

## DEMATERIALIZATION - AN OVERVIEW

Dematerialization offers flexibility along with security and convenience. Holding share certificates in physical format carried risks like certificate forgeries, loss of important share certificates, and consequent delays in certificate transfers. Dematerialization eliminates these hassles by allowing customers to convert their physical certificates into electronic format. Shares in the electronic format are held in a Demat account.

### **Process of dematerialization**

- Dematerialization starts with opening a Demat account. For demat account opening, you need to shortlist a Depository Participant (DP) that offers Demat services.
- To convert the physical shares into electronic/demat form, A Dematerialization Request Form (DRF), which is available with the Depository Participant (DP), has to be filled in and deposited along with share certificates. On each share certificate, '*Surrendered for Dematerialization*' needs to be mentioned.
- The DP needs to process this request along with the share certificates to the company and simultaneously to registrars and transfer agents through the depository
- Once the request is approved, the share certificates in the physical form will be destroyed and a confirmation of dematerialization will be sent to the depository
- The depository will then confirm the dematerialization of shares to the DP. Once this is done, a credit in the holding of shares will reflect in the investor's account electronically.
- This cycle takes about 15 to 30 days after the submission of dematerialization request
- Dematerialization is possible only with a Demat account, Learn about how to open a demat account to understand dematerialization.

### **Why dematerialization was needed?**

- Handling of paperwork related to shares in physical format often led to errors and unforeseen mishaps in the past.
- Tracking records and share documents with respect to transfer and upkeep transactions was difficult.
- The authorities in charge of updating these documents could not keep up with the increasing volume of share papers, which, if left unchecked, could cripple the financial base of the Indian share market and associated businesses.

### **Benefits of dematerialization**

- It allows you to conveniently manage your shares and transactions from anywhere
- Stamp duty is not levied on your electronic securities
- When you open a demat account, it provides paperless transactions of securities.
- Nominal holding charges are levied.

**The depository system**

A depository is responsible for holding the securities of a shareholder in the electronic form. These securities could be in the form of bonds, government securities and mutual fund units, which are held by a registered Depository Participant (DP).

**Currently, there are two depositories registered with SEBI. They are:**

- National Securities Depository Limited (NSDL)
- Central Depository Services (India) Limited (CDSL)

A DP is the agent of the depository providing depository services to traders and investors.

**IMPORTANT & URGENT FOR YOUR IMMEDIATE ACTION**

**Dear Shareholder(s)**

As per the amendment to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, all the shareholders holding shares in physical form are hereby informed that w.e.f. December 5, 2018, requests for effecting transfer of shares shall not be processed by the Registrar and Transfer Agent unless the shares are held in the dematerialized form, with a depository.

## **FAQ FOR DEMATERIALIZATION OF SECURITIES**

### **1. Is dematerialization of securities compulsory ?**

According to the Depositories Act, 1996, an investor has the option to hold securities either in physical or electronic form. Part of holding can be in physical form and part in demat form. However, SEBI has notified that settlement of market trades in listed securities should take place only in the demat mode.

### **2. What type of instruments are available for demat ?**

All types of equity/debt instruments viz. Equity shares, Preference Shares, Partly paid shares, Bonds, Debentures, Commercial Papers, Certificates of Deposit, Government Securities (G-SEC) etc. irrespective of whether these instruments are listed / unlisted / privately placed can be dematerialized with CDSL/NSDL, if they have been admitted with CDSL/NSDL.

### **3. Can any securities held in physical form be dematerialized ?**

Only those securities held in the form of certificates and also admitted with CDSL/NSDL can be dematerialized. Securities held in street name (seller's name) cannot be dematerialized by the buyer in his / her demat account.

### **4. What is the procedure for dematerialization ?**

Following steps are involved in dematerialization of physical securities:

- BO to open a demat account with a DP.
- BO Fill in a Demat Request Form (DRF) and submit the same with the physical Certificate/s to the DP for dematerialization.
- For each ISIN, a separate DRF has to be used.
- If the BO has free as well as lock-in shares of the same ISIN, separate demat request has to be setup for free shares and lock-in shares.
- DP to verify that the DRF has been filled correctly.
- DP to Setup a demat request on the CDSL/NSDL system.
- DP to deface and mutilate the physical certificates and Send the certificates to the Issuer/Registrar an transfer Agent (RTA).
- Issuer/RTA verifies genuineness of the certificates and confirms the demat request.
- On receiving confirmation from Issuer/RTA, CDSL/NSDL credits an equivalent number of securities in the demat account of the BO maintained with CDSL/NSDL.

### **5. What happens to the physical certificates after they are dematerialized ?**

After dematerialization, physical certificates may be retained / destroyed by the Issuer / RTA.

### **6. After submitting DRF form and certificates to the DP, within how many days the dematerialization will take place ?**

As per regulations in force presently, the dematerialization process should be completed within 21 days from the date of setup of demat request on CDSL/NSDL system.

**7. If the demat request is not processed within the stipulated time, what do I do ?**

Contact your DP to look in the delay.

