

# Handbook on Dematerialisation of Securities for Private Companies & Shareholders



Corporate Laws & Corporate Governance Committee  
**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
New Delhi

# Handbook on Dematerialisation of Securities for Private Companies & Shareholders



Corporate Laws & Corporate Governance Committee  
**The Institute of Chartered Accountants of India**  
(Set up by an Act of Parliament)  
New Delhi

# © THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

## **DISCLAIMER:**

The views expressed in this book are of the author(s). The Institute of Chartered Accountants of India may not necessarily subscribe to the views expressed by the author(s).

The information cited in this book has been drawn from various sources. While every effort has been made to keep the information cited in this book error free, the Institute or any office of the same does not take the responsibility for any typographical or clerical error which may have crept in while compiling the information provided in this book.

Basic draft of this publication was prepared by CA. Sarika Singhal

Edition	:	February, 2024
Committee/Department	:	Corporate Laws & Corporate Governance Committee
E – mail	:	<a href="mailto:clcgic@icai.in">clcgic@icai.in</a>
Website	:	<a href="http://www.icai.org">www.icai.org</a>
Price	:	₹ 100/-
ISBN	:	978-81-19472-63-5
Published by	:	The Publication & CDS Directorate on behalf of The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002 (India)

## Foreword

---

The continuous and dedicated support of the Corporate Laws & Corporate Governance Committee (CL&CGC) of ICAI for the visionary initiatives of the Ministry of Corporate Affairs (MCA) is unwavering. In tandem, the Committee is actively engaged in fostering awareness among stakeholders, facilitating the smooth implementation of Amendments, Clarifications, Initiatives, and Schemes mandated by the MCA. Committed to elevating ICAI's stature as Partner in Nation Building, the CL&CGC always remains dedicated to comprehensively addressing all facets pertaining to Corporate Laws and Corporate Governance.

Historically, securities were tangible certificates representing ownership or investment, laden with challenges such as inefficiencies, susceptibility to loss or damage, and a lack of real-time accessibility. In the ever-evolving financial landscape, the concept of dematerialization stands as a transformative force, reshaping the traditional approach of handling securities marking a digital transformation which is the need of the hour.

I extend my sincere appreciation to the Corporate Laws & Corporate Governance Committee for taking the commendable initiative of releasing the publication titled "*Handbook on Dematerialisation of Securities for Private Companies & Shareholders*". This insightful resource serves as a valuable guide, navigating members through the amended provisions of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

I extend my sincere appreciation to CA. Sripriya Kumar, Chairperson, CA. Durgesh Kumar Kabra, Vice-Chairman and all other members of the Corporate Laws & Corporate Governance Committee for bringing out this important publication.

I am confident that professionals, industries, and other stakeholders will discover significant value in this publication.

2<sup>nd</sup> February 2024

**CA. Aniket Sunil Talati**  
President, ICAI



# Preface

---

The genesis of dematerialisation in India traces back to the establishment of the National Securities Depository Limited (NSDL) in 1996, followed by the Central Depository Services Limited (CDSL) in 1999. These depositories played a pivotal role in converting physical securities into electronic form, heralding a significant departure from the certificated securities system.

In accordance with the provisions of the Companies Act, 2013, the Ministry of Corporate Affairs (MCA) initially directed Public Companies to maintain and transact their shares in Demat form effective from October 2nd, 2018. It's noteworthy that this directive, however, did not encompass Private Limited Companies.

Recognizing the transformative advantages of dematerialisation in fostering transparency and mitigating risks associated with physical certificates, the Ministry of Corporate Affairs took a significant step on October 27, 2023. Through a landmark notification, the applicability of dematerialisation provisions was broadened to encompass all Private Companies, with the exception of Small Companies and Government Companies.

To achieve this, the Ministry has set a timeline of 18 months from the closure of the financial year 2023, culminating on September 30, 2024, within which Private Companies are mandated to facilitate the dematerialisation of all their securities.

In order to support the stakeholder regarding the applicable provision the Institute of Chartered Accountants of India ("ICAI") through its Corporate Laws and Corporate Governance Committee ("CL&CGC") has decided to bring out a publication "Handbook on Dematerialisation of Securities for Private Companies & Shareholders" This insightful guide navigates members through the intricacies of the amended provisions of the Companies (Prospectus and Allotment of Securities) Rules, 2014, providing invaluable insights as we collectively navigate this transformative era in corporate governance.

The Institute of Chartered Accountants of India takes pride in presenting this resource to empower Private Companies and Shareholders. Our goal is to facilitate a seamless transition, ensuring that stakeholders harness the benefits of dematerialisation and contribute to the broader narrative of corporate governance in India.

We extend our heartfelt gratitude to CA. Aniket Sunil Talati, the President of ICAI, and CA. Ranjeet Kumar Agarwal, the Vice President, for their pivotal roles in the conception of this publication.

We would also like to thank CA. Anil Sharma for giving his valuable inputs in the finalisation of the booklet. Our sincere appreciation goes to every Committee member for their suggestions, support and guidance in various activities of the Board. Special thanks is extended to CA. Sarika Singhal, the Secretary to the Committee, Ms. S. Rita, Deputy Secretary ICAI and CL&CGC Team especially Ms. Seema Jangid, CA Nikita Aggarwal, CA. Swati Singh and Ms Manisha Gupta, for their significant contributions to the preparation of this publication.

The endeavors undertaken by the Corporate Laws & Corporate Governance Committee are anticipated to be a valuable resource for professionals, industry members, and other stakeholders alike.

