

ch-5 Laws Governing To Depositories & Depository Participants.

⇒ Objective :- PART-A

It provided a dematerialisation route to book entry based transfer of securities and settlement of securities trade.

⇒ Role of Depository & its Funⁿ

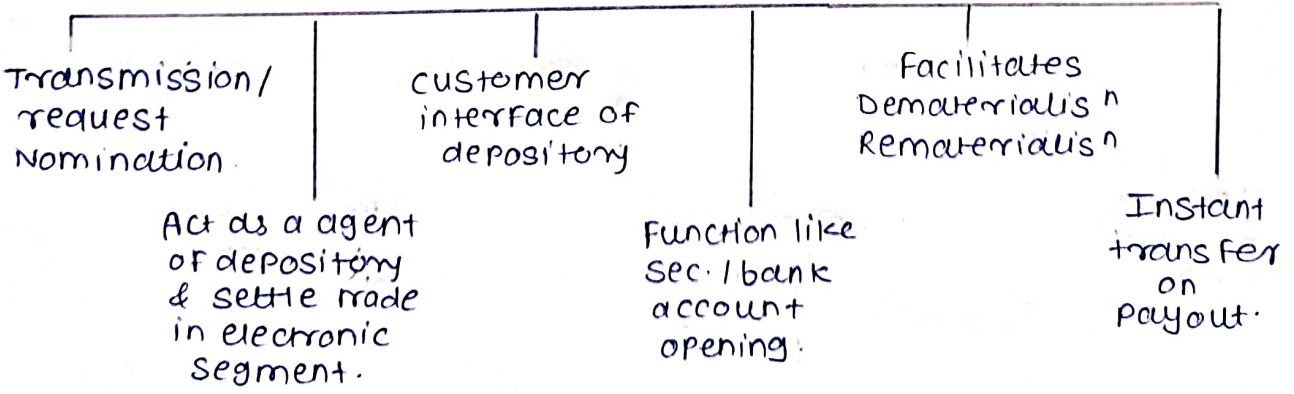
- Dematerialisation.
- Rematerialisation.
- Facilitating Repurchase / Redemption of units of MF
- Electronic settlement of trades in stock exchanges.
- Pledging / hypothecation of dematerialised securities against loan.
- Service Related to change of address.
- Effecting transmission of secu.
- Nomination Facility of demat account.
- Freezing of demat account.
- Receipt of Non-cash corporate benefits

⇒ Benefits of Depository System.

- Elimination of Bad deliveries.
- Elimination of all risks associated with physical certificates.
- Elimination of Problems related to change of address of investor, transmission etc.
- Elimination of Problems related to selling securities on behalf of minor.
- Immediate transfer and registration of securities.
- Faster disbursement of non-cash corporate benefits likes rights, bonus etc.
- Reduction in Brokerage.

⇒ Depository participant (DP) :- A Depository interfaces with the investors through it's agents called Depository participants (DPs)

