

- 9.1 Depository System - Meaning
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INTRODUCTION

Securities can be held in two modes -

- A) Physical B) Electronic / Dematerialized

Securities means shares, debentures, bonds, units of mutual funds, securities issued by the Government etc.

(A) Physical mode of holding securities : It means securities are held in the form of paper certificates. It has following disadvantages :

- 1) **Risk** : Certificates of papers can be lost, damaged, torn, stolen, misplaced during transit, etc.
- 2) **Efforts in Duplicating** : Obtaining duplicate certificates (if original certificate is lost) involves time, efforts and money.
- 3) **Delay in allotment of securities** : Allotment of new securities takes longer time.
- 4) **Delay in Transfer and Transmission of securities** : More time is involved in transfer and transmission of securities as it involves actual handling of physical certificates.
- 5) **Risk of Bad Delivery** : Delivering certificates which are torn, forged, etc. creates problems in buying and selling of securities.

(B) Electronic / Dematerialized mode of holding securities : It means securities are held in electronic or dematerialized form.

9.1 MEANING OF DEPOSITORY SYSTEM

Under Depository System, securities are held in electronic form. The transfer and settlement of securities are done electronically. The Depository System maintains accounts of the shareholder, enables transfer, collects dividends, bonus shares, etc. on behalf of the shareholder. This system is also called as scripless trading system.

In India the Depository System was introduced by passing the Depository Act in 1996. Under this Act, a competitive multi-depository system consisting of two depositories, viz. NSDL and CDSL was set up. It will be of interest to note that the world's first Depository was set up in 1947 in Germany.

- The Depository System resembles the Banking system in many aspects.

Depository System	Banking System
1. It keeps the securities safe.	1. It keep the money safe.
2. Securities are held in accounts having unique IDs.	2. Funds are held in accounts having unique numbers.
3. There is no physical handling of securities during allotments, transfers, etc.	3. There is no physical handling of money.
4. The transfer of securities between accounts is done.	4. The transfer of funds between accounts is done.

In the Depository System, the Depository is the custodian of the securities in electronic form and the Depository Participant acts as a link between the Depository and the Investor.

9.2 IMPORTANCE OF DEPOSITORY SYSTEM

Depository System has a very important role to play in the successful functioning of the capital market.

- 1) It aims at eliminating huge volume of paperwork involved in paper or scrip based system.
- 2) It offers scope for paperless trading by using the state-of-art technology.
- 3) It leads to elimination of storage and handling of certificates.
- 4) It reduces the cost and efforts involved in storage and handling of physical certificates.

9.3 BENEFITS / ADVANTAGES OF DEPOSITORY SYSTEM

A) To Investors :

- 1) **Elimination of Risk :** All risks associated with physical certificates like delays, lost, theft, mutilation, bad deliveries, etc. are totally eliminated.
- 2) **Safety :** It is the most safe and secure way of holding securities. The entire system functions under the Depository Act and is monitored by SEBI. e.g. The Investor can keep his account in a 'Freeze / Lock' mode to avoid / prevent unexpected debit or credit or both by giving instructions to the DP.
- 3) **Easy Transfer of shares :**
 - (a) Efforts in filling transfer forms and lodging the documents is eliminated.
 - (b) Also the stamp duty levied on transfer of physical shares is not applicable.
 - (c) Processing time in transfer of securities is reduced and neither the securities nor the cash is tied / held up for unnecessarily long time.
- 4) **Updates and Intimation :** The investor is provided with the status of the holdings and transactions by DP and occasionally by the Depository too.

