

Depository Services

Introduction :

We have pleasure in informing you that the scripts of your company are amongst the first ten securities which have been notified by SEBI to be compulsorily traded in electronic form with effect from 4th January, 1999. We, therefore, feel that we should share with you certain information regarding the Depository System so as to assist you in converting your physical holdings into electronic form.

Need for Depository System :

The trading in physical segment is full of inefficiencies due to handling of large volumes of certificates and also involves various other problems like delays in transfer, delay in settlement, loss in transit, forged certificates, stolen certificates, mutilation of certificates, postal losses, court cases, litigation etc. To overcome these deficiencies, 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 first depository set up in India is National Securities Depository Limited (NSDL) and is promoted by IDBI, UTI and NSE.

What is Depository ?

Depository is an organisation which holds your securities in electronic (also known as 'book entry') form, in the same manner as a bank holds your money. Further, a depository also transfers your securities without actually handling securities, in the same day as a bank transfers funds without actually handling cash.

Benefits of Depository System :

1. No danger of loss of share certificates since the shares are credited to your account.
2. No possibility of bad deliveries.
3. Elimination of all risk associated with physical certificates such as loss, theft, forgery, mutilation etc.
4. No need to affix share transfer stamp as it is a paperless trading.
5. No postal / courier charges.
6. Less brokerage charges.
7. After the settlement, pay in and pay out are on the same day for paperless trading which means you get your securities and cash immediately.
8. Scriptless trading helps allocate corporate benefits faster.
9. Facilitates pledging and hypothecation of your securities.
10. Eliminates the problem of odd lot shares.
11. Facility to lock your account if you are abroad.

Services offered by NSDL :

The following services are offered by NSDL to the investors, through its agents viz. Depository Participants.

1. Holding the investors securities in electronic form.
2. Dematerialisation and rematerialisation of securities.
3. Settlement of trades in electronic form.
4. Electronic credit of public offerings and non-cash corporate actions such as rights, bonus etc.

Steps involved in joining depository system :

There are 3 steps in which an investor can convert his physical certificate into electronic form.

1. Open an account with one of the participants of NSDL (A participant is a market intermediary through whom NSDL interacts with the investors).
2. Sign an Agreement with the participant.
3. Submit Dematerialisation Request form along with share certificate to the Issuer.

How do you open a depository account ?

Choose a participant from amongst the participants (a list of participants is given in Annexure-A) offering depository services and registered with NSDL. Thereafter :

- a. Fill up an Account Opening Form available with the participant.
- b. Sign 'Participant-Client Agreement'.
- c. Receive your account number which should be quoted in all your correspondence.
- d. Your participant will provide you a statement of holdings and statement of transactions (like a bank pass book) every fortnight giving details of your holdings and transactions in your account.

Dematerialisation Process :

Once the account is opened, your existing shares can be dematerialised and converted into Electronic Form. Dematerialisation is a process by which you can deposit (i.e. demat) shares of any company listed on NSDL which are registered in your name and convert your physical holdings into electronic form. For this purpose, you have to

- a. Fill a Dematerialisation Request Form available with your participant.
- b. Submit your share certificates along with the above form. (Please write 'Surrendered for Dematerialisation' on the face of each certificate before you submit it for dematerialisation).

- c. Your account will be credited within 15 days.
- d. If you wish to convert your electronic shares back to physical shares at a later stage, you may do so by applying for rematerialisation.

How do you trade in electronic shares :

Demat segment on the National Stock Exchange

When you wish to purchase shares from the secondary market, you can also buy them directly in the Electronic Form. For this purpose, there is a separate buying and selling electronic shares is just like buying and selling shares in physical segment. The following procedure be adopted for trading in electronic segment.

1. If you desire to sell shares in electronic form, you place an order with your broker under the Demat segment and instruct your participant by way of a Delivery Instruction (resembling a cheque) to debit your account with the number of shares sold by you.
2. If you wish to buy shares in electronic form, you must inform your broker about your depository account number so that electronic shares bought by you are credited into your account and instruct your participant by way of Receipt Instruction to receive credit in your account.
3. Payment for the shares bought or sold in depository mode is made in the same manner as in the physical securities.
4. The shares you have bought are transferred in your name the very next day of pay out without any risk of bad deliveries. No formalities of filling transfer deed, affixing share transfer stamp etc. is required to be complied with.

