

**A STUDY ON THE TRANSITION TO PAPERLESS SECURITIES:
ASSESSING THE EFFECTIVENESS OF DEPOSITORY SYSTEMS IN
EMERGING MARKETS WITH REFERENCE TO ICICI**

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ABSTRACT

It is reasonable to assume that city investors are well-informed about the benefits of depository services for capital market operations in order to draw this conclusion from the research. Brokers, newspapers, and magazines were among the many ways in which investors learnt about the depository system. The Indian stock market has been expanding at a remarkable pace recently. Unfortunately, the underlying infrastructure has not kept pace with the expansion, so our current system is unable to cope with the deluge of paper. Issues such as high risk exposure, lengthy settlement periods, failed trades and faulty delivery, and delayed transfers have resulted from this. In a less developed market, these traits would typically be seen. A more effective approach is required to eliminate this growth-limiting factor as the market expands. The dependability of India's post-trade settlement procedure is another source of concern for international investors looking to invest in the country.

The Indian capital market's main obstacle was its antiquated, paper-based settlement system, which was a major hindrance to the market's fast expansion. The Indian stock exchanges' antiquated trading system has been the subject of ongoing evaluation since 1992.

There is now less paperwork, easier electronic book entry of security transfers, shorter settlement times, better liquidity in investment securities, and the ability to trade securities automatically and transparently on screens. The result of all this is that India's capital market has been growing. Transferring shares into one's own name really required more time. Because the investor is unable to sell their shares during this period, their liquidity is diminished. For big investors, who relied on quick transfers to keep their cash levels up, this has been an especially frustrating experience. On top of that, there was always the risk of theft or misplacement when shares were physically moved.

The daily turnover on the stock market has grown substantially, amplifying the problem's enormity. Shares of over 7,500 businesses are traded on BSE alone, with an average daily transaction of Rs. 500 crores. Over 30 million investors in the nation use over 650 brokers to facilitate this trading. This has prompted the shift away from paper records and towards more efficient digital alternatives, such as electronic records (security).

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I. INTRODUCTION:

The major reform of the Indian stock markets has been the introduction of the depository system and scrip less trading mechanism, since 1996. The system of trading based on physical transfer/custody of securities militated against the efficient functioning of markets particularly in the context of the large scale entry of foreign institutional investors (FIIs). The main problems faced by the investors in general and FIIs in particular were:

- Inordinate delays in transfer of securities,
- Return of share certificates as bad deliveries on account of forged signature/mismatch of signature or fake certificate/forged transfer deed,
- Delay in the receipts/non-receipts of securities after allotment/refund orders to non-allottees,
- Delay in getting duplicate shares/debentures certificates, and
- Inadequate infrastructure in banking and postal segments to large volume of application and storage of share certificates.

To overcome this problem of large number of transfer deeds and shares certificates, the concept of jumbo transfer deed and jumbo certificate had been introduced. In a jumbo transfer deed only one transfer deed is to be executed for a large number of transfers, while a jumbo certificate reflects a large number of certificates.

However, physical dealings in securities had to be completely eliminated to bring the Indian stock markets at par with the international markets, through scrip less trading in which transactions, in securities take place by a book entry method, without the physical delivery of securities or movement of cheques for payments. The essential part of scrip less trading is the dematerialization of share certificates through depositories.

All certificates are surrendered to the issuer company that has issued the securities. On receipt of the certificates through the depository participants and on the advice of the depository with company has already entered into an agreement, the certificates in respect of these securities, and the name of beneficial owners whose name is recorded as such with a depository are deleted. The depository system in India operates within the framework of depositories Act, 1996 and the SEBI Depositories and participants Regulation, 1996

In the depository system, securities are held in depository accounts, which is more or less similar to holding funds in bank accounts. Transfer of ownership of securities is done through simple account transfers. This method does away with all the risk and hassles normally associated with paper work. Consequently, the cost of transacting in a depository environment is considerably lower as compared to transacting in certificates

The depository system also allows distribution of dividends through the RBI's ECS system, where ever the participating company has agreed to such service. Other entitlements such as bonuses, split-ups are also directly affected by the depository into the investor's account.

