Chapter – II
Dematerialisation
INTRODUCTION

The history of online trading goes back to 1983, when the first online trade using e-trade technology took place. What began with a single click over 28 years ago has now taken the world by storm. The concept visualized by Bill Porter who provides online quotes and trading services to many US firms like Fidelity, Charles Schwab, and Quick and Reilly. Bill happened to foresee that someday everyone would own computers and invest through them with unprecedented efficiency and control. And today his dream has become a reality.

The Indian capital market witnessed an explosive growth between mid Eighties and mid Nineties. The total number of companies listed in the stock exchanges had grown by 72.3 per cent. The market capitalization of the companies listed with stock exchanges had gone up from Rs.21,000 crores in 1985 to more than Rs.4,50,000 crores in 1995. The secondary market trading activity also gathered momentum. There has been tremendous growth in secondary market trading at BSE and NSE. Other regional exchanges like Calcutta and New Delhi have also become active players in the market. But the system used was not able to withstand the strain caused by the tremendous growth in the securities market. The entire securities market started experiencing a gridlock, posing obstacles in its growth. Moreover, this sudden growth has also magnified the risks that have always been plaguing the Indian system, viz., credit risk and systematic risk. The International institutional investors wanting to invest
in India had become apprehensive about the reliability of the trade settlement mechanisms used in the country, which did not match international standards.

Besides affecting the inflow of foreign capital, the lack of efficient settlement systems had affected the institutional investors, individual investors and brokers in the stock market. The incidence of lost trading days (liquidity), lost scrips, improperly paid dividends, mistaken registration, unnecessary financing cost, failure of counter party and fraud were reported frequently. The awareness about the immense potential for growth made the Indian stock markets very dear to the global investors and the access to internet facility virtually at every part of the country made its momentum so fast. But the manual and paper based settlement system, caused series of problems for the purchaser as well as the seller. Delayed settlements, long settlement periods, high level of failed trade, high cost of transaction and bad deliveries are some among them. Interestingly, the stipulations contained in section 113 of Companies Act, 1956; section 22 A of the Securities Contracts (Regulations) Act, 1956 failed to trace the delay as illegal. Large number of bad deliveries, mismatch of signatures on transfer deeds, theft, forgery, multination of certificates and other irregularities also had become rampant.

With the implementation of reforms measures, the Indian capital market has shown rapid growth in the recent past with foreign investors, more stock exchanges and increased market intermediaries. To eliminate paperwork,
scrip less trading and electronic book entry for the transfer of securities, and settlement with the new and modern system of depositories came into operation. Accordingly the Government of India enacted the Depositories Act in 1996 for the orderly growth and development of the Indian capital market.

Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security. The depositories make securities of public limited companies freely transferable, subject to certain exceptions. They dematerialise the securities in the depository mode and provide maintenance of ownership records in a book entry form.

The depository system comprises of the depositary participant, beneficial owner/investor, the issuer and the depositary. A depositary is a firm wherein the securities of an investor are held in electronic form in the same way a bank holds money. It carries out the transactions of securities by means of book entry, without any physical movement of securities. The depositary acts as a de facto owner of the securities lodged with it from the limited purpose of transfer of ownership. It functions as a custodian of securities of its clients. The name of the depositary appears in the records. Currently two depositories are available in India and they are National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL).
2.1. THE DEPOSITORY SYSTEM

A depository is a file or set of files in which data is stored for the purpose of safekeeping or identity authentication. In general, a depository is a physical site where data is kept in the form of hard copies, magnetic disks, magnetic tapes, compact disks (CDs), and similar media. The concept of Depository is known to the world since 1949 when the first depository was set up in Germany.

The depository model in India is a competitive multi depository system. In India the system of dematerialisation is followed, wherein the securities will be cancelled as against the system of immobilization in which the securities are kept in custody.

2.1.1. LEGAL FRAMEWORK OF DEPOSITORY SYSTEM

The operations of the depositories are primarily governed by the Depositories Act, 1996, SEBI (Depositories & Participants) Regulations, 1996, Bye-Laws approved by SEBI, and Business Rules framed in accordance with the Regulations and Bye-Laws. The Act enables the setting up of multiple depositories in the country to see that there is competition in the service and there is more than one depository in operation. Only a company registered under the Companies Act, 1956 and sponsored by the specified category of institutions can set up a depository in India. Before commencing operations,
depositories should obtain a certificate of registration and a certificate of commencement of business from SEBI.

