

A Study on Depositories and their Role in the Indian Capital Market

Dr. Pawan Verma¹, Dr. Shiv Ram Singh Jhaharia²

¹Assistant Professor, OPJS University, Churu

²Professor, NDB Govt. PG College Nohar, Hanumangarh

Abstract: A bank or company which holds funds or securities deposited by others, and where exchanges of these securities take place. In this paper we studied about Depositories, Depositories System and its role in the Indian Capital Market. Apparently a depository can be equally treated like a bank. Generally we open an account in a bank where our money is kept for giving us their services in money transaction mostly in a transparent way. Likewise, a depository holds shares, debentures, bonds and units etc of an investor in electronic form and offers their transactional services towards selling and buying of shares/stocks in stock market also in a transparent manner.

- Consolidation of folios & instruments.
- Reduced cost of transaction
- Centralised Systems in Securities Dealings

The first depository set up in India is National Securities Depository Limited (NSDL) and is promoted by IDBI, UTI and NSE.

Services provided by Depository

- Transfer of securities, change of beneficial ownership
- Corporate action benefits directly transfer to the Demat and Bank account of customer
- electronic credit in public offerings of companies
- dematerialisation
- rematerialisation

I. INTRODUCTION

On the simplest level, depository is used to refer to any place where something is deposited for storage or security purposes. More specifically, it can refer to a company, bank or an institution that holds and facilitates the exchange of securities. Or a depository can refer to a depository institution that is allowed to accept monetary deposits from customers. Depository is an institution or a kind of organization which holds securities with it, in which trading is done among shares, debentures, mutual funds, derivatives, F&O and commodities.

Indian capital market has been witnessing rapid growth in recent past. However, this growth has not watched with supporting infrastructure to handle the growing volume of paper that has flooded the market, choking our existing system. This has caused problems like delay in transfers, long settlement period, high levels of failed trade and bad deliveries, high-risk exposure etc. These characteristics were normally the attributes of an under developed market. To overcome delay in forgerly certificates, mutilation of certificates, settlement, loss in transit, stolen certificates, litigation etc. a new system of trading, viz. Depository system was introduced, which facilitates investor to hold securities in electronic form and to trade in these securities.

The needs for depository occur mainly due the following reasons:

- Limitations of Physical Transfer
- To ensure transparency in allotment of shares

II. DEPOSITORY PARTICIPANT

In India, a Depository Participant (DP) is described as an agent of the depository or A Depository Participant (DP) is an agent appointed by the Depository. They are the intermediaries between the depository and the investors. The relationship between the DPs and the depository is governed by an agreement made between the two under the Depositories Act. In a strictly legal sense, a DP is an entity who is registered as such with SEBI under the sub section 1A of Section 12 of the SEBI Act. As per the provisions of this Act, a DP can offer depository-related services only after obtaining a certificate of registration from SEBI. As of 2012, there were 288 DPs of NSDL and 563 DPs of CDSL registered with SEBI. A DP can offer depository services only after it gets proper registration from SEBI. Banking services can be availed through a branch whereas depository services can be availed through a DP.

III. DEPOSITORY SYSTEM

The Depository System is an improvement over the age-old scrip based share trading system, where shares were held in the form of physical share certificates.

Under the Depository System, shares are kept in the form of electronic entries in the records of Depository. The share-related transactions are also done electronically. The actual shareholders enjoy all their rights, viz., dividend, voting rights etc.

NSDL: National Securities Depository Limited (NSDL) is an Indian central securities depository based in Mumbai. It was established on 8 November 1996 as the first electronic securities depository in India with national coverage based on a suggestion by a national institution responsible for the economic development of India. NSDL has stated its aims are to ensuring the safety and soundness of Indian marketplaces by developing settlement solutions that increase efficiency, minimise risk and reduce costs. NSDL plays a quiet but pivotal role in developing products and services that will continue to nurture the growing needs of the financial services industry.

CDSL: Central Depository Services Limited (CDSL), is the second Indian central securities depository based in Mumbai. Its main function is the holding securities either in certificated or uncertificated (dematerialized) form, to enable book entry transfer of securities.

Benefits of Depository System:

- no bad deliveries
- It enhances the liquidity of securities in the market.
- reduction in transaction cost
- It eliminates problems relating to change of address of investors, transmission etc
- It makes faster disbursement of non cash corporate benefits like rights, bonus, etc. possible.
- faster settlement cycle
- no stamp duty on transfer of shares;
- faster disbursement of corporate benefits like rights and bonus;
- It eliminates problems relating to selling securities on behalf of a minor.

Disadvantage of Depository System:

- Discrimination between dematerialized and physical shares will affect transactions in the market. This has to be avoided.
- Lack of control
- Depository system is not effectively regulated by SEBI. This is evident from the fact that the Clearing and Settlement Corporation is not effectively handled by the SEBI.

