Handbook for NSDL Depository Operations Module

Special Services

National Securities Depository Limited

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Pledge and Hypothecation

The Depositories Act, 1996 permits the creation of pledge and hypothecation against securities. Securities held in a depository account can be pledged or hypothecated against a loan, credit, or such other facility availed by the beneficial owner of such securities. For this purpose, both the parties to the agreement, i.e., the pledgor and the pledgee must have a beneficiary account with NSDL. However, both parties need not have their depository account with the same DP.

The nature of control on the securities offered as collateral determines whether the transaction is a pledge or hypothecation. If the lender (pledgee) has unilateral right (without reference to borrower) to appropriate the securities to his account if the borrower (pledgor) defaults or otherwise, the transaction is called a pledge.

If the lender needs concurrence of the borrower (pledgor) for appropriating securities to his account, the transaction is called hypothecation.

Procedure for Pledge/Hypothecation

The pledgor initiates the creation of pledge/hypothecation through its DP and the pledgee instructs its DP to confirm the creation of the pledge. The pledge/hypothecation so created can either be closed on repayment of loan or invoked if there is a default. After the pledgor has repaid the loan to the pledgee, the pledgor initiates the closure of pledge/hypothecation through its DP and the pledgee instructs its DP to confirm the closure of the pledge/hypothecation. If the pledgor defaults in discharging his obligation under the agreement, the pledgee may invoke the pledge/ hypothecation. This has to be done after taking the necessary steps under the terms of the agreement with the pledgor and the Bye-Laws of NSDL and rules and regulations framed by SEBI.

Figure 37 - Annexure W of NSDL Business Rules

Pre-printed Serial No.

PLEDGE/HYPOTHECATION FORM
Participant Name
Participant Id
Participant Address

Please tick in any **one** of the boxes as may be applicable

☐ Create the pledge/hypothecation	☐ Confirm the creation of pledge /hypothecation
☐ Close the pledge/hypothecation	☐ Confirm the closure of pledge /hypothecation
☐ Invoke the pledge/hypothecation	☐ Confirm the invocation of hypothecation
☐ Unilateral closure of pledge/hypothecation	

Date	Instruction Type (Pledge/Hypothecation)	
Client Id	**Prestamped**	Counterparty Pledgor/ Pledgee Client Id	
Client Name		Counterparty Pledgor/ Pledgee Name	
Agreement No. (as provided by Pledgee)		Counterparty Pledgor/ Pledgee DP Id	
Closure date		Counterparty Pledgor/ Pledgee DP Name	

Sr. No.	ISIN	Security Name	Reasons & release date for locked-in securities (if any)	Quantity (in figures) (Refer Instruction No. 2)	Quantity (in words) (Refer Instruction No. 2)	Pledge Order No. (Refer Instruction No. 3)	Reasons for rejections (if any) (To be filled in at the time of confirmation)

Execution Date: Authorised Signatory (ies)

Instructions:
1. To be submitted in duplicate for acknowledgement.
2. Pledged Quantity, Closure Quantity or the Invoked Quantity to be mentioned as the case may be.
3. Pledge Order No. to be filled in by the client (except at the time of creation of the pledge to be filled in by the Participant).
4. Locked-in securities cannot be invoked before the lock-in release date.
5. Strike out whichever is not applicable.

The following steps are involved in the creation of pledge/hypothecation:

1. *Creation of Pledge/Hypothecation by Pledgor*

A beneficial owner may contract a loan against the securities owned by him. He may borrow from a bank or any other person. A pledge transaction needs an identification which may be an agreement number. The borrower is called a pledgor and the lender is called a pledgee. There can be any number of pledge/hypothecation transactions between the same set of pledgees and pledgors. Each of these transactions have to be identified separately by an agreement number in the depository participant module (DPM) and a separate set of instructions have to be given against each of these transactions (agreement numbers). Multiple pledge instructions can be executed on the basis of a single agreement. In such cases, the same agreement number should be quoted for all the pledge instructions.

The DP of the pledgor initiates a pledge/hypothecation on request received from the pledgor in the prescribed form. The pledgor submits the request form containing all details like the details of securities to be pledged, the agreement number, closure date of the pledge/hypothecation (this date is indicative of the duration of pledge/hypothecation), pledgee's details, etc. The DP verifies the form for completeness and validity and ensures that the securities to be pledged exist in the pledgor's account. If it is not found in order, it is returned to the pledgor for correction. If the form is complete in all respects, the DP accepts it for processing and issues an acknowledgement to the pledgor.

The DP then enters the details of the request in DPM as a pledge/hypothecation. On entering the details, an instruction number for the request is generated. The DP then verifies it and releases the order to NSDL. Securities are then debited from the free or locked-in balances and credited as pledged balances of the pledgor. The DP intimates to the pledgor, the pledge initiation instruction number.

2. Procedure for Confirmation of Creation of Pledge/Hypothecation by Pledgee

Once a pledge/hypothecation request has been created, the details of the pledge/hypothecation are electronically communicated to DPM of pledgee's DP through DM for confirmation. The pledge/hypothecation request is displayed at DPM of pledgee's DP. On getting the details, the pledgee's DP furnishes the details to the pledgee for his confirmation. On receipt of such intimation from his DP, the pledgee submits his acceptance or rejection of the request in the prescribed form. The DP verifies the form of acceptance received from the pledgee for its completeness and validity. The DP also compares the details on the form with the details shown by DPM against the pledge/hypothecation instruction number. On being satisfied, the DP executes the order for accepting/rejecting the pledge/ hypothecation request in DPM. In the case of rejection by the pledgee, the DP enters reason for the rejection in DPM as specified in the form. Confirmation of the acceptance/rejection of pledge/hypothecation is electronically communicated to DPM of the pledgor's DP. Acceptance of the creation of pledge/ hypothecation appears in DPM of the pledgor's DP and pledgee's DP as a status change. Status of the pledge/hypothecation instruction will change to "Pledged". DP of the pledgee must confirm the creation of pledge/hypothecation before the date of closure of pledge/ hypothecation mentioned in the request form for creation of pledge submitted by the pledgor.

In case of rejection by the pledgee, the bookings made at the time of initiation of creation of the pledge/hypothecation instruction are reversed and the securities are debited from the pledged balances of the pledgor and credited to its free/locked-in balances. The reason for rejection is displayed in DPM of the pledgor's DP. The pledgor's DP cannot cancel the pledge/hypothecation order after confirmation of creation of the pledge/hypothecation by the pledgee. Once the pledge is confirmed, statement of holding will show the quantity of pledged securities separately as "pledged balance".

A pledgor (borrower) and pledgee (lender) may have their accounts with the same DP or different DPs. The procedure described does not change. It remains the same irrespective of whether or not they have accounts with different DPs. Even if both have their accounts with the same DP, the procedure of receiving the pledge confirmation from the lender has to be followed. The pledge will get credited only after the confirmation advice is entered in the DPM system.

Figure 38   **Pledge of Demat Shares**
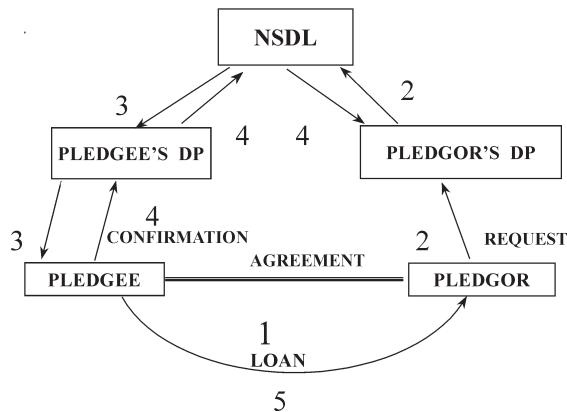
Steps:

1. Agreement is signed between the pledgor and pledgee outside the NSDL system.
2. Pledgor gives a pledge creation request to his DP who enters it in the system. Securities are transferred from 'free balances' head to 'pledged balances' head in the pledgors acount.
3. The request reaches the pledgee's DP through the NSDL system. Pledgee is intimated by his DP.
4. Pledgee gives a pledge confirmation to his DP who enters it in the system. Status of pledge instruction is changed to 'pledged'.
5. Loan is given by pledgee to pledgor outside the NSDL system.

Closure of a Pledge/Hypothecation by Pledgor

The Pledgor can request for closure of pledge/hypothecation after the performance of the underlying agreement. The pledgor submits an instruction in the prescribed form to its DP to initiate the closure of pledge/hypothecation. The DP, upon receiving such request, verifies the form for its completeness and validity and, if not found in order, returns it to the pledgor for rectification. If it is found to be in order, the DP accepts it for processing and issues an acknowledgement to the pledgor. The DP also compares the details given in the form with those displayed at DPM against the pledge/hypothecation instruction number. The DP enters the closure request details in DPM against the pledge/hypothecation instruction number as per the instructions given in the form and releases the instruction to NSDL.

The details of the pledge/hypothecation closure request are communicated electronically through DM to the DPM of pledgee's DP for confirmation. On receiving such intimation, the pledgee's DP is required to furnish the details of the pledge/hypothecation closure requests received for confirmation to the pledgee. The pledgee then submits his acceptance/rejection of the closure request in the prescribed form. The DP verifies the form for its completeness and validity and, if not found to be in order, returns it to the pledgee for rectification. If it is in order, the DP accepts it for processing and issues an acknowledgement to the pledgee. The DP also compares the details on the form with those displayed at DPM against the pledge/hypothecation instruction number.

The DP executes the order accepting/rejecting the pledge/hypothecation closure request in DPM as per the instructions given in the form. In case of rejection by the pledgee, the DP enters the reason for rejection in DPM as specified in the form.

The acceptance/rejection of pledge/hypothecation closure confirmation is electronically communicated to DPM of the pledgor's DP. Acceptance of the closure of pledge/ hypothecation appears in DPM of the pledgor's DP and the pledgee's DP as a status change. Status of the pledge/hypothecation instruction will change to "Partially Closed" (in case only a part of the pledged quantity is accepted for closure) or "Closed Settled" (as the case may be) and the securities accepted for closure get debited from the pledged balances of the pledgor and credited to its free/locked-in balances. In case of rejection by the pledgee, the securities continue to remain as pledged balances in the pledgor's account. The reasons for rejection are displayed in DPM of the pledgor's DP. Some of the reasons for rejection are as follows :

- Closure date not accepted
- Pledged quantity not accepted
- ISIN not accepted
- Security details not accepted
- Market value of pledged ISINs insufficient
- ISIN delisted from trading
- POA not received from all holders
- Holders not acceptable to the pledgee
- Agreement number differs from that on the agreement
- Others

Figure 39

Pledge Closure
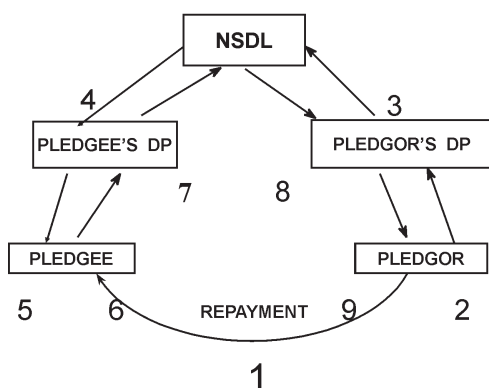
Steps:

1. Pledgor repays the loan to pledgee.
2. Pledgor gives a pledge closure request to his DP.
3. Pledgor's DP forwards the request to NSDL.
4. NSDL forwards the pledge closure request to Pledgee's DP.
5. Pledgee's DP intimates the Pledgee.
6. Pledgee gives pledge closure confirmation form to his DP.
7. Pledgee's DP closes the pledge and pledge closure is forwarded to NSDL. Securities are moved from 'pledged' balances to free balances in the pledgor's account.
8. NSDL forwards the confirmation for pledge closure to Pledgor's DP.
9. Pledgor's DP intimates the Pledgor
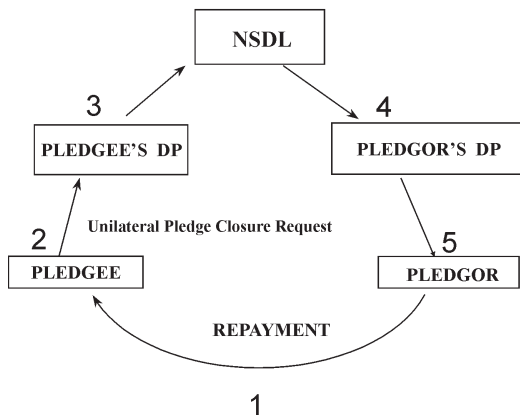
Figure 39 A

Unilateral Pledge Closure

Steps:

1. Pledgor repays the loan to pledgee.
2. Pledgee gives a unilateral pledge closure request to his DP.
3. Pledgee's DP forwards the request to NSDL. Pledge is closed.
4. NSDL informs the Pledgor's DP. Securities are moved from 'pledged' balances to free balances in the pledgor's account.
5. Pledgor's DP intimates the Pledgor

Figure 39 B

Pledge Invocation
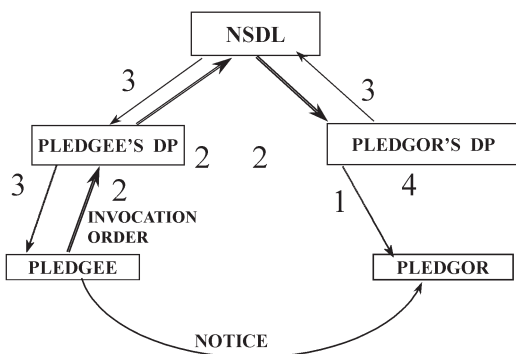
Steps:

1. On repayment default, pledgee sends an invocation notice to pledgor.
2. Pledgee submits a pledge invocation request to DP. DP forwards the request to the pledgor's DP through the NSDL system.
3. Securities move automatically from pledgor's account to pledgee's account through the NSDL system.
4. Pledgor is informed of the movement of securities by his DP.

Unilateral Closure of Pledge (refer figure 39A)

The Facility for unilateral closure of Pledge by the Pledgee has been provided. The pledgee submits an instruction in the prescribed form to its DP to initiate unilateral closure of pledge / hypothecation.

The process remains the same as mentioned under head, Closure of a Pledge/Hypothecation by Pledgor. However, no action (confirmation / rejection) is required to be taken by the pledgor and / or pledgor's DP.

Invocation of Pledge by Pledgee (refer figure 39B)

If the pledgor fails to discharge his obligations under the agreement of pledge or for any other reason, the pledgee may invoke the pledge. He can then claim the beneficial ownership of the concerned securities after taking the necessary steps in terms of the pledge agreement, Bye-Laws of NSDL and SEBI regulations. In such a case, the pledgee submits a request in the prescribed form to his DP for invoking the pledge. The DP verifies the form for its completeness and validity and if not found in order return the same to the pledgee for rectification. If it is in order, the DP accepts it for processing and issues an acknowledgement to the pledgee. The DP also compares the details on the form with those on the DPM displayed against the pledge instruction number.

The DP enters the invocation request details in DPM against the pledge instruction number as per the instructions given in the form and releases it to NSDL. On receipt of invocation request by NSDL, the securities are transferred from the 'pledged balance' of the pledgor's beneficial owner account to the 'free balance' of pledgee's beneficial owner account. The intimation is given to the pledgor's DP through DM and the status of the pledge changes to "Closed Invoked". It may be noted that in case of pledge, no confirmation is required in DPM of the pledgor's DP for transferring securities from pledgor's (borrower's) account to pledgee's (lender's) account.