Every depository must have adequate mechanisms for reviewing, monitoring and evaluating the depository's controls, systems, procedures and safeguards. It should conduct an annual inspection of these procedures and forward a copy of the inspection report to SEBI. The depository is also required to ensure that the integrity of the automatic data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with. In the event of loss or destruction, sufficient back up of records should be available at a different place. Adequate measures should be taken, including insurance, to protect the interests of the beneficial owners against any risks.

Every depository is required to extend all such co-operation to the beneficial owners, issuers, issuers' agents, custodians of securities, other depositories and clearing organisations, as is necessary for the effective, prompt and accurate clearance and settlement of securities transactions and conduct of business. The depository should indemnify beneficial owners of securities for any loss caused to them due to the negligence of the DP. However, where the loss is caused due to the negligence of a DP, the depository shall have the right to recover it from such DPs.

Generally, the following securities are eligible for dematerialisation:
(a) Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate.

(b) Units of mutual funds, rights under collective investment schemes and venture capital funds, commercial paper, certificates of deposit, securitised debt, money market instruments, government securities, national saving certificates, kisan vikas patra and unlisted securities.

(c) Securities admitted to NSDL depository are notified to all DPs through circulars sent by email.

2.2. ONLINE TRADING

The primary objective of the Stock Market is to provide clear opportunity to the investors throughout the country to trade any security irrespective of the size of the order or the broker through whom the order is routed. This provides the facility to execute the buy order at the lowest price in the stock market located anywhere in the country without any extra cost to the investors. There will be no trading floor in the exchange instead; a satellite network makes it possible to connect almost all the parts of the nation quickly with high speed and quality. Online trading started in India in February 2000.

2.2.1. ONLINE TRADING BY NSE & BSE

The online system enabled more efficient processing, automatic order
matching, faster execution of trades and transparency. The scrips traded on the BSE have been classified into 'A', 'B1', 'B2', 'C', 'F' and 'Z' groups.

The 'A' group shares represent those, which are in the carry forward system (Badla). The 'F' group represents the debt market (fixed income securities) segment. The 'Z' group scrips are the blacklisted companies. The 'C' group covers the odd lot securities in 'A', 'B1' & 'B2' groups and Rights renunciations. Key regulator governing stock exchanges, brokers, depositories, depository participants, mutual funds, FIIs and other participants in Indian secondary and primary market is the SEBI Ltd.
Figure 2.1
MECHANICS OF ONLINE TRADING

CLIENT

Places an order the net of the Broker’s website through the distinctive Id code

The settlement of the deal (buy/sell order) gets reflected in his Demat account.

The client is intimated about the execution of the deal by e-mail.

BROKER

Accepts the order, Checks the client’s Identity and Places the Order

Pays the Exchange through his owns account and receives it from the client account.

STOCK EXCHANGE

Accepts the order after checking the scrip limit of the broker for the day

Receives the money and completes the settlement
**Figure 2.2**

DEMaterialisation Process

*Physical Securities → Electronic Form*

1. DRF with certificates
2. Electronic request
3. DRF with certificates
4. Forwards Demat request
5. Confirms E-request
6. Credits in BO's A/c
7. Statement of holding

**Figure 2.3**

REMATERIALisation Process

*Electronic Form → Physical Securities*

1. RRF in duplicate
2. Entres details in system
3. RRF with other Docs, if any
4. Confirms E-request
5. Debits in BO's A/c
2.3. INITIAL PUBLIC OFFER

An Initial Public Stock Offering (IPO) arises when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately owned companies looking to become publicly traded. In an IPO the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue, best offering price and time to bring it to market.