Depository Services - fee structure :

The charges for the services provided by the participant by the participant may vary from participant to participant. The following statement indicates the fee structure of the participant

- | | | | |
|----|------------------------|---|---------------------------------------------------------------------------------------------------------|
| 1. | Account opening | - | Nil - Rs.1,000 |
| 2. | Account closing | - | Nil - Rs.1,000 |
| 3. | Dematerialisation | - | Rs.2 per certificate-Rs.10 per certificate |
| 4. | Rematerialisation | - | Rs.15 per certificate-Rs.25 per certificate |
| 5. | Custody charges | - | 0.055% p.a. (since your company has paid one time custody charges to NSDL, custody charges will be NIL) |
| 6. | Transfer fee (buy) | - | 0.05% - 0.15% on value |
| 7. | Transfer fee (sell) | - | 0.025% - 0.15% on value |
| 8. | Off market transaction | - | 0.10% - 0.12% |
| 9. | Annual charges | - | Rs.500 - Rs.10,000 (depending on value) |

DEPOSITORY SYSTEM

I General

What is a depository ?

A depository can be compared to a bank. A depository holds securities of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities.

A depository interfaces with its investors through its agents called Depository Participants (DPs). If an investor wants to utilise the services offered by a depository, the investor has to open an account with a DP. This is similar to opening an account with any branch of a bank in order to utilise the bank's services.

Who are the depositories ?

Depositories are those who are licensed by the Securities and Exchange Board of India (SEBI) to undertake depository functions i.e. holding and handling of securities in electronic form. The National Securities Depository Ltd. (NSDL) promoted by UTI, IDBI and NSE is the first depository of India. The Stock Exchange, Mumbai has promoted Central Depository Services (India) Ltd. (CDS) which has drawn plans to set up the second depository in the country.

Is a depository just another custodian, the only difference being that the securities in a depository are held in electronic form ?

No. The depository is not just another custodian. The depository can legally transfer beneficial ownership, which a custodian cannot. The main objective of a depository is to reduce settlement risk by minimising the paperwork involved in trading, settling and transferring securities.

II Benefits

What are the benefits of a depository ?

The benefits of participation in a depository are :

- * no bad deliveries;
- * immediate transfer of shares and registration of securities, increasing liquidity of stocks with investors;
- * no stamp duty on transfer of shares;
- * considerable reduction in the handling of large volumes of paper;
- * elimination of risk associated with physical certificates such as loss, theft, mutilation and forgery;
- * reduction in transaction cost;
- * option to deliver dematerialised securities in the dematerialised or physical segment with effect from 6th April, 1998 on both NSE and BSE. But physical securities not allowed to be delivered in dematerialised segment, making dematerialised stock held with investors more liquid than physical stock;
- * pay-in and pay-out of securities and funds on the same day for scripless trades;

- * faster settlement cycle;
- * faster disbursement of corporate benefits like rights and bonus;
- * reduction in rate of interest on loans granted against pledge of dematerialised securities by banks;
- * lower margin on securities pledged with banks;
- * reduction in brokerage by several brokers for trading in dematerialised securities; and
- * periodic status reports to investors on their holdings and transactions, leading to better controls

III Services

What are the facilities offered by NSDL ?

NSDL offers the following facilities :

- * dematerialisation i.e. converting physical certificates to electronic form;
- * rematerialisation which is the opposite of dematerialisation;
- * transfer of securities;
- * settlement of trades done in the depository (dematerialised) segment of stock exchanges;
- * pledging/hypothecation of dematerialised securities;
- * electronic credit in public offerings of companies; and
- * receipt of non-cash corporate benefits such as bonus and rights in electronic form.

IV Account Opening

Investors would have to open an account with a DP if they want to participate in the depository. Now, who is a DP ?

NSDL interfaces with investors through its agents called Depository Participants (DPs). According to SEBI guidelines, financial institutions, banks, custodians, stockbrokers, etc. can become DPs. A list of DPs presently authorised by NSDL is appended hereto and marked Appendix 5. You can also get an up-to-date list of DPs from National Securities Depository Ltd., Trade World, 5th Floor, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400 013. The DPs may also advertise the services offered by them once they are registered.

What should I do when I want to open an account with a DP ?

The process of opening an account with a DP is similar to the opening of a bank account. You can approach any DP of your choice and fill up an account opening form as given in Appendix 1. At the time of opening an account, the DP will sign a standard agreement with you, which details the rights and duties of both yourself and your DP. On opening the account, you will be allotted an unique ID number which is to be quoted in all future correspondences.

Am I restricted to having only one DP ?