Invocation of Hypothecation

If the borrower fails to discharge his obligations under the agreement of hypothecation or for any other reason, the lender may invoke the hypothecation. He can then claim the beneficial ownership of the concerned securities after taking the necessary steps in terms of the hypothecation agreement, Bye-Laws of NSDL and SEBI regulations. In such a case, the lender submits a request in the prescribed form to his DP for invoking the hypothecation. The DP verifies the form for its completeness and validity and, if not found in order, returns it for rectification. If it is in order, the DP accepts it for processing and issues an acknowledgement to the lender. The DP also compares the details on the form with those on the DPM displayed against the hypothecation instruction number.

On receiving the instructions from the borrower, the DP executes the order for accepting/rejecting the invocation request in DPM as per the instructions given in the form. In case of rejection by the borrower, the DP enters the reason for rejection in DPM as specified in the form. The acceptance/rejection of invocation confirmation is communicated to DPM of the lender's DP through DM. In case of rejection by the borrower, the securities will continue to remain as pledged balances in the borrower's account and the reasons for rejection are displayed in DPM of the lender's DP.

It is important to note that locked-in securities cannot be invoked before the lock-in release date. In case of hypothecation, the pledgor instructs its DP to confirm the invocation of the hypothecation in DPM.

Substitution of Securities Offered in Pledge

A pledgor (borrower) can substitute the securities offered in a pledge transaction, if the pledgee (lender) agrees to it. For example, if originally the securities of company AB Ltd. were offered as collateral and the pledgor were to offer securities of company CD Ltd. or PQ Ltd. or both of them, he may do so if the pledgee agrees to it. The procedure for effecting this change involves the procedure of closure of earlier pledge and creation of a new pledge. A similar facility is available for securities hypothecated.

Corporate Benefits for Pledged/Hypothecated Securities

Ownership of the pledged/hypothecated securities remains with the pledgor (borrower) until the pledge is invoked. Hence, all corporate benefits - cash and non-cash - like dividends, bonus, rights etc., will accrue to the borrower. Dividends will be given to the borrower in the usual manner and bonus shares will be credited to his account as pledged balances.

The securities arising out of corporate actions like share splits or consolidation or exchange under a merger/acquisition scheme are credited to the account of the pledgor with pledge marked in favour of the pledgee.

Checklist for pledge/hypothecation

While processing a pledge/hypothecation request, the DP should take care with regard to the following steps/points:

1. Ensure that the instruction form is submitted in duplicate.
2. On receipt of instruction for creation of pledge, check whether there is enough balance in pledgor's account to effect the creation of pledge/hypothecation. If not, advise the client suitably.
3. Ensure that all compulsory fields in the instruction form are entered.
4. Ensure that request for confirmation of pledge is given before the closure date mentioned in the instruction form.

Stock Lending and Borrowing

The transactions involving lending and borrowing of securities are executed through approved intermediaries duly registered with SEBI under the Securities Lending Scheme, 1997. Such an intermediary may deal in the depository system only through a special account (known as Intermediary Account) opened with a DP. An intermediary account may be opened with the DP only after the intermediary has obtained SEBI approval and registered itself with SEBI under the Securities Lending Scheme. The intermediary also needs to obtain an approval of NSDL.

Intermediary

All entities who can provide the services of stock lending have to be approved by SEBI. The Certificate of Registration is issued by SEBI if an intermediary fulfills the following criteria.

- The applicant has to have a net worth of Rs. 50 crore;
- If the applicant is a clearing house or a clearing corporation and has the specified net worth and has obtained the concurrent approval of the stock exchange; and
- The applicant has adequate infrastructure like office space, equipment and experienced personnel for dealing in securities.

If the applicant fulfills these conditions, SEBI may issue a Certificate of Registration valid for three years initially on payment of the required fees.

Obligations and Responsibilities of the Intermediary

The Intermediary has to abide by the guidelines of the Scheme as issued by SEBI from time to time. While dealing with clients, the Intermediary has to specify the amount and type of collateral required as well as the method of valuation for the securities. Complete records have to be maintained of the securities deposited by the lender, those lent to the borrower and those returned. These records have to be kept available for inspection by SEBI and NSDL. The receipts issued by the intermediary also have to be complete in all respects regarding the information about the securities transacted under this scheme. The information includes the name and number of the securities, the certificate and folio number (in case of physical securities) and the date of lending/borrowing. The Intermediary has to issue a receipt for the transactions that serves as a proof of ownership in case of a dispute.

Under the scheme, a borrower is a person who borrows the securities through an approved Intermediary. The lender is one who deposits with an Intermediary the securities registered in his name or in the name of any other person on whose behalf he is authorised to act, for the purpose of lending under the Scheme.

Procedure for Lending and Borrowing Securities

A beneficial owner of securities intending to participate in a securities lending programme submits a securities lending request form, in the prescribed manner (shown in figure 40 below) through his DP. The DP verifies the lending request form for its validity and completeness and executes the instructions as per the specifications on the form. On execution of these instructions, NSDL blocks the securities to be lent in the lender's account in favour of the intermediary and intimation is sent to the DP of the intermediary. On receiving this intimation from NSDL, the DP informs the intermediary accordingly.

Figure 40 - Annexure X of NSDL Business Rules

Pre-printed Serial No.

Date :

SECURITIES LENDING FORM FOR LENDER/BORROWER
Participant Name
Participant Id
Participant Address

Please tick in any **one** of the boxes as may be applicable

(for lender)	*(for borrower)*
☐ Deposit with Intermediary	☐ Borrow from Intermediary
☐ Initiate Recall from Intermediary	☐ Initiate Repay to Intermediary
☐ Confirm Repay initiated by Intermediary	☐ Confirm Recall initiated by Intermediary

Client Id	**Pre Stamped**	Intermediary Client Id	
Client Name		Intermediary Client Name	
Closure Date		Intermediary DP Id	
Agreement No.		Intermediary DP Name	

Sr. No.	ISIN	Security Name	Quantity	Order No. (Refer to Instruction No. 2)	Reason for recall/repay for securities returned outside the DPM system/Rejection reason (if any) (Refer to Instruction no. 3)

Execution Date :   Authorised Signatory(ies)

Instructions:
1. To be submitted in duplicate for acknowledgement
2. Lend/Borrow Order No. to be filled in by the client at the time of Confirmation & Recall/Repay
3. Reasons must be mentioned for rejections and for recall/repay where return of securities is outside the Securities Lending module of the DPM system

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The intermediary, on receipt of such intimation, submits in the prescribed form his acceptance or rejection of the deposit made by the lender. The DP of the intermediary accordingly intimates the acceptance or rejection of deposit by the intermediary to NSDL.

In case the intermediary accepts the deposit, NSDL will move the securities from the lender's account to the intermediary's account and inform the DP of the lender. In case the intermediary rejects the deposit, NSDL removes the blocking in the lender's account and informs the DP of the lender. The DP of the lender accordingly intimates the lender about the acceptance or rejection of his lending request.

Figure 41
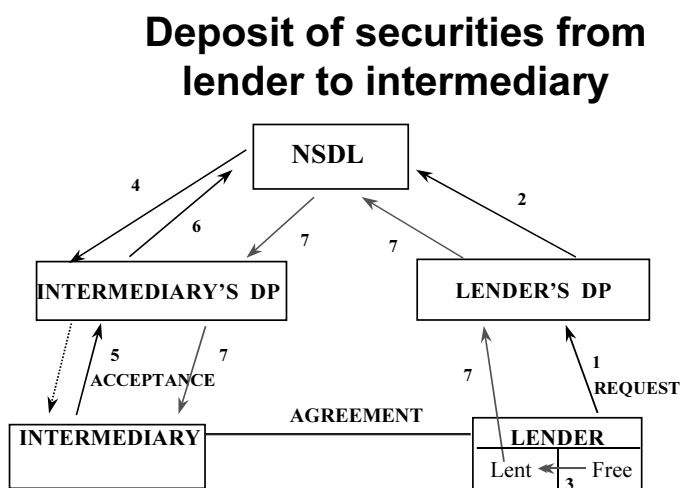
Deposit of securities from lender to intermediary

1. Lender forwards request to his DP.
2. Lender's DP electronically communicates request to NSDL.
3. The securities are blocked in lender's account in favour of the intermediary.
4. NSDL electronically informs intermediary's DP.
5. Intermediary forwards acceptance request to his DP.
6. Intermediary's DP electronically communicates acceptance to NSDL.
7. Securities are moved from lender's account to intermediary's account.

Lending of Securities by Intermediary to Borrower

The procedure for lending against securities is also similar. A person wanting to borrow securities makes a request in the prescribed form through his DP (Figure 42). The DP verifies the request form for its validity and completeness and executes the instructions as per the specifications on the form. On execution of such instructions by the DP of the borrower, NSDL will electronically inform the DP of the intermediary accordingly. The intermediary's DP will inform him about the request for borrowing which it may accept or reject. The acceptance or rejection should be communicated to the DP in the prescribed form.

Figure 42 - Annexure XX of NSDL Business Rules

Pre-printed Serial No.

SECURITIES LENDING FORM FOR INTERMEDIARY
Participant Name
Participant Id
Participant Address

Date :

Please tick in any **one** of the boxes as may be applicable

☐ Confirm Deposit initiated by Lender	☐ Confirm Borrow initiated by Borrower
☐ Confirm Recall initiated by Lender	☐ Confirm Repay initiated by Borrower
☐ Initiate Repay to Lender	☐ Initiate Recall from Borrower

Intermediary Client Id	**Pre Stamped**	Lender/Borrower Client Id	
Intermediary Client Name		Lender/Borrower Client Name	
Closure Date		Lender/Borrower DP Id	
Agreement No.		Lender/Borrower DP Name	

Sr. No.	ISIN	Security Name	Quantity	Order No. (Refer to Instruction No. 2)	Reason for recall/repay for securities returned outside the DPM system/Rejection reason (if any) (Refer to Instruction no. 3)

**Execution Date :**   **Authorised Signatory(ies)**

Instructions:
1. To be submitted in duplicate for acknowledgement
2. Lend/Borrow Order No. to be filled in by the client at the time of Confirmation & Recall/Repay
3. Reasons must be mentioned for rejections and for recall/repay where return of securities is outside the Securities Lending module of the DPM system
4. Strike out which is not applicable

In case the intermediary accepts the request, the DP electronically accepts the request in the system. NSDL then moves the securities from the intermediary's account to the borrower's account and electronically informs the DP of the borrower. In case the request is rejected, NSDL informs the DP of the borrower accordingly. The DP of the borrower, in turn, informs the borrower about the acceptance or rejection of his request.

Figure 43

Lending of securities by intermediary to borrower
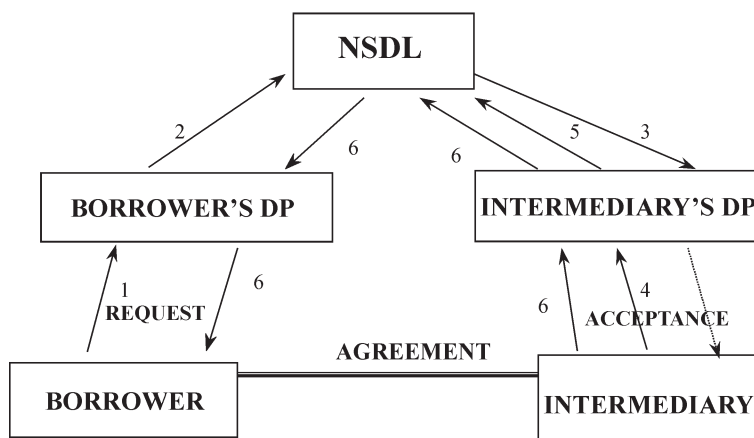
1. Borrower forwards request to his DP.
2. Borrower's DP electronically communicates request to NSDL.
3. NSDL electronically informs intermediary's DP.
4. Intermediary forwards acceptance request to his DP.
5. Intermediary's DP electronically communicates acceptance to NSDL.
6. Securities are moved from intermediary's account to borrower's account.

Repayment of securities

By Borrower to Intermediary

A person desiring to repay the securities borrowed has to make the request in the prescribed form through his DP who verifies the request form for its validity and completeness and executes the instructions given on the form. If the borrower's account has sufficient balance, the Depository may automatically create an instruction for acceptance of repayment of securities and move the securities from the borrower's account to the intermediary's account and inform the Participant of the intermediary. After receiving intimation for repayment of securities from NSDL, the DP of the intermediary will inform the intermediary accordingly.

In case the borrower repays the securities to the intermediary outside the securities lending module of DPM system, the DP of the borrower as well as the intermediary have to inform NSDL accordingly. On receipt of such information, NSDL amends its records and informs the respective DPs accordingly.

Figure 44

Repayment of Securities by borrower to intermediary (with securities)

1. Borrower forwards repayment request to his DP.
2. Borrower's DP electronically communicates request to NSDL.
3. If the Borrower's account has sufficient balance, NSDL may automatically create an instruction for acceptance of repayment of securities. The securities are debited from borrower's account and credited to the intermediary.
4. Intermediary's DP is informed accordingly by NSDL.
5. On receipt of intimation for repayment of securities from NSDL, Intermediary's DP informs the intermediary accordingly.

Figure 44 A

Repayment of Securities by borrower to intermediary (without securities)

1. Borrower forwards repayment request to his DP.
2. Borrower's DP electronically communicates request to NSDL.
3. NSDL intimates the repaymetn of securities to the Intermediary's DP, who in turn informs the Intermediary.
4. Intermediary forwards request for acceptance / rejection (Fig. 42) to its DP.
5. Intermediary's DP electronically communicates acceptance / rejection to NSDL. Status of the order will get updated.
6. NSDL informs Borrower's DP, who in turn informs the borrower.

By Intermediary to Lender

If an intermediary wants to return the borrowed securities received from a lender, it has to make a request through its DP in the prescribed form. The DP verifies the request form for its validity and completeness and executes the instructions as per the specifications on the form. If the intermediary's account has sufficient balance, the Depository may automatically create an instruction for acceptance of repayment of securities and move the securities from the Intermediary's account to the lender's account and inform the Participant of the lender. After receiving the intimation for repayment of securities from NSDL, the DP of the lender will inform the lender accordingly.

In case the intermediary repays the securities to the lender outside the securities lending module of DPM system, the DPs of the lender as well as the intermediary should inform NSDL accordingly. On receipt of such information, NSDL amends its records and informs the respective DPs.

Figure 44 B

Repayment of securities by intermediary to lender (with securities)

1. Intermediary forwards repayment request to his DP.
2. Intermediary's DP electronically communicates request to NSDL.
3. If the Intermediary's account has sufficient balance, NSDL may automatically create an instruction for acceptance of repayment of securities. Securities from Intermediary's account are moved to the lender's account and Lender's DP is informed accordingly by NSDL.
4. On receipt of intimation for repayment of securities from NSDL, lender's DP informs the lender accordingly.

Figure 44 C

Repayment of securities by intermediary to lender (without securities)

1. Intermediary forwards repayment request to his DP.
2. DP electronically communicates request to NSDL.
3. NSDL intimates the repayment of securities to the lender's DP, who in turn informs the lender.
4. Lender forwards request for acceptance / rejection (Fig. 40) to his DP.
5. Lender's DP electronically communicates acceptance / rejection to NSDL. Status of the order will get updated.
6. NSDL informs Intermediary's DP, who in turn informs the Intermediary.

Recall of Securities

By Intermediary from Borrower

An intermediary who has lent securities to a borrower is entitled to recall such securities. The request for recall should be made in the prescribed form through the DP who verifies the request form for its validity and completeness and executes the instructions as per the specifications on the form. On execution of such instructions by the intermediary's DP, NSDL informs the borrower's DP accordingly. After receiving intimation from NSDL about the recall of securities, the borrower's DP informs the borrower accordingly.

