

Updated Online video classes available for CA,CS,CMA for May20 and Nov20 batch. Call: 1800-3000-0505

Home / Articles / Corporate Law



Enroll. Refer. Earn With ICICI Bank Home Loans ENROLL NOW T&C apply

Dematerialization of Securities



Shankar Kumar Jha

on 04 December 2019

What is dematerialisation and its benefits:

Dematerialization (Commonly known as 'Demat') signifies conversion of a share certificate from its present physical form to electronic form for the same number of holding.



Popular Articles

- 1 Payment protection and Recovery tools available to MSME
- 2 Introduction of SPICe + Form by MCA
- 3 Marching towards better office management - A need or luxury for CA's?
- 4 One Person Company v/s Sole Proprietorship
- 5 Directors Report under the Companies Act, 2013
- 6 Key features of Spice+ form



It offers scope for paperless trading through state-of-the-art technology, whereby share transactions and transfers are processed electronically without involving any share certificate or transfer deed after the share certificates have been converted from physical form to electronic form. It attempts to avoid the time consuming and complex process of getting shares transferred in the name of buyers as well its inherent problems of bad deliveries, delay in processing/fraudulent interception in postal transit, etc.

Dematerialization of shares is optional and an investor can still hold shares in physical form. However, he/she has to demats the shares if he/she wishes to sell the same through the Stock Exchanges. Similarly, if an investor purchases shares, he/she will get delivery of the shares in demat form only.

The Depositories Act 1996 has been enacted to regulate the matters related and incidental to the operation of Depositories and demat operations. Two Depositories are in operation -

7

Commencement of business and its provisions as per companies act, 2013

8

Responsibilities of CFO/CEO under companies act, 2013 & SEBI(LODR) regulations, 2015

CCI Articles

You can also submit your article by sending to article@caclubindia.com

submit article

Stay updated with latest Articles!

Enter your email

Subscribe

CCI Online Courses

● ● ● [GST certification](#)
Professional Course

● ● ● [Online Excel Course](#)
Professional Course



[GST Annual Return](#)

- National Securities Depository Limited (NSDL) and
- Central Depository Services Limited (CDSL).

MINISTRY OF CORPORATE AFFAIRS NOTIFICATION

New Delhi, the 10th September, 2018 G.S.R. 853(E).- In exercise of the powers conferred by clause (b) of sub-section (1) of section 29 read with subsections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Prospectus and Allotment of Securities) Rules, 2014, namely:-

1. Short title and commencement.(1) These rules may be called the Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2018. (2) They shall come into force on the 2nd day of October, 2018.

2. In the Companies (Prospectus and Allotment of Securities) Rules, 2014, after rule 9, the following rule shall be inserted, namely: -

"9A. Issue of securities in dematerialized form by unlisted public companies. -

(1) Every unlisted public company shall -

- (a) issue the securities only in dematerialized form; and
- (b) facilitate dematerialization of all its existing securities

in accordance with provisions of the Depositories Act, 1996 and regulations made there under.

In order to check applicability of aforementioned rule on debentures, Preference shares and other securities, we refer to the definition of securities as mentioned in regulation 2(h) of the Securities Contract (regulations) Act,



Professional Course



[Browse by Category](#)

1956 as per the definition securities include- share, scrips, stocks, bonds, debentures. Debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate.

Hence the above provision will apply on any type of securities which falls under above definition.

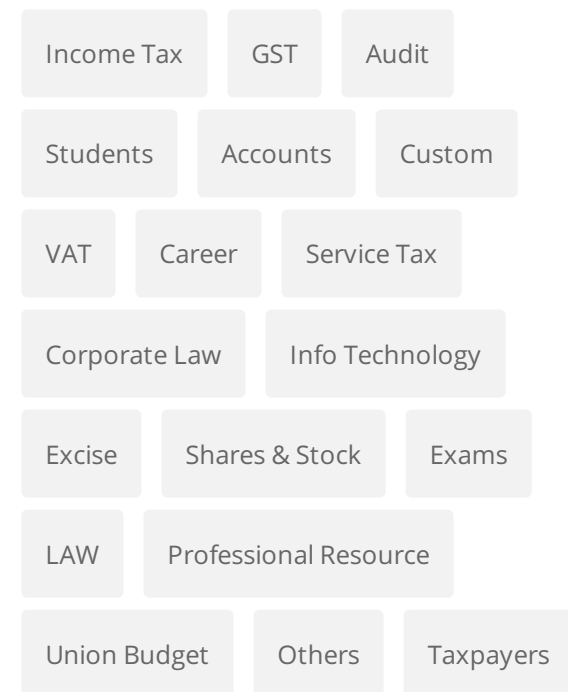
2. Every unlisted public company making any offer for issue of any securities or buyback of securities or issue of bonus shares or rights offer shall ensure that before making such offer, entire holding of securities of its promoters, directors, key managerial personnel has been dematerialised in accordance with provisions of the Depositories Act, 1996 and regulations made there under.

