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FACULTY OF COMMERCE & MANAGEMENT

COURSE: BBA-DM; B.Com 6th SEMESTER

SUBJECT: SECRETARIAL PRACTICES

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LECTURE: 13

NAME OF FACULTY: DR. H. L. BHASKAR

Lecture-13



Unit III

Dematerialization of shares

Dematerialisation is a process through which physical **securities** such as **share** certificates and other documents are converted into electronic format and held in a **Demat** Account.

Dematerialisation 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.

Process of dematerialization

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- 1. Dematerialization starts with opening a Demat account. For Demat account opening, you need to shortlist aDepository Participant (DP) that offers Demat services
- 2. 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
- 3. 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
- 4. 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
- 5. 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

- 6. This cycle takes about 15 to 30 days from the submission of dematerialization request
- 7. Dematerialization is possible only with a Demat account, therefore it is essential to learn how to open a Demat account to understand dematerialization

Purchasing dematerialised securities:

- **Step 1**: Choose a broker who can facilitate the purchase of the securities
- **Step 2**: Make a payment to the broker who will then arrange for the payment to the clearing corporation on the pay-in day
- Step 3: The securities are credited to the broker's clearing account on the pay-out day
- **Step 4**: The broker will give instructions to its Depository Participant (DP) to debit the clearing account and credit the same to your account
- **Step 5**: 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.
- **Step 6**: You will receive shares into your account. In order to receive the credit, you will need to give 'Receipt Instructions' to the DP if you did not give standing instructions during the opening of your account

Selling dematerialised securities:

- **Step 1**: Choose a broker and sell the securities in a stock exchange linked to the NSDL (National Securities Depository Limited)
- **Step 2**: The Depository Participant (DP) needs to be instructed to debit your account with the number of securities sold and credit the broker's clearing account

Step 3: You need to send the delivery instruction to your Depository Participant (DP) using the delivery instruction slips

Step 4: 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

Step 5: The broker will give instructions to its DP for delivery to the clearing corporation before

the pay-in day

Step 6: You will receive the payment from the broker for the sale of your securities

Why was dematerialization needed?

- 1. Handling of paperwork related to shares in the physical format often led to errors and unforeseen mishaps in the past
- 2. Tracking records and share documents with respect to transfer and upkeep transactions was difficult
- 3. 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

There is a wide range of benefits of dematerialisation of securities. Some of them are as follows:

- 1. You can conveniently manage your shares and transactions from anywhere
- 2. Stamp duty is not levied on your electronic securities
- 3. Holding charges levied are nominal
- 4. Risks involved with physical securities such as theft, loss, forgery or damage are eliminated

- 5. You can buy securities in odd lots and buy a single security
- 6. Due to the elimination of paperwork, the time required for completing a transaction gets reduced

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