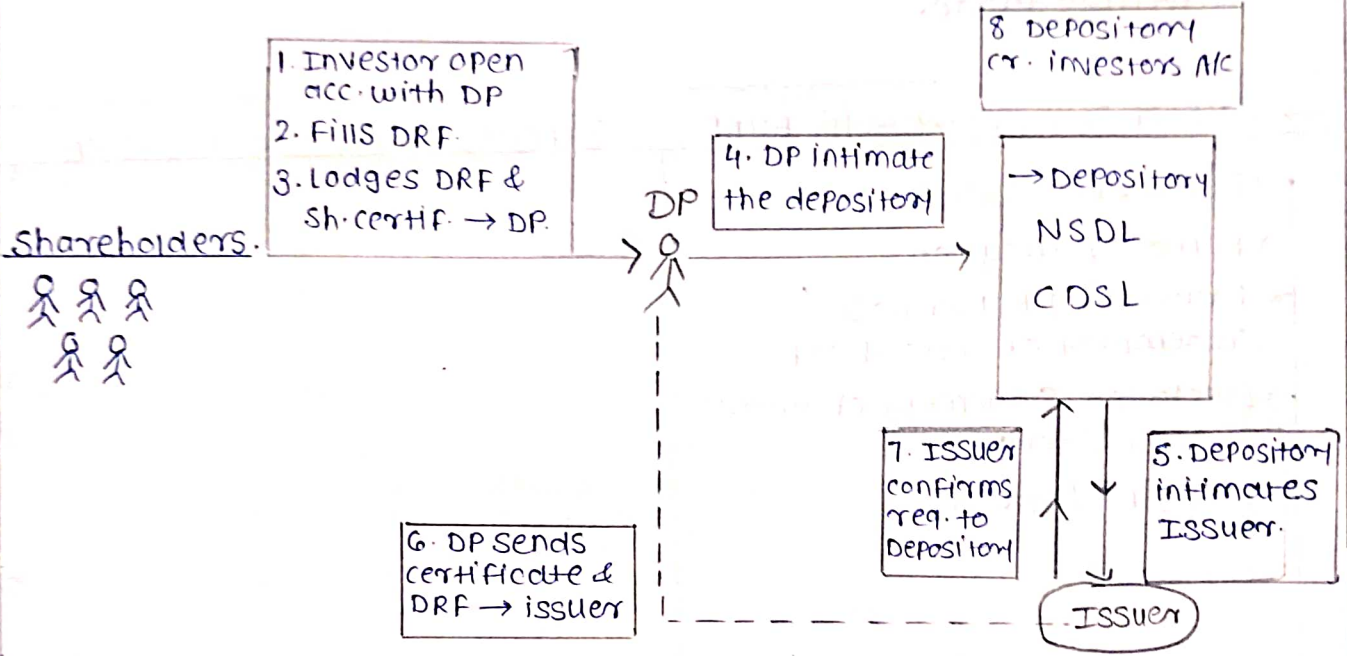
⇒ characteristics of a DP :-



⇒ Dematerialisation Physical shares → Electronic Form

Dematerialisation is a process by which the physical share certificates of an investor are taken back by the company and an equivalent no. of securities are credited his account in electronic form.

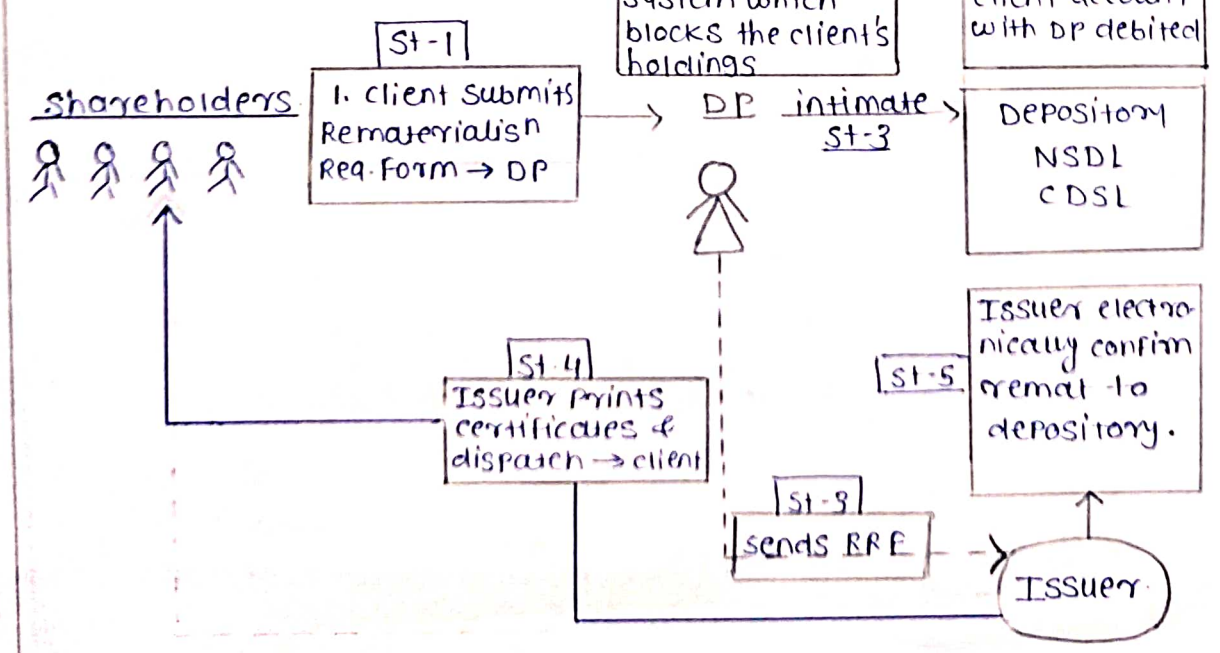
⇒ Procedure.



