

Tutorial Notes

Class: M.Com, Semester IV (MC 4.3 / EC3)

Subject: Financial Institution & Market

Topic: Depository Institutions

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Depository

A depository is an entity which helps an investor to buy or sell securities such as stocks and bonds in a paper-less manner. Securities in depository accounts are similar to funds in bank accounts.

Functions.

A depository works as a link between the listed companies which issue shares and shareholders. It issues these shares through agents associated with it called depository participants or DPs. A DP can be a bank, financial institution, a broker, or any entity eligible as per SEBI norms and is responsible for the final transfer of shares from the depository to investors. The investor, at the end of a transaction receives a confirmation from the depository.

Need.

A depository eliminates the risk associated with holding physical securities. Earlier, the buyer would have to keep checking if the shares have been transferred safely to his account, and ensure that theft, damage or loss has not happened. After the depository system came about, such risks have been greatly reduced since the shares are held in and transferred in an electronic manner. They also reduce the paper work involved in trading and fasten the transfer of shares. In 1998, demat or electronic trading was made compulsory for institutional investors, which led to a spike in the overall trading volumes in the Indian market. Foreign investors felt more confident about trading in the Indian market due to the depository system as there were far fewer incidents of forgery, delay and unscrupulous transfer of shares.

Depository Services

Depository Services is an organization where the securities of a shareholder are held in the form of electronic accounts, in the same way as a Bank holds money. The depository also provides services related to various transactions in such securities.

There are only two depositories in India. Namely National Securities Depository Limited (NSDL) or Central Depository Services (India) Limited (CDSL) that are registered with SEBI which are as follows.

National Securities Depository Limited (NSDL)

It was registered by SEBI on June 7, 1996 as India's first depository to facilitate trading and settlement of securities in the dematerialized form. It deals with National Stock Exchange (NSE).

Central Depository Service (India) limited (CSDL)

It commenced its operations in February 1999. It was promoted by Stock Exchange, Mumbai in association with Bank of Baroda, Bank of India, and State Bank of India and HDFC Bank. It deals with Bombay Stock Exchange (BSE). CDSL is the second Indian central securities depository services based in Mumbai.