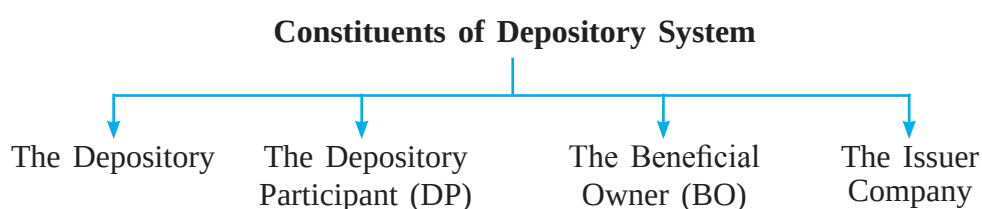
- 5) **Security against Loan** : Dematerialised securities are preferred by banks and financial institutions as security against loan.
- 6) **No concept of 'Lots'** : The system of odd and even lot stands abolished. The market lot is one share for dematerialised securities.
- 7) **Nomination Facility** : Individual Investors can avail of nomination facility. This simplifies the process in the event of the death of the investor.
- 8) **Automatic Credit** : The account of investor is automatically credited/debited in case of a change initiated by the company which impacts the securities. This is called 'Corporate Action'. Few examples which can be termed as Corporate Action are : Payment of Dividend, Issue of Bonus Shares, Offering of Rights Shares, Early Redemption of Debentures, Mergers and Acquisitions, etc.

B) To Companies :

- 1) **Up-to-date Information** : The up-to-date information about investors is provided by the depository.
- 2) **Reduction in costs and efforts** : Costs, efforts and time involved in printing and distribution of certificates in cases of new issues, bonus, transfers, etc. is saved.
- 3) **Better Investor - Company Relationships** : The complaints arising out of loss of certificates, signature differences, long lapses of time in executing requests, etc. is substantially reduced. It leads to better communication with investors and increased goodwill for the company.
- 4) **International Investment** : Under Depository System, better and quicker services can be provided and this attracts investments from abroad.

9.4 CONSTITUENTS OF DEPOSITORY SYSTEM

All operations under the Depository System is performed by Depository with the help of its constituents as explained below :



(1) The Depository :

- 1) It is an organization like the Central Bank where securities are held in electronic form at the investor's request.
- 2) It also provides different services related to different transactions in such securities.
- 3) It is responsible for safe-keeping of the investor's securities.
- 4) There is no direct access to investor with the Depository.
- 5) It works as a link between the company and investors.

Additional Information

Depository in India :

1. There are two depositories viz NSDL and CDSL which are registered with SEBI.
2. Depositories must be registered as a company under the Companies Act.
3. Depositories must be registered as a Depository under the SEBI Act, 1992 and obtain a Certificate of Commencement of business from SEBI.
4. It should have bye-laws framed with previous approval of SEBI.
5. It should have a tie-up with one or more depository participants to render depository services on its behalf.
6. It is equipped with adequate system to safeguard and prevent manipulations of records and transactions as per the directions of SEBI.
7. Depository should have been established by one or more of the following :
 - a) Public financial Institution.
 - b) Bank.
 - c) Foreign Bank .
 - d) Recognized Stock Exchange.
 - e) A Body corporate engaged in providing financial services
 - f) A Body corporate constituted or recognized in foreign country for providing custodial, clearing or settlement services in securities market with an approval from the Central Government.
 - g) Institution engaged in providing financial services established abroad and approved by Central Government.
8. Depository is deemed to be registered owner of securities on behalf of Investor (Beneficial owner) to effect transfer of securities on Investor's behalf.
9. Legal framework of a Depository
 - a) SEBI Act, 1992
 - b) SEBI (Depositories and Participants) (Amendment) Regulations 2012
 - c) Bye-laws of Depository
 - d) The Companies Act.

(2) Depository Participant (DP) :

1. It is the agent of Depository
2. DP is registered under the SEBI Act. It enjoys rights and obligations as specified under SEBI (Depository and Participants) Regulations of 1996.
3. It is an intermediary appointed by Depository.
4. DP acts as a link between Depository and the investor.
5. It directly deals with customers. It sends statement of accounts periodically.
6. It functions like a securities bank.
7. It facilitates Dematerialisation.

8. It credits securities in the event of Rights Issue, Bonus Issue, etc.
9. It handles instant transfers of pay-outs like dividend, interest, etc.
10. It settles trade electronically.
11. Following can work as DPs :
 - a) Financial Institutions
 - b) Banks
 - c) Approved Foreign Banks
 - d) Custodians : Responsible for overseeing operations of assets/fund.
 - e) Stock Brokers
 - f) Clearing Corporation
 - g) NBFC (Non Banking Financial Company)
 - h) Registrar to an Issue or Share Transfer Agents
12. The DP maintains account of securities of each investor.
13. The DP has a unique number for identification.