⇒ Rematerialisation :- Electronic Form → Physical Form.

Rematerialisation is the process of converting securities held in electronic form in a demat account back in physical certificate form.

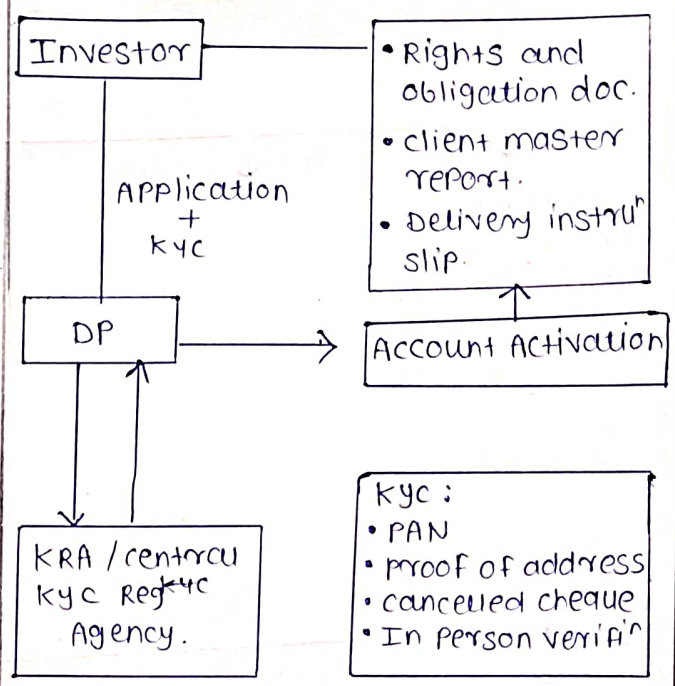
⇒ Procedure.



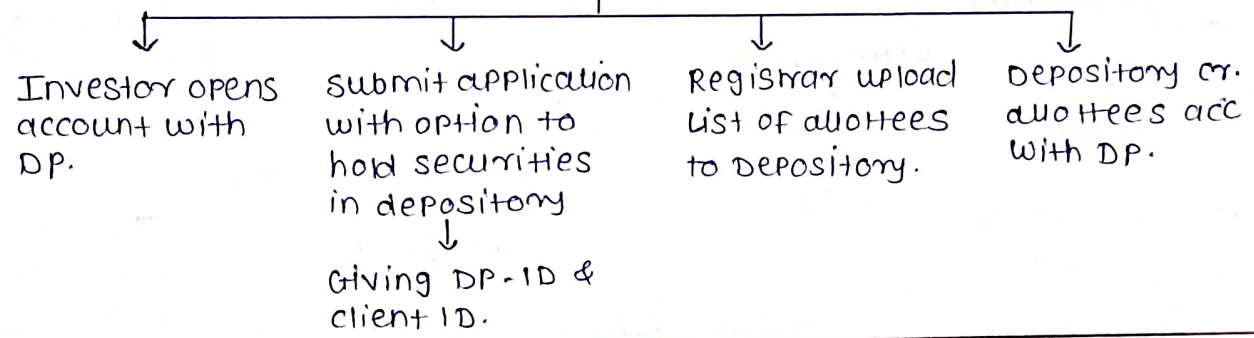
⇒ International securities Identification Number. (ISIN)

- Used world wide.
- allotted to every security
- a security can be uniquely identified.
- to facilitate clearing & settlement Procedure.
- 12 digit → Alphanumeric
- Include country code, sec. identifiⁿ no. check digit.