(3) Every holder of securities of an unlisted public company, -

(a) who intends to transfer such securities on or after 2nd October, 2018, shall get such securities dematerialised before the transfer; or

(b) who subscribes to any securities of an unlisted public company (whether by way of private placement or bonus shares or rights offer) on or after 2nd October, 2018 shall ensure that all his existing securities are held in dematerialized form before such subscription.

(4) Every unlisted public company shall facilitate dematerialisation of all its existing securities by making necessary application to a depository as defined in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996 and shall



4 THE GAZETTE OF INDIA: EXTRAORDINARY [PART II- SEC. 3(i)] secure International Security Identification Number ISIN (International Securities Identification Number) is a unique 12-digit alphanumeric identification number allotted for each type of security and shall inform all its existing security holders about such facility.

(5) Every unlisted public company (Here the unlisted public company includes the private company which is wholly own subsidiary of a public Company) shall ensure that -

(a) it makes timely payment of fees (admission as well as annual) to the depository and registrar to an issue and share transfer agent in accordance with the agreement executed between the parties;

(b) it maintains security deposit, at all times, of not less than two years' fees with the depository and registrar to an issue and share transfer agent, in such form as may be agreed between the parties; and

(c) it complies with the regulations or directions or guidelines or circulars, if any, issued by the Securities and Exchange Board or Depository from time to time with respect to dematerialisation of shares of unlisted public companies and matters incidental or related thereto.



Contract Drafting

- ✓ Learn from best faculties in India
- ✓ Free 30 Hr online streaming with pendrive

[Learn more](#)

6. No unlisted public company which has defaulted in sub-rule (5) shall make offer of any securities or buyback its securities or issue any bonus or right shares till the payments to depositories or registrar to an issue and share transfer agent are made.
7. Except as provided in sub-rule (8), the provisions of the Depositories Act, 1996, the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 and the Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 shall apply mutatis mutandis to dematerialisation of securities of unlisted public companies.
8. The audit report provided under regulation 55A of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 shall be submitted by the unlisted public company on a half-yearly basis to the Registrar under whose jurisdiction the registered office of the company is situated.

(9) The grievances, if any, of security holders of unlisted public companies under this rule shall be filed before the Investor Education and Protection Fund Authority.

(10) The Investor Education and Protection Fund Authority shall initiate any action against a depository or participant or registrar to an issue and share transfer agent after prior consultation with the Securities and Exchange Board of India.

Operation in Depository System:

The operations in the Depository System involve the participation of a Depository, Depository Participants, Company/Registrars and Investors. The

company is also called the Issuer.

A Depository (NSDL and CDSL) is an organization where the securities on an investor are held in electronic form, through Depository participants.

A Depository Participant is the agent of the Depository and is the medium through which the shares are held in the electronic form. They are also the representatives of the investor, providing the link between the investor and the company through the Depository.

In both systems, the transfer of funds or securities happens without the actual handling of funds or securities. Both the banks and the Depository are accountable for safe keeping of funds and securities respectively.

Procedure for Dematting of shares:

First, you will have to open an account with a Depository Participant (DP) and get a unique Client ID number.

Thereafter, you will have to fill up a Dematerialization Request Form (DRF) provided by the DP and surrender the physical shares certificate, which you want to be demitted to the DP.

The DP upon receipt of the shares certificates and the DRF will send an electronic request to the company's registrar and share transfer agent (RTA is an agent of the issuer. RTA acts as an intermediary between the issuer and depository for providing services such as dematerialization, rematerialization) through the Depository for confirmation of demat. Each request will bear a unique transaction number.

The DP will simultaneously surrender the DRF and the shares to the company's registrar and share transfer agent with a covering letter requesting the registrar and share transfer agent of the company to confirm demat.

The company's registrar and share transfer agent after necessary verification of the documents received from the DP will confirm demat to the Depository.

This confirmation will be passed on from the Depository to the DP, which holds your account. After receiving this confirmation from the Depository, the DP will credit the account with the shares so dematerialized.

The DP will hold the shares in the dematerialized form thereafter on your behalf. And you will become beneficial owner of these dematerialized shares.