(3) The Beneficial Owner (BO) :

1. The BO is the investor of securities who has availed the services of Depository Participant.
2. BO is entitled to all rights, benefits and is subject to all liabilities with respect to securities held by Depository.
3. The BO can also be called as client of Depository and DP.
4. BO/Client is required to open a Demat account with the DP for electronic holding of securities. BO has to pay charges to the DP for availing the services of DP.
5. BO is given a unique account number in which securities are held.

(4) The Issuer Company :

1. It means the company which has issued the securities which are dematerialized.
2. It must register with the Depository.

9.5 CONCEPTS/TERMS RELATED TO DEPOSITORY SYSTEM

- 1) Dematerialization :** (Demat) is a process whereby a client can get physical certificates converted into electronic mode. The client has to surrender the certificates along with the Demat Request Form (DRF). The DP forwards these to the Depository who in turn forwards it to the Issuer. After confirmation from Issuer, the Depository will credit the securities in the Demat A/c with DP.
- 2) Rematerialization :** (Remat) is the process whereby a client can get his electronic holdings of securities converted into physical certificates. The client has to give written request in the form of RRF (Remat Request Form) to the DP. The DP forwards the RRF to Issuer and the Depository. The Issuer prints the certificates and sends them to the client and simultaneously confirms the acceptance of Remat request to the Depository. The Depository via the DP debits account of the client with those securities.
- 3) Fungibility :** In financial terms, fungibility means the state of being interchangeable. Some financial assets are fungible while some are not fungible. e.g.

- a) land is not fungible as every unit of land has its unique quality which adds to or reduces its value.
- b) Currency note is fungible as there is no difference between two currency notes of the same value.

Similarly, securities issued by the same company of the same class have same value no matter who owns them. The securities held in Demat/Electronic form are fungible. They are interchangeable, substitutable and cannot be distinguished from each other. Securities bear no notable features like distinctive number, certificate number or folio number.

4) International Securities Identification Number (ISIN)

- 1) It is a code that uniquely identifies a specific securities issue.
- 2) ISINs in any country are allotted by that country's NNA (National Numbering Agency)
- 3) ISIN is a standard numbering system which is accepted globally.
- 4) The International Organisation of Standardization (ISO) currently defines ISIN's structure.
- 5) In India, issuing ISIN to securities is assigned by SEBI to NSDL (for demated shares) SEBI works as NNA in India.
- 6) For Government securities, allotment of ISIN is done by the RBI.
- 7) ISIN consists of a 12 (Twelve) digit alpha-numeric code which is divided in 3 (Three) parts.
- 8) The company has to apply for ISIN for its securities with documents like prospectus.

Additional Information

ISIN :

1. It is a 12 (Twelve) character long alpha numeric code or ID Number.
2. It has 3 components (a) a prefix (b) a basic No. (c) a check digit.
 - (a) The prefix is a two digit country code as given by ISO 6166 which is IN for India.
 - (b) The basic No. is made of nine alphanumeric digits and/or alphabets.
 - (c) The check digit at the end of ISIN is completed to check the validity of the ISIN

To Explain further :

- 1) The first two characters is the country code e.g. IN for India.
- 2) The third character is Issuer type as follows :

i) Central Govt. : A	iv) Union Territory : D
ii) State Govt. : B	v) Company, Statutory Company, Corporation : E
iii) Municipal Corporation : C	vi) Mutual Fund : F
- 3) The 4th to 7th characters (next four characters) represent company identity; of which first 3 characters are numeric and fourth is an alpha.
- 4) The 8th to 9th characters represent security type of a given Issue and are numeric. Some codes are given below : Security Type :

Equity shares : 01, Post Savings scheme : 02, Preference Shares : 03, Debentures : 12, Government Security : 14.