**Figure 2.4**

**INITIAL PUBLIC OFFERING PROCESS**
2.4. TRADING & SETTLEMENT

Transaction done on person-to-person basis without going through stock exchange mechanism is labelled as off market transactions. Trades done by investors through stock exchange mechanism and settled by using same stock exchange mechanism is reckoned as on market transactions. Transfer of securities through Demat Account is possible for the execution of Off Market Transactions or for settling On Market Transactions or for Inter depository transactions. SEBI (Depository and Participants) Regulations, 1996 requires depositories to be inter-connected and the Securities be available for dematerialization on both Depositories. The debit/credit instructions have to be given on inter-depository delivery or receipts forms to the DP’s of seller and the buyer and the instructions are exchanged online for each day between the depositories.
2.5. INSTITUTIONAL STRUCTURE

There are quite a few institutions that are directly and/or indirectly connected with dematerialised operations of securities. Understanding the inter-linkages and functional responsibilities of these institutions will help us to have correct and holistic perspective about functioning of dematerialisation. The institutions connected with demat operations include; Depositories, Stock Exchanges (SEs), Clearing Corporations (CCs) / Clearing Houses (CHs), Depository Participants (DPs), and Registrars and Transfer Agents (RTAs).

Both the depositories NSDL and CDSL are primarily promoted by NSE and BSE. Besides, there are many other institutional promoters in both the depositories. Most of the stock exchanges are connected with the depositories.
to provide trading in dematerialisation segment. Eventually, all the exchanges will be connected to either of or both the depositories.

The transaction cost for equity shares in India revealed substantial decrease in transaction costs and observed that the dematerialisation as one of the important factor for this trend. Functioning of clearing corporations / clearing houses materially changed after the entry of depositories; reduced manpower requirements and faster clearing operations. It also helped them to diversify into related businesses such as online stock lending. Depository participants are the new commercial intermediaries that sprang up. They interpose between investor and depository. It can be stated that they are the back-bone for the success of dematerialisation. RTAs facilitate dematerialisation and rematerialisation of shares.

2.6. MARKET MICROSTRUCTURE

Trading in dematerialised shares brought in many changes to the entire structure of the capital market functioning. With the introduction of demat, stock exchanges switched over (with a choice) from five day accounting period to T + 5 trading and settlement for demat stocks. Even for demat stocks dual settlement is in operation: fixed account period as well as rolling settlement. This partial change to T + 5 rolling settlement systems is a major shift in the market. Thus dematerialisation smoothly paved the way for rolling settlement and India joined other developed markets that are following T+ settlement system. In the physical
segment there is a long gap between delivery and payment. Clearing corporations / Clearing houses are electronically directly connected to depositories that make settlements faster and easier and it results in lesser brokerage and custodial charges. Reduced transaction costs prompts investors to trade more frequently resulting in higher volumes.

2.7. NATIONAL SECURITIES DEPOSITORY LIMITED (NSDL)

In a span of about nine years, investors have switched over to electronic [demat] settlement and National Securities Depository Limited (NSDL) stands at the centre of this change. In order to provide quality service to the users of depository, NSDL launched a certification programme in depository operations in May 1999. This certification is conducted using NCFM infrastructure created by NSE and is called "NSDL - Depository Operations Module". The programme is aimed at certifying whether an individual has adequate knowledge of depository operations, to be able to service investors.

National Securities Depository Limited is the first depository to be set-up in India. It was incorporated on December 12, 1995. The Industrial Development Bank of India (IDBI) - the largest development bank in India, Unit Trust of India (UTI) - the largest Indian mutual fund and the National Stock Exchange (NSE) - the largest stock exchange in India, sponsored the setting up of NSDL and subscribed to the initial capital. NSDL commenced operations on November 8, 1996.
2.7.1 OWNERSHIP

NSDL is a public limited company incorporated under the Companies Act, 1956. NSDL had a paid-up equity capital of Rs. 105 crores. The paid up capital has been reduced to Rs. 80 crores since NSDL has bought back its shares of the face value of Rs. 25 crores in the year 2000. However, its net worth is above the Rs. 100 crores, as required by SEBI regulations.

2.7.2. BUSINESS RULES OF NSDL

Based on the functions, NSDL enables the surrender and withdrawal of securities to and from the depository (dematerialisation and rematerialisation). It maintains investor holdings in the electronic form and effects settlement of securities traded on the exchanges. It carries out settlement of trades not done on the stock exchange (off-market trades). Moreover, the transfer of securities, Pledging/hypothecation of dematerialised securities, electronic credit in public offerings of companies or corporate actions, receipt of non-cash corporate benefits and Stock Lending and Borrowing comes under the purview of this.