There are absolutely no restrictions on the number of DPs you can open account with. Depository accounts are similar to bank accounts. Just as you can have accounts with more than one bank, you can open accounts with more than one DP. In case of joint holdings, you need to open accounts in the same order of names in which you hold the securities. If you hold shares in different permutations and combinations, you will have to open in as many accounts as you hold shares jointly in various names.

Do I have to keep any minimum balance of securities in my account with my DP ?

No. The depository has not prescribed any minimum balance. In fact, you can even have zero balance in your account.

V. Dematerialisation

What do you mean by dematerialisation ?

Dematerialisation is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited to the investor's account with his DP, same as cash is deposited in your Bank Account.

In order to dematerialise his/her certificate, an investor will have to first open an account with a DP by filling up an application form (Appendix 1) and then request for the dematerialisation of his certificates by filling up a Dematerialisation Request Form (DRF) (Appendix 2) which is available with his DP. The DRF should be submitted to the Company along with the share certificate duly defaced with the words "Surrendered for dematerialisation" through the DP.

Can I dematerialise any share certificate ?

You can dematerialise only those certificates that are already registered in your name and belong to the list of securities admitted for dematerialisation at NSDL. Shares held in street names (blank transfers) cannot be dematerialised. A large number of blue chip companies have already joined NSDL. It is expected that most of the companies will admit their shares to the depository system.

Do my dematerialised shares have distinctive/certificate numbers?

No. Your dematerialised shares do not have any distinctive or certificate numbers. These shares are fungible - which means that 100 shares of a security are the same as any other 100 shares of the security.

Can I dematerialise odd lot shares?

Yes. Odd lot share certificates can also be dematerialised.

How long does the dematerialisation process take ?

Dematerialisation normally takes about 15 days. However, this may extend to about 30 days if the number of certificates submitted is very large.

Is dematerialisation compulsory ?

An investor has the option to hold shares either in physical or in dematerialised form. However, settlement of trade in respect of specified scrips (including that of RELIANCE ENERGY) will be compulsorily in dematerialised form with effect from 4th January, 1999. Thus, to deal in shares, it is essential to open a depository account with any DP.

Who is the registered holder of shares when the shares are dematerialised ?

NSDL is the registered holder of the shares but the rights of ownership such as voting rights and dividend vest with the shareholder, who will be the deemed member or the beneficial owner of shares.

VI. Rematerialisation

Can my electronic holdings be converted back into certificates again ?

Yes. If you wish to get back your securities in physical form, all you have to do is to request your DP for rematerialisation of the same (Appendix 3). "Rematerialisation" is the term used for converting electronic holdings back into certificates. Your DP will forward your request to NSDL after verifying that you have the necessary balances. NSDL in turn will intimate the registrar (in the case of RELIANCE ENERGY, its Investor Service Centre) who will print the certificates and despatch the same to you.

Will I get back the same certificates after rematerialisation?

You may or may not be allotted certificates with the same distinctive and certificate numbers. However, it does not matter really. You will usually be allotted new folio number. However, if you already have an existing folio number, your electronic holdings may also be credited to the same folio.

VII. Trading / Settlement

What are the trading options available in stock exchanges?

At present, the facility of trading and settlement in dematerialised shares is available in The Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE), Bangalore Stock Exchange (BgSE), The Calcutta Stock Exchange Ltd (CSE), The Delhi Stock Exchange Association Ltd (DSE), Ludhiana Stock Exchange (LSE) and the Over The Counter Exchange of India (OTCEI).

These Stock Exchanges have distinct trading segments viz. the unified (physical) and depository (dematerialised). In the unified segment, investor has the option of delivering physical or dematerialised shares. However, with effect from 4th January, 1999 shares included in the list of select list of companies (including of RELIANCE ENERGY) can be delivered only in the dematerialised form in all stock exchanges linked to NSDL. The other stock exchanges, at present, have only the physical segment. However, in times to come, other stock exchanges too may be providing depository segments.

The settlement of trades done in the exclusive dematerialised segments at BSE, DSE, NSE, BgSE, CSE, DSE and OTCEI follow the rolling settlement concept, where trade done on each day is settled after a fixed number of days. Right now, the dematerialised segments follow T+5 rolling settlement, which means that trades are settled on the fifth working day from the date of the trade.

What is the process for selling dematerialised shares?

