

Notes on Demat Account Services

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Demat Account, the abbreviation for dematerialization is the process of converting physical shares into electronic format. It was introduced in India after the introduction of the depository system by the Depository Act of 1996.

Functions like a bank account, where you hold your money and respective entries are done in bank passbook. It is dealing with securities credited to a Beneficial Owner (BO) account with a Depository Participant (DP) of any depository.

A **Depository** is an organization which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in the electronic format at the request of the investors through a registered DP. It provides services related to transactions in securities.

In India, Demat accounts are maintained by National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL).

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investor and provides services. It includes - Public financial institutions, scheduled commercial banks, and foreign banks operating in India with the approval of the RBI; State financial corporations, custodians, stock-brokers, clearing houses, NBFC's and Registrar to Share Transfer Agent complying with the requirements prescribed by SEBI, etc, can be registered as 'DP'

Opening of a BO a/c with a DP requires a proof of identity, proof of address & PAN card as specified by SEBI. Account opened by DP has a unique 'Beneficial Owner Identification Number (BOID)' – used for all future transactions.

Dematerializations of existing share certificates are optional. But if shareholders want to sell the shares or buy more shares then it will be through the process of dematerialization. When they buy or sell shares, respective DP credits or debit their account accordingly.

For opening demat account, the investor need to reach to DP and fill up the account opening form and submit it along with necessary documents and a recent passport size photograph. He must carry original documents for verification. Demat a/c is compulsory in present circumstances.

Investor can open a Demat Account without possessing any shares and can maintain a zero balance account.

Process of Dematerialization

1.Open a/c with DP: Investor has to open an account with a DP of his choice by filling up an Account Opening Form & signing a "Participant Client Agreement. He will be given a unique client ID number.

2. Submit DRF: Fill up and submit a Dematerialization Request Form (DRF) provided by DP duly signed by all the holders. Surrender the physical share certificates defaced with "Surrendered for Dematerialization" to the DP.

3. Request by the DP to the Company to Demat: DP will issue acknowledgement to the investors. Surrender the DRF and shares to the Registrar & Transferring Agents (RTA) of the Company requesting to confirm demat.

4. Confirm Demat: After verification of the documents, the RTA of the Company will cancel the physical shares and confirm dematerialization to the depository.

5. DP will update investor's a/c: Receiving confirmation from depository, the DP will credit the investor's account with the number of shares dematerialized.

DP will hold the shares in demat form thereafter on investor's behalf. The investor will become the Beneficial Owner of the dematerialized shares. Dematerialisation procedure is completed in approximately 30 days.

Rematerialization is the conversion of shares in electronic format to physical paper format. To remat shares, investors should submit a Remat Request Form (RRF) to the DP, which will forward it to the depository. The depository will forward the application to the Registrar and Transfer Agent. The RTA will verify the data and print share certificates for investors' holdings. It will intimate the depository to delete the demat stocks from his demat account, and then send him the physical share certificate.

Benefits of Demat (Dematerialization) account

- 1. Convenient:** Demat account allows uninterrupted management of share transactions as it functions electronically. Access to a demat account can be gained conveniently through a smart phone or computer. It eliminates the need for the investor to be physically present to settle transactions.
- 2. Safeguards transactions:** Securities are credited and transferred by electronic means. Hence, the risks associated with physical certificates such as fraudulency, bad

delivery, fake securities, delays and theft, etc, are averted. Shares can be kept in the “Frozen mode” by the DP as per the specific instruction by the investor.

3. **Reduces transaction costs:** in investor’s account. Change in address recorded with DP gets registered with all companies in which the investor holds securities electronically eliminating the need to correspond with each of them separately.
 4. **No Stamp Duty & no odd lot problem:** Helps in immediate transfer of securities as no stamp duty is required. Even one share can be sold as there is no odd lot problem.
 5. **Helps with loan approval:** Existing securities like bonds and debentures can be used to procure a loan. Securities in Demat account can be held as collateral. Automatic credit into demat account of shares, arising out of bonus/split/consolidation/merger, etc. It holds investments in equity and debt instruments in a single account.
 6. **Nomination Facility:** There is nomination facility which allows the investor to grant a right to the nominee to operate the account in his/her absence.
 7. **Demat excludes the need for paper:** Trading online eliminates the need to use paper-based documents.
 8. **Allows merging of bank account & Demat account:** It can be linked to bank account.
- Simple, and extremely lucrative (profitable):** In today’s day and age, demat accounts are a must for financial planning, investment and achieve economic growth.