**Unit : 5 Depository laws**

Depository System: Features, Advantages and Disadvantages

Meaning : It is a system whereby the transfer and settlement of scrips take place not through the traditional method of transfer deeds and physical delivery of scrips but through the modern system of effecting transfer of ownership of securities by means of book entry on the ledgers or the depository without the physical movement of scrips.

The new system, thus, eliminates paper work, facilitates automatic and transparent trading in scrips, shortens the settlement period and ultimately contributes to the liquidity of investment in securities. This system is also known as ‘scripless trading system’.

Players in the Depository system

There are essentially four players in the depository system:

(i) The Depository

(ii) The Participant

(iii) The Beneficial Owner, and

(iv) The Issuer.

(i) The Depository:- The Depositories Act ,1996 defines Depository as “ an organization where securities of a shareholder are held in the form of electronic accounts in the same way as bank holds money”. The Depositories Act 1996 requires a depository to be a company registered under the Companies Act and with SEBI under the SEBI(Depository and Participants)Regulations,1996. It functions as a custodian of securities of its clients. The name of the depository appears in the records the issuer as the registered owner of securities.

At present there are two depositories in India:

(a) National Securities Depository Ltd. (NSDL), and

(b) Central Depository Services (India) Ltd. (CDSL).

National Securities Depository Limited which commenced operations during 1996 was promoted by IDBI, UTI and National Stock Exchange (NSE).

Central Depository Services (India) Limited commenced operations during February 1999. It was promoted by Mumbai Stock Exchange in association with Bank of Baroda, Bank of India, State Bank of India and HDFC Bank.

(ii) The Participant: - A participant is an agent of the depository. He functions as a bridge between the depository and the beneficial owners. He maintains the ownership records of every beneficial owner in book entry form. Both the depository and the participant have to be registered with the Securities and Exchange Board of India. SEBI grants necessary approval for the same only on the satisfaction of the condition that adequate systems and safeguards are available in such companies in order to ensure against manipulation of records and transactions.

Banks , custodians , public financial institutions, foreign bank , state financial corporations ,an institution engaged in providing financial services , clearing corporations , stock broker, non –banking finance companies are eligible for registration as Depository participant.

(iii) The Beneficial Owner:- Beneficial owner means a person whose name is recorded as such with a depository. A beneficial owner is the real owner of the securities who has lodged his securities with the depository in the form of book entry. He has all the rights and liabilities associated with the securities.

(iv) The Issuer:-The issuer is the company which issues the security. It maintains a register for recording the names of the registered owners of securities, the depositories. These issuers send a list of shareholders, who opt for the depository system, to the depositories.

Features of Depository System:

A depository system has the following features:

(a) Day-to-day basis of reconciliation is made by NSDL;

(b) Securities are divisible and, as such, can be transacted by any quantity;

(c) Securities are allotted International Security Identification Number (ISIN) by

SEBI;

(d) The benefit of depository system is enjoyed by the investor/owner of securities;

and

(e) CDSL and NSDL are the Depository Participants to act as agent.

Advantages of Depository System:

* To the Investors :-

1) Share and security transfer transactions can be effected immediately . The need to follow up with share broker/registrar/company for transfer is eliminated.

2) No stamp duty is payable on transfer of securities. As a result, transaction costs are usually lower than on physical segment.

3) The requirement of maintaining book vaults for safe custody of physical certificates and frequent stock taking is eliminated.

4) The process of transmission is more convenient as the transmission formalities for all securities held in a Demat account can be completed by submitting documents to the DP alone.

5) Risk of bad deliveries is eliminated . There is no need to doubt the genuineness of securities .

6) Bonus/Right shares will be credited by the company directly to the shareholder’s depository account.

To Companies

–Companies will able to know the particulars of

beneficial owners and their holding

–No rush for transfer at the time of dividend or

bonus.

–Less number of investors complaints about

signature difference, time lapse during the

transfer and mutilated certificates

–Possible to send notices and annual reports

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Disadvantages of Depository System:-

The Depository System is not free from snags. Some of them are:

(a) Number of frauds may be increased as there is no physical checking;

(b) Practically, to set up a single depository is not possible;

(c) MDS (Multiple Depository System) invites the problems of coordination.