5) The 10th and 11th characters are serially issued for each security of the issuer entering the system -

6) The last digit is a double-add-double check digit.

e.g. this is how ISIN decoding is done :

INE002A01018 = IN E 002A 01 01 8

IN = is the country code i.e. India

E = indicates that issuer is a company

002A = Identity of company

01 = Equity shares

01 = serially issued digits to the security

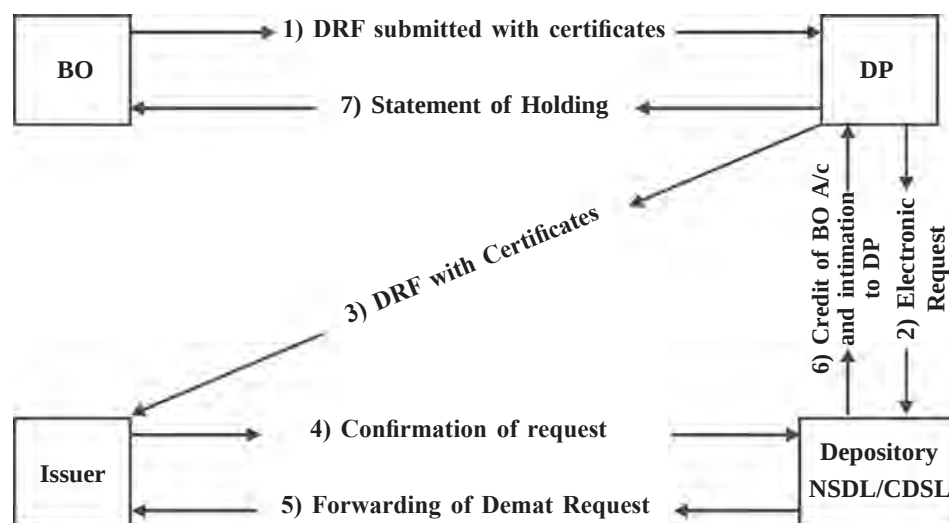
8 = is the check digit

9.6 FUNCTIONING OF DEPOSITORY SYSTEM

9.6.1 In case of conversion of physical certificates into electronic/ Dematerialisation Process :

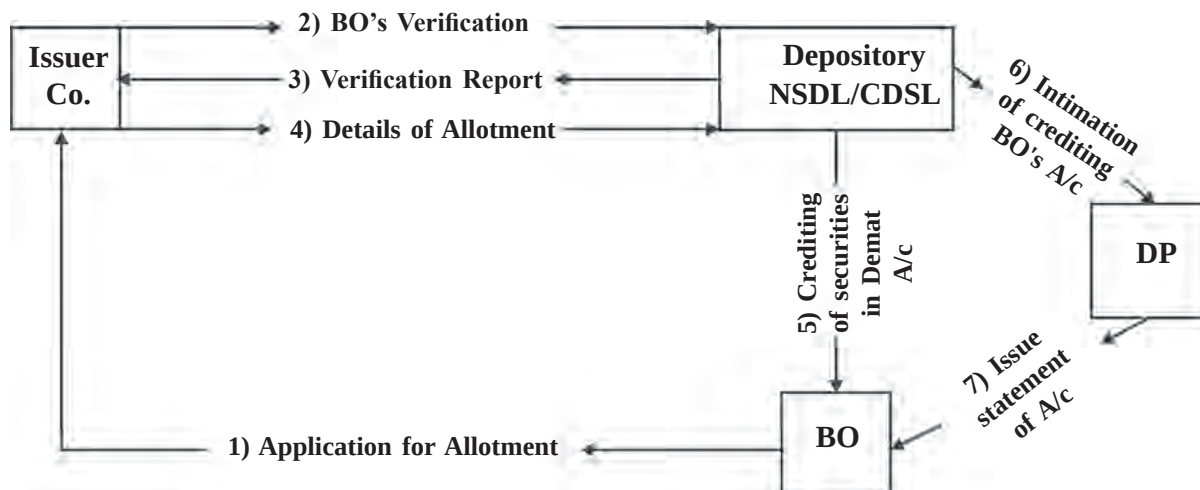
- 1) Investor submits DRF in triplicate and certificates to DP
- 2) DP enters the Demat request in its system and sends it to Depository.
- 3) DP dispatches the physical certificates and copy of DRF to the Issuer.
- 4) The Issuer verifies and confirms to Depository about demating of the securities.
- 5) Depository records the request in the system and forwards it to the Issuer.
- 6) Depository credits the demated securities to beneficiary account (Demat A/c) of Investor. Depository intimates the DP.
- 7) DP issues a statement of account to the Investor.