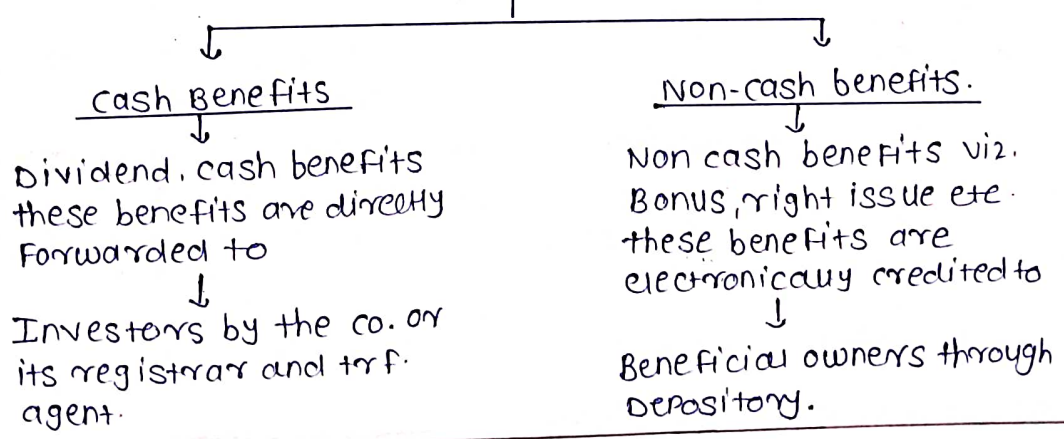
⇒ Demat account opening process.



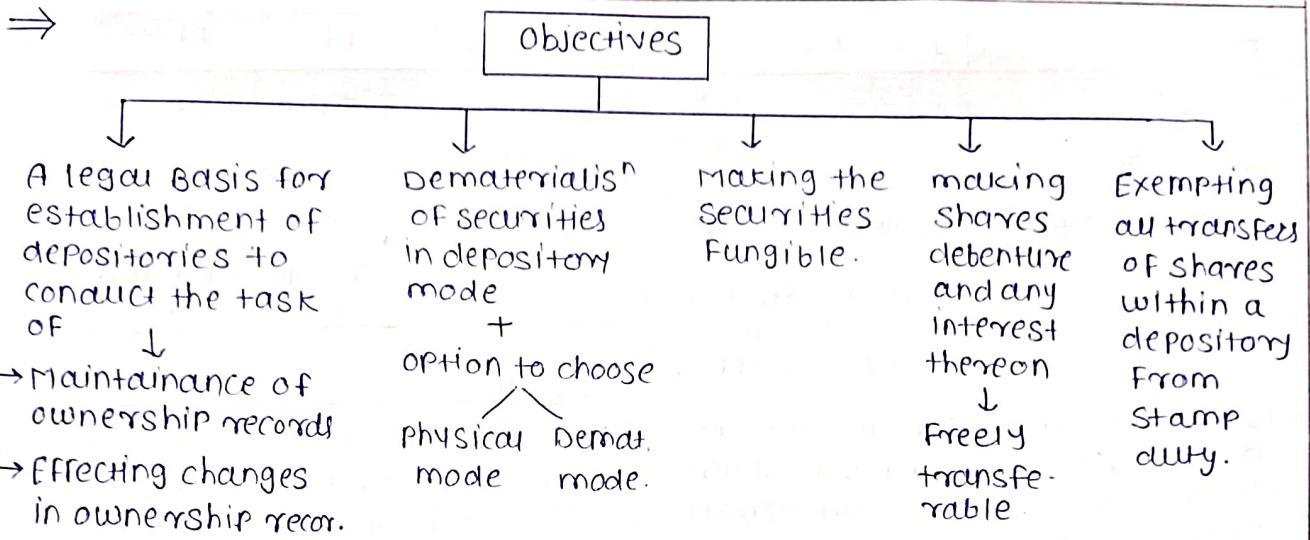
⇒ Electronic credit in New issues.