The procedure for selling dematerialised shares in stock exchanges is similar to the procedure for selling physical shares. In this case, instead of delivering physical shares to the broker, you instruct your DP to debit your account with the number of shares sold by you and credit your broker's clearing account. This delivery instruction has to be given to your DP in a standardised form, which will be available with your DP. The transactions relating to sale of shares is summarised under :

- * Investor sells shares in any of the stock exchanges linked to NSDL through a broker.
- * Investor gives instruction to his DP for debit of his account and credit of his broker's CM Pool account.
- * On the pay-in day, Investor's broker gives instructions to his DP for delivery to clearing corporation of NSE, BSE, CSE, BgSE, OTCEI, LSE or DSE as the case may be.
- * A broker receives payment from clearing corporation.
- * Investor receives payment from the broker for the sale as in the physical mode.

How can I purchase dematerialised shares?

The procedure for buying dematerialised shares in stock exchanges is similar to the procedure for buying physical shares. When you want to purchase shares in electronic form, you have to instruct your broker to purchase the dematerialised shares from the stock exchanges linked to NSDL. Once your order is executed, you have to give your DP an instruction (in a simple form which is available with your DP) to receive securities into your account from your broker's depository (clearing) account. Alternatively, you may give one time standing instruction to receive credits into your account (this facility will be shortly available). You have to ensure that your broker too gives a matching instruction to his DP to transfer the shares purchased on your behalf into your account. The investor should also ensure that the broker transfers the shares purchased from the clearing account of the broker to the investor's depository account. Shares that remain in the clearing account of the broker on the book closure / record date will not be eligible for corporate benefits.

The transactions relating to purchase of shares are summarised below :

- * Investor purchases shares in any of the stock exchanges linked to NSDL through a broker.
- * Broker arranges payment to clearing corporation (CC).
- * Broker receives credit in his Pool Account with his DP on the pay-out day.
- * Broker gives instructions to his DP to debit his account and credit his client's account.
- * Investor gives instruction to his DP for receiving credit in his Investor account.
- * If the instructions match, Investor's account with his DP is credited.
- * Investor makes payment to broker as in the physical mode.

Why should I, as an investor, prefer to buy dematerialised shares?

When you buy dematerialised shares, you become the owner of those shares as soon as they are credited into your account. This is unlike the physical market where it may take anywhere between 2 to 3 months to get the shares transferred in your name. Further, the possibility of loss or theft of share certificates is completely eliminated.

As you do not have to send the share certificates to the company for transfer, you would save on the postal / courier cost. This is in addition to the saving in stamp duty of 0.5% which works out to Rs.50 for transfer of shares worth Rs.10,000.

Very often, the physical shares sent for transfer are returned under objection by companies, which would mean further follow up with your broker, resulting in further postal / courier expenses.

Also, as dematerialised securities are almost risk-free, a number of brokers have lowered their brokerage charges by almost 50% for deals done for dematerialised shares as against the brokerage on physical shares.

Is it true that from 6th April, 1998 onwards investors have the facility of delivering dematerialised shares in the physical segment of stock exchanges ?

Yes. From 6th April, 1998 investors have the facility of delivering dematerialised shares in the physical segment of stock exchanges.

Is the above facility available only for those securities that are to be compulsorily sold in the depository segment of stock exchanges by institutions?

No. Dematerialised shares of all the companies that are eligible for dematerialisation can be delivered against obligations in the physical segment. This also applies to delivery against auction of shares in the physical segment.

Will delivery of dematerialised shares against obligation in physical segment be allowed by the exchanges ?

This facility is presently made available only at BSE, NSE, BgSE, CSE, DSE, LSE and OTCEI as only in these exchanges, trading in dematerialised shares has commenced. Some more exchanges are likely to start demat segment by joining NSDL. They too will then be able to offer this facility.

The securities allowed for dematerialisation at NSDL are available for trading at the exchanges only about a month after starting of dematerialisation. In this background, can dematerialised shares be delivered in the physical segment before trading in depository segment of exchange has commenced ?

Yes. Once dematerialised shares are credited to your account, they can be delivered in the physical segment against delivery obligation in that segment even before trading in the depository segment of exchanges has commenced.

Can physical shares be delivered against delivery obligation in the depository segment of stock exchanges ?

No. Physical shares cannot be delivered against delivery obligation in the depository segment of stock exchanges.

When dematerialised shares are delivered in the physical market, will the buying broker whose receipt obligation has been matched against dematerialisation delivery, be provided with physical certificates after rematerialisation ?

No. In such cases the buying broker will receive his shares in the demat form. He should, therefore, strongly advise his clients to open depository accounts before he buys shares of companies admitted in the depository for them, failing which the investor will be unable to receive delivery.

Are you not forcing the investors, against their interest, to open accounts by this new guideline ?