2.7.3. SETTLEMENT OF DISPUTES

All disputes, differences and claims arising out of any dealings on the NSDL, irrespective of whether NSDL is a party to it or not, have to be settled under the Arbitration and Conciliation Act 1996.
Account holders (investors) open account with the DPs. The account details, entered in a computer system maintained by Depository Participants called DPM, are electronically conveyed to the central system of NSDL called DM.

Companies who have agreed to offer demat facility to their shareholders use a computer system called DPM (SHR) to connect to the NSDL central system.
DPM (SHR) may be installed by the company itself or through its R&T Agent. This system is used to electronically receive demat requests, confirm such requests or to receive beneficial owner data (Benpos) from the depository. Stock exchanges receive pay-in (receiving securities against sales made by brokers) or to payout (giving securities to brokers against their purchases) using a computer system connected to NSDL called DPM (CC).

2.7.4. DISTRIBUTED DATABASE

Each of the computer systems connected to NSDL system has its own database relating to its clients. This helps in giving prompt and accurate service to the clients. However each of the databases is reconciled with the data at the central system everyday in order to ensure that the data in the distributed database tallies with the central database.

2.7.5. COMMON SOFTWARE

NSDL develops software required by depository participants, companies, R&T Agents and clearing corporations for conducting depository operations. Thus, the computer systems used by all the entities will have common software given by NSDL. However, depending on the business potential, branch networks and any other specific features, DPs may develop software of their own for coordination, communication and control and provide service to their clients. Such exclusive software is called "back office software".
DPM system given by NSDL gives "export and import" facility to take out the transaction details to be used by back office software and to feed in transaction details generated from the back office software.

2.8. CENTRAL DEPOSITORY SECURITIES LIMITED (CDSL)

A Depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository Participant (DP), who as an agent of the depository, offers depository services to investors.

According to SEBI guidelines, financial institutions, banks, custodians, stockbrokers, etc. are eligible to act as DPs. The investor who is known as beneficial owner (BO) has to open a demat account through any DP for dematerialisation of his holdings and transferring securities. The balances in the investors account recorded and maintained with CDSL can be obtained through the DP. The DP is required to provide the investor, at regular intervals, a statement of account which gives the details of the securities holdings and transactions. The depository system has effectively eliminated paper-based certificates which were prone to be fake, forged, counterfeit resulting in bad deliveries. CDSL offers an efficient and instantaneous transfer of securities.

CDSL was promoted by Bombay Stock Exchange Limited (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India and Centurion Bank.
CDSL was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants.

2.9. RECENT CHANGES

Repealing the Capital Issues (Control) Act of 1947; setting of SEBI, freeing the companies to approach capital market after clearance by SEBI; allowing the FII’s an access to the domestic capital market on registration with SEBI; permitting private sector to set up mutual funds; relaxing the guidelines for investment in money market instruments; bringing UTI under the regulatory jurisdiction of SEBI; commencing the operations of OTCEI and NSE with nationwide stock trading and electronic display, clearing and settlement facilities; dematerialisation of the Indian stock markets, establishment of depositories, replacement of ‘badla’, implementation of ‘rolling-settlement system, permitting Indian companies an access to international capital markets through Euro Equity Issues and liberalisation of the investment norms for NRI’s are some of the major changes brought in to the capital market structure of India. The following discussions give an insight about the notable reforms that have taken place over the years, more specifically after the initiation of the liberalisation process in 1991.
2.9.1. COMPILATION OF SENSEX

The BSE index number of equity prices (base year 1978-'79 = 100) comprising of 30 scrips was introduced on 2nd January, 1986. The index has established a place for itself amongst everyone concerned with the securities market and has been widely accepted as fair reflector of the trend of prices on the Bombay Stock Market. Since September 2003 the SENSEX is calculated on a free-float market capitalisation methodology, which is the global best practice. The Exchange launched dollar linked version of BSE-100 index, which is Dollex-100 on 22nd May 2006. The value of all BSE indices are updated every 15 seconds during the market hours and is displayed through the BSE Online Trading (BOLT) System, BSE website and news wire agencies.