- Complexity of the system
- Promoters of some companies dematerialised shares in excess of the company's issued capital.
- Some listed companies had obtained duplicate shares after the originals were pledged with banks and then sold the duplicates in the secondary market to make a profit.

IV. DEPOSITORIES AND THEIR ROLE IN THE INDIAN CAPITAL MARKET

All the functions of depositories are undertaken by NSDL with the help of electronic network. The magnitude of transactions of NSDL could be judged by the volume of transactions undertaken by NSE which has gone up manifold. This is no mean an achievement, especially when the NSE could overtake BSE within 10 years of its inception. Comparatively, BSE is 125 years old. Their role comes into play from the time an investor makes a decision on investing. Their role comes into play from the time an investor makes a decision on investing. In India, there are two depositories namely National Securities Depository Limited (NSDL) or Central Depository Services (India) Limited (CDSL) that are registered with SEBI.

REFERENCES

- [1]. Depository Definition | Investopedia
www.investopedia.com/terms/d/depository.asp#ixzz3uUxzHfNG
- [2]. Role of Depository Participants in stock market by **Pallab Sarkar**
- [3]. Depository from www.investorwords.com/1413/depository.html
- [4]. www.indiastudychannel.com/resources/158299-Role-Depository-Participants-stock-market.aspx
- [5]. Essays, UK. (November 2013). The Need For Depository Systems In India Finance Essay. Retrieved from www.ukessays.com/essays/finance/the-need-for-depository-systems-in-india-finance-essay.php?ref=1
- [6]. NEED and importance OF DEPOSITORY
www.omtexclasses.com/2014/02/explain-need-and-importance-of.html
- [7]. Depository system in India, needs and progress by jyoti
- [8]. www.scribd.com/doc/21056363/Depository-system-in-India-needs-and-progress#scribd
- [9]. Depository Services www.rinfra.com/form/InvestorGuide-Depositoryservices.pdf
- [10]. SEBI registered Depository Participants of CSDL as on 29-02-2012" (PDF). Securities and Exchange Board of India. Retrieved 16 February 2014.
- [11]. "SEBI registered Depository Participants of NSDL as on 31-01-2012" (PDF). Securities and Exchange Board of India. Retrieved 16 February 2014.
- [12]. Demat Account and Depository Participant (Dp) theequitymarkets.com/demat-account-and-depository-participant-dp/
- [13]. Depository System and its Benefits by Priyanka Anand priyankablogthoughts.com/depository-system-and-its-benefits/
- [14]. Advantages and disadvantages of the Depository System www.mbaknol.com/investment-management/advantages-and-disadvantages-of-the-depository-system/
- [15]. Depository system in India | Disadvantages | Remedial measures

- [16]. accountlearning.com/depository-system-in-india-disadvantages-remedial-measures/
- [17]. Depositories and their role in the Indian Capital Market by Roshni Agarwal www.goodreturns.in/classroom/2013/11/depositories-their-role-the-indian-capital-market-227610.html
- [18]. "Holding the key to CDSL's growth". Sify.com. 2010-08-25. Retrieved 2011-02-12.
- [19]. "CDSL reduces demat charges to Rs 5. - PTI - The Press Trust of India Ltd. | HighBeam Research - FREE trial". Highbeam.com. 2005-12-12. Retrieved 2011-02-12.
- [20]. "DDA scam: Were PAN cards forged?". The Times Of India. 24 February 2009.
- [21]. 16 Jun, 2008, 08.50PM IST,PTI (2008-06-16). "NSDL to conduct investor awareness seminars - The Economic Times". Economietimes.indiatimes.com. Retrieved 2011-02-12.
- [22]. "NSDL". NSDL. Retrieved 2011-02-12.
- [23]. <https://nsdl.co.in/about/milestone.php>
- [24]. "PL > FAQ >> Introduction to Depository and Demat". Plindia.com. Retrieved 2011-02-12.
- [25]. "NSDL demat accounts cross 1-cr mark". The Financial Express. 20 August 2009. Retrieved 7 October 2013.
- [26]. "Promoters / Shareholders". nsdl.co.in. Retrieved 2009-01-20.
- [27]. <https://www.egov-nsdl.co.in>
- [28]. "Depository Activity". Dicindiaitd.com. 2000-06-26. Retrieved 2011-02-12.
- [29]. "Battle heats up for CDSL takeover - Home". livemint.com. 2010-03-19. Retrieved 2011-02-12.
- [30]. "CDSL :: About CDSL :: Introduction". Cdslindia.com. 1999-07-15. Retrieved 2011-02-12.