It is not against the interest of investors to deal in demat shares. The major reason for the investors not opening depository accounts was lack of liquidity in the demat segment, although they were quite convinced about its benefits. The new guidelines remove this bottleneck, as it will be possible to deliver demat shares in the physical segment.

Under the 6th April, 1998 guideline, if an investor intends delivering dematerialised shares in the physical segment then does he have to send his trade on the fifth working day as in the depository segment which follow rolling settlement ?

No. The trading and settlement cycle remain the same in the physical segment irrespective of whether the delivery will be made in the unified (physical) or dematerialised form.

But an investor who is buying shares for long term investment, will now have to pay custody charge if he receives delivery in demat form, against a purchase in physical segment. Won't this load him with extra cost ?

If an investor purchases shares for long term investment, he would get them registered in his name. In case of physical shares, this involves risk and cost, whereas demat delivery eliminates risk and reduces cost. Let us see the various elements of costs and savings. In case an investor (long term) receives demat shares, he would save on the stamp duty of 0.5% (Rs.50 on a purchase of Rs.10,000) as against a settlement cost of 0.05% - 0.1% (Rs.5 to 10 for a trade of Rs.10,000) in the depository. This saving itself will fund the custody cost of 0.05 to 0.1%.(Rs.5 to 10 for custody of shares worth Rs.10,000) per year for four years. (Here the custody charge is taken as 0.05% to 0.1% which is the average market range today). In addition he would also save on the courier cost for forwarding these shares to the R&T agent, which could be around Rs.30. He can also be sure that these shares will be genuine and can never come back to him due to company objection for signature mismatch when he sells them. In addition, he also saves on brokerage, if and when he sells in demat form since brokers charge lessor brokerage for trading demat shares.

What is the advantage of one-time charge of custody fees paid by RELIANCE ENERGY to NSDL ?

The cost of custody fees with respect to shares of RELIANCE ENERGY and other investor-friendly companies has come down as they have paid an one-time custody charge to NSDL, which has facilitated waiver of custody charge by NSDL for ever. DPs have passed on this benefit to their clients which results in a reduction to the extent of 0.02% (Rs.2.00 per annum for custody of shares worth Rs.10,000 from the above cost). A comparison of costs for a long term investor who buys shares worth Rs.10,000 and keeps them in NSDL for a period of five years without transacting is as under:-

Item	Physical (Rs.)	NSDL (demat) (Rs.)	Savings (Rs.)
Brokerage	75 - 100	50 - 75	25 - 30
Stamp duty	50	-	50
Postal charges	10 - 30	-	10 - 30
Company Objection	10 - 30	-	10 - 30

(Notarisation, etc.)

Settlement charges	-	5 - 10	(5 - 20)
Custody (five years)	-	15 - 25	(15 - 25)
Total			75 - 95

* NSDL has further reduced custody charges levied on its depository participants from 0.02 per cent p.a. to 0.01 per cent. The new rates would be applicable from 1st April, 1999. It has also reduced transaction charges from 0.05 per cent to 0.04 per cent

But what is the benefit for a trader who buys and sells very often ? He doesn't spend for stamp duty on the physical shares any way,

A trader who buys and sells very often will have the saving in brokerage as explained in the question above if he transacts in dematerialised shares. If we assume that the trader turns over his portfolio of Rs.10,000 ten times in an year without transferring them to his name, the total custody cost for him for the year will only be Rs.2.50 to Rs.5 and settlement cost will only be Rs.50 to Rs.100 as against a saving in brokerage of Rs.250 to Rs.500.

In addition, he also saves on most of his expenses of back office for handling the physical paper and can be assured of getting only clean deliveries. Further, the transaction statement given by NSDL can be used as an effective record keeping tool.

Cost comparison for a trader who turns over his portfolio worth Rs.10,000 ten times in a year is as under:-

Item	Physical (Rs.)	NSDL (demat) (Rs.)	Savings (Rs.)
Brokerage	750 - 1,000	50 - 750	250 - 500
Settlement Charges	-	50 - 100	(-50 - 100)
Custody		3 - 5	(-3 - 5)
Total			197 - 390

What are the additional advantages and savings in keeping shares in the dematerialised form?

An investor can also receive his bonuses and rights directly in his depository account as a direct credit, thus eliminating risk or loss in transit. He can also expect a lower interest charge for loans taken against demat shares compared to the interest for loan against physical shares. This could result in a saving of about 0.25% to as high as 1%. The RBI has increased the limit for loans against demat securities as collateral to Rs.20 lakhs compared to Rs.10 lakhs against shares in physical form. Besides, the minimum margin is pegged at 25% compared to 50% for securities in physical form.