On receipt of such intimation, the borrower conveys to his DP his acceptance or rejection of the request for recall in the prescribed form. The borrower's DP informs NSDL about the acceptance or rejection of the request. In case the request is accepted, NSDL moves the securities from the borrower's account to the intermediary's account and informs the intermediary's DP. After receiving the intimation for acceptance/rejection of recall of securities from NSDL, the intermediary's DP informs the intermediary accordingly.

In case the intermediary recalls the securities outside the securities lending module of DPM system, the DPs of the borrower as well as the intermediary should inform NSDL accordingly. On receipt of such information, NSDL amends its records and informs the respective DPs accordingly.

Figure 45

Recall of securities by intermediary from borrower (with securities)

1. **Intermediary forwards recall request to its DP.**
2. **Intermediary's DP electronically communicates request to NSDL.**
3. **NSDL electronically informs borrower's DP.**
4. **Borrower forwards request for acceptance / rejection (Fig. 40) to his DP.**
5. **Borrower's DP electronically communicates acceptance / rejection to NSDL.**
6. **On receipt of intimation for acceptance / rejection, NSDL may move securities from borrower's account to intermediary's account.**

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┌─────────────────────────────────────────────────────────────────────┐
│ Figure 45A                                                            │
│              Recall of securities by intermediary from               │
│                    borrower (without securities)                      │
│                                                                       │
│         1.  Intermediary forwards recall request to his DP.           │
│         2.  Intermediary's DP electronically communicates             │
│             request to NSDL.                                          │
│         3.  NSDL electronically informs borrower's DP.                │
│         4.  Borrower forwards request for acceptance / rejection      │
│             (Fig. 40) to his DP.                                      │
│         5.  Borrower's DP electronically communicates                 │
│             acceptance / rejection  to NSDL. Status of the order      │
│             will get updated                                          │
│         6.  NSDL informs Intermediary's DP regarding the              │
│             acceptance / rejection by the Borrower. Intermediary's    │
│             DP informs the Intermediary accordingly.                  │
└─────────────────────────────────────────────────────────────────────┘
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By Lender from Intermediary

A person who has lent securities through an approved intermediary may recall them from the intermediary according to the terms and conditions prescribed under Bye-Laws of NSDL. The lender has to make the request for recalling the securities in the prescribed form through his DP who verifies the request form for its validity and completeness and executes the instructions as specified on the form. After this, NSDL intimates the intermediary's DP who, in turn, informs the intermediary accordingly.

On receipt of such intimation, the intermediary submits, in the prescribed form, his acceptance or rejection of the recall request made by the lender. The DP, on receiving intimation of acceptance/rejection, intimates NSDL accordingly. In case the request is accepted by the intermediary, NSDL will move the securities from the intermediary's account to the lender's account and informs the lender's DP. After receiving the intimation for acceptance/rejection of recall of securities from NSDL, the lender's DP informs the lender accordingly.

In case the lender recalls the securities from the intermediary outside the securities lending module of DPM system, the DP of the lender as well as the intermediary should inform NSDL accordingly. On receipt of such information, NSDL amends its records and informs the respective DPs accordingly.

Figure 45B

Recall of securities by lender from intermediary (with securities)

1. Lender forwards recall request to his DP.
2. Lender's DP electronically communicates request to NSDL.
3. NSDL electronically informs intermediary's DP.
4. Intermediary forwards request for acceptance/ rejection to its DP.
5. Intermediary's DP electronically communicates its acceptance / rejection to NSDL.
6. On receipt of intimation of acceptance, NSDL may move securities from intermediary's account to lender's account.

Figure 45C

Recall of securities by lender from intermediary (without securities)

1. Lender forwards recall request to his DP.
2. Lender's DP electronically communicates request to NSDL.
3. NSDL electronically informs intermediary's DP.
4. Intermediary forwards request for acceptance / rejection to his DP.
5. Intermediary's DP electronically communicates acceptance / rejection to NSDL. Status of the order will get updated.
6. NSDL informs lender's DP regarding the acceptance / rejection by the Intermediary. Lender's DP informs the lender accordingly.

Where the Intermediary is a DP

In case the intermediary is itself a DP, it is not necessary to submit the form. However, the DP should carefully keep appropriate records relating to securities lending for its own benefit.

CHAPTER 14

Corporate Actions

Corporate actions are events, which affect the rights, obligations and/or interests of the beneficial owners of the securities held in a depository. The most common examples are payment of interest, dividend, bonus shares, rights, splits, merger, redemption, payment of call money, liquidation etc. For securities held in a depository, NSDL facilitates the execution of corporate actions. NSDL's Bye-Laws define corporate benefits to mean and include any action taken by the Issuer relating to prescribing dates for book closures, record dates, dates for redemption or maturity of security, dates of conversion of debentures, warrants, call-money dates and such other action from time to time.

From distribution point of view, corporate action can be classified as cash corporate actions and non-cash corporate actions. Cash Corporate actions involve distribution of monetary benefits, e.g., dividend and interest etc. and non-cash corporate actions involve distribution of benefits other than cash such as bonus issues, offer of shares on right basis, conversion of securities, etc.

In case of cash corporate actions, depository merely provides information to the Issuer about the persons entitled to receive corporate benefits. In case of non-cash corporate actions, depository may facilitate the distribution of corporate benefits. NSDL at present, facilitates the distribution of non-cash corporate benefits.

The beneficial owners are entitled to all the rights and benefits and are subject to all the liabilities in respect of their securities held by a depository. Since corporate actions affect the beneficial owners of the securities, it is important to determine the actual beneficial owner of the securities on the cut-off date announced by the Issuer for a specific corporate action. Such cut off date is called record date/ book closure. NSDL provides details of the beneficial owners on the record date/ book closure to the Issuer company or its R&T Agent to enable the company to calculate the benefits accruing to such holdings.

Procedure for Corporate Actions

Whenever a corporate action is announced, the Issuer / its R&T Agent, informs NSDL about the proposed corporate action. On receiving such information, NSDL informs all its DPs by e-mail, about the corporate action, the cut-off date and the procedure to be followed by the DPs and clients.

On receiving such information, DPs take the following steps to ensure that:

- the changes in tax status, bank details, change of address etc. in the beneficial owners' accounts are updated well in advance of the book closure/record date;

- all positions in the transit accounts, e.g., settlement accounts and intermediary accounts, are cleared and the balances lying therein are transferred to the relevant beneficiary accounts well in advance of the book closure/record date as per the instructions received from account holders.

On the relevant cut-off date announced for the corporate action, NSDL provides the details of the holdings of the beneficial owners to the Issuer / its R&T Agent. The details provided by NSDL include the particulars of tax-status, if any of the beneficial owner and his bank account details. Securities balances lying in the accounts of the Clearing Members / Clearing Corporations / Intermediaries will be eligible to receive corporate benefits, except in the case of rights offers. In such cases, the Issuer or its Registrar & Transfer Agent will distribute the corporate benefits to the Clearing Members / Clearing Corporations / Intermediaries for onward distribution to the beneficial owners. The corporate benefits availed by Clearing Members / Clearing Corporations and Intermediaries shall be held in trust on behalf of the beneficial owners.

Monetary Benefits

On the basis of the particulars of the holdings of beneficial owners received from NSDL on the cut-off date, the Issuer / its R&T Agent distribute dividend, interest and other monetary benefits directly to the beneficial owners.

SEBI vide its Circular No. DCC/FITTCIR-3/2001 dated October 15, 2001 has advised that companies should mandatorily use ECS facility for distribution of dividends and other cash benefits to the investors. However, where ECS facility is not available, companies may use warrants for distribution of dividends. Further, SEBI has advised that companies should mandatorily print the bank account details furnished by the Depositories on the payment instruments.

Non-monetary Benefits

On the basis of the particulars of the holdings of beneficial owners received from the depository as of the cut-off date, the Issuer / its R&T Agent informs the eligible beneficial owners about the corporate action / benefit. In case the benefits are in form of securities, the Issuer / its R&T Agent gives an option to all shareholders (including shareholders holding shares in physical form), to get securities allotted in electronic form or physical form. A person holding securities in physical form may opt for receiving securities in dematerialised form and vice-versa. If holders

do not indicate any choice, the Issuer / its R&T Agent issues the securities in the same form in which the shareholder held the securities as on the record date. Thus, if a shareholder is holding shares in electronic form, the newly allotted shares will be credited to his account electronically. If shareholders holding shares in physical form, opt for credit of newly allotted shares in electronic form, the Issuer / its RTA executes a corporate action to credit the newly allotted shares to the demat accounts of such shareholders on a particular date (i.e. the execution date).

The Issuer / its R&T Agent allots the securities and informs NSDL about allotment details of all beneficial owners. On receipt of these details, NSDL makes the credit entries in the accounts of the beneficial owners on a date requested by the Issuer / its R&T Agent (the execution date).

In cases where the details of accounts to which the Issuer / its R&T Agent has made allotment, do not match with those maintained with NSDL, such records will be rejected. NSDL then requires the Issuer / its R&T Agent to rectify the records within thirty days from the execution date. In case the Issuer / its R&T Agent fails to rectify the records within the stipulated period, the allotment of the rejected records will have to be made in physical form outside the depository system.

The statement of transactions sent by the DP to the beneficial owners, will indicate the updated holdings after execution of the corporate action.

Rights Issue

The Issuer / its R&T Agent, on the basis of details of holding received from the NSDL, despatch the application form for rights issue to the beneficial owners. The form requires the applicant to state his option about whether he would like to receive the new securities in physical form or dematerialised from. In case the applicant does not exercise his option, new securities are allotted in the form in which the shareholder held the security as on the record date. The allotment procedure for rights securities is the same as in case of initial public offer.

Merger / Amalgamation / Capital Reduction / Sub division etc.

In case of events such as merger, amalgamation, capital reduction, sub-division etc., shares held in demat accounts under old ISIN will be automatically debited and proportionate number of new shares will be credited in the new ISIN.

Rights of Lender (under stock lending scheme)

A lender of securities through depository system is entitled to all corporate benefits in respect of the securities lent by him. The procedure for distribution of benefits would, however, depend on the status of securities lent as of the cut-off date, i.e., whether the securities are still lying in the intermediary account, or they have been transferred to borrower's account.

1. For securities are lying in the intermediary account, the intermediary may either:
   ⇨ Return the securities to the lender before the cut-off date, so that the lender will automatically get the benefit; or
   ⇨ Transfer the securities to its Beneficiary Account and receive the benefit from the Issuer / its R&T Agent. In this case, the intermediary reimburses the lender for the benefits received by it on behalf of the lender. The intermediary also executes a proxy form in favour of the lender to enable him to exercise his voting rights.

2. In case the securities have been lent and transferred to the borrower's beneficiary account, the benefits in respect of such securities would be paid by the Issuer / its R&T Agent to the borrower or to the person who has bought securities from the borrower. In this case, it is duty of the intermediary to collect the value of lender's entitlement to the corporate benefits from the borrower and pay the same to the lender.

   In the second case, the lender is not entitled to the voting rights in respect of the securities lent by him.

Rights of Pledgor/hypothecator

Ownership of the pledged/hypothecated securities remains with the pledgor (borrower) until the pledge is invoked. Hence, all corporate benefits - cash and non-cash - like dividends, bonus,rights etc., will accrue to the borrower.

Dividends will be given to the borrower in the usual manner. The securities arising out of corporate actions like bonus, share splits or consolidation or exchange under a merger/acquisition scheme are credited to the account of the pledgor, with pledge marked in favour of the pledgee, provided that on the execution date of the corporate action, pledge exists for atleast one share.

Payment of Interest on Debt Securities

Eligible investors in debt securities will receive interest from the Issuers / its R&T Agents. However, in respect of Government Securities, NSDL distributes the interest to eligible clients, after RBI has credited interest amount to NSDL.

CHAPTER 15

<div align="center">

Public Issues

</div>

Primary market is a market for raising funds from the primary source of savings i.e. investors. The issue of securities in the primary market can be made by a new company, a new company promoted by an existing company, an existing public listed company, or an existing public unlisted company. According to the Companies Act, 1956 (section 68B) every listed public company, making an initial offer of any security of Rs. 10 crore and above has to issue it only in dematerialised form in accordance with Depositories Act, 1996.

The process of issuing securities in physical form is expensive, cumbersome and is fraught with risks like printing mistakes, loss in transit, time/effort/cost involved in despatch of securities etc.

With the establishment of depositories in the country, the risks stated above are well mitigated. To encourage issue of securities in demat form, SEBI has issued the following guidelines for public issues in electronic mode:

➢ Issuer shall be required to enter into agreement with all the depositories.

➢ Issuer shall give an option to subscriber/investor to receive the physical certificates or hold the securities in electronic mode with the depository.

➢ In order to eliminate the risks to investors on account of fake/forged certificates, bad deliveries, delays in transfer, etc., trading in securities of company making an IPO shall be in demat form only.

Present procedure to public issue:

The procedure followed at present for getting demat allotment in public issue is by giving option in application form. Investors can apply in public offerings to get allotments directly in dematerialised form. For this purpose, the application form should have provision for investors to furnish the following information:

- Depository Name
- DP's Name
- DP-ID
- Beneficiary Account Number

The disclosure and instructions for exercising such an option is generally given in the application form as well as in the offer document. Allotment in electronic form is given only when the client name and the beneficiary account are matched with details filled in application form. In case

the applicant does not exercise the option of holding securities in demat form, the Issuer will allot securities in physical form. There are no charges in the allotment process. All the applications, whether with demat option or not, are treated alike for allotment purposes.

Figure 46 - Annexure G of NSDL Business Rules

SHARE APPLICATION FORM

Application form for equity shares for the Indian Public (Please read instructions carefully before filling up this form)

THE ABC COMPANY LIMITED

Reg. office : First Floor, Victoria Bldg., S. A. Brelvi Road, Fort, Mumbai –
The ABC Company limited (hereinafter referred to as "The Company") was incorporated on, etc., etc.

Equity issue open on	:	Monday, 13th May 1996	
Earliest closing	:	Friday, 17th May 1996	Serial no. : 0252185
Issue closing not later than	:	Thursday, 23rd May 1996	

Broker's stamp & code	Sub-broker's stamp & code	Bank's stamp	Bank's serial no.	Registrar's serial no.

Public issue of 18,00,000 equity shares of Rs. 10 each for cash at par aggregating to Rs.180 Lakhs.	Application must be for a minimum of 500 equity shares & in multiples of 100 thereafter.	
Cheques/DD/Stockinvest must be drawn in favour of company from the account of the first/sole applicant.	Amount payable per equity share on application @ Rs.5/- per share.	
Please write the application no. on the reverse of the Cheque/DD/Stockinvest.	No. of equity Shares applied for	Amount payable on application
	500 600 800 1000	2500 3000 4000 5000

To

The Board of Directors,
ABC COMPANY LIMITED
First Floor, Victoria Bldg.,
S. A. Brelvi Road, Fort, Mumbai

Dear Sirs,

On the basis of the company's prospectus I/we hereby apply to you for allotment to me/us of the equity shares stated below, out of the above issue. The amount payable on application as shown below is remitted herewith. I/we hereby agree to accept the equity shares applied for or for lesser number as may be allotted to me etc.