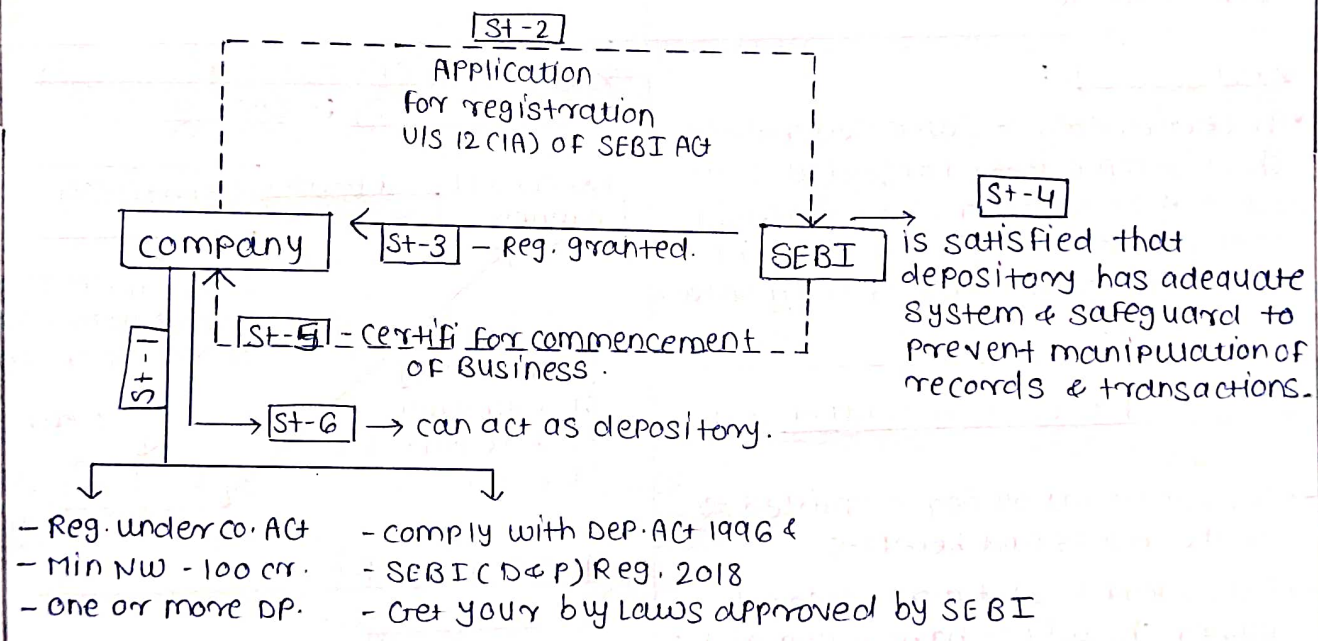
⇒ Corporate Action.



PART - B
Depositories Act, 1996



⇒ Registration of Depository :-

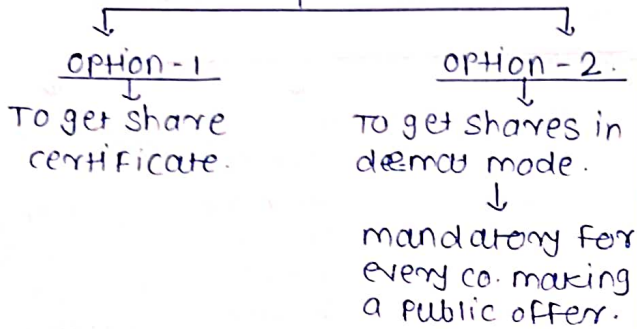


⇒ Rights and obligations of Depositories, Participants and B.O :-

- Agreement between depository and Participant
- Services of Depository
- Surrender of security certificate
- Registration of transfer of Securities with depository.