2.9.2. ESTABLISHMENT OF CRISIL

Credit Rating and Information Services of India Ltd was promoted in 1987 by the Industrial Credit and Investment Corporation of India Limited (ICICI) and Unit Trust of India (UTI) to enable the investors with superior information at low cost and take calculated risk in the investments. The principal objective of CRISIL is to rate debt obligations of Indian companies. The ratings provide a guide to the investors as to the degree of certainty of timely payment of interest and principal on a particular debt instrument.
2.9.3. ESTABLISHMENT OF SEBI

Securities markets and be responsible for fostering its development, was widely felt. SEBI established in 1988, is an administrative arrangement. In 1992, the SEBI Act was enacted, which gave it the statutory status. In keeping with these statutory objectives, the SEBI has set for itself strategic aims for each of the four key spheres which encompass SEBI’s activities in relation to the investors, issuers, intermediaries and the regulatory regime. To the investors, the SEBI strives to assure that their rights are protected; they are enabled to make informed choices and decisions in a market which is fair in the financial dealings.

SEBI has been constantly reviewing and reappraising its existing policies and programmes, formulating new policies and regulations to nurture areas hitherto unregulated/inadequately regulated and to implement them in a manner to promote the growth of the market with transparency, fairness, efficiency and integrity. The SEBI has been taking measures to modernise the securities market to enhance its fairness, transparency and efficiency. The SEBI has also stepped up its efforts to protect the integrity of the market through various risk containment measures, speedy detection and deterrent action in case of market frauds, surveillance system and enforcement actions.
2.9.4. ESTABLISHMENT OF OTCEI

The traditional stock exchanges failed to provide adequate liquidity to small scrips and access to small investors and it made the investors to lose confidence in market especially because of lack of transparency of operations. OTCEI is a company incorporated under section 25 of the Companies Act 1956, with the objective of setting up a national, ringless, screen based, automated stock exchange.

OTC markets are envisaged as floorless security trading system equipped with computer network through which nationally and internationally scattered buyers and sellers can conduct business more efficiently. Investors can walk into any of the counters of members and dealers, see the quote-display on the screen, decide to deal and conclude the transaction, ensuring faster transfers. The concept of immediate settlement makes it better for the investor. Investor will trade, not with share certificate, but with a different tradable document called Counter Receipt (CR).

2.9.5. ENTRY OF FOREIGN INVESTMENT INTO INDIAN CAPITAL MARKET

Foreign Investment was not welcome into India until 1991. The policy framework for the inflow of capital was liberalized through the 1990’s. Foreign Institutional Investors (FII’s) investment into portfolios was permitted and Indian companies were permitted to raise resources through the international markets in
the form of European Convertible Bonds (ECB’s) and Global Depository Receipts (GDR’s). Foreign Direct Investment (FDI’s) was liberalized and multinational companies were sought by state governments to invest into infrastructural and other projects. The dramatic change in the environment led to a surge in capital flows during mid 1990’s. It is mandatory for FII’s to register itself with SEBI before it is permitted to buy Indian Stocks. FII’s were allowed to invest in the capital market securities from September 1992. Foreign investment has entered India mainly in three ways through direct investment, through FII’s and in the form of ADR’s/GDR’s.

2.9.6. ESTABLISHMENT OF NSE

National Stock Exchange of India Limited was established in November 1992 and was given recognition as a stock exchange in April 1993. NSE has been playing the role of a catalytic agent in reforming the market in terms of microstructure and market practices. NSE has set up infrastructure that serves as a role model for the securities industry in terms of trading systems, clearing and settlement practices and procedures, fine tuned risk management system etc. The standard set by NSE in terms of market practices, products, technology and service standards have become industry benchmarks and are being replicated by other market participants.

It provides screen-based automated trading system with a high degree of transparency and equal access to investors irrespective of geographical location.
The high level of information dissemination through on-line system has helped in integrating retail investors on a nation-wide basis. The exchange currently operates three market segments, namely Capital Market Segment, Wholesale Debt Market Segment and Futures and Options segment.