Moreover, an investor holding shares in the physical form has a risk of mutilating or losing his shares. In such cases, the cost of obtaining duplicate shares will be about Rs.500. An investor holding shares in the dematerialised form will never have to incur this cost.

Whenever an investor holding shares in physical form, changes his address or specimen signature, he will have to write separate letters to each of the companies (or registrars) in which he holds shares. If we assume that an investor has holding in 10 companies, then the cost for sending a registered letter to these 10 companies or (registrars) would be Rs.150. As against this, an investor holding shares in dematerialised form needs to inform only his DP where his shares have been deposited.

Today NSDL has only about 74 DPs in operation and most of them are based in major cities. Won't this create inconvenience to retail investors in the far way locations ?

Most of the DPs who are offering services to retail investors like banks, and brokers have large network all across the country. Although they have started their DP operations from one or a few locations, they are in the process of extending this facility to other locations. In fact, as on today all these DPs together are offering DP services from about 598 locations. It is expected that with the rise in interest in this segment, the DPs would increase their reach at a faster pace, thus covering more locations.

In addition, the broker through whom an investor deals in BSE, NSE, BgSE, CSE, DSE and OTCEI or DSE will already have a Clearing Member (CM) account with a DP. This broker could help the investor to open a depository account with the same DP. He may be quite willing to do so as this completely eliminates his risk as an introducing broker.

VIII. Public Issues

Is it possible for me to get securities allotted to me in public offerings directly in dematerialised form ?

Yes. In fact, in the public issue application form of depository eligible companies, there will be a provision for you to indicate the manner in which you want the securities allotted to you. All you have to do is to mention your client account number and the name and identification number of your DP and any allotment due to you will be credited to your account.

IX. Corporate Actions

Who will give me the benefits arising out of my holdings, say a bonus or a dividend ?

When any corporate event such as rights or bonus or dividend is announced for a particular security, NSDL will give the details of all the clients having electronic holdings in that security as of the record date to the registrar or share transfer agent. The registrar will then calculate the corporate benefits due to all the shareholders. The disbursement of cash benefits such as dividend/interest will be done by the registrar whereas NSDL will do the distribution of securities entitlements (Rights or Bonus) based on the information provided by the registrar to all those clients who have opted for electronic allotment.

Does the Investor have any option for the manner in which he wish to receive his corporate benefits?

In case of those corporate events where Investor can exercise his option such as rights issue or optional conversion of debentures to shares, or issue of bonus shares, investors have a choice of either physical or electronic mode of holdings. If he does not opt for holdings in electronic mode, his entitlement will be given in physical mode.

In case of discrepancies in corporate benefits whom do I contact ?

You can approach your DP who in turn will contact the registrar for clarifications regarding allotment of securities. In case of discrepancies in cash benefits like dividend, you will have to contact the registrar.

X. Nomination

Is nomination facility available for my holdings in the depository system?

The investors have an option of nominating persons who would be entitled to receive shares outstanding in their names in the event of their death. While opening the account with the DP, the investor is required to fill up an application form for operating the Account (Appendix 1), wherein the investor has an option to fill in the names of their nominees. Shareholders have an option to hold securities in joint names with or without nomination or in single name with nomination which is optional. Such a facility has been recently introduced under the Companies (Amendment) Ordinance, 1998 for shares held in physical form. As far as concerned the nominee entered by the investor while opening the demat account will be the beneficiary and shall be deemed to be the member of the Company.

In the absence of any nomination, transmission of shares is effected as under :

(a) *Transmission of shares of sole holder (deceased)*

- * Where the sole holder who held securities in his name is deceased, then any successor / claimant / legal heir shall be required to make a request for transmission and furnish any of the following legal documents viz. Probate of Will, Succession Certificate, Letter of Administration or any other legal document which may be required along with an attested copy of the death certificate, to the participant.
- * The Participant will verify all the legal documents submitted by the legal heir / claimant / successor for their authenticity. If satisfied about the authenticity of the documents submitted, the Participant will transmit the securities to the respective clients.

What is the procedure for Transmission in case of death of one of the joint holders?

In the event of any joint holder's demise, the other joint holders shall have the securities transmitted in their favour only on making an application to the participant in specified form with a copy of DC duly notarised.

The Participant will verify the documents and satisfy itself about the authenticity of the same.

The securities will then be transmitted in the names of the other account holders.

XI. Transmission

What is the procedure for transmission of shares held singly in the depository (i.e. by a sole client)?