⇒ option to receive security certificate or hold securities with depository. :-

⇒ co. Issuing shares.



- Investor can choose to convert demat share into physical share or physical share into demat share after the issue.
- Govt has prescribed certain co. which have to be traded & held in demat mode.

	Issue	transfer
Private co.	PF	PF
Public co (L1UL)	DF only	DF only
Listed co.	DF	DF
	transf ⁿ DF	transf ⁿ DF

⇒ Promoter's shareholding

- 100% of the shareholding of promoter or promoter group should be in demat form.

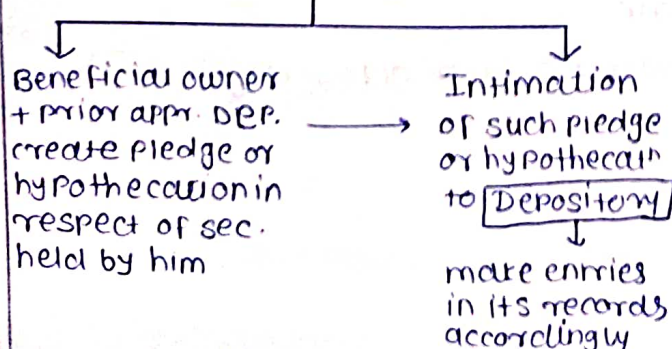
⇒ Fungibility. :-

- All certificates of same securities 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.

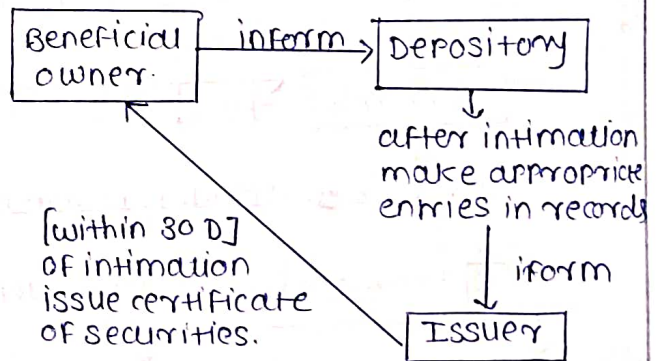
⇒ Rights of Depository & Beneficial owner. :-

- The beneficial owner is entitled to all the rights and benefits
- Depository is just a registered owner should not have voting rights or any other right in respect of securities held by it.

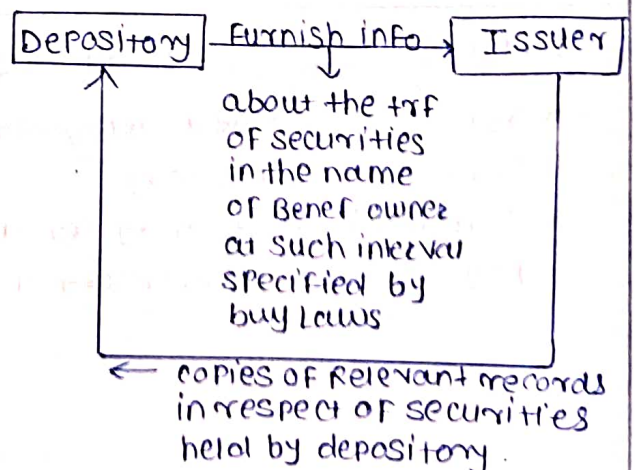
⇒ Pledge or hypothecation of sec. held in a depository.