2.9.7. ROLLING SETTLEMENT

The account period settlement mechanisms which was being followed in the stock exchanges before the introduction of rolling settlement provided for settlement of transactions on a fixed day only, irrespective of when the transaction took place. The system earlier had a fortnightly account period settlement, which was changed in September 1996 into a weekly settlement with the settlement period being Monday to Friday. The account period based settlement hampered the liquidity of the market as well as the liquidity of individual investors. Moreover there was a system of carryover of the settlement wherein the transaction could remain unsettled and could be carried over to the next settlement period (by paying badla charges).

With a view to introduce greater transparency, liquidity and with a view to reduce the excessive speculation and problems of defaults, the mechanism of rolling settlements was introduced and has been gradually extended in coverage and scope. Under this mechanism every transaction is to be settled within a specified number of days, rather than on a fixed weekly or fortnightly day (e.g., T+3 means transaction plus 3 days is the settlement period).
The shift from the traditional account period settlement marks an important change in the market design and age old practices. Rolling settlement is an important measure to enhance the efficiency and integrity of the securities market. In January 1998, SEBI had introduced rolling settlement on a voluntary basis for demat securities. However, as there was hardly any response to the voluntary schemes, SEBI introduced compulsory rolling settlement, initially for 10 scrips in January 2000 and then increased the number of scrips in a phased manner.

In July 2001, soon after the market crash in March 2001, SEBI shifted 414 stocks to the rolling T +5 settlement mode and made settlement cycles uniform across all exchanges for the remaining stocks. In April 2002, the T+5 settlement cycle was further reduced to T+3. From April 2003, the settlement cycle has further compressed to T+2, with the aim of moving in to T+1.

2.9.8. OPERATIONALISATION OF FULLY ELECTRONIC TRADING PLATFORM

NSE was the first exchange in the world to use satellite communication technology for trading. It has helped in shifting the trading platform from the trading hall in the premises of the exchange to the computer terminals at the premises of the trading member’s located country wide and subsequently to the personal computers in the homes of investors. Its trading system called National Exchange for Automated Trading (NEAT) is a state of-
the-art client server based application. With recent up gradation of trading hardware, NSE can handle up to 2.5 million trades per day.

NSE has also put in place NIBIS (NSE’s Internet Based Information System) for on-line real-time dissemination of trading information over the internet. The values of all BSE indices are presently updated every 15 seconds during the market hours and displayed through the BSE Online Trading (BOLT) system.

2.9.9. STRAIGHT THROUGH PROCESSING (STP)

Straight Through Processing (STP) was launched in India in November 2002. This actually is a process driven mechanism to control all elements of the work flow in a financial transaction that allows electronic capturing and processing of transactions in one pass from the point of origination to settlement. NSE has now set up the STP Central Hub (in 2004) to provide inter-operability between the STP service providers. The STP Central Hub facilitates the smooth flow of messages between users of different service providers. SEBI has directed that all the institutional trades executed on the stock exchanges shall be mandatorily processed through STP System with effect from 1st July 2004.

SEBI has been working towards further shortening the two day delay between the transaction date and settlement date and aims to move to the T+1 settlement from the present T+2. This effort was constrained by the limited ability
of the payments system to move funds across the country and also required electronic data exchanges within the securities industry called 'STP mechanism. Now with the first phase of the STP implementation in place, focusing on the transaction flow between institutional investors, custodian banks and brokers, it is hoped that movement towards T+1 settlement would be facilitated at the earliest.

2.9.10. CORPORATISATION & DEMUTALISATION OF STOCK EXCHANGE

SEBI constituted a group of eminent persons to recommend the steps that needs to be taken to implement Demutalisation and Corporatisation of India Stock Exchanges. The Securities Contracts (Regulation) Act, 1956 was amended in October 2004 to facilitate the Corporatisation and Demutalisation of stock exchanges. All stock exchanges were converted into corporate entities in the year 2006-07.

In order to fully complete the demutalisation process, the stock exchanges were required to ensure that at least 51 percent of their equity share capital is held by public other than shareholders having trading rights. 16 stock exchanges had completed their demutalisation process.