In case of death of sole client, the legal heir(s) or legal representatives) of the deceased should request the depository participant concerned to transmit the balances lying in the client account of the deceased to the account of the heir(s) or legal representatives).

Following documents shall be furnished :

1. Application in prescribed form with copy of death certificate duly notarised.
2. Copy of succession certificate duly notarised (or order of court of competent jurisdiction where deceased has not left a will) or notarised copy of probate or letter of administration.

If the legal representative is unable to produce either of the documents mentioned above, can he still request for transmission?

Yes. As per the NSDL rule on shares transmission, where the market value of the securities held in each of the account of the deceased as on the date of application for transmission does not exceed Rs. 1 lakh, then the (depository) participant shall process the transmission request on the basis of the following documents :

- * Request for transmission;
- * Copy of the death certificate duly notarised;
- * Letter of indemnity duly supported by a guarantee of an independent surety acceptable to the participant, made on appropriate non-judicial stamp paper;
- * An affidavit made on appropriate non-judicial stamp paper and
- * No objection certificate(s) from the legal heir(s) who do not object to such transmission
- * The DP will verify all the legal documents submitted by the legal heir / claimant / successor for their authenticity. If satisfied about the authenticity of the documents submitted, the DP will transmit the securities balance in the clients account to account of the legal heirs or the legal representative. Therefore, the DP will close the account of the deceased.

XI. Pledging

Can I pledge / hypothecate dematerialised shares ?

Yes. In fact, pledging / hypothecating dematerialised shares is easier and advantageous as compared to pledging physical shares. A number of banks have announced that they will charge lower interest rates and lower margins for loans against dematerialised shares.

What should I do if I want to pledge electronic shares?

The procedure is as follows:

- (a) Both you (pledger) as well as the lender (pledgee) must have depository accounts;
- (b) You must initiate the pledge by submitting the details of the securities to be pledged in a standard format (available with your DP);
- (c) The pledgee should confirm the request through his DP; and
- (d) Once this is done, your securities are pledged.

How can I close the pledge after repayment of my loan ?

After you have repaid your loan, you can request for a closure of pledge by instructing your DP through a standard format. The pledgee on receiving the repayment as well as the request for closure of pledge will instruct his DP accordingly.

XII. Charges

What will be the charges for account opening and other depository related transactions ?

NSDL charges the DPs and not the investors. NSDL's charges to its DPs are fixed. However, the DPs are free to charge its client for the services offered. You can get the details of the charges from the DP with whom you want to open an account.

XIII. Safety Features

How will I know that my DP has updated my account after each transaction?

At least once every fortnight, your DP will give you a statement of holdings and a transaction statement which will detail your current balances and the various transactions you have done through the depository. If you so desire, you can enter into an agreement with your DP to provide the statement of holdings and transactions statement at shorter intervals.

What is to be done if there are any discrepancies in my statement of holdings?

In case of any discrepancy in the statement of holdings, you can contact your DP. If the discrepancy cannot be resolved at the DP level, you should approach NSDL. NSDL also sends statement of holdings to clients of DPs picked at random. In case the balance in your account as indicated by your DP does not tally with the balance as indicated by NSDL, you can contact your DP/NSDL for clarifications.

What happens if I lose my statement of holdings ?

Simple. Inform your DP and obtain a duplicate statement of holdings. Your statement of holdings cannot be misused by any one.

What security do I have, if the only proof of my holdings in the depository is merely a piece of paper indicating my account balance ?

No transaction can affect your account without your explicit authorisation. Further, if you are away for a long time, you have the facility of freezing your account wherein only credits into your account will be allowed and no debit will be possible.

NSDL systems provide for multiple levels of back up. It is very unlikely that a technical snag would adversely affect NSDL operations. These systems are continuously reviewed to make them more secure.

Are the Investor's shares safe and secure with the depository?

There are in-built measures in the security to ensure that there is complete security at all times. Some of the safety and security measures built in the system are :

- * Agreement between the Client and DP indemnifying the client against misuse of his holdings.
- * Transactions only on investors' authorisation.
- * Maintenance of records of all clients both by the DP and NSDL and daily reconciliation of balances.
- * System of daily back up of data onsite and offsite by DP and NSDL and disaster back-up at Pune.
- * Compulsory issue of periodic statement of holdings.
- * Comprehensive insurance policy for all depository account holders protecting against negligence, misuse, etc.

XIV. Taxation

What is the proof for date of acquisition of dematerialised shares for Income- tax purposes?

As in the physical segment, the proof for date of acquisition of dematerialised shares is the contract note.

How do I compute my income from securities for the purpose of Income-tax?