No. of shares applied	Amount paid (Rs.)		Cash	Instrument No.
In figures	In figures		Cheque	Date of issue
In words	In words		Demand Draft	Drawn on (Bank)
			Stockinvest	Branch

Sole/first applicant	Name Surname Date			Occupation of first applicant
Name in full (Mr./Mrs./Miss/Ms)		Age		1. Service 2. Business
Address		Status (Please tick) Individual ☐ Ltd. co. ☐ Others ☐		3. Student 4. Housewife 5. Professional 6. Farmer 7. Others
Father's/Husband's Name				
Second Applicant			Age	
Third Applicant			Age	

Option for receipt of allotted securitieis (Please Tick)	
Physical ☐	**Electronic (Depository)** ☐
In case of Electronic (Depository) : Name of Depository : Name of Depository Participant : **Account Number –** _____	

Investor's bank particulars for refund		Specimen Signature	PAN / GIR No.	Circle/ward/ district.
SB a/c no.	Sole/First Applicant			
Bank	Second Applicant			
Branch	Third Applicant			

THE ABC COMPANY LIMITED

Reg. office : First Floor, Victoria Bldg., S. A. Brelvi Road, Fort, Mumbai –   **Serial No. : 0252185**
Acknowledgment slip (To be filled in by the first applicant)   **Date :**

Received from _____	Equity shares applied for		Amount Paid		Cash (___/)	Bank stamp & signature
Address _____ _____ _____	in figures	in words	in figures	in words	Cheque/DD/ Stockinvest No. _____	Dated _____
Pin code					Drawn on _____ _____	

For electronic holdings Account No. _____ Name of the Depository Name of the DP	All future communication in connection with the application should be addressed to the registrars to the issue quoting the full name of the First/sole applicant, application sr. no., of equity shares applied for, Date & name of the bank branch where the application was submitted, at the following address : In House Share Registry, First Floor, Victoria Bldg, S. A. Brelvi Road, Fort, Mumbai.	(Cheques/DD /Stockinvest are subject to realization)

Notes :-

1. For subscription in electronic form, names in the share application form should be identical to those appearing in the account details in the depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the depository.

2. Share application forms for part subscription in electronic form and part in physical form will be treated as invalid and rejected.

3. This IPO form may not be complete in all respects.

Additions made to the existing share application form are shown in shaded area.

On allotment, the Issuer / its R&T agent provides the details of successful allottees who have opted for receiving securities in demat form, to the depository and the execution date when the securities should be credited to the beneficial owners accounts. NSDL depository will credit the securities to the allottee accounts on the execution date. The statement of accounts provided by the Depository Participant (DP) will indicate balances created in the respective beneficiary owner's account.

Public Issue Facility through NSDL

NSDL has developed the Public Offer Module to facilitate application, processing and allotment of securities in primary market through NSDL system. The procedure for public issue facility through Public Offer module is as follows:

1. For the purpose of Public Offer (PO), NSDL communicates the Public Offer Control Instruction to all the DPs. This instruction gives the key features of the public offer like Issuer name, open date, closure date, etc. NSDL allots a unique identification number to the PO. After the PO is received, DPs capture the details of the application forms in DPM provided the application date entered in DPM falls between the date of opening and closure date. The system will allow the DP to verify and release the instructions only after the beginning of day process (BOD) of the offer open date.

2. The investor shall fill up the application form (including the DP-ID and Client-ID) and submit the same along with the payment instrument to the DP.

3. The DPs shall capture the following details of the application in the PO module of DPM and release the same to NSDL:

    - Client-ID
    - Issue Number
    - Application Form Number
    - Application Date
    - Payment
    - Payment Mode
    - Instrument Number
    - Requested Quantity for the ISIN
    - Application Amount
    - Internal Reference Number.
    - Bank Details (By default, bank details provided by the client at the time of account opening are automatically copied here.)

4. The DPs shall verify the application form and deposit the same along with the payment instrument with any of the collecting banks. The DPs shall ensure that all the applications alongwith the payment instruments are deposited with the bank before the end of banking hours of the offer closure date. The DPs are advised to take due care and ensure that the applications are deposited in time with the collecting banks as the DPs will be responsible if the applications are not deposited in time.

5. DPs can capture, verify and release the data into DPM system till the end of day process (EOD) of the third day after the offer closure date. However, the DPs must ensure that the applications are deposited with the collecting banks before the end of banking hours of offer closure date. DPs will also print the Public Offer Banker's Report from DPM system and give it to the collecting bank along with the applications.

6. The DP, after depositing the application form with the collecting bank, has to obtain the acknowledgement of the collecting bank and provide it to the client.

7. After the allotment is completed, DPs receive the allotment/refund information through NSDL DPM system. The accounts of all the successful allottees will be credited on the BOD of the allotment date.

8. The allotment advice/refund warrants are sent to the applicants directly by Issuers/ Registrars.

DPs with Branches

9. The branches of the DPs shall accept the application forms along with the payment instruments from their clients.

10. The branches shall ensure that the details are transmitted to its main office either by way of a photocopy of the application form or through its back-office software.

11. The branches of the DPs have to deposit the application forms along with the payment instruments with the local collecting banks and the acknowledgement receipt obtained from the bank has to be forwarded to their clients.

Investors who have not opened a depository account with a DP at the time of applying for the public offer have to follow a slightly different procedure.

1. The investor is required to fill up the application form (except the Client-ID) and approach the DP along with the payment instrument.

2. The DP will open an account of the investor after obtaining a duly filled-up account opening form and duly executed DP-Client agreement as approved by SEBI.

3. The DP ensures that the client-ID is mentioned on the application form before depositing it with the collecting bank.

Figure 47

Allotment of Shares in Demat Form with NSDL

An applicant has the option to seek allotment of equity shares in electronic or physical mode.

- An applicant wishing to apply for shares in electronic form must have at least one beneficiary account with any of the DP of NSDL prior to making the application.

- An applicant seeking allotment of shares in the electronic form must necessarily fill in the details (including the beneficiary account number and DP's ID number) appearing in the application form under the heading 'Request for shares in electronic form'.

- Shares allotted to an applicant in the electronic form are credited directly to the respective beneficiary account (with the DP).

- For subscription in electronic form, names on the application form should be identical to those appearing in the account with the DP. In case of joint holders, the names should be in the same sequence as they appear in the account with the DP.

- If incomplete/incorrect details are given under the heading 'Request for shares in electronic form' in the application form, the application will be deemed to be for shares in physical form.

- The applicant is responsible for the correctness of his/her demographic details given in the application form vis-à-vis those with his/her DP.

- Shares in electronic form can be traded only on stock exchanges which have electronic connectivity with NSDL.

Debt Instruments & Government Securities

Debt Instruments

Interest-bearing securities are called debt instruments. Depending on features like Issuer, tenure, interest rate, etc., debt instruments can be classified into different categories like bonds, debentures, commercial paper, government securities, treasury bills, etc. These are further classified broadly into subordinate bonds, floating rate bond/debenture, deep discount bond, secured/unsecured debentures, zero coupon bonds, variable coupon rate bond, etc. While financial institutions or corporate bodies issue bonds, debentures and commercial paper, government securities and treasury bills are issued by governments - State or Central.

The features associated with a debt instrument differentiate it from other instruments. These include coupon/interest rate, redemption/maturity date secured or unsecured put/call option (if any). An Issuer may issue multiple debt instruments by varying the features of the instruments.

Any type of debt instrument can be admitted in the NSDL depository system. Instruments like bonds, debentures, commercial paper, certificates of deposit, etc., irrespective whether they are listed/unlisted/privately placed or even issued to a single holder, can be dematerialised.

Identification

Each debt security is given a unique identification in NSDL system, linked to the special features of the security, through an ISIN and a descriptor.

ISIN and Description

Each instrument is identified separately in NSDL system through a unique code called ISIN. The description of each instrument is communicated to all the DPs and Issuers through circulars.

Instrument Descriptor

The instrument descriptor in the NSDL indicates:
* Name of the Issuer
* Coupon/Interest Rate
* Security name
* Redemption date
* Face Value

For example, the descriptor 'ICICI BANK LIMITED SR-B98 14.25 UMD 14FB05 FVRS1LAC indicates:

Issuer Name : ICICI Bank Limited
Coupon Rate: 14.25%
Instrument Name: Series B98 UMD
Redemption date :- 14/02/2005
Face Value :- Rs. 1,00,000

In addition, NSDL forwards the complete details of the instrument to all Depository Participants through circulars.

Admission of Debt Instrument to the NSDL System

An Issuer may offer demat facility for its debt instruments by sending a request to NSDL detailing the type of instrument, along with a Letter of Intent. On receipt of the request, a tripartite agreement is signed between NSDL, the Issuer and Registrar & Transfer Agent. Once admitted, these securities are made available for dematerialisation by NSDL.

Mode of Operation

The manner of operation of debt instrument in the depository is identical to that which is followed for the equity segment. The only difference is that a debt instrument has a limited life.

Key features

- *Identification of right ISIN while processing demat/remat requests:* Several debt instruments can have exactly the same features. But they are differentiated either by a different coupon rate or redemption date or put/call exercise date or interest payment schedule or by being secured/unsecured.

- *Differentiating between the Letter of Allotment (LOA) and Debenture Certificates:* On issue of secured debentures, the Issuer initially allots LOA till the charges are created. On creation of the charge, debenture certificates are issued in lieu of the LOA. In NSDL, ISIN is allotted to a LOA. On creation of charge, the nomenclature of ISIN of LOA is changed to that of a debenture.

  For e.g. Descriptor for LOA ISIN - KMPL 9.5 LOA 29DC05 FVRS1LAC is changed to KMPL 9.5 NCD 29DC05 FVRS1LAC LOA UPTO 23MR05.

- *Time value of money:* Debt instruments bear interest. Receiving the credit of a debt instrument into demat account a day earlier, will result in earning one day interest. Therefore, the execution date is crucial while executing any transfer instruction for debt instrument.

- *Redemption date:* On redemption, the ISIN associated with the instrument is de-activated in the NSDL system.

Allotment in Demat Form

Any new instrument can be issued directly in dematerialised form. Securities will be directly credited into the accounts of the investor by NSDL on receipt of allotment details from Issuer/ Registrar & Transfer Agent.

Corporate Action

Interest payment for debt instruments is handled in the same way as corporate benefits are handled for equity. Issuer will send interest warrant directly to the investor.

Instruments with Call/Put Option in Demat Form

Call option, in simple terms, means the Issuer has an option of repaying the debt raised through the instrument at a time earlier than the final redemption date. Put option, in simple terms, means investor has an option of demanding repayment on the debt instrument at a time earlier than the final redemption date. Exercising of call/put option only pre-pones the redemption date of an instrument. If a company exercises a call option, the procedure followed is the same as one followed in normal redemption. On fulfilling the procedure prescribed, Issuer will send the redemption proceeds to the investor directly.

Investors in Demat Debt Instruments

NSDL has no restriction if existing accounts or seperate accounts are used for dematerialisation of debt instruments. It depends upon the convenience of investors whether they want to open a separate account for debt instruments.

The procedure for dematerialisation of debt instrument is same as that for equity shares. In order to dematerialise the certificates; an investor has to open an account with a DP. He then requests for the dematerialisation of certificates by filling up a dematerialisation request form (DRF), which is available with DP and submits it along with the physical certificates. The investor has to ensure that before the certificates are handed over to the DP for demat, they are marked as "submitted for dematerialisation".

A DP does not provide a separate Transaction Statement for debt instruments. A single transaction statement reflects all the holdings and transactions in a particular account, irrespective of the type of instrument.

Certificate of Deposit (CD)

The investor has the choice of holding Certificate of Deposit in a separate account or all its holdings in one account. NSDL has no restriction if existing account/different accounts are used for dematerialisation of Certificate of Deposit. The minimum size to be subscribed/ transacted by investor in the NSDL system is Rs. 1 lakh.

Dematerialisation

The procedure for dematerialisation of Certificate of Deposit is same as that carried out for equity shares. The client will submit a request to the DP, in the dematerialisation Request Form (DRF), along with the original CD certificate/s to be dematerialised. Before submission, the client/holder has to write on the reverse of the 'CD' (certificate/s) in the space provided for endorsement followed by signature of authorized official of holder;

"SURRENDERED FOR DEMATERIALISATION and credit to my/our demat ACCOUNT. (Account number) with (DP) name /-------- number.

The DP would give an acknowledgement (DRF acknowledgement portion) to its client confirming the acceptance of the CD for dematerialisation. Only those Certificates of Deposit, which have been made available for dematerialisation by its Issuer, can be dematerialised.

Direct allotment of Certificates of Deposit can be made in dematerialised form. The procedure followed is identical to that followed for direct credit of equity shares during IPO/ Bonus/ Rights. Investors will have to provide demat account number alongwith DP ID to the Issuer.

Settlement

The seller authorises its DP through Delivery Instructions to debit his account and transfer the security into the account of Buyer who may have opened account with the same or any other DP. Buyer receives said securities in its account immediately if the buyer has given one-time standing instruction to its DP. Settlement of funds between the parties will be settled outside the ambit of NSDL.

Redemption

The Issuer has to open a redemption account with Depository Participant. The Investors holding CDs in demat form will give the Delivery Instruction Slip (DIS) to their respective Depository Participants to transfer the CDs to the Issuers Redemption Account so that the transfer takes place by 3.00 p.m. atleast two working days prior to the maturity date. On sighting the securities in the Redemption account, the Issuer will initiate the steps to pay the investors the redemption proceeds.

The redemption account opened by the Issuer will be the same for all the CDs Issued by the Issuer. As per the FIMMDA guidelines, the Issuer will provide the details of the redemption

account in the form of a certificate to the first investor of the CD. The details of the Issuers redemption account will also be communicated to all its Depository participants by NSDL.

As per the RBI Monetary and Credit Policy 2002-03, with effect from June 30, 2002, banks and FIs should issue CDs only in the dematerialised form.

Commercial Paper (CP)

An investor can subscribe to minimum of Rs. 5,00,000/- or multiples thereof, as the face value of a Commercial Paper in the NSDL system is taken as Rs. 5,00,000/-. The securities (CP) will be credited in the investor's account in terms of units. For eg. If the investor invests 5 crore issue in a CP issue, then 100 units will be credited his account. The investor has the choice of holding Commercial Paper in a separate account or all its holdings in one account. NSDL has no restriction if existing account/different accounts are used for dematerialisation of commercial paper.

Dematerialisation

For dematerialisation of commercial paper, the client shall submit the commercial paper alongwith demat request form (which is available with DP) to the DP. Only those commercial papers, which have been made available for dematerialisation by its Issuer, can be dematerialised. After dematerialisation, the transaction statement, received periodically by the client, will reflect all credits in a particular account irrespective of type of instrument.

Allotment of Commercial Paper can be made directly in dematerialised form. Investors will have to provide demat account number alongwith DP ID to the Issuer. Issuer will provide these details to the Issuing & Paying Agent (IPA). The Issuer will provide NSDL the IPA certificate and other documents required by NSDL to credit the IPAs CP allotment account one day prior to the value day. On the allotment date, the IPA can transfer the securities from its allotment account to the subscribers account.

Settlement

Buyer and Seller decide upon price and quantity of securities to be transacted. The seller authorises its DP through Delivery Instructions to debit his account and transfer the securities into the account of Buyer who may have opened account with the same or any other DP. Buyer receives the securities in its account immediately if the buyer has provided standing instruction to its DP. Settlement of funds is between the parties and is as per their mutual convenience.

Redemption

IPA will open Redemption account with the DP at the time of issue of Commercial paper in demat mode. A copy of the IPAs certificate, which will be provided to the beneficial owner by

the IPA, will contain details of the redemption account. The beneficiary holder should transfer the securities before 3.00 p.m on one working day before the maturity date so as to give sufficient time for the IPA to process the papers and arrange to effect the payment on the due date of the CP. On receipt of confirmation from IPAs to NSDL after payment to beneficiary holders, the balance in the redemption account is extinguished by carrying out debit-type corporate action. On receiving the confirmation from the IPA, the process will be initiated by Share Registrar in co-ordination with NSDL. For all secondary market transaction the seller will forward the copy of IPA certificate to the buyer.