Illustrative Representation



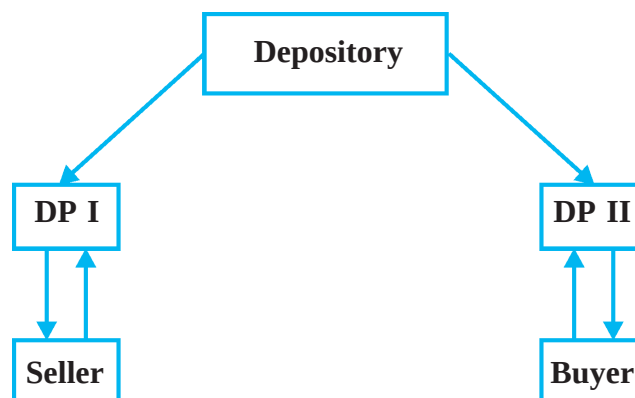
9.6.2 In case of IPO (Initial Public Offer)

- 1) The investor (BO) submits his application for securities to the Issuer Company.
- 2) The Issuer Company verifies details of BO with the Depository.
- 3) After verification of BO's details, the Depository gives its report to the Issuer Company.
- 4) Issuer Company gives details of allotment of securities to Depository.
- 5) Depository credits the account of the BO.
- 6) Depository intimates the DP about crediting BO's account.
- 7) DP issues statement of account to BO.



9.6.3 Transfer of securities under the Depository system :

1. **In case of Sale of Shares :** The Transferor i.e. investor has to inform his DP by issuing DIS (Delivery Instruction Slip) which is filled and signed with the details of the security sold. At the end of the transaction the securities are debited in his Demat Account. Transfer can be done as off market trade or as market trade.
 - a) **Off Market Trade :** Any trade settled directly between two parties on mutually agreed terms without the involvement of clearing corporation, share broker or stock exchange is called as Off Market Trade. Examples include legacy transfers, gifts, shifting of securities between a client and a sub broker, etc.

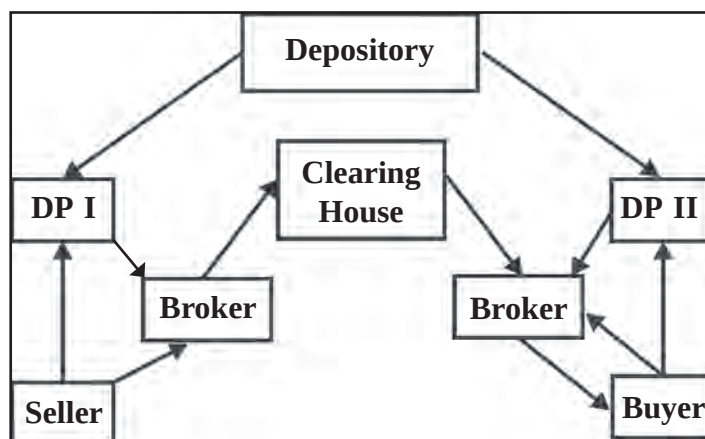


Procedure :

- 1) Transferor i.e. the seller gives delivery instructions to his DP to move securities from transferor's account to the buyer's account.
- 2) Transferee i.e. the buyer will receive the credit of the securities through his DP into the buyer's account after confirmation from Depository to the DP.
- 3) The funds / money will be paid by the buyer to the seller directly.

b) Market Trade :

Any trade which is settled through a clearing corporation is called "Market Trade". These trades are done through stock brokers on a stock exchange.