The following can be held in the depository (ele) form:

Shares (listed or unlisted)	
Stocks	: Government Securities (through a Primary Dealer)
Bonds	: Units of Mutual Funds
Debentures:	Commercial Paper

RBI Relief Bonds: Money Market instruments

Benefits of Depository System:

In the depository system, the ownership and transfer of securities takes place by means of electronic book entries. At the outset, this system rids the capital market of the dangers related to handling of paper. NSDL provides numerous direct and indirect benefits like:

- Elimination of bad deliveries in the depository environment, once holdings of an investor are dematerialised, the question of bad delivery does not arise i.e. they cannot be held "under objection". In the physical environment, buyer was required to take the risk of transfer and face uncertainty of the quality of assets purchased. In a depository environment good money certainly begets good quality of assets.
- Elimination of all risks associated with physical certificates- Dealing in physical securities have associated security risks of theft of stocks, mutilation of certificates, loss of certificates during movements through and from the registrars, thus exposing the investor to the cost of obtaining duplicate certificates etc. This problem does not arise in the depository environment.
- No stamp duty for transfer of any kind of securities in the depository. This waiver extends to equity shares, debt instruments and units of mutual funds.
- Immediate transfer and registration of securities - In the depository environment, once the securities are credited to the investors account on pay out, he becomes the legal owner of the securities. There is no further need to send it to the company's registrar for registration. Having purchased securities in the physical environment, the investor has to send it to the company's registrar so that the change of ownership can be registered. This process usually takes around three to four months and is rarely completed within the statutory framework of two months thus exposing the investor to opportunity cost of delay in transfer and to risk of loss in transit. To overcome this, the normally accepted practice is to hold the securities in street names i.e. not to register the change of ownership. However, if the investors miss a book closure the securities are not good for delivery and the investor would also stand to lose his corporate entitlements.
- Faster settlement cycle - The settlement cycle follow rolling settlement on T+2 bases i.e. the settlement of trades will be on the 2nd working day from the trade day. This will enable faster turnover of stock and more liquidity with the investor.
- Faster disbursement of non cash corporate benefits like rights, bonus, etc. - NSDL provides for direct credit of non cash corporate entitlements to an investors account, thereby ensuring faster disbursement and avoiding risk of loss of certificates in transit.
- Reduction in brokerage by many brokers for trading in dematerialised securities Brokers provide this benefit to investors as dealing in dematerialised securities reduces their back office cost of handling paper and also eliminates the risk of being the introducing broker.
- Reduction in handling of huge volumes of paper
- Periodic status reports to investors on their holdings and transactions, leading to better controls.
- Elimination of problems related to change of address of investor - In case of change of address, investors are saved from undergoing the entire change procedure with each company or registrar. Investors have to only inform their DP with all relevant documents and the required changes are effected in the database of all the companies, where the investor is a registered holder of securities.

- Elimination of problems related to transmission of demat shares - In case of dematerialised holdings, 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 whereas, in case of physical securities the surviving joint holder(s)/legal heirs/nominee has to correspond independently with each company in which shares are held.
- Elimination of problems related to selling securities on behalf of a minor - A natural guardian is not required to take court approval for selling demat securities on behalf of a minor.
- Ease in portfolio monitoring since statement of account gives a consolidated position of investments in all instruments.

Reduction in brokerage by many brokers for trading in dematerialised securities:

Brokers provide this benefit to investors as dealing in dematerialised securities reduces their back office cost of handling paper and also eliminates the risk of being the introducing broker.

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- Periodic status reports to investors on their holdings and transactions, leading to better controls.
- Elimination of problems related to change of address of investor, transmission, etc. - In case of change of address or transmission of demat shares, investors are saved from undergoing the entire change procedure with each company or registrar. Investors have to only inform their DP with all relevant documents and the required changes are effected in the database of all the companies, where the investor is a registered holder of securities.
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NEED FOR THE STUDY:

The present study to review the online trading procedure a case study of **Depository system at ICICI Limited**, as the exchange has changed its trading from it and there is need to assess the performance of the capital market.

SCOPE OF THE STUDY

- 'Investor can assess the company financial strength and factors that affect the company. Scope of the study is limited. We can say that 70% of the analysis is proved good for the investor, but the 30% depends upon market sentiment.
- The topic is selected to analyses the factors that affect the future **Depository system** of a company based on fundamentals of the company.
- The market standing of **Depository system** studied in the order to give a better scope to the Analysis is helpful to the investors, share holders, creditors for the rating of the company.

II. OBJECTIVE OF THE STUDY

This study is for known about stock exchange activities and dematerialization of securities.

- To know how demat process is to be done,
- To know what are benefits with demat.
- To know about NSDL (National Securities Ltd)and CDSL
 - (Central Depository Services Ltd.)
- To know what are a rights and obligations of depository participant in depository system.
- To know how trading activity is to be done with the depository system.
- To know the complete awareness on stock exchanges like NSE and BSE.
- To know how to open a demat account.
- It is to study the functions of **ICICI Limited** through various departments.
- To know the online screen based trading system adopted by **ICICI Limited** and about its communication facilities. The appropriate configuration to set the network, which would link the **ICICI limited** to individual / members.

III. METHODOLOGY OF THE STUDY:

The data collection methods include both primary and secondary Collection methods.

Primary method:

This method includes the data collected from the personal interaction with authorized members of **ICICI Limited and NSDL & CDSL**.