As per the RBI Monetary and Credit Policy 2001-02, with effect from June 30, 2001, banks, financial institutions (FIs), primary dealers (PDs) and satellite dealers (SDs) will be permitted to make fresh investments and hold CP only in dematerialised form and outstanding investments in scrip form should also be converted into demat by October, 2001.

For any buying or selling of demat debt instruments, the procedures involved for delivery or receipt of debt instrument is the same as that involved for equity shares.

Government Securities

Government security means a security created and issued by the Central Government or a State Government for the purpose of raising a public loan. There are two types of Government Securities - Dated Securities and Treasury Bills. Dated Securities have a maturity period of more than one year. Treasury Bills have a maturity period of up to one year. All the activities relating to issue of government securities (G-Secs) - issue management, settlement of trade, distribution of interest and redemption - are handled by the Reserve Bank of India through its Public Debt Office (PDO). Although only corporate and institutional investors subscribe to government securities, individual investors are also permitted to subscribe to these securities.

An investor in government securities has the option to have securities issued either in physical form or in book-entry form (commonly known as SGL form). There are two types of SGL facilities, viz., SGL-1 and SGL-2. In the SGL-1 facility, the account is opened with the RBI directly. Only entities, which fulfill all the eligibility criteria prescribed by RBI, are permitted to open SGL-1 account. SGL-1 facility can be used only for own investments of the account holder.

Any entity, which is permitted to open SGL-1 account, may avail of SGL-2 facility as well. However, SGL-2 facility is to be used to keep accounts of the constituent investors. In other words, SGL-2 is used to route investments of clients who are not eligible to directly open SGL-1 accounts. The entity which offers SGL-2 facility, has to keep sub-accounts for each investor separately in its books; SGL-2 account with RBI will show the consolidated balances of all account holders.

Specific Features of Dealings in Government Securities

Account Opening

NSDL, being an approved entity for maintaining SGL accounts, offers this facility to investors through its DPs. There is no difference in the procedure for opening an account for G-Secs; nor is it necessary to open a separate account for G-Secs. Any client account opened with a DP may be used for dealing in government securities. Thus, equity shares, mutual fund units and G-Secs can be dealt with through a single account.

Dematerialisation of Government Securities

Government securities, like other securities, may be held either in physical form or as electronic entries in an SGL account. They are held in the depository system

1. on account of dematerialisation of physical securities; or

2. on account of transfer from Subsidiary General Ledger (SGL) accounts maintained by other eligible entities; or

3. on fresh issue of securities in dematerialised form.

Dematerialisation of Physical Certificates

The physical certificates are registered in the name of the holder with any one of the PDOs of RBI. The DP will accept request for dematerialisation from registered holders only.

The client has to submit a request to the DP in the DRF for G-Secs (DRF-GS) along with following documents:

1. Physical certificates of securities to be dematerialised.

2. Form of Transfer, which is a RBI prescribed form to effect transfer of securities held in physical form. The DP ensures that the Form of Transfer is printed on a single sheet of semi security paper. The form can be obtained from NSDL through email.

Requests for partial dematerialisation of a certificate are not entertained.

The DP will ensure that the client has filled the following on the DRF-GS:

a) Enter the option exercised as 'Submitting Physical G-Sec to NSDL'

b) Account No.

c) Account Holder Name

d) Name of the Security

e) Face Value of Securities to be Dematerialised (in words and Figures)

f) Certificate Number

ISIN number for a G-sec can be determined by relating the security description available on the physical certificate with ISIN description given by NSDL. The following information is available on physical certificates:

- Nomenclature (Description) of the stock, e.g., 13.85% Government Stock 2001
- Book Debt Certificate No., e.g., BY34 (BY stands for issuing office Bombay)
- Face Value
- Date of redemption
- Date of Issue
- Name of Holder

The DP scrutinises the Form of Transfer, the DRF-GS and the certificates which involves the following:

- Verification of Client's signature on the dematerialisation request form with the specimen signature (the signature on the account opening form).
- In case of Trusts and Corporate Bodies, DP may satisfy himself that the signatories to Form of Transfer are the signatories registered with RBI PDO which has issued the certificates. Any signature difference may result in rejection of the transfer by RBI. The DP will ensure that client has mentioned the date of registration of authorised signatures at RBI in the DRF-GS.
- Compare the order of holders' names on DRF-GS and certificates with the Client account.
- ISIN
- Security descriptor
- Whether Face value as mentioned in DRF-GS tallies with what is mentioned on the Certificates

ISIN:

The DP captures the demat request for the G-sec if the ISIN already exists in the DPM system. If the ISIN for that specific G-Sec has not been activated, the DP informs the G-Sec cell of NSDL by faxing a standard letter along with a photocopy of the certificate or the SGL credit advice. Based on this communication, ISIN will be generated and activated in the DM.

The DP ensures that in case of different Loan Codes the Clients submit separate DRF-GS and Form of Transfer. If the certificate numbers of the stock are in consecutive order for a single Loan Code, a single Form of Transfer may be used.

On receipt of the certificates, the DP ascertains whether PDO Mumbai or any other PDO has issued the certificates submitted for dematerialisation. This can be ascertained by examining the Certificate number on the face of the certificate. Certificates issued to beneficial owners

registered with PDO, Mumbai will bear the certificate number prefixed by **'BY'** and those issued to BOs registered with other PDOs will not bear this prefix.

In case of certificates issued by a PDO outside Mumbai, the DP will accept them provided the Form of Transfer has been attested by the respective PDOs. If the forms and security count is in order, the DP issues an acknowledgement slip duly signed and stamped to the client. In case the certificates are mutilated, or they are defaced in such a way that the material information is not readable, the DP does not accept the certificates for dematerialisation.

The DP fills details on the DRF-GS pertaining to ISIN and Loan Code (The Loan Code is mentioned on the Form of Transfer and also forms part of the ISIN descriptor in the DPM). The DP has to ensure that the ISIN and Loan code are verified at two levels. After verification, the dematerialisation request is entered in the DPM. The DP must ensure that Face Value of the security is entered in the Quantity field in the DPM. A Dematerialisation Request Number (DRN) will be generated by the system which has to be entered in the space provided for the purpose in the DRF-GS. A person other than the person who entered the data should verify details entered in the system for the DRN. The DP then releases the request to DM.

The DP has to endorse on the reverse of the certificate by writing 'Tendered for Cancellation and credit to SGL A/c No. BYSL0838 of NSDL, Mumbai'. Endorsements on the face are not allowed. The DP is instructed not to punch holes on the face of G-Secs. This is unlike the procedure for forwarding other securities to the respective R&T. The DP has to despatch the certificates along with the request form after duly authenticating the DRF-GS to the NSDL, within seven working days of accepting them from the client.

NSDL will fill and duly sign the relevant portion of the Form of Transfer and submit the documents to RBI for credit in the SGL-2 account of NSDL. On receiving the necessary confirmation from RBI, the NSDL-SHR will confirm acceptance of the request for dematerialisation. The DP informs the client of the changes in the client's account following the confirmation of the request.

NSDL will intimate to all DPs in advance, a 'Shut Period' applicable to Government securities. RBI will not register transfer of securities during this period. Therefore, dematerialisation requests entertained during shut period may take long time to get confirmed.

Check list for DPs

(a) The registered holder of the securities makes the dematerialisation request.

(b) The request pertains to the entire quantity comprised in a certificate. No request for partial dematerialisation of a certificate should be entertained.

(c) All relevant documents and security certificates, wherever applicable, are enclosed with the DRF-GS.

(d) DRF-GS is properly signed.

(e) In case of transfer from SGL account of other eligible entities, the transfer form as prescribed under Rule 7 of PD Rules of RBI duly executed by the other entity is enclosed.

(f) In the case of security certificates issued by PDO outside Mumbai, the form of transfer is attested by the respective PDOs.

(g) The details of certificates, e.g., face value, tally with the details mentioned in the DRF-GS.

(h) The certificates are not mutilated or defaced in a way so as to affect any material information.

(i) The certificates submitted for dematerialisation are endorsed on the reverse, in the space provided, with the words "Tendered for Cancellation and Credit to SGL A/C. No. BYSL 838 of NSDL".

(j) The certificates are stored in a safe and secure place till they are sent to the NSDL.

(k) Separate DRF-GS are submitted for
- securities having distinct ISINs;
- securities having distinct loan codes; and
- each client account.

(l) The order of names of the account holders matches with the order of names in the security certificates. However, in case of transfer from other entities, securities may have been held in the name of such other entity.

(m) The DP should forward the DRF-GS and the documents so received, along with the security certificates, wherever applicable, to NSDL after registering the request in DPM. The DP should forward such DRF-GS to NSDL within seven days after accepting it from its client.

NSDL gets the necessary credit entries made in the account of the client concerned, after obtaining prior approval from RBI for conversion of physical securities into SGL balances or for transfer of balances from SGL account maintained by other eligible entities. Where RBI rejects any dematerialisation request, NSDL intimates the DP regarding such rejection within seven days. NSDL, in this case, returns the DRF along with the relevant security certificates and documents submitted by the client. In the following cases, the security certificates should be retained/destroyed by it.

(a) If the security certificates lodged by the client have been reported stolen.

(b) If the security certificates have been reported to be forged or fake.

(c) If a court or a competent statutory authority has restrained the depository from returning the certificates.

(d) If for other reason, in the opinion of RBI, it would not be proper to return the security certificates.

The DP should facilitate the correction of such objections on a timely basis for securities in respect of which an objection memo has been received from the NSDL. Otherwise the request may be rejected. The DP should accordingly inform the client about dematerialisation, transfer or rejection of request to the client.

Objections by NSDL SHR for Government Securities

NSDL acts as a depository R&T Agent and discharges depository functions of an R&T Agent for G-Secs.

On receipt of physical certificates with the DRF-GS and the Form of Transfer, the G-Sec cell of NSDL matches the details provided in the DRF-GS with the electronic message received by NSDL SHR from DM. In case of a mismatch, the NSDL G-Sec cell sends a letter/fax to the DP intimating them of the mismatch and seeks necessary clarification/documentation from the DP. The DRN will be kept pending till such rectification is obtained. The DP does not generate a fresh request in the system until it receives electronic intimation of rejection.

NSDL G-Sec cell will also reject the dematerialisation requests in case RBI rejects the transfer on account of signature mismatch or in case the signatories are not registered with RBI. In such cases, the DP intimates the client of rejection by letter/fax along with the rejection memo sent by the NSDL's G-Sec cell.

Procedure for Transferring Government Securities in SGL Form to Depository account

An investor may be holding balances with any other entity in a book entry form (SGL I or II) which the investor may like to transfer into NSDL depository account. Even this process is handled through dematerialisation module of NSDL.

The client has to submit a request (DRF-GS) along with a Form iii (Annexure UA) /letter of authority. No other forms need to accompany this DRF-GS.

Figure 48 - Annexure UA of NSDL Business Rules

FORM OF TRANSFER

Transfer Index Regn. No.

I / We $ _____

do hereby assign and transfer my/our $ interest or share in the Inscribed Stock No.
BDC No. _____ By _____ of the _____

Loan _____ (Loan Code No............................) amounting to Rs. _____ being the amount / a portion $ of the

Stock of Rs. _____

as specified on the face of this instrument together with the accrued interest thereon unto

his/her/their $ executors, Administrators or assigns, and I/We $ _____
_____ do freely accept the above Stock _____ transferred $ _____
to the extent it has been transferred $ to me/us. $

   I / We $ _____

[Transferee (s)]

_____

hereby request that on my / our $ being registered as the holder/s $ of the stock hereby transferred to me / us $ the aforesaid Stock Certificate to the extent it has been transferred to me / us $ may be renewed in my / our $ name(s) / coverted in my/our $ name(s).

   * I / We $ _____

_____

hereby request that on the above transferee (s) $ being registered as the holder/s $ of the Stock hereby transferred to him/them $ the aforesaid Stock Certificate to the extent it has not been transferred to him / them $ may be renewed in my/our $ name(s).

Interest is Payable at _____

   As Witness our hand the _____ day of _____ Two Thousand
_____

Signed by the above named transfer in the   (Transferor) _____

presence of # _____
                    (Signature)
Name & Occupation _____   Address _____