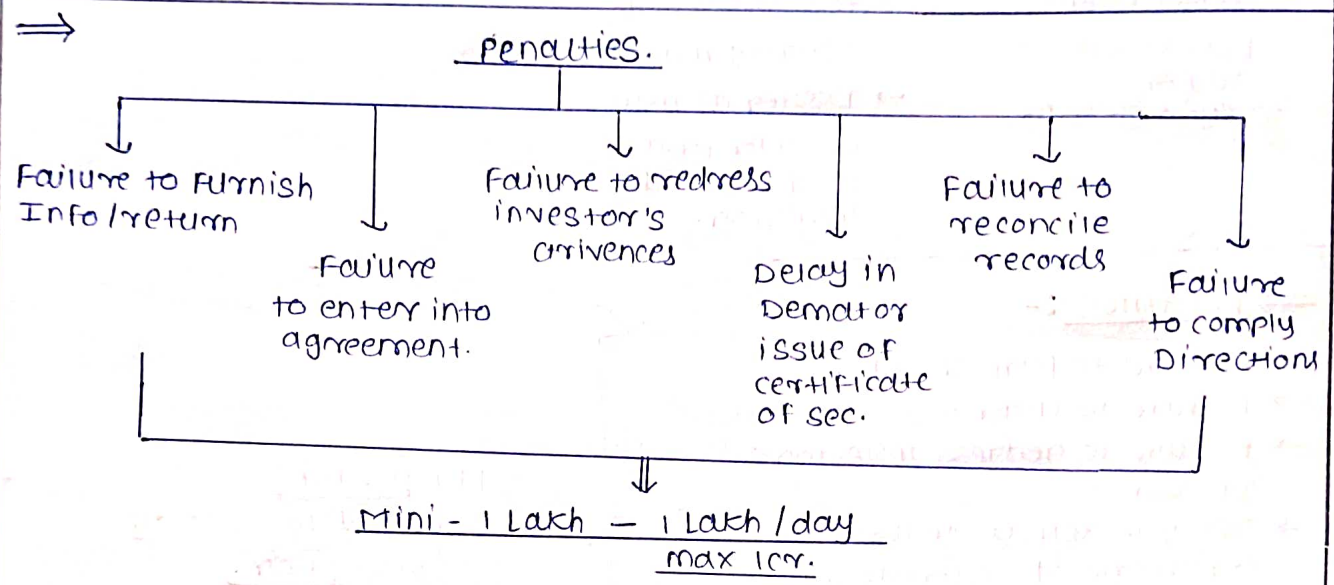
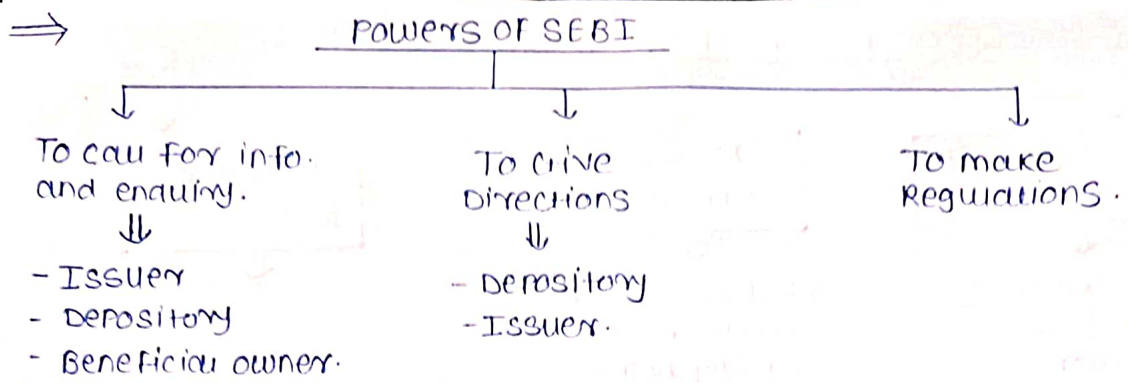