Secondary method:

The secondary data collection method includes:

- The lecturers delivered by the superintendents of respective departments.
- The brochures and material provided by Securities limited.
- The data collected from the magazines of the NSE, economic times, etc.
- Various books relating to the investments, capital market and other related topics.

LIMITATIONS OF THE STUDY:

The study confines to the past data and present system of the trading procedure in and **NSDL & CDSL** the study is confined to the coverage of all the related issues in brief. The data is collected from the primary and secondary sources and thus is subject to slight variation than what the study includes in reality.

The study is confined to online trading procedure only. Problems of listing are not covered due to limited time and to keep the study in manageable limits.

IV. DEPOSITORIES IN INDIA

There are two depositories in India, the “National Securities Depository Limited” and the “central Depository Services (India) Ltd”. The depositories are regulated by the securities & exchange board of India ltd. And are governed by the depositories Act, 1996. A client can open his account with either depository (through a depository participant) since both depositories are inter-connected to each other and

are also connected to both the premier exchanges, NSE and BSE. Presently, there are 2 depositories in India

They are:

- ❖ NSDL (NATIONAL SECURITIES DEPOSITORY LIMITED)
- ❖ CDSL (CENTRAL DEPOSITORY SERVICES (INDIA) LTD.,)

NATIONAL SECURITIES DEPOSITORY LTD. (N S D L)

Although India had a vibrant capital market which is more than a century old, the paper-based settlement of trades caused substantial problems like bad delivery and delayed transfer of title till recently. The enactment of Depositories Act in August 1996 paved the way for establishment of NSDL, the first depository in India. This depository promoted by institutions of national stature responsible for economic development of the country has since established a national infrastructure of international standards that handles most of the securities held and settled in dematerialised form in the Indian capital market.

Using innovative and flexible technology systems, NSDL works to support the investors and brokers in the capital market of the country. NSDL aims at ensuring the safety and soundness of Indian marketplaces by developing settlement solutions that increase efficiency, minimise risk and reduce costs. At NSDL, we play a quiet but central role in developing products and services that will continue to nurture the growing needs of the financial services industry.

In the depository system, securities are held in depository accounts, which is more or less similar to holding funds in bank accounts. Transfer of ownership of securities is done through simple account transfers. This method does away with all the risks and hassles normally associated with paperwork. Consequently, the cost of transacting in a depository environment is considerably lower as compared to transacting in certificates.

FUNCTION OF NSDL:

The NSDL performs the following function through the depository participants

- Enables the surrender and withdrawal of securities to, and from the depository (dematerialization and rematerialisation)
- Maintains investor holdings in the electronic form
- Effects settlement of securities traded on the exchanges
- Carries out settlement of trade not done on the stock exchange (off market trades):
- Transfer of securities

- Pledging/hypothecation of dematerialized securities
- Electronic credit in public offering of companies
- Receipt of Non-cash corporate benefits like bonus, right, and so on in electronic form
- Stock lending and borrowing.

FINDINGS

- ❖ Demat in Indian scenario is a new concept. Undoubtedly by seeing its success in other developed countries, its good move towards the development in the Indian stock market. Dematerialization of the shares not only safeguards the investor interest, it also has many advantages as said before.
- ❖ Financial markets are not fully fledged so it is under the process of development with effect of reforms.
- ❖ stock exchange is one of the regional exchanges; it had to take images for improved the number of investor's geographical area and intermediary system.
- ❖ stock exchange has to develop the intermediary network and brokers and sub-brokers to meet the needs of investor of all over the Andhra Pradesh.
- ❖ The exchange also provides services to depository participant providing national securities depository participant with national securities depository limited (NSDL) and central depository services limited (CDSL). The requisite infrastructure for NSDL is in place.
- ❖ As per the available statistics at BSE and NSE, 99.9 per cent transactions take place in dematerialized mode only.
- ❖ Therefore, in view of the convenience of trading in dematerialized mode, it is advisable to have a beneficial owner (BO) account for trading at the exchanges.

V. Conclusion

The ease of instantaneous electronic securities transfer is a perk for client account holders. Certificates are safe against issues like fraudulent securities and incorrect delivery.

Less paperwork for everyone involved. Investors and listed firms might enjoy lower charges.

"Dematerialise" means to change physical share certificates into digital ones.

"Rematerialise" is to convert the digitally stored securities into physical ones.

Making it easier for the CSE to settle all secondary market transactions once the deal has actually taken place. Shares resulting from mergers, consolidation, rights issues, share splits, and fresh issues are directly credited to client accounts. Service for account maintenance, including instructions for distributing dividends, changing addresses, etc. Nomination and transmission room.

Investing in debt or instruments does not need opening a separate demat account. The demat process for debt securities is identical to that for equity shares. Before transferring the certificates to the DP for demat, the investor must indicate them as "surrendered for dematerialisation."

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