Address _____   **P.D.O.** Regdn. No. _____

_____

```
┌────────────────────────────────────────────────────────────────────────────────┐
│                                                                                  │
│  Signed by the above-named transferee in the     (Transferee) _____   │
│                                                                                  │
│  presence of # _____        Address _____    │
│                        (Signature)            ⎫                                  │
│  Name & Occupation _____     ⎬                                  │
│  Address _____     ⎭   P.D.O. Regdn. No. _____    │
│                                                                                  │
│                 _____                                         │
│                                                                                  │
│  $    Omit the alternative which does not apply.                                 │
│  *    This paragraph is to be used only when a portion of the Certificate is transferred. │
│  #    Signature, occupation and address of witness.                              │
│                                                                                  │
│  Transferred                                                                     │
│                                                                                  │
│  S/c. Issued No/s. _____ dated _____ C.G.M., Reserve Bank of India, P.D.O. │
│                                                                                  │
└────────────────────────────────────────────────────────────────────────────────┘
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The DP must ensure that the client has filled the following details in the DRF-GS:

•   Entered the option exercised as "Transfer of SGL securities to NSDL"

•   Account No.

•   Account Holder Name

•   Name of the Security

•   Face Value of Securities to be Transferred (in words and Figures)

The DP will ensure that the SGL account from where the BO wishes to transfer securities to NSDL SGL, is registered with PDO at RBI, Mumbai. This can be ascertained by examining the prefix to the SGL account number that shall begin with the prefix "BY".

The DP will write the DRN on the Letter of Authority.

The DP will ensure that the details of the SGL account No., the name of the security and face value of the securities mentioned in the DRF-GS and Letter of Authority are the same. The DP has to fill in details of ISIN and Loan Code on the DRF-GS.

If the documents are in order, the DP issues an acknowledgement slip duly signed and stamped to the client. The DP will scrutinise the Form iii/Letter of Authority and the DRF-GS which involves the following:

•   Verification of Clients signature on the DRF-GS with the specimen signature (the signature on the account opening form). If the signature differs, the DP should satisfy himself of the identity of the client.

- Compare the order of holders' names on DRF-GS with the Client account.

- Loan code and Face Value mentioned in the DRF-GS and Form iii / Letter of Authority for collection of Form iii.

- The DP will scrutinise that in case of different Loan Codes separate DRF-GS is submitted by the Clients.

- The DP will ensure that the ISIN and Loan code are verified at two levels. After verification, the DRF-GS is entered in the DPM.

- DP must ensure that Face Value of the security is entered in the Quantity field in the DPM.

- A Dematerialisation Request Number (DRN) will be generated by the system. The DRN so generated is entered in the space provided for the purpose in the DRF-GS.

- A person other than the person who entered the data should verify details entered in the system for the DRN. The request is then released to DM (DM - Depository Module, NSDL's software system) by the DP.

- The DM releases the request to NSDL SHR system electronically.

- The DP will fill the relevant portion viz., the authorisation portion of the request form.

- The DP will despatch the DRF-GS along with the Letter of Authority within seven working days of accepting the same from client to the NSDL G- Sec Cell.

- NSDL G-Sec cell shall collect the Form iii from the other SGL entity based on the Letter of Authority for collection of Form iii.

- NSDL will fill the relevant portion of the Form iii containing the Joint declaration of Value Free Transfer and get the seller's portion filled by the Transferor SGL service provider and submit the same to RBI. On receiving the credit confirmation from RBI, the NSDL SHR will confirm the request for dematerialisation.

- The DPM will credit the client's account automatically.

- The DP may inform the client of the changes in the client's account following the confirmation of the request.

- NSDL will intimate to all DPs in advance, a 'Shut Period' applicable to Government securities. RBI will not register transfer of securities during this period. Therefore, dematerialisation requests entertained during shut period may take long time to get confirmed.

Transactions (Buy or Sell) in Government Securities

From depository viewpoint, trades in government securities may be of two types:

(a) Depository Trades, i.e., trades where both the parties have their beneficial accounts with the same depository; or

(b) RBI Trades, i.e., trades where only one party to the trade has account with a depository, and the counterpart has an SGL account with another approved entity or RBI itself.

Figure 49 - Annexure U of NSDL Business Rules

Participant's Name, Address & DP Id
(pre-printed)

DEMATERIALISATION REQUEST FORM FOR GOVERNMENT SECURITIES

Serial No. (Pre Printed)   Date : _____

                                                           DRN : _____

I/We request you to dematerialise Government Securities into my/our account as per the details given below:

Tick (✔) whichever is applicable

A	Submit Physical Government Securities to NSDL	
B	Value Free Transfer of Government Securities to NSDL SGL II	

Client Id									
Sole/First Holder									
Second Holder Name									
Third Holder Name									
Face Value of Securities to be Dematerialised /Transferred (In words)									
(In Figures)									
Nomenclature of the Security									
Loan Code *									
ISIN *	I	N							
Issued by PDO									
Date of Registration and registration number of authorised signatories									

* To be filled by the DP / in consultation with the DP

Details of Securities :

Sr. No.	Certificate No.	Face Value

(In case the space is found to be insufficient, an annexure containing the certificate details in the same format may be attached.)

Declaration

Part A: Applicable when Physical Securities are submitted

I/We hereby declare that the above mentioned person(s) are the bonafide beneficial owners of the above mentioned securities. I/We also hereby declare that the securities submitted by me/us for dematerialisation are free from any lien or charge or encumbrance and represent bona fide Government Securities to the best of my/our knowledge and belief.

I/We am/are also submitting an attested **Form of Transfer** favouring "National Securities Depository Limited". This is being done to facilitate a credit in the SGL Constituent Account of NSDL and should not in anyway be construed as an intention of the person(s) mentioned below to sell the securities to NSDL.

Part B: Applicable for Value Free Transfer of Government Securities to NSDL SGL II

I/We hereby declare that the above mentioned person(s) are the bonafide beneficial owners of the above mentioned securities.

I/We am/are submitting Form iii / Letter Of Authority for collection of Form iii. This is being done to facilitate a credit in the SGL Constituent Account of NSDL and does not in anyway constitute a sale of the securities to NSDL.

Authorised Signature(s)

Holder(s)	Signature(s)
Sole/First Holder	
Second Holder	
Third Holder	

Participant Authorisation

The application form is verified with the certificates surrendered for dematerialisation / Form iii / Letter of Authority for collection of Form iii and we certify that the application form is in accordance with the details mentioned in the enclosed certificates / Form iii / Letter of Authority for collection of Form iii. It is also certified that the holders of the securities have beneficiary account with us in the same name(s).

Name of the Executive :

Signature : **Participant's Stamp & Date**

===

Acknowledgment

Participant's Name, Address & DP Id
(pre-printed)

Serial No. (pre-printed)

We hereby acknowledge the receipt of certificate(s)/Form iii/Letter of Authority for collection of Form iii of _____ Face Value of _____ (description of securities) surrendered for dematerialisation by Mr/Ms/M/s _____ _____ having Client Id _____.

Date : **Participant's Stamp & Signature**

Settlement of Depository Trades

Procedure for transfer of government securities within NSDL is exactly similar to that of transfer of equity shares.

Settlement of RBI Trades

Procedure for purchase or sale of government securities when the counter party has government security balances in book entry form with any other SGL entity, the following steps have to be followed.

Purchase by Depository Client

In case of purchase of government securities by a depository client from a seller holding securities in an SGL account with other eligible entity, the buying client should submit Inter-SGL Trade Purchase Instructions in the prescribed format to the DP. The client should also make necessary funds available to the NSDL for the purchase of these securities. The DP, on the basis of the purchase instruction form, should execute a dematerialisation instruction for the quantity of security purchased, at least one day prior to the day of trade settlement at RBI. The DP should also forward the purchase instruction form to NSDL. On the basis of the documents received from the DP, NSDL will execute Form (iii) and submit it to RBI for settlement. On settlement day, the RBI will credit the SGL-2 account of NSDL and debit its current account for funds. On receiving information about crediting of securities from RBI, NSDL confirms the receipt of securities to the client.

Sale by Depository Client

In case of sale of government securities by a depository client to a buyer who maintains an SGL account with other eligible entity, the selling client should submit Inter-SGL Trade Sale Instruction in the prescribed format to the DP. The DP, on the basis of the sale instruction form, executes a rematerialisation instruction for the quantity of security sold, at least one day prior to the day of trade settlement at RBI. The DP also forwards the sale instruction form to the NSDL. On the basis of the documents received from the DP, the NSDL executes Form (iii) and submits it to RBI for settlement. On settlement day, the RBI debits the SGL-2 account of the NSDL and credits its current account for purchase consideration. NSDL credits the current account of the DP with the sale consideration and intimates the DP accordingly. The DP, on receiving the intimation, credits the amount to the account of the client.

Corporate Benefits with respect to Government Securities

The NSDL informs all the DPs about the shut-period (book closure) for government securities as and when announced by RBI. On receiving such information from the NSDL, DP must ensure

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that changes in the beneficial owner's accounts, such as change in bank details, change of address, etc., are updated well in advance of the due date of interest payment and/or redemption payment due date.

NSDL should distribute the interest to clients who have balances in government securities, on which interest payment is due, at the EOD of the interest payment due date, after RBI has been made it available to the NSDL.

NSDL pays the redemption amount to clients who have balances in government securities, due for redemption, at the EOD of the redemption due date, after the redemption amount has been made available to NSDL by RBI. NSDL makes the payment directly to the clients or to the bank account of the clients as per the details given in the account opening form.

Rematerialisation of Government Securities

Conversion of securities in NSDL SGL II to Physical Securities:

An investor in Government Securities holding electronic balances in the NSDL SGL-2 account can convert them into physical certificates by the process of rematerialisation. For this, an application has to be made to NSDL, through the DP, in the Rematerialisation Request Form (RRF-GS).

On receipt of the RRF-GS, the DP checks the form for completeness, correctness and validity. The DP should also ensure that sufficient free security balance is available in the account of the client. If the form is found to be in order and there is sufficient balance, the DP accepts the RRF-GS and blocks the balance of the client to the extent of the requested quantity and intimates the request to NSDL. On receipt of such request, NSDL blocks the balance of the client in depository system to the extent of quantity sought to be rematerialised. The DP should forward the RRF-GS to the NSDL within seven days of accepting such request from the client. NSDL should forward the rematerialisation request to RBI in the prescribed form.

In case the request is for obtaining physical certificates, NSDL should receive from RBI the physical certificates in its name and execute a form of transfer as prescribed by RBI in favour of the client. NSDL confirms the acceptance of RRF-GS and forwards the physical certificates along with the form of transfer to the client directly. In case the request was for transfer to an SGL account with other eligible entity, NSDL should confirm the acceptance of RRF to the DP, after obtaining approval from RBI. On receipt of such confirmation from RBI, NSDL removes the balance from the client's account. The DP then informs the client accordingly.

Figure 50 - Annexure UC of NSDL Business Rules

Participant's Name, Address & DP Id
(pre-printed)

REMATERIALISATION REQUEST FORM FOR GOVERNMENT SECURITIES

Serial No. (Pre Printed)   Date : _____

                                                          RRN : _____

I/We request you to rematerialise Government Securities from my/our account as per the details given below:

Tick (✔) whichever is applicable

A	Convert to Physical Government Securities	
B	Transfer of Government Securities from NSDL SGL II	

Part A : I/We hereby declare that the below mentioned account may be debited to the extent of my/our rematerialisation request and equivalent certificates be issued for the same. I/We hereby declare that the below mentioned person(s) are the beneficial owners of the securities mentioned.

Part B: I/We hereby declare that the below mentioned account may be debited to the extent of my/our rematerialisation request and equivalent securities be credited to my SGL account maintained with another eligible entity. I/We hereby declare that the below mentioned person(s) are the beneficial owners of the securities mentioned .

I/We am/are submitting Form iii with Transferee details duly filled in. This is being done to facilitate a debit in my SGL Constituent Account of NSDL.

Client Id										
Sole/First Holder										
Second Holder Name										
Third Holder Name										
Face Value of Securities to be Dematerialised /Transferred (In words)										
(In Figures)										
Nomenclature of the Security										
Loan Code *										
ISIN *	I	N								
Date of Registration and registration number of authorised signatories										

 * To be filled by the DP / in consultation with the DP

(For Part A only)
Total No. of certificates _____

No. of Certificates	Denomination	Amount (Rs.)
_____	_____	_____
_____	_____	_____
_____	_____	_____
	GRAND TOTAL	_____

Authorised Signature(s)

Holder(s)	Signature(s)
Sole/First Holder	
Second Holder	
Third Holder	

Participant Authorisation

The application form is verified with the details of the beneficial owner's account and certify that the application form is in order. The account has sufficient balances to accept the rematerialisation as requested. It is also certified that the beneficial owners signatures are verified and found in order.

The other details of the beneficial owners as extracted from the records are enclosed.

Name of the Executive   :
Signature   :   Participant's Stamp & Date

Acknowledgment

Participant's Name, Address & DP Id
(pre-printed)

Serial No. (pre-printed)

We hereby acknowledge the receipt of a rematerialisation request (Part A/ Part B) for _____ Face Value of _____ (description of securities) from Mr/Ms/M/s _____ _____ having Client Id _____.

Date :

Participant's Stamp & Signature

Objections By NSDL SHR For G-SECs

The NSDL's G-Sec Cell, on receipt of the RRF-GS, will match the Rematerialisation Request Number given on the RRF-GS with the electronic message received by NSDL SHR from DM. In case of a mismatch, the NSDL G-Secs cell will send a letter/fax to the DP intimating them of the mismatch. The DP has to resolve the mismatch.

NSC/KVP in demat form

The Indian Capital market has witnessed the benefits of dematerialisation in the last few years. Considering various benefits of dematerialisation to investors, Department of Posts (DoP) in association with National Securities Depository Limited (NSDL), has introduced the facility of holding National Savings Certificates VIII issue (NSC) & Kisan Vikas Patra (KVP) in dematerialised form.

The salient features of this facility are given below.

1. 35 select post offices are identified in Mumbai to provide this facility, **for only fresh issues of NSC & KVP.** The list of the post offices is available on our website (www.nsdl.co.in).

2. The procedure for making an application has not changed. Investors will be able to submit the forms either directly to post offices or through agents, as at present.

3. NSC and KVP can be held by individuals. Further, Joint holders only upto two are allowed.

4. Those investors who wish to have NSC/KVP in demat form have two options. They can either get the units credited in their existing demat accounts in NSDL or NSDL will, through its Service Provider (SP) arrange to open a limited purpose demat account and credit the balances in that account. However, this limited purpose demat account can have balances of only NSC/KVP. These credits will be effected with lock-in status as NSC/KVP have limited transferability.

5. In case, the DP ID and Client ID given in the application form is incorrect, a limited purpose demat account will be opened and credit will be given in that account.

6. SP will send Transaction Statements to the investors/clients directly at the address mentioned in the application form. For those clients, who have opted for credit in their existing demat account, their DPs will provide transaction statements.

7. NSDL as well as DPs will not charge any custody fee for holding NSC/KVP.

8. Investors can pledge NSC/KVP, as per the rules of the DoP.

9. On redemption, the investor may not be required to go to the issuing post office as the redemption amount may directly be credited into the investor's bank account or a warrant can be directly sent to the investor. For this purpose, it is necessary for the investor to mention his bank account details in the application form.

Advantages of holding NSC/KVP in demat form.

- Investors can hold NSC/KVP in their existing demat account. This would enable the investors to consolidate different types of investments in a single demat account. Multiple investments in these securities will also get reflected in a single account statement.

