for a prescribed period, and that they cannot be pledged as collateral or transferred among promoters during this time. Ultimately, DVR shares are subject to a cap that limits their combined voting power, even when aggregated with ordinary equity, to no more than 74 per cent, and they must eventually convert into ordinary equity after a fixed period or in response to specified events such as mergers or changes in control.⁵¹

This structured approach demonstrates how SEBI has already sought to balance companies' need for raising capital with the preservation of control and accountability. A similar logic could guide the treatment of fractional share voting in India. Because fractional shareholding is not the same as complete ownership, granting the complete right to vote would be impractical. Instead, the allocation of voting power should be contextual and flexible, shaped by several interrelated factors. The degree of fractional ownership is important, as larger fractional holdings may justify proportionally greater influence, while very small fractions might carry little practical weight. The broader governance structure of a company also matters, particularly where multiple classes of shares already coexist with different voting entitlements.

⁴⁸ The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2013.

⁴⁹ Arryan Mohanty, *DVR Framework Introduced by Sebi; Examining Effectiveness and Efficiency*, Law Essentials Journal 2 (2021): 29.

⁵⁰ The Companies (Share Capital and Debentures) Rules, 2014, , Rule 4; The Companies Act, 2013, Section 43(a)(ii).

⁵¹ *Amendments to Regulatory Framework for Shares with Differential Voting Rights & Debenture Redemption Reserve*, AZB & Partners (October 2019).

Beyond these structural considerations, contractual arrangements among fractional shareholders may add another layer of complexity by granting or limiting rights in ways that deviate from the default framework. Ultimately, a firm's operational results and major developments such as mergers, takeovers, or strategic changes can greatly impact shareholding structures and governance focus, making it necessary to reevaluate the allocation of voting privileges.

By drawing lessons from the DVR framework and adapting them to the context of fractional shareholding, India can ensure that voting rights in this new investment model remain workable, equitable, and aligned with broader principles of corporate governance. Shareholder agreements can alter default voting allocations by granting or limiting rights to specific parties. Company performance and events, mergers, acquisitions, or major strategic shifts may necessitate recalibrating fractional voting to ensure alignment with changing ownership patterns and objectives. By adapting lessons from the DVR framework, India can ensure that fractional voting rights, if introduced, remain workable, equitable, and aligned with broader corporate governance goals.

D. Initial Public Offerings

Initial public offerings mark a pivotal stage in the corporate life cycle, representing the shift from privately held to publicly traded status. The introduction of fractional shares could significantly influence the dynamics of IPOs by broadening participation and enhancing inclusivity. Fractional ownership enables a wider pool of investors, particularly small retail participants, to acquire a stake in newly listed companies.⁵² This not only helps investors diversify risk and access growth opportunities but also benefits issuing firms by potentially increasing demand, raising more capital, and enhancing valuations. Traditionally, IPOs have been inaccessible to smaller investors as shares are sold only in full units, often requiring substantial minimum investments. By offering smaller denomination fractional shares, companies can democratise participation, attract a broader base of investors, and generate greater interest in their offerings.

While the potential to broaden IPO participation is particularly appealing, its realisation would require careful adjustments to existing systems and regulations. First,

⁵² Albert H Choi, *Concentrated ownership and long-term shareholder value*, Harvard Business Law Review 8 (2018): 53.

technological upgrades to trading and settlement infrastructures would be essential. Order execution systems, trading platforms, and settlement procedures would need to evolve to accurately track and manage fractional ownership. Brokerage platforms must provide user-friendly systems that make it easier for retail investors to transact in fractional shares. Additionally, clear regulatory guidance is essential. SEBI should establish detailed rules covering the offering, exchange, and clearing of fractional shares in IPOs, including requirements for disclosure, taxation, and shareholder rights to address the intricacies of fractional ownership. Finally, risk management measures would need to be strengthened. Market participants, including brokers and intermediaries, would have to implement mechanisms to ensure fair pricing, administer fractional dividends, and manage the allocation of voting rights for fractional shareholders, thereby protecting investor interests and safeguarding market integrity.

Conclusion

Fractional share investing enables retail investors in India, even those with constrained funds, to participate in high-value securities. By providing the option to hold partial stakes in stocks, it lowers the financial threshold for entering the investment and trading arena, thereby opening the financial markets to a wider group of participants and enabling broader wealth creation. The growing demand for accessible investment products, combined with India's technological progress, suggests that fractional shares are poised to become an important part of the country's financial future. Technology, when paired with regulated financial intermediaries, can ensure secure and transparent transactions, enhance investor convenience, promote market growth, and contribute to improving financial literacy.

This article explored how share fractionalization operates under India's laws and regulations, with particular attention to its effects on corporate entities. It suggests revising the 2013 Act to allow fractional shares to be issued and traded, addressing the requirements of ordinary investors. To achieve this, the use of distributed ledger technology is suggested as a means of ensuring secure and efficient transactions, supported by close collaboration with SEBI. Additionally, the creation of a taxation framework for fractional shares, aligned with international practices, is proposed to provide clarity and fairness. The SEBI framework on Differential Voting Rights offers a useful model for addressing the complexities of voting rights allocation in fractional ownership. The analysis further emphasises how fractionalization could

reshape initial public offerings, stressing that upgrades in technology, adjustments to rules, and strong systems for managing risks are essential to enable participation in IPOs through fractional shares.

By introducing fractional shares, India can establish a more inclusive investment environment, bringing retail investors closer to the securities markets. This reform has the potential not only to expand the reach of the capital markets but also to ensure equal access to investment opportunities. Ultimately, fractional share investing represents a forward-looking development that could contribute meaningfully to the growth, inclusivity, and resilience of India's financial system.

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