**8. Is it compulsory to mention the ISIN of the security while filling up the DRF ?**

Yes. The ISIN of the security should be mentioned in the DRF, to ensure that the correct security is dematerialized. If, however, the investor does not know the ISIN, the same can be obtained from the DP or from CDSL/NSDL websites.

**9. Is transfer deed required for dematerializing physical certificates ?**

No. There is no need to fill in a transfer deed. The physical certificates have to be accompanied by a DRF, which can be obtained from the DP.

**10. Can a BO hold his securities partially in physical form and partially in demat form ?**

Yes. Part of the BO's holdings can be held in physical form as per the choice of the investor. Though it is advisable to have the entire holdings held in demat mode so that the holdings have liquidity as and when available. It should be noted that part dematerialization of holdings in a single physical certificate is not allowed.

**11. Can a sole holder of the share certificate, add any name as a joint holder, at the time of dematerializing the share certificate ?**

It is not possible to add any name while dematerialization of a share certificate. If the shares held in single name are intended to be held in any joint account, they have to be transferred to such names before they are dematerialized. Alternatively, such shares can be dematerialized first in the demat account in the single name and then transferred to the demat account in the joint names, or vice-versa, through an off-market transaction.

**12. If securities of a company are not admitted with CDSL/NSDL, What should an investor do to get his physical shares dematerialized ?**

In such a case, the investor should request the company to have that security admitted with CDSL/NSDL and once that is done, he can get his physical shares dematerialized.

**13. Can securities in odd lots be dematerialized ?**

Yes. In demat mode securities in odd lots can be dematerialized since demat form market lot for any securities is of one share only.

**14. Do dematerialized securities have certificate number, distinctive range number or certificate numbers ?**

Dematerialized securities do not have any of the numbers mentioned above. Securities held in demat form are fungible, which means that any share of an ISIN is similar to any other share of that ISIN.

**15. Can electronic holdings be converted back in physical certificate form ?**

Yes. It can be done through Rematerialisation, which is the process of converting electronic holdings back into physical certificates. Refer FAQs on Rematerialization for details of the process.

**16. Is there any charge for dematerialization of physical certificates ?**

CDSL/NSDL does not levy any charge for dematerialization of securities. However, DPs may collect dematerialization charges together with postage / courier charges.

**17. Can debt instruments, government securities and mutual fund units be dematerialized in the same demat account ?**

Yes. Debt instruments, mutual fund units, government securities can also be held in dematerialized form in the same demat account where equities are held.

**18. Can commodity warehouse receipts be dematerialized in the same demat account ?**

No. A separate demat account has to be opened for holding warehouse receipts.

**19. What is Transposition-cum-demat ?**

Transposition-cum-demat facility enables an investor to transpose names of the joint holders in desired order along with the process of dematerialization of certificates. Transposition-cum dematerialization facilitates dematerialization of certificates held in different order of names through one demat account, provided the securities to be transposed are held in the same joint names, but, in a different order.

Illustratively if A owns a security, which he holds in the joint names of ABC, ACB, etc. he can first transpose them in the name of, say, ABC in which order demat account might have been opened. Nonew name can be added through transposition process. Similarly, existing names cannot be deleted.

**20. What procedure should be followed by the BO for transposition-cum dematerialization request ?**

The BO should submit a Transposition Request Form (TRPF) along with the DRF and the share/securities certificates to his DP. It should be noted that a separate TRPF would have to be filled for each ISIN.

**21. Whether a separate TRPF should be filled for each combination of names ?**

No. Different combination of names can be listed in separate boxes in section (c) of the TRPF. If the space provided in the TRPF is not found sufficient, a separate form or an annexure may be used.

**22. What are the requirements for availing of the transposition-cum-demat facility ?**

The application for transposition should contain only those names in which the BO account has been opened. Signatures of all the holders affixed on TRPF should tally with the DP's records.

**23. Does CDSL/NSDL collect any additional charge for entertaining transposition-cum-demat requests ?**

No. CDSL/NSDL does not collect any fee from DPs for processing transposition-cum-demat requests.

**24. What is transmission ?**

Transfer of Electronic balances in a BOs account to successors / nominees in case of sole holder account and to the account of surviving joint holders in case of a joint account.

**25. What is the significance of transmission in demat ?**

Certificates held in joint names have to be dematerialized in a demat account in the name of joint holders only. If one (or more) of the joint holder(s) expires before the certificates are dematerialized, the surviving holder(s) need not send the certificates to the issuer to change the names on the share certificates. Such certificates can still be dematerialized in the existing account. In such situation the BO can use the transmission - cum - demat facility offered by CDSL/NSDL.

**26. What is Transmission-cum-demat ?**

Transmission-cum-demat facility enables an investor to dematerialize securities held in joint names in a BO account opened in the names of same joint holders in the event of death of a joint holder.

**27. What procedure should be followed by the BO for transmission-cum dematerialization request ?**

The BO should submit Original or a copy of the death certificate of the deceased holder(s) notarized / attested by a gazetted official and a Transmission Request Form (TRF) along with the DRF and the share / securities certificates to his DP for each demat request.