Procedure :

- 1) Transferor gives delivery instruction to his DP. So securities move from Transferor's account to the Transferor's Broker account.
 - 2) Securities then are transferred from brokers account to clearing house of the stock exchange as per the delivery instruction.
 - 3) On the Pay-out-day, securities move from clearing house to the account of broker of the buyer.
 - 4) After instructions and confirmation from Depository, securities move to the buyer's account.
2. **In case of Purchase of Shares :** The client i.e. the transferee sends the intimation to the DP giving details of security bought. The Depository after the due process informs the DP to transfer/credit the securities in the name of transferee. DP makes book entries in the accounts of investors to record all sales/ purchases of securities.

9.7 DEPOSITORIES IN INDIA :

The Depository Act of 1996 paved the way for the establishment of depositories in India. There are two Depositories which exist in India viz : 1) NSDL 2) CDSL.

A) NSDL : National Securities Depository Limited :

- 1) It is the first and the largest depository in India established in November, 1996.
- 2) It is promoted by IDBI (Industrial Development Bank of India), Unit Trust of India (UTI) and National Stock Exchange (NSE).
- 3) NSDL has its headquarters in Mumbai.

- 4) NSDL is a public limited company registered under the Companies Act.
- 5) NSDL provides various services to investors and other players in the capital market like Stock Exchanges, Banks, Issuers, Clearing Members, etc.
- 6) It renders services like account maintenance, dematerialization and rematerialization, settlement of trades through market transfers and off market transfer, nomination, transmission, distribution of non-cash corporate actions, dividend distributions, facility of freezing or locking of investors' accounts, Investor grievances, etc.

B) CDSL : The Central Depository Services Limited :

- 1) CDSL began its operations in February 1999.
- 2) It was promoted by Bombay Stock Exchange jointly with several banks.
 - i) It has its headquarters in Mumbai.
 - ii) CDSL has a wide DP network and offers the Demat services similar to NSDL across the country

Both these institutions have played a tremendous role in success of Depository System in India.

9.8 DISTINCTION : Dematerialization and Rematerialization.

Points	Dematerialization	Rematerialization
1. Meaning	Process of converting Physical certificates of securities into electronic form.	It is the process of conversion of electronic form of securities into physical form.
2. Conversion	Here, the paper form of securities is converted in to digitally/ electronically held securities.	Here, the electronic records are converted into physical/paper form securities.
3. Use of Form	It uses 'DRF' : Viz. 'Dematerialization Request Form' from Investor to the DP.	It uses 'RRF' : viz Rematerialization Request Form' from Investor to the DP.
4. Sequence	This is an initial process. It is a primary and Principal function of the depository.	This is a reverse process. It is a secondary and supporting function of depository. Already demated securities are remated.
5. Identification of Securities	Demated securities have no distinctive numbers. They are fungible.	Remated securities will have certificate and distinctive numbers as issued by company.
6. Securities Maintenance Authority	Depository is the custodian of securities and records.	The issuing company is the record keeping authority. Securities are maintained by the investor.
7. Difficulty of Process	Demat is an easy process. Also its not a time consuming process.	Remat is not only a time consuming but also a complex process.

N.B. : These two processes are diametric opposites of each other. Remat reverses the results of Demat.

SUMMARY

- Securities can be held either in (a) Physical Mode or (b) Electronic / Digital / Dematerialized modes.
- The physical mode has limitations like Risk of handling, Delays, Increased efforts, Time and cost.
- The paperless holding of securities is achieved by Depository System which was introduced in India by passing The Depository Act 1996.
- Depository System provides various benefits to Investors and the Issuing Company.
- Constituents of Depository System are Depository, DP, Beneficial Owner and the Issuer Company.
- Dematerialization means conversion of Physical securities into electronic form and Rematerialization means conversion of electronically held securities into physical certificates.
- India has a Multi-Depository system. It has two Depositories (a) NSDL (1996), (b) CDSL (1999).