List of documents required

1. Application for admission as Issuer of Eligible Securities
2. Net worth certificate from a Chartered Accountant as per audited annual report for the last financial year.
3. Certified true copy of Board Resolution mentioning name of signatories who are authorized by Board to execute documents and list of Authorized Signatories along with specimen signature.
4. Confirmation letter from Registrar & Transfer Agent
5. Certified true copies of Memorandum & Articles of Association along with Certificate of Incorporation.
6. Certified true copy of Audited annual report for the last financial year.
7. If company has issued equity shares after latest balance sheet in that case company has to provide us certified true copy of PAS 3.
8. If there is any variation in face value of shares or reduction in capital after the last balance sheet date in that case company has to provide certified

true copy of SH 7.

9. In case of Private Limited Companies Additional Documents in form of Undertaking is required.

Conversion of dematted shares into physical form:

If you are holding shares in electronic form of those company where mandatory requirement of dematerialization is not applicable, you still have the option to convert your holding in physical form by submitting a Rematerialization Request Form (RRF) through your DP in the same manner as Dematerialization. Upon receipt of such request from your DP, the company will issue share certificates for the number of shares so rematerialized.

Compulsory trading in Demat Form:-

The shares of the company are to be compulsorily traded in demat form.

Dematerialization of shares is optional and an investor can still hold shares in physical form. However, he/she has to demat the shares if he/she wishes to sell the same through the Stock Exchanges. Similarly, if an investor purchases shares, he/she will get delivery of the shares in demat form only.

Receipt of Annual Reports and other correspondence from the Company after demat

The Depository Participants gives the list of demat account holders and the number of shares held by them in electronic form on the Record date to the company (Beneficiary Persons, known as Benpos).

The rights of the shareholders holding shares in demat form are at par with the holders in physical form. Hence each shareholder will be eligible to get the

Annual Report and will have the right to attend the AGM as well.

Chances of fraud/disputes in using a demat account:

Common risk factors applicable to trading in physical shares like mismatch in signatures, loss in postal transit, etc., are absent since the dematted shares are traded scrip less.

However, in the unlikely event of any other dispute, the concerned Stock Exchange and/or Depository Custodian viz. NSDL/CSDL or SEBI would have to be approached for resolving such issues.

Pledging of shares in demat form for the purpose of availing any Funding/loan arrangement with banker

You will have to contact your DP for this.

Tags : [Corporate Law](#)

Recommended Read

- [SEBI- The Securities Market Regulator](#)
- [TDS on Interest other than Interest on Securities 194A](#)



2 Likes 1387 Views 11 Shares

Category [Corporate Law](#)

Other Articles by - [Shankar Kumar Jha](#)



[Report Abuse](#)

Be the first to leave a comment.

You are not logged in . Please login to post comments.

[Click here to Login / Register](#)

Related Articles

- ▶ Non-Convertible Debt Securities & Non-Convertible Redeemable Preference Shares
- ▶ Prospectus and Allotment of Securities Rules, 2014
- ▶ Allotment of Securities under the Companies Act, 2013
- ▶ SEBI strengthens norms for transfer of Securities and Dividend payment
- ▶ Loan against securities instead of selling shares
- ▶ Dematerialisation of securities of unlisted public companies (UPC)
- ▶ Compulsory dematerialization of shares of unlisted public

Other Latest Articles

- ▶ ESOP's Taxation and Accounting in India
- ▶ Steps to be taken before implementation of 'E-invoicing and new GST return'
- ▶ Non-payment of Stamp Duty By Company on issue of Security
- ▶ Madras HC: GST Interest on Net Tax Liability
- ▶ Understanding composition scheme under GST
- ▶ Amended Direct Tax Vivad se Vishwas Bill, 2020
- ▶ Tax collected at Source(TCS) on tour operator

company



How I faced my biggest fears to build an extraordinary Career



Enhance due diligence for dematerialization of Physical

More »

share

More »

Articles

News

GST

Trainee Corner

Member Strength 30,52,749 and growing..

Forum

Experts

Scorecard

Notification

Get latest updates

Career

Budget

CCI Online Learning

Featured

Enter your email address:

Jobs

Feed

Share Files

Poll

Video

Top Members

Bookmarks

Coaching Institutes

Download CCI APP

Our Network Sites

Income Tax

Rewards

Events

CA Online Classes



[About](#) [We are Hiring](#) [Media Coverage](#) [Advertise](#) [Terms of Service](#) [Disclaimer](#) [Privacy Policy](#) [Contact Us](#)

© 2020 CAclubindia.com. India's largest network for Finance Professionals.