2.9.11. ESTABLISHMENT OF CENTRAL LISTING AUTHORITY (CLA)

Central Listing Authority (CLA) is a regulatory authority established by SEBI. CLA is charged with the responsibility of scrutinising and approving all applications to list securities in the stock exchanges and to make
recommendation to SEBI on issues concerning the protection of interest of investors in securities and the development and regulation of the securities market. CLA will bring uniformity in the due diligence process and in scrutinising applications across the stock exchanges. Once CLA is fully functional, it would centralise the listing function which currently takes place at the exchange level.

2.9.12. MARKET PARTICIPANTS & INVESTORS INTEGRATED DATABASE (MAPIN)

As per the SEBI (Central Database of Market Participants) Regulations, 2003 all the participants in the Indian securities market viz, intermediaries, listed companies and their associates and the investors would need to get registered and obtain a Unique Identification Number (UIN). The major objective of this was to create a comprehensive database of the market participants.

Once created, the database would not only help the regulator in establishing the identity of persons who have taken exposures in the market through a large number of different brokers, but also enable the regulator to take adequate risk containment measures. Moreover, in the event of a failure of market integrity, an immediate audit trail would be possible and the regulator would be able to take early preventive measures to track down the defaulters.
2.9.13. INTRODUCTION OF DMA

In order to increase liquidity, transparency, lower impact cost for large orders and to reduce the risk of errors associated with manual execution of client orders, the facility of Direct Market Access (DMA) was introduced. This facility allows brokers to offer its clients direct access to the exchange trading system through the broker’s infrastructure without manual intervention by the broker. Brokers interested in offering DMA facility to their clients shall apply to the respective stock exchanges ensuring that software and systems are in place that supports direct access. The brokers shall be fully responsible and liable for all orders emanating through their DMA systems. They shall offer this facility to their clients after fulfilling KYC (Know Your Customer) norms, and after carrying out due diligence regarding clients credit worthiness, track record of compliance and risk taking ability.

2.9.14. MANDATORY REQUIREMENTS OF PAN

SEBI stipulated that PAN would be the sole identification number for all participants in the securities market, irrespective of the amount of transaction with effect from 2\textsuperscript{nd} July 2007. Market intermediaries were advised to ensure that their client’s transactions are linked to the PAN details of the client with which detailed analysis could be made and to build the necessary infrastructure for enabling accessibility and query based on PAN thereby enabling retrieval of all the details of the clients.
2.9.15. REPLACEMENT OF BADLA

‘Badla’ means finance charges paid or received for carrying forward a transaction (sale/purchase) from one settlement period (generally a week) to the next settlement period. For all purposes ‘badla’ was a practice between two brokers whereby a share deal (transaction) could be postponed (carried forward) from one week to the next by paying some finance charges. These finance charges were called as ‘badla’. At the end of the second week a deal may or may not be materialised which meant that it gave an opportunity to brokers to speculate. ‘Badla’ was replaced by ‘Rolling-Settlement’ in 2001. ‘Rolling-Settlement’ means that a share deal must necessarily be materialised with a given time period by taking delivery of shares and giving cash and vice-versa. It started in 2001 on the basis of ‘T+5’, which means within 5 days of the day of transaction the deal must be materialised. At present it is ‘T+2’.

2.9.16. DEMATERIALISATION

‘Demat’ means dematerialisation; that is paperless trading. Demat trading implies that an investor has to open a demat account with a bank or a financial institution or broking firm, which sends its application to the depository which allots an electronically coded demat account number. This implies that without any physical share certificate an investor can buy/sell shares. The geographical coverage of depository participants (DP’s) of NSDL and CDSL also widened in 2008-09. The DP’s of NSDL were available at 946 cities in 2008-’09 as compared
to 803 cities in 2007-‘08. In case of CDSL, DP’s were available at 815 cities in 2008-‘09 as compared to 740 cities in 2007-‘08.

2.9.17. DERIVATIVE TRADING

It means trading of a stock/commodity by way of ‘futures & options’, the former imply that the deal must be materialised within a prescribed time period, while the latter implying that option can be exercised to materialise or not materialise the deal by giving some margin money. The objective of derivative trading is to hedge future risks. In India SEBI has identified scripts in which it permits derivative trading. Thus, the Indian stock market is now classified into two; viz Cash Segment based on ‘rolling-settlement’ and the Credit Segment based on ‘derivative-trading’. Hence, derivative trading is permitted in the Indian stock market by SEBI.
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