EXERCISE

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. In physical mode, securities are held in form.
a) Paper b) Dematerialization c) Electronic
2. Risk of losing certificates exists in mode.
a) Physical b) Dematerialised c) Digital
3. In Depository System, securities are held in form.
a) Scrip based b) electronic c) Physical
4. is the institute which facilitates electronic holding of securities.
a) Depository Participant b) Issuer c) Depository
5. There is no payment of when securities are demated.
a) Octroi b) Wealth Tax c) Stamp Duty
6. Depository Act was passed in
a) 1919 b) 1996 c) 1999
7. India has a depository system.
a) sole b) multi c) single
8. is a constituent of depository system.
a) Government b) Issuer c) Trust
9. is the oldest depository in India.
a) Dow Jones b) NSDL c) CDSL

10. Demat account is opened by
 a) Beneficial Owner b) CDSL c) SEBI
11. Demated shares are..... .
 a) Non-transferable b) Fungible c) Bearer
12. is a unique code given to a security.
 a) IBM b) BBM C) ISIN
13. In India ISIN for corporate securities is allotted by
 a) NSDL b) Central Govt. c) State Govt.
14. has to apply for ISIN.
 a) Company b) Depository Participant c) Depositors
15. has to pay charges to maintain Demat Account.
 a) Investor b) Issuer c) Depository
16. NSDL is promoted by
 a) NSE b) BSE c) FTSE
17. CDSL is promoted by
 a) NSE (b) BSE c) FTSE

B) Match the pairs.

Group 'A'		Group 'B'	
a)	Bad Delivery	1)	1956
b)	Depository Act	2)	A 12 digit number/code.
c)	ISIN	3)	Connects Government and Bank.
d)	Depository Participant	4)	Second Depository in India.
e)	CDSL	5)	The Issuer Company.
f)	Depository	6)	Problem faced in physical mode.
g)	Beneficial owner	7)	A 10 digit number/code.
		8)	Connects Depository and Investor.
		9)	First Depository in the world.
		10)	Coustodian of securities in electronic form.
		11)	Problem faced in electronic mode.
		12)	1996
		13)	Government Organisation.
		14)	The Investor.

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. This mode of holding securities may result in loss and theft of certificates.
2. The organization which holds the securities in electronic mode.
3. This system eliminates storing of certificates.
4. This system allows faster and easier transfer of securities.
5. The oldest Depository of India.
6. The country where depository system started for the first time.
7. The registered owner of securities.
8. The Agent of the Depository.
9. This process converts securities into electronic form from physical form.
10. This process converts securities into physical form from electronic form.
11. This means securities are without distinctive identity number.
12. This is the unique code for security given in depository system.

D) State whether the following statements are true or false.

1. Physical mode of holding securities is risky.
2. Allotment of securities take longer time when in physical mode.
3. Transfer of securities is easier in electronic mode.
4. Bad delivery is likely in Depository System.
5. Depository system began in the USA for the first time in the world.
6. India has a multi Depository System.
7. Depository system is very similar to banking system.
8. DP is a constituent of Depository System.
9. DP is an agent of Depository.
10. A Bank can work as a DP.
11. DRF is required for conversion from physical to electronic.
12. ISIN is a unique code given to the specific securities.

E) Find the odd one.

1. Elimination of storage of Certificates, Theft of Certificates, Torn Certificates.
2. NSDL, CDSL, NBFC
3. Depository, DP, RBI.
4. DP, BO, State Government.
5. Issuer, BO, Central Government.
6. DRF, RRF, PPF

F) Complete the sentences.

1. Central location for keeping securities in demated form is
2. Freezing of debit/credit of securities is possible in
3. First Depository of the world started in the year
4. The Indian Depository Act was passed in the year ,.....
5. Link between Depository and Investor is
6. Account of securities of the Investors is maintained by
7. The process which converts physical securities in electronic form is
8. The process which converts digital securities in physical form is
9. The Issuer company must register with
10. The unique code identifying a security is
11. The first depository of India is

G) Select the correct option from the bracket.**(I)**

Group 'A'		Group 'B'	
a)	Dematerialization	1)	
b)		2)	DP
c)	First depository of world	3)	
d)	CDSL	4)	

(1999, Agent of Depository, Germany, Physical to electronic)

(II)

Group 'A'		Group 'B'	
a)	First depository in India	1)	
b)		2)	Rematerialisation
c)	Fungibility	3)	
d)		4)	ISIN

(12 digit code, NSDL, Electronic to physical, No distinctive number)

H) Answer in one sentence.

