LESSON ABOUT DEMAT

Dematerialisation

What is Demat?

Demat is a commonly used abbreviation of Dematerialisation, which is a process whereby securities like shares, debentures are converted from the "material" (paper documents) into electronic data and stored in the computers of an electronic Depository (SEE next page).
You surrender material securities registered in your name to a Depository Participant (DP). These are then sent to the respective companies who cancel them after dematerialisation and credit your Depository Account with the DP. The securities on dematerialisation appear as balances in the Depository Account. These balances are transferable like physical shares. If at a later date you wish to have these "Demat" securities converted back into paper certificates, the Depository can help to revive the paper shares.

What is the procedure for the dematerialisation of securities?

Check with a DP as to whether the securities you hold can be dematerialised. Then open an account with a DP and surrender the share certificates.

What is a Depository?

A Depository is a securities "bank," where dematerialised physical securities are held in custody, and from where they can be traded. This facilitates faster, risk-free and low cost settlement. A Depository is akin to a bank and performs activities similar in nature.
At present, there are two Depositories in India, National Securities Depository Limited (NSDL) and Central Depository Services (CDS). NSDL was the first Indian Depository. It was inaugurated in November 1996. NSDL was set up with an initial capital of Rs 124 crore, promoted by Industrial Development Bank of India (IDBI), Unit Trust of India (UTI), National Stock Exchange of India Ltd. (NSEIL) and the State Bank of India (SBI).

Who is a Depository Participant (DP)?

NSDL carries out its activities through business partners - Depository Participants (DPs), Issuing Corporates and their Registrars and Transfer Agents, Clearing Corporations/Clearing Houses• NSDL is electronically linked to each of these business partners via a satellite link through Very Small Aperture Terminals (VSATS). The entire integrated system (including the VSAT linkups and the software at NSDL and at each business partner's end) has been named the "NEST" (National Electronic Settlement & Transfer) system. The investor interacts with the Depository through a Depository

Participant of NSDL. A DP can be a bank, financial institution, a custodian or a broker.

What is Demat account and why it is required?

Securities and Exchange Board of India (SEBI) is a board (corporate body) appointed by the Government of India in 1992 with its head office at Mumbai. Its one of the function is helping the business in stock exchanges and any other securities markets.
Demat (short form of Dematerialization) is the process by which an investor can get shares (also called as physical certificates) converted into electronic form maintained in an account with the Depository Participant (DP).
DP could be organizations involved in the business of providing financial services like banks, brokers, financial institutions etc. DP's are like agents of Depository.
Depository is an organization responsible to maintain investor's securities (securities can be shares or any other form of investments) in the electronic form. In India there are two such organizations called NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services India Ltd.)
Investor's wishing to open Demat account has to go DP and open the account.
Opening the Demat account is as simple as opening the bank account with any bank. As you need bank account to save your money, make cheque payments etc, likewise you need to open a demat account if you want to buy or sell stocks.
All shares what you possess will show in your demat account, so you don't have to possess any physical certificates. They are all held electronically in your demat account. As you buy and sell the shares, accordingly your shares will get adjusted in your account.

Is a demat account a must?

The market regulator, the Securities and Exchange Board of India (SEBI), has made it compulsory to open the demat account if you want to buy and sell shares.
So a demat account is a must for trading and investing.

How to open a Demat account?

You have to approach a DP to open a Demat account.
Most banks are DP participants so you may approach them or else you can

contact us.
To have latest list of registered DP please visit websites www.nsdl.co.in and www.cdslindia.com.
A broker and a DP are two different people. A broker is a member of the stock exchange, who buys and sells shares on his behalf and also on behalf of his customers.

Following are the documents required to open Demat account.
When you approach any DP, you will be guided through the formalities of opening an account.
The DP will ask to provide some documents as proof of your identity and address.
Below is a list but you may not require all of them.
PAN card, Voter's ID, Passport, Ration card, Driver's license, Photo credit card Employee ID card, IT returns, Electricity/ Landline phone bill etc.
In addition to the proof of address, Xerox copy of your PAN card is made compulsory, but however, according to the latest amendment, in 2008, to the rule, SEBI exempted all the State and Central Government employees to produce the PAN card Xerox.

Do you need any shares to open a Demat account?
No. You need not need any shares to open a demat account. A demat account can be opened with no balance of shares. And there is no minimum balance to be maintained either. You can have a zero balance in your account.

How much it cost to open a Demat account?
The charges for account opening, annual account maintenance fees and transaction charges vary between various DP's. To have latest charges please visit websites of www.nsdl.co.in and www.cdslindia.com

Finally -
After successfully opening the demat account, the DP will allot "Beneficial Owner Identification" Number, which will be needed to mention for all your future transactions.
If you want to sell your shares, you need to place an order with your broker and give a 'Delivery Instruction' to your DP.
The DP will debit your account with the number of shares sold. You will receive the payment from your broker.
If you want to buy shares, inform your broker about your Depository Account Number, so that the shares bought are credited into your account.

Important points to remember while opening online account
¨ Make multiple enquiries and try get low brokerage trading account.

¨ Also discuss about the margin they provide for day trading.
¨ Discuss about fund transfer. The fund transfer should be reliable and easy. Fund transfer from your bank account to trading account and visa versa. Some online share trading account has integrated savings account which makes easy for you to transfer funds from your saving account to trading account.
¨ Very important is about service they provide, the research calls, intraday or daily trading tips.
¨ Also enquire about their services charges and any other hidden if any.
¨ And also see how reliable and easy is to contact them in case if any emergency. Emergency closing or squaring off trades in case of any technical or other problems.

Demat & Remat

Process of Dematerialisation

One of the methods for preventing all the problems that occur with physical securities is through dematerialisation (demat). India has adopted the demat route in which the book entry is made electronically against securities that are cancelled. The share certificates are shredded (i.e., its paper form is destroyed) and a corresponding credit entry of the number of securities (written on the certificates) is made in the account opened with the DPs. Dematerialisation is a process in which the physical form of holding securities is replaced with electronic (book-entry) form of holding them.

The securities held in dematerialised form are fungible and they do not bear any distinguishable features like distinctive number, folio number or certificate number. Once the shares are dematerialised, they lose their identification features in terms of share certificate distinctive numbers and folio numbers. Title to the securities owned is in terms of number of securities and not in terms of distinctive numbers, certificates numbers, etc. Each security is identified in the depository system by ISIN and short name.

International Securities Identification Number (ISIN)

Each of the securities dematerialised in the NSDL depository bears a distinctive ISIN - an identification number. International Securities Identification Number (ISIN) is unique for each security issued in any of the International Standards Organisation (ISO) member countries in Physical form of securities can be converted into book entry form in NSDL depository

system only if the company which has issued the securities, has entered into an agreement with NSDL to offer demat facility.

The Demat Process

A holder of depository eligible securities may get his physical holding converted into electronic form by making a request through the DP with whom he has his beneficiary account.

Rematerialisation

Rematerialisation is the exact reverse of dematerialisation. It refers to the process of issuing physical securities in place of the securities held electronically in book-entry form with a depository. Under this process, the depository account of a beneficial owner is debited for the securities sought to be re-materialised and physical certificates for the equivalent number of securities is/are issued.

A beneficial owner holding securities with a depository has a right to get his electronic holding converted into physical holding at any time. The beneficial owner desiring to receive physical security certificates in place of the electronic holding should make a request to the issuer or its R&T Agent through his DP in the prescribed re-materialisation request form (RRF).