- Risk associated with holding physical certificate is eliminated.

- Investors can deal with any post office for effecting change in address, change in bank account number, change in nominee, etc.

- On redemption, the investor need not go to the post office. The investor's bank account will be credited directly or he will receive a warrant at his residence.

- No account opening charges for limited purpose demat account opened through NSDL nor any custody charges will be levied on NSC/KVP held in demat form.

Any queries can be sent by email on email address : nsckvp@nsdl.co.in.

CHAPTER 18

Warehouse Receipts

NSDL has been approached by multi-commodity exchanges to provide depository facility for warehouse receipts. As legal status of warehouse receipts is different from that of securities, it is necessary for DPs to enter into a separate agreement with persons seeking to open a demat account for the purpose of holding and dealing in electronic warehouse receipts. A model agreement format has been provided to DPs. DPs are free to add any more terms and conditions to the agreement to the extent they are not contradictory to the terms and conditions of the model agreement.

Important points pertaining to warehouse receipts in this regard are provided below:

1. Account opening procedure remains the same as provided in Volume 3. All precautions and procedures for account opening, change in address, etc. as applicable to securities account shall have to be followed.

2. Accounts opened under this agreement shall hold only electronic warehouse receipts and cannot be mixed up with other securities. DPs have to ensure this and if securities get credited into this account, they shall take necessary action to return the securities to the originating account.

3. DPs may make their own business/contractual agreement with the commodity exchanges/ warehouse owners, as they deem fit, including terms and conditions related to collection of rent, etc. If DPs are required to collect any charges/tax/rent on behalf of commodity exchange / warehouse, DPs may have to ensure that such function has adequate legal basis.

4. NSDL issues circular relating to activation of Commodities Identifier [CID] (equivalent to ISIN) as and when such CIDs are activated in the system. The statement of transaction will contain CID-wise balances. Commodity descriptor will contain unit of measurement, for e.g.:- "(CID No.) Castor Seed Grade A , Ahmedabad (in MTs)." MT = Metric Tonnes.

5. Initial credit of electronic warehouse receipts into demat account will be effected by way of corporate action.

6. Procedure for transfer, pledge and freeze will be the same as is applicable to securities.

7. At the time of delivery, client initiates a remat request through the DP using the Physical Delivery Request Form (PDRF). DP shall issue acknowledgment for receipt of the remat request by entering remat request (transaction) number on the acknowledgment portion and attest the signature of the client on the copy of PDRF. Client will submit this acknowledgment and attested copy of PDRF to the warehouse at the time of taking delivery.

Figure 51

(Pre-printed)

Depository Participant's Name, Address & DP Id

PHYSICAL DELIVERY REQUEST FORM
(For commodities/metals)

Request No. _____
(to be filled by DP)

Serial No. _____
(pre-printed)

Date : _____

I/We intend to receive physical delivery of the below mentioned commodities/metals and authorise that my/our account be debited by the quantity of commodities/metals mentioned below for this purpose. I/We declare that the below mentioned person (s) are the beneficial owners of the commodities/metals mentioned.

Account No.								
Account Holder Name								
Name of commodity/metal								
C-Id								
Unit of Measurement								
Quantity to be delivered (in figures)								
(in words)								
(Integer)								
(And decimal)								

Signature(s)

Name
Signature

First/Sole Holder

Second Holder

Third Holder

Participant Authorisation

Received the above mentioned request for physical delivery of the commodities/metals from the account holder mentioned above.

The application form is verified with the details of the beneficial owner's account and certified that the application form is in order. The account has sufficient balances to accept the request for physical delivery. It is also certified that the beneficial owner(s) signature(s) is/are verified and found in order. The other details of the beneficial owners (Client Master Report), as extracted from the records, are enclosed.

Forwarded by   :   Name of the executive

Signature   (Seal)

Acknowledgment

**Depository Participant's Name, Address & DP Id
(Pre-printed)**

Serial No. _____
(pre-printed)

We hereby acknowledge the receipt of request for physical delivery for _____ (quantity) _____ (unit of measurement) of _____ (commodity/metal) from _____ (Name) having Account No. _____ .

Participant's Signature   (Seal)

Date:

Market Participants and Investors Database (MAPIN)

Securities and Exchange Board of India has notified the SEBI [Central Database of Market Participants] Regulations 2003 for creation of a central database of market participants and investors, with Unique Identification Numbers to the market participants and investors. [MAPIN DATABASE]. In case of natural persons this database will also contain their biometric identification details like their fingerprints. The Database was launched on November 25, 2003 by Shri G. N. Bajpai, Chairman, SEBI. Shri C. B. Bhave, Chairman & Managing Director, NSDL gave the first unique identification number and identity card to Shri Bajpai on this occasion.

SEBI intends to achieve the following through these Regulations:

- Develop an inventory of Market Participants and Investors; and
- Set up a standard for client code (Unique identification number).

These Regulations place a mandatory obligation on intermediaries, their employees and other entities under the jurisdiction of SEBI, listed companies and specified investors to obtain unique identification number under MAPIN database. If these entities do not obtain the unique identification numbers by the specified date as notified by SEBI, they will not be permitted to continue their business.

Every entity obtaining the unique identification number under the MAPIN database will have one identification number (unique) in the system. The unique number is permanent and does not change even if some attributes of the entity change (such as its SEBI registration number, address, etc). In case of individuals, as well, the number remains the same even if the individual changes the organization he is associated with or the nature of his association.

SEBI has appointed National Securities Depository Limited (NSDL) for creating and maintaining MAPIN database. As on May 01, 2005, NSDL has appointed 8 Points of Service (POS) viz., CMC Limited, Geojit Financial Services Limited, Karvy Consultants Limited, Alankit Assigments Limited, Integrated Enterprises (India) Limited, Kotak Securities Limited, ICICI Bank Limited and UTI Securities Limited to provide application forms for registration, accept application forms and collect bio-metric details like fingerprints of the applicants. POS may set up camp offices at various locations in each state to provide the required service. Camping details will be published through different channels like website, brokers' offices, etc. from time to time. Application forms, along with a demand draft of Rs.300/- as registration fees, may be submitted to these POSs to obtain unique identification number.

Tax Information Network (TIN)

Introduction

The most critical requirement for improving the tax-compliance is to have a tax regime where the compliance is easy, transparent, painless and non-compliance is risky and costly. The Tax Department is inundated with truckloads of documents that the taxpayers file and the inefficiencies associated with handling this paper mountain can become a breeding ground for tax evasion.

In the year 2003, Income Tax Department (ITD) embarked on an initiative for modernization of the current system for collection, processing, monitoring and accounting of direct taxes using modern technology. Such modernization is expected to enhance convenience in record-keeping and return-preparation by the deductors, reduce cost of compliance thus improving overall tax-compliance. This will also reduce leakage, increase tax-base, improve process efficiency & transparency, enable speedy reconciliation, enable faster transfer of tax collected to government coffers and facilitate data mining to identify trends and making projections.

The Concept

Tax Information Network (TIN) is a part of this modernization initiative by ITD. TIN has three key sub-systems:

- **Electronic Return Acceptance and Consolidation System (ERACS)** which consists of an infrastructure for interface with the taxpayers (a nation-wide network of TIN-Facilitation Centres and a web-based utility) for receipt and upload of TDS (Tax Deducted at Source), TCS (TAX Collected at Source) and AIR (Annual Information Return) to the central system of TIN;

- **Online Tax Administration System (OLTAS)** for daily upload to the central system, the details of tax deposited in various tax-collecting bank branches across the country;

- **Central PAN Ledger Generation System (CPLGS)** which is the central system that generates a ledger for each PAN (Permanent Account Number) and consist of:

  - Details of tax deducted (TDS/TCS) which is generated by matching the TDS/TCS returns submitted by the deductors/ collectors with the tax deposit (challan) information from the banks;

- Details of the tax deposited (advance tax/ self-assessment tax) directly by the taxpayer with the bank;
- Details of major expenditure by the PAN holder from the AIR filed by specified entities.

Implementation

ITD engaged NSDL (who had proven experience in handling a nationwide electronic transaction processing system) for establishing TIN. TIN is being established in phases. In Phase I of TIN (three-year period culminating in FY 04-05) the two infrastructural sub-systems of TIN (OLTAS and ERACS) mentioned above have been successfully established. During this period more than five lakh returns have been accepted through the TIN-FC network (currently more than 786 centres in 272 locations) All the collecting branches upload, on a T + 3 basis, the details of challans credited.

In Phase II (commencing in FY 05-06) all the three systems are integrated to facilitate quarterly update of PAN ledger on the basis of the quarterly TDS/TCS statement and half-yearly update of PAN ledger on the basis of the AIR.

Benefits

To the deductors:
- Elimination of manual preparation, signing and issue of TDS certificates.
- No need to file & store multiple copies.
- Instead of filing large number of physical papers (truckloads for large companies), the e-TDS return is now one floppy or a CD.
- Cost saving in preparation of documents.
- Filing through service network of TIN-FC instead of at the ITD office. This helps them to demand better service quality.

To the deductees:
- Availability of a single tax statement showing deductions by various deductees and the taxes paid by the taxpayer.
- Elimination of risk of non-receipt/ loss of tax deducted certificates in physical form.
- Facilitates faster processing of tax returns.
- Deductees can verify whether tax deducted on their behalf has been accounted in their name in the IT books.
- Less difficulties for genuine taxpayers.

To ITD

- Back-office operations like collection and compilation of returns now removed from ITD offices, helping them to concentrate on core functions.
- Saving in large amount of storage space.
- Returns are consolidated to a computerized database, which can be straight away taken for processing.
- Can undertake data-mining and statistical studies on the database for better non-intrusive enforcement.
- Ease in verifying whether the deduction as per the TDS return filed has indeed been deposited to the account of the government.
- Ease in verifying whether the credits claimed by the deductee is based on real deduction and deposit to the account of the government.
- Preventing unscrupulous deductees from claiming credits against fake certificates.
- In case of taxes other than TDS (advance tax, self-assessment tax etc.), the assessing officer has a database to verify whether the tax has actually been deposited.

Sample Test

1. Tick the true statement:
   (a) As per the Securities Lending and Borrowing Scheme, NSDL is responsible to pay interest to the lender for securities lent.
   (b) As per the Securities Lending and Borrowing Scheme, the DP is responsible to pay interest to the lender for securities lent.
   (c) As per the Securities Lending and Borrowing Scheme, the borrower is responsible to pay interest to the lender for securities lent.
   (d) As per the Securities Lending and Borrowing Scheme, the intermediary is responsible to pay interest to the lender for securities lent.

2. To initiate securities lending process, which of the following options should the lender tick in the Securities Lending Form For Lender/ Borrower?
   (a) Initiate Repay to Intermediary.
   (b) Confirm Repay initiated by Intermediary.
   (c) Deposit with Intermediary.
   (d) Initiate Recall from Intermediary.

3. Problem:
   Details as reflected in the statement of account are as under:

Date of credit***	Particulars	Quantity
5.3.97	Purchased in the demat form on 27.2.1997	1500
16.6.97	Dematerialised shares that were originally purchased in Feb. 1990	6500
24.7.97	Purchased shares from the market on 15.7.1997	2000
7.9.97	Credit of bonus shares (2:5)	4000
12.11.97	Received a gift	2000

   *** The above credits of securities are in the same account.
   If 2500 shares were sold from this account on 1st Dec. 1997, then for calculating capital gains, which of the following shares will be taken into account by income tax authorities?

   (a) 2000 which were credited on 12.11.1997 and 500 from the 4000 credited on 7.9.97.
   (b) 1500 which were credited on 5.3.1997 and 1000 from the 6500 credited on 16.6.97.
   (c) all 2500 from 4000 bonus shares received on 7.9.1997.
   (d) all 2500 from the 6500 credited on 16.6.1997.

4. The DP must ensure that clearing members have given the necessary pay-in instruction (i.e. instruction for transfer from the CM pool to the CM delivery) to effect settlement,:
   (a) Not applicable. No instruction is required for this process.
   (b) after the NSDL deadline time for pay-in for the concerned exchange.
   (c) no deadline. Can be given at any time.
   (d) at least before NSDL deadline time for pay-in for the concerned exchange.

---

5. Which of the following options are available in case of freezing of a demat account?
a. Freeze for debits only
b. Freeze for credits only
c. Freeze for debits as well as credits.
   (a) b only
   (b) a and c
   (c) b and c
   (d) a only

6. Which of the following provides for inter-connectivity amongst various depositories in the scenario of multiple depositories?
   (a) Operational manual for depositories.
   (b) NSDL Business Rules.
   (c) NSDL Bye-Laws.
   (d) SEBI (Depositories and Participants) Regulations, 1996.

7. Dematerialisation is the:
   (a) process of converting physical shares into electronic shares
   (b) process of selling electronic shares
   (c) process of converting electronic shares into physical shares
   (d) process of transferring electronic shares from one account to another account

8. Which of the following can appoint a nominee?
   (a) Body Corporate.
   (b) Individual.
   (c) Trust.
   (d) FI.

9. According to SEBI requirements, securities, forming a part of the SEBI specified compulsory list wherein delivery in demat form is mandatory for all categories of investors, can be delivered in physical form in the stock exchanges connected to NSDL. This requirement is applicable to:
   (a) there is no such SEBI requirement.
   (b) physical deliveries wherein the number of shares are less than 500.
   (c) physical deliveries valued at less than Rs. 25,000/- or 500 shares whichever is less.
   (d) all physical deliveries.

10. Mr. Buyer has sold 100 shares on the NSE. Both, Mr. Buyer and Mr. Seller have opened depository accounts with NSDL. Assuming, Mr. Seller is the buyer of the same shares, the shares will be credited to:
   (a) Mr. Buyer's account directly by the stock exchange.
   (b) Mr. Seller' s account directly by Mr. Buyer.
   (c) Mr. Seller's account by the DP of his stock broker on the basis of an instruction given by that stock broker.
   (d) Mr. Buyer's account by the DP of his stock broker on the basis of an instruction given by that stock broker.

11. In an application for opening an account (for corporates/ clearing members only), which one of the following form part of types of accounts?
    (a) NRI- Repatriable.
    (b) OCB.
    (c) NRI- Non-Repatriable.
    (d) HUF.

12. Bank particulars captured in the depository account opening form, are of relevance for which of the following related activities?
    (a) Transferring shares to the CM pool account.
    (b) Stock lending and borrowing
    (c) Cash corporate actions
    (d) Off-market transfers.

13. Eligible securities for inter-depository transfers are:
    (a) Securities which are available for trading at NSE and BSE.
    (b) securities which are admitted for dematerialisation on both the depositories.
    (c) securities which are announced by SEBI for compulsory settlement in demat form on stock exchanges connected to the depository for all institutional investors.
    (d) securities which are announced by SEBI for compulsory settlement in demat form on stock exchanges connected to the depository for all categories of investors.

14. The custody fees payable by a DP to NSDL is paid:
    (a) on a quarterly basis.
    (b) on an annual basis.
    (c) on a semi-annual basis.
    (d) on a monthly basis.

15. Resolution by arbitration for disputes between NSDL and its business partners:
    (a) is applicable for disputes between NSDL and bank DPs only.
    (b) is not applicable in the NSDL environment.
    (c) is applicable for disputes between NSDL and broker DPs only.
    (d) has been prescribed in the NSDL Bye-Laws.

16. Can a delivery instruction for transferring shares from a beneficiary account to a CM pool account be canceled?
    (a) Yes, but only prior to the execution date indicated in the delivery instruction
    (b) Yes always
    (c) Never
    (d) Yes, but only after the execution date indicated in the delivery instruction

17. DVP, in the capital market context, stands for:
    (a) default versus payment.
    (b) delivery versus payment.
    (c) default versus penalty.
    (d) delivery versus penalty.

18. Which of the following doesn't form part of Pledge/ Hypothecation form?
    (a) Closure date
    (b) Details of securities.
    (c) Bank account details
    (d) Agreement No.

19. Novation means:
    (a) creation of new and complex derivative instruments.
    (b) guarantee of each outstanding position by the stock exchange.
    (c) clearing corporation is the legal counter party to each trade for settlement purposes and hence, leading to elimination of counter party risk from the system.
    (d) guarantee of settlements by the clearing corporation/ house given to a stock exchange.

20. The route to the depository, as per the Depositories Act, 1996, is:
    (a) dematerialisation or immobilisation, at the option of the Issuer.
    (b) dematerialisation or immobilisation, at the option of the depository.
    (c) dematerialisation.
    (d) immobilisation.

21. Can shares that are not registered in the name of the account holder be dematerialised?