⇒ option to opt out in respect of any security :- sec-14



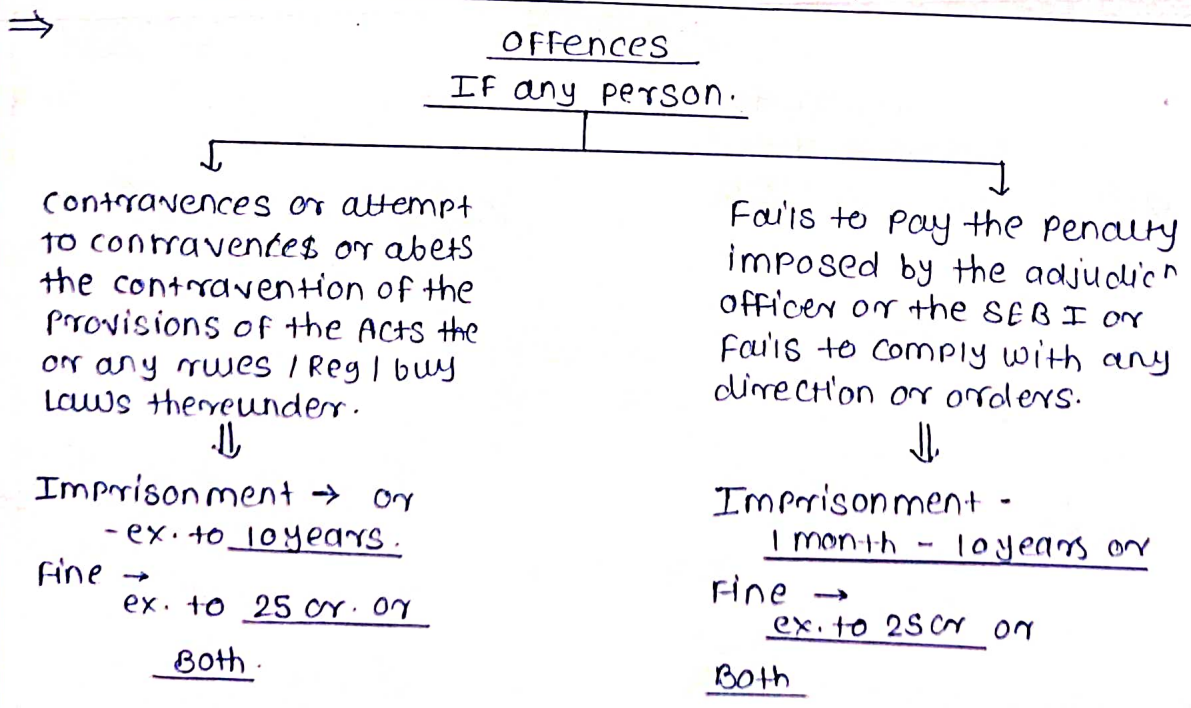
⇒ Furnishing of info. and records by depository. :-





⇒ IF NO separate penalty has been provided - 1 Lakh - 1 cr. Failure to conduct busi. in fair manner - min 5cr - max 25cr or 3x

⇒ Failure to conduct business in fair manner - Min - 5 cr.
max - 25 cr. or 3x Gain } ↑



SEBI (Depositories and Participants) Regulations, 2018.

	Reconciliation Audit	Interim Audit	Concurrent Audit
Applicable on	Every Issuer.	Every DP (NSDL, CDSL)	DP of NSDL
Period	Quarterly	Half yearly	Regularly
who can audit	PCS, QCA, PCA	PCS, QCA, PCA	PCS, QCA, PCA
Covers	<ul style="list-style-type: none"> → Reconciliation of issued = listed = cap cap held by dep. → any change in sh. cap → whether in-principle approval was obtained for issue of share → whether dematerialisation was done → 21 days if not → reason. 	<ul style="list-style-type: none"> - Acc. opening - Acc closing - execution of DIS - margin pledge - client data modification. - pledged and hypothecation - Non disposal undertaking - accreditation of investors. 	<ul style="list-style-type: none"> - Issuance of DIS - Verification of DIS.

⇒ cyber security measures.

- 1] cyber audit once in a year.
- 2] Vulnerability assessment and penetration test (VAPT) once in a year.
- 3] MD/CEO/PIP → certificate → all conditions / circulation wk with respect of cyber security have been complied
- 4] Inventory records → up to date.
- 5] Identify / classify → critical assets.