While calculating tax on capital gains, the cost of acquisition of securities shall not be determined with reference to cost of acquisition of specific identifiable securities, but be ascertained on the principle of first-in-first-out (FIFO). That is, the securities acquired first by the beneficial owner would be deemed to have been transferred first irrespective of the intention of the investor. This principle is applicable only in respect of securities held in depository.

The Central Board of Direct Taxes vide circular No. 768 dated 24th June, 1998 has clarified as under :

- * FIFO method will be applied only in respect of the dematerialised holdings because in the case of sale of dematerialised securities, the securities held in physical form cannot be construed to have been sold as they continue to remain in possession of the investor and are identified separately.
- * In the depository system, the investor can open and hold multiple accounts. In such a case, where an investor has more than one security account, the FIFO method will be applied account-wise. This is because in case where a particular

account of an investor is debited for sale of securities, the securities lying in his other account cannot be construed to have been sold as they continue to remain in that account.

- * If in an existing account of dematerialised stock, old physical stock is dematerialised and entered at a later date, under the FIFO method, the basis for determining the movement out of the account is the date of entry into the account.

The relevant Section 45(2A) of the Income-tax Act, 1961 is reproduced hereunder:

"(2A) Where any person has had at any time during previous year any beneficial interest in any securities, than any profits or gains arising from transfer made by the depository or participant of such beneficial interest in respect of securities shall be chargeable to income-tax as the income of the beneficial owner of the previous year in which such transfer took place and shall not be regarded as income of the depository who is deemed to be the registered owner of securities by virtue of sub-section (1) of Section 10 of the Depositories Act, 1996 and for the purposes of -

- I. Section 48; and
- II. Proviso to clause (42A) of Section 2

the cost of acquisition and the period of holding of any securities shall be determined on the basis of first-in-first-out method.

Explanation : For the purposes of this sub-section, the expressions "beneficial owner", "depository" and "security" shall have the meanings respectively assigned to them in clauses (a), (e) and (i) of sub-section (1) of Section 2 of the Depositories Act, 1996."

Do I have to open separate depository accounts in cases where shares are jointly held? Is there a way out?

Yes, you have to open separate depository accounts (which costs nothing) in case of joint holdings with the names appearing in the same order as they appear on the share certificates. The reason for this is simple. The name or combination of name on the share certificate represents a title. The order in which names appear can be changed legally only through transfer deed. Hence an Individual depository account cannot be used for demating shares held jointly.

However, once the shares have been dematted into their respective depository accounts, the investor can transfer them all to one account bearing the desired combination of names. Once this is done, the redundant accounts can be closed down. For e.g. a share certificate held jointly by Mr A and Mrs B (wife) and another one by Mrs B and Mr A, will be credited to two separate accounts. Mr A and Mrs B then need to fill in a request form for transferring say, the second share certificate (held by Mrs B and Mr A) to the account with desired combination of names, in this case, Mr A and Mrs B and then close the second account in the name of Mrs B and Mr A. The transfer is effected immediately by DP for a small fee as such transfers are treated as off market trades.

Do I have to open multiple accounts for different ways in which the name is spelt?

NSDL has clarified that investors need not open multiple accounts just because companies have shortened them to initials.

For e.g. Mr Harish Premchand Desai / H P Desai / Kumar Harish Desai will all be treated as one account.

What is the procedure for simultaneous transfer and dematerialisation?

The procedure for simultaneous transfer and dematerialisation alien is also known as transmat. The investor lodges the shares for transfer as he would normally do. Upon completion of all transfer formalities, the registrars send a letter to the transferee giving him the option of crediting in demat format. If he desires to opt for this, he should submit to his depository a demat request form along with the original letter from the registrars. This should be done within 15 days of the date of the option letter, failing which the registrars will despatch the certificates in physical format.

What is the procedure for dematerialisation of shares, held in favour of a minor?

The procedure for dematerialisation of shares held by minor is the same as applicable to any shareholder the only exception being the Guardian shall sign the Demat Request Form issued by the depository on behalf of minor shareholder.

However, even in the dematerialised form one should remember that while selling the shares the guardian will have to furnish 'Court Order' granting permission to sell the securities held by minor.

Can partly paid shares be dematerialised?

As far as RELIANCE ENERGY Ltd is concerned, it has forfeited all the partly paid shares and hence there are no partly paid shares to date.

However, in case of other companies partly paid shares can be converted into electronic holdings, but NSDL shall allot a separate ISIN Code for such shares and alert Depository Participant to exercise care in dematerialisation.