1. What is Depository System ?
2. Give examples of action termed as corporate action.
3. When was Depository Act passed in India ?
4. What is a DP ?
5. What is Dematerialisation ?
6. What is Rematerialisation ?

7. What is ISIN ?
8. Name the depositories in India.

I) Correct the underlined word/s and rewrite the following sentences.

1. Electronic mode of holding securities is risky.
2. Allotment and Transfer of securities is time consuming in electronic mode.
3. Banking system leads to a scrip less capital market.
4. Storage of Certificates is not required in Physical mode of holding
5. India has a single Depository system.
6. Depository Participant in India has to register under the Partnership Act.
7. Demat accounts are opened and maintained by the Depository.
8. Securities are fungible in Physical mode.
9. ISIN is a code given to a company.
10. ISIN of Indian Government securities is issued by NSDL.

J. Arrange in proper order.

1. a) Gets Statement of Accounts
b) Open Demat Account
c) Submit DRF
2. a) Investor (BO) submits application for securities to issuer company.
b) Depository intimates the DP about crediting BO's Account.
c) Issuer company gives details of allotment to Depository.

Q.2 Explain the following terms/concepts.

- | | | |
|----------------------|----------------------|----------------------|
| 1. Depository system | 2. Dematerialization | 3. Rematerialization |
| 4. Fungibility | 5. ISIN | |

Q.3 Study the following case/situation and express your opinion.

1. Mr. Z holds 100 shares of Peculiar Co. Ltd. in Physical mode and wishes to convert the same in electronic mode :
 - a) Mr. Z holds a Saving Bank Account with CFDH Bank Ltd. Can he deposit his shares in this account for demat ?
 - b) What type of account is needed for the same ?
 - c) Is it the RBI which will be the custodian of shares of Mr. Z after demating ?
2. Mr. R holds 100 shares of Peculiar Co. Ltd. in Demat mode :
 - a) He wants to transfer one share each to his wife, daughter and son. Can he do so ?
 - b) Does he need to submit DRF or DIS if he wants to transfer his shares ?
 - c) Can he nominate his wife in his demat account ?

3. Mrs. Z wishes to open a Demat account in her name :
 - a) Can she open the account going to Mumbai office of NSDL ?
 - b) Is she required to pay for opening of account and its maintenance ?
 - c) Does she have to send the shares to respective company for demating ?
4. Mr. L wants to demat his 25 shares of Peculiar Co. Ltd. bearing certificate No. 100 and distinctive No. 76-100.
 - a) Which form is he required to fill as a written request to the DP ?
 - b) Does he have to fill instrument of transfer if he wishes to transfer the same after demat ?
 - c) Does he have to quote certificate no. and distinctive no. if he wishes to transfer his shares after it is in demat form ?
5. Mr. S holds 50 shares of Peculiar Co. Ltd. in demat form. The company has declared a dividend of ₹ 5/- per share and Bonus of 1:1 to its shareholders.
 - a) How will Mr. S get his dividend ?
 - b) Will he get Bonus share in Physical or demat ?
 - c) Who is entitled to dividend and Bonus : Mr. S or the depository ? (NSDL in this case)

Q.4 Distinguish between the following.

1. Dematerlization and Rematerlization

Q.5 Answer the brief.

1. Explain disadvantages of physical mode of holding securities.
2. Explain any four advantages of Depository system to Investor.
3. Explain four advantages of Depository system to the Company.
4. Explain Depository as constituent of Depository System.
5. Explain DP as the constituent of Depository system.

Q.6 Justify the following statements.

1. Electronic holding of securities is safer than physical holding.
2. Depository provides easy and quicker transfer of shares.
3. Depository system results in reduced time, cost and efforts.
4. Depository system is very similar to the Banking system.
5. DP is an important constituent of Depository system.
6. Depository system allows both : Physical to electronic and electronic to physical conversion.
7. ISIN is necessary component of Demat.

Q.7 Answer the following questions.

1. What is Depository System and explain its advantages.
2. Explain the constituents of Depository system.