    (a) Yes, at the discretion of the Issuer/ its R and T Agent.
    (b) No, shares have to be registered in the name of the concerned investor.
    (c) Yes, at the discretion of the DP.
    (d) Yes, provided a duly filled transfer deed is attached.

22. "Fungible" means, as shares would not have distinguishing features such as distinctive nos., certificate nos. etc.:
    (a) same securities of a company are interchangeable.
    (b) they are freely transferable.
    (c) similar securities of different companies are interchangeable.
    (d) different securities of same company are interchangeable.

23. NSDL:
    (a) has no role to play in settlement of dematerialised securities that are to be delivered in the unified (erstwhile physical) segments of connected stock exchanges.
    (b) replaces the clearing corporation/ house of the exchange that has established electronic connectivity with it.
    (c) facilitates settlement of both funds and dematerialised securities.
    (d) only plays the role of a facilitator in settlement of dematerialised securities in those exchanges which have established electronic connectivity with it.

24. The account that an approved intermediary needs to open to dematerialise its own securities, is called _ account in NSDL system:
    (a) Beneficial owner.
    (b) Clearing member.
    (c) Intermediary.
    (d) Investor.

25. The depository account that an investor opens is called as:
    (a) broker account.
    (b) intermediary account.
    (c) beneficiary account.
    (d) clearing member account.

26. Shyam has 500 shares of ABC Ltd in his beneficial owner account on 12/10/98. He gives a "Delivery instruction" on the same day to debit his account with 600 shares of ABC Ltd with the execution day as 14/10/98. At the end the of the day on 14/10/98 his account shows a credit of 550 shares. What will happen?
    (a) The entire instruction will be cancelled in the system at the end of the day on 14/10/98, as the account is short by 50 shares.
    (b) 500 shares will be debited from his account on 12/10/98, 50 shares on 14/10/98 and the balance instruction will be cancelled.
    (c) The entire instruction will be cancelled in the system on 12/10/98, as the account is short by 100 shares.
    (d) On 14/10/98, 550 shares will get debited and the balance instruction cancelled.

27. In case an investor opts for allotment in demat form in case of bonus/rights issue without opening a depository a/c,:
    (a) the issuing co. will maintain holdings in their suspense account till investor opens account.
    (b) his entitlements will be issued in physical form.
    (c) his entitlements will be issued in demat form and credited to suspense a/c maintained by the DP.
    (d) his entitlements will be issued in demat form and NSDL will open an a/c for the investor.

28. What is the main purpose of bank account details in account opening form?
    (a) For DP to debit the savings bank account for charges on the services enjoyed.
    (b) For the purpose of income tax authorities.
    (c) For safe distribution of cash corporate actions.
    (d) For NSDL to debit the savings bank account for charges on the services enjoyed.

29. Mr. Gupta having beneficiary account with DP1 sells 100 shares of ABC company through broker XYZ who has his clearing member account with DP2. Broker XYZ delivers the same in demat form to the clearing corporation/ house in settlement no. 1999052. Mr. Sharma having beneficiary account with DP3 buys the same through broker PQR who has his clearing member account with DP4. Broker PQR gets credit of the same in his account with DP4 in settlement no. 1999052. The market value of ABC company is Rs. 500/-. What are the transaction charges levied by NSDL to DP4 as applicable from May 1, 2002?
    (a) Re. 1/- subject to minimum Rs. 1000/- and maximum Rs. 20,000/- per quarter.
    (b) Rs. 25/- (100*500*0.05/100) i. e. 5 basis points of market value of securities credited to broker PQR clearing member account from clearing corporation/ house.
    (c) Rs. 0.50 (100*50*0.01/100) i. e. 1 basis point of market value of securities credited to broker PQR clearing member account from clearing corporation/ house, subject to minimum Rs. 2000/- and maximum Rs. 20,000/- per quarter.
    (d) No charges.

30. If the unitholder opts for either or survivor basis in case of his US64 units, the demat request pertaining to them can be:
    (a) processed through the same a/c that he has for his other holdings in demat form with a undertaking that this facility is available only for US64 units.
    (b) processed through a separate a/c that he opens for US64 units on either or survivor basis.
    (c) Any one of the above, at his option.
    (d) Not applicable. US64 units do not have the facility of either or survivor basis.

31. In case of a partnership firm, the beneficial owner account will be opened in the name of:
    (a) the partnership firm.
    (b) any partner(s).
    (c) all the partners.
    (d) any of the above.

32. Mr. Sharechandani, an NRI based in Singapore has purchased 1000 shares of XYZ in March 1995 on a repatriable basis. If he wishes to transfer the shares to his broker on sale:
    (a) he will have to produce the copy of the necessary RBI permission to his DP.
    (b) he will need to take special permission from SEBI to do so and then produce the same to DP.
    (c) The treaty between India and Singapore exempts Mr. Sharechandani from producing any permission.
    (d) No permission is required for NRIs. He can transfer the same freely.

33. An investor holding shares in demat form will get his bonus entitlement in:
    (a) demat form.
    (b) physical form.
    (c) any of the above at the choice of the Issuing Co.
    (d) demat/ physical form at his option.

34. DP forwards certificates received for dematerialisation along with DRF to:
    (a) NSDL.
    (b) Issuer/its R and T Agent.
    (c) both of the above.
    (d) none of the above as the DP directly gives an electronic credit to the investor.

35. Settlement in the NSE is based on:
    (a) multilateral netting on both funds and securities side.
    (b) multilateral netting with respect to funds and bilateral gross positions with respect to funds.
    (c) bilateral netting on both funds and securities side.
    (d) real time gross settlement.

36. On death of any of the joint holder(s), securities lying to the credit of the joint account can be transmitted in the name of surviving holder(s). What is the procedure for the same?
    (a) The surviving joint holder(s) to have an account in their name(s). They should submit a notarised death certificate to the Issuer/ its R and T Agent along with transmission form.

(b) On submission of notarised death certificate along with transmission form to the Issuer/ its R and T Agent, the deceased holders name will be deleted from the existing account.
(c) On submission of notarised death certificate along with transmission form to the DP, the deceased holders name will be deleted from the existing account.
(d) The surviving joint holder(s) to have an account in their name(s). They should submit a notarised death certificate to DP along with transmission form.

37. Can locked -in securities be dematerialised?
    (a) Yes, provided lock-in reason is promoters' quota in public issues.
    (b) Yes, provided lock-in reason is employees' quota under stock-option scheme.
    (c) Yes, always irrespective of lock-in reason.
    (d) No.

38. Name the odd one out:
    (a) ICRA
    (b) BOISL
    (c) CARE
    (d) CRISIL

39. Which of the following statements regarding dematerialisation is false?
    (a) Investor has to pay stamp duty for dematerialisation of shares.
    (b) NSDL doesn't charge its DPs for dematerialisation.
    (c) Odd lot shares can be dematerialised.
    (d) Shares not registered in the name of the concerned account holder (street name shares) can't be dematerialised.

40. Which of the following places does not have a stock exchange?
    (a) Delhi.
    (b) Calcutta.
    (c) Guwahati.
    (d) Cuttack.

41. In stock lending/ borrowing process, what is the transaction fees charged by NSDL to lender's DP for moving securities from lender's account to intermediary's account?
    (a) No charges.
    (b) 0.1% of the value of securities lent by lender to the intermediary.
    (c) 0.05% of the value of securities lent by lender to intermediary.
    (d) 0.01% of the value of securities lent by lender to the intermediary.

42. If beneficial owner opts for demat securities in the public issue application form then, the probability of allotment of the shares:
    (a) remains same.
    (b) decreases.
    (c) depends on the no. of applications he has submitted asking for demat shares.
    (d) increases.

43. In a share application form, if an applicant applies for part subscription in demat form and part in physical form, then
    (a) the form will be treated as valid but all shares will be issued in demat form
    (b) the form will be treated as valid and the shares will be issued as per the request in the form.
    (c) the form will be treated as invalid and rejected.
    (d) the form will be treated as valid but all shares will be issued in physical form

44. On rematerialisation the share certificates are:
    (a) issued by Issuer/ its R and T Agent and forwarded to investor through DP.
    (b) issued by Issuer/ its R and T Agent and forwarded to investor through NSDL.
    (c) issued by Issuer/ its R and T Agent and forwarded to investor directly by Issuer/ its R and T Agent.
    (d) issued by NSDL and forwarded to investor directly by NSDL.

45. Every Issuer must enter into an agreement with NSDL for offering its securities for demat. The following is true with respect to the statement made.
    (a) No. Securities which are listed on the NSE are exempt. However, those which are in the 'Permitted-to-trade segment are not exempt.
    (b) Yes. All Issuers must sign an agreement with NSDL.
    (c) No. Securities issued by the Central and State Governments are exempt from signing an agreement.
    (d) No. Issuers which have a market capitalisation of more than Rs. 125 Cr. are exempt from signing an agreement.

46. To dematerialise government securities, NSDL has to take prior approval of:
    (a) SEBI and RBI both.
    (b) RBI.
    (c) SEBI.
    (d) Issuing government authority.

47. Mr. M is holding securities with DP D. Since he is scheduled to relocate to Dubai on a special assignment and expects to be away for quite a while, he wishes to lock (freeze) his account. He can do so by:
    (a) Account freezing is not possible in the NSDL system.
    (b) filling up an account freezing form available with the DP D.
    (c) transferring his holdings to a special account called 'e-locker' where all such securities are held in fiduciary capacity by DP D.
    (d) writing to NSDL to freeze his account.

48. As a part of the capital adequacy requirement, the base minimum capital prescribed by SEBI:
    (a) varies from exchange to exchange.
    (b) is based on the recommendations of the Kaul committee.
    (c) is based on the recommendations of the Justice Bhagwati Committee.
    (d) is the same across members of all exchanges.

49. Tick the true statement:
    (a) A stock broker having a minimum networth of Rs. 50 lakh is eligible to join NSDL as a DP irrespective of whether registered with SEBI.
    (b) A SEBI registered stock broker having a minimum networth of Rs. 50 lakh is eligible to join NSDL as a DP.
    (c) A SEBI registered stock broker is eligible to join NSDL as a DP. There is no minimum networth requirement.
    (d) A SEBI registered stock broker having a minimum networth of Rs. One crore is eligible to join NSDL as a DP.

50. Mr. P has 500 shares of a company in his account with DP D. He pledges these shares with bank B. He now gives a transfer (debit) instruction to his DP D to transfer 200 of these shares to his broker R. Assuming no additional credits are expected into P's account with DP D:
    (a) The instruction will fail as there is no sufficient quantity of free shares.
    (b) DP D will release the pledge to the extent of 200 shares and transfer to broker R as free balance.
    (c) Not applicable. Demat shares cannot be pledged.
    (d) The shares will be transferred to broker R on the given execution date as pledged balance.

51. Book building:
    (a) is used by stock exchanges for trading as it is more efficient than the traditional open outcry system.
    (b) is used by speculators to artificially increase share prices.
    (c) is used in the public issue process for efficient price and demand estimation for the Issuer.
    (d) is used by bookies in horse racing.

52. If a DP goes bankrupt, what happens to the dematerialised holdings of investors with the DP?
    (a) The assets of the investor may be used for paying off the creditors of the DP.
    (b) The appointed "court receiver" has the discretion to dispose off the assets of the investor in the manner he deems fit.
    (c) NSDL has the discretion to dispose off the assets of the investor in the manner it deems fit.
    (d) The investor can opt for rematerialisation or open his account with another DP and transfer his holdings.

53. A broker (clearing member) gives delivery to clearing corporation/ house instruction to its DP. What will be the movement of the shares?
    (a) Broker's (clearing members) pool account will be debited and buying client's account will be credited.
    (b) Broker's (clearing members) pool account will be debited and his delivery account will be credited.
    (c) Broker's (clearing members) beneficial owner account will be debited and his pool account will be credited.
    (d) Broker's (clearing members) pool account will be debited and DP's house account will be credited.

54. An investor submits 10 share certificates of RPL, all in market lot of 50 shares for dematerialisation to his DP. The face value of the share is Rs. 10/-. Assuming that DP charges 0.2 % of the face value of securities for dematerialisation, calculate dematerialisation charges by NSDL to the DP.:
    (a) Rs. 1.
    (b) No charges.
    (c) Rs. 10.
    (d) Rs. 100.

55. If an investor requests for demat securities in case of public issue without having a depository account, then
    (a) Issuer/ R and T Agent will open the account on behalf of the investor and credit it with allotted shares.
    (b) NSDL will open the account on behalf of the investor and credit it with allotted shares.
    (c) Allotted shares will be issued in physical form.
    (d) DP will open the account on behalf of the investor and credit it with allotted shares.

56. Physical securities registered in the name of more than three joint holders, can be dematerialised by:
    (a) sending the same for registration in the name of three or less jointholders and then dematerislising them. They cannot be directly dematerialised in the name of more than three jointholders.
    (b) writing to NSDL and NSDL will decide on a case to case basis.
    (c) opening an account in the name of first three joint holders for the purpose of dematerialising these securities.
    (d) opening an account in the name of all the jointholders which account can be used only for the purpose of dematerialising these securities and delivering the same on sale.

57. For a stock exchange/clearing house to settle demat securities, the stock exchange/ house must have a mechanism to ensure payment against delivery or guarantee settlement. This requirement is drawn from:
    (a) The Byelaws of the respective stock exchanges.
    (b) The NSDL Byelaws.
    (c) The SEBI (Depository and Participants) Regulations, 1996.
    (d) The Depositories Act, 1996.

58. Is it true that according to SEBI's April 6, 1998 directive demat shares will be treated as good delivery in the physical segments of stock exchanges connected to NSDL?
    (a) Yes, for all category of investors.
    (b) No.
    (c) Yes, for all category of investors but only at NSE and BSE.
    (d) Yes, but only for institutional investors.

59. UTI:
    (a) is the largest mutual fund in the world.
    (b) was set by an act of Parliament in India.

(c) has floated only one mutual fund scheme till date viz., UNIT-64, but the same happens to be the most popular.
(d) is the self-regulatory body for mutual funds.

60. All dematerialised securities are:
(a) mandatorily registered in the name of the individual investor.
(b) registered both in the name of the individual investor and the depository.
(c) mandatorily registered in the name of the depository.
(d) registered in the name of either the depository or the individual investor.

Answers:

1.	d	21.	b	41.	a
2.	c	22.	a	42.	a
3.	b	23.	d	43.	c
4.	d	24.	a	44.	c
5.	b	25.	c	45.	c
6.	d	26.	a	46.	b
7.	a	27.	b	47.	b
8.	b	28.	c	48.	a
9.	b	29.	a	49.	d
10.	c	30.	c	50.	a
11.	b	31.	b	51.	c
12.	c	32.	a	52.	d
13.	b	33.	d	53.	b
14.	a	34.	b	54.	b
15.	d	35.	a	55.	c
16.	a	36.	d	56.	d
17.	b	37.	c	57.	c
18.	c	38.	b	58.	a
19.	c	39.	a	59.	b
20.	c	40.	d	60.	c

Feedback and Comments

You may offer your feedback / suggestions / observations covering the following :-

1. Content

2. Language

3. Clarity of the procedures

4. Adequacy of illustrations, forms, etc

5. Usefulness of splitting the Handbook into 4 volumes.

Please send your feedback at the following address in the format given in the next page :-

Investor Relations Cell
National Securities Depository Ltd.
4th Floor, A Wing, Trade World,
Kamala Mills Compound, Senapati Bapat Marg,
Lower Parel, Mumbai - 400 013.
Tel. : 022 - 2499 4200
Fax : 022 - 2497 6355 / 2497 6351 / 2497 2993
Email : ncfm@nsdl.co.in

Feedback and Comments

To,
Investor Relations Cell,
National Securities Depository Ltd.
4th Floor, A Wing, Trade World,
Kamala Mills Compound, Senapati Bapat Marg,
Lower Parel, Mumbai - 400 013.

The following feedback / suggestions / observations are offered for the enhancement of "Hand-book":

Salient points of the NSDL-Depository Operations Module

1. The test is of 75 minutes duration.
2. The total marks for the examination are 100.
3. Each participant should secure a minimum of 60% of the marks to be eligible to receive the certificate in NSDL - Depository Operations Module.
4. Thus a participant should secure a minimum of 60 marks out of total 100 to pass the test.
5. A participant should secure a minimum of 80% of the marks to be a certified trainer.
6. Thus a participant should secure a minimum of 80 marks out of total 100 to be certified as a trainer.

LIST OF TEST CENTRES TO APPEAR FOR NCFM EXAMINATION

TEST CENTRE CODES	TEST CENTRE	TELEPHONE AND FAX NUMBERS
1	National Stock Exchange of India Ltd. "Exchange Plaza", Bandra Kurla Complex, Bandra (East), Mumbai-400051	Tel : 022 - 26598252 022 - 26598100 - 114 Fax : 022 - 26598393
2	National Stock Exchange of India Ltd. "Thapar House", Western Wing Mezzanine Floor, Janpath Lane 124, Janpath, New Delhi – 110 001	Tel : 011-23344313-27 Fax : 011-23366658
3	National Stock Exchange of India Ltd. 1st Floor, Park View Apartments 99, Rash Behari Avenue Kolkata – 700 029	Tel : (033) 24631802-1805, 24631809-1812 (Board Nos) Fax : (033) 24631791, 24631806
4	National Stock Exchange of India Ltd. 7th Floor, Arihant Nitco Park 90, Dr.Rashakrishnan Salai Mylapore, Chennai - 600 004	Tel : 044-28475100 Fax : 044-28473633
5	National Stock Exchange of India Ltd. H No.3-6-322 Mahavir House, IInd Floor Chamber no.203 & 204 Basheerbagh, Hyderabad : 500029	Tel : 040-23227084/5 Fax : 040-23227086
6	National Stock Exchange of India Ltd. 406 Sakar II Near Ellis Bridge Ahmedabad – 380 006	Tel : 079-26580212 - 13 Fax : 079-26576123
7	Any other place (depending on demand)	

Additional information on the NCFM programme can also be obtained at NSE's web-site: www.nse-india.com or by e-mailing at ncfm@nse.co.in.