**CA Sripriya Kumar**  
Chairperson,  
Corporate Laws & Corporate  
Governance Committee, ICAI

**CA Durgesh Kumar Kabra**  
Vice-Chairman  
Corporate Laws & Corporate  
Governance Committee, ICAI

Date : 5th February, 2024

# Contents

---

Introduction .....	1
General Frequently Asked Questions on Dematerialisation .....	7
Frequently Asked Questions on Dematerialisation by Companies .....	17
Frequently Asked Questions on Dematerialisation by Security Holder/Share Holder .....	24





## Chapter-I

# Introduction

---

Dematerialisation of securities helps to transform the traditional landscape of financial markets from paper-based securities into a streamlined and electronic format.

The Companies Act, 2013, which serves as the legislative framework for corporate governance and regulation in India, contains provisions related to the dematerialisation of securities.

As per Section 29 of the Companies Act 2013 read with Rule 9A of the Companies (Prospectus and Allotment of Securities) Rules, 2014, every public company including unlisted public company is required to issue the securities only in dematerialised form; and facilitate dematerialisation of all its existing securities in accordance with provisions of the Depositories Act, 1996 and Regulations made thereunder.

Recognising the advantages of dematerialisation in enhancing transparency and mitigating risks associated with physical certificates, the Ministry of Corporate Affairs vide its Notification dated 27<sup>th</sup> October 2023 has further extended the applicability of provisions relating to Issuance of Securities in dematerialized form to all the Private Companies except Small Companies and Government Companies by inserting Rule 9B to the Companies (Prospectus and Allotment of Securities) Rules, 2014.

For the said purpose, the Ministry of Corporate Affairs has provided a timeline of 18 months from the closure of financial year ending on or after 31<sup>st</sup> March, 2023.

In India, as per the MCA records, as on 31<sup>st</sup> October 2023, a total number of 25,86,341 companies were registered out of which 63% of the companies viz 16,28,791 companies stand active.

Amongst such active companies, Private limited companies account for 96% of the total companies leaving only balance of 4% companies which are registered as Public Limited Companies.

Accordingly, such huge number of companies except Small Companies and Government Companies are required to facilitate the dematerialisation of all its securities by 30<sup>th</sup> September 2024 and issue the securities only in

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

dematerialised from 30<sup>th</sup> September 2024 onwards (assuming their financial year was closed on 31<sup>st</sup> March, 2023).

Further, pursuant to this amendment introduced, both the private limited company and its security holders will now be required to follow certain procedure for dematerialising the securities as provided in the amended Rules.

Therefore, for the benefit of such private limited companies and their security holders, entire procedure along with FAQs are covered in the foregoing chapters.

An analysis of diverse categories of company and the corresponding Rules governing the dematerialisation of securities is also tabulated below:

<b>S No</b>	<b>Type of Company</b>	<b>Dematerialisation as per Rule 9A/ 9B</b>	<b>Remarks</b>
1.	Unlisted Public Company	Rule 9A	-
2.	Private Company (other than mentioned below)	Rule 9B	-
3.	Government Company	Not required	Exempted under Rule 9B(6)
4.	Small Company	Not required	Exempted under Rule 9B(1)
5.	Small Private Company which is a subsidiary of another Private Company	Rule 9B	As per definition of small company, a company cannot be classified as a small company if it is holding/subsidiary of another company. Accordingly, it will be deemed to be a normal private company.
6.	Private Company which is a subsidiary of Public Company	Rule 9A	Private Company which is a subsidiary of Public Company is deemed to be public company. (proviso to sec 2(71))

7.	Section 8 Private Company which meets the thresholds for small company classification as per the Companies Act, 2013	Rule 9B	As per definition of small company, a section 8 company cannot be classified as a small company irrespective of its paid-up share capital and turnover. Accordingly, it will be deemed to be a normal private company.
----	--	---------	--

### **Relevant extract of The Companies (Prospectus and Allotment of Securities) Rules, 2014**

#### **Rule 9A: Issue of securities in dematerialised form by unlisted public companies:**

- 1) Every unlisted public company shall –
  - a) issue the securities only in dematerialised form; and
  - b) facilitate dematerialisation of all its existing securities
 in accordance with provisions of the Depositories Act, 1996 and regulations made there under.
- 2) Every unlisted public company making any offer for issue of any securities or buyback of securities or issue of bonus shares or rights offer shall ensure that before making such offer, entire holding of securities of its promoters, directors, key managerial personnel has been dematerialised in accordance with provisions of the Depositories Act 1996 and regulations made there under.
- 3) Every holder of securities of an unlisted public company-
  - a) who intends to transfer such securities on or after 2nd October, 2018, shall get such securities dematerialised before the transfer; or
  - b) who subscribes to any securities of an unlisted public company (whether by way of private placement or bonus shares or rights offer) on or after 2nd October, 2018 shall ensure that all his existing securities are held in dematerialized form before such subscription.

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

- 4) Every unlisted public company shall facilitate dematerialisation of all its existing securities by making necessary application to a depository as defined in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996 and shall secure International security Identification Number (ISIN) for each type of security and shall in-form all its existing security holders about such facility.
- 5) Every unlisted public company shall ensure that-
  - a) it makes timely payment of fees (admission as well as annual) to the depository and registrar to an issue and share transfer agent in accordance with the agreement executed between the parties;
  - b) it maintains security deposit at all times, of not less than two years, fees with the depository and registrar to an issue and share transfer agent in such form as may be agreed between the parties; and
  - c) it complies with the regulations or directions or guidelines or circulars, if any, issued by the securities and Exchange Board or Depository from time to time with respect to dematerialisation of shares of unlisted public companies and matters incidental or related thereto.
- 6) No unlisted public company which has defaulted in sub-rule (5) shall make offer of any securities or buyback its securities or issue any bonus or right shares till the payments to depositories or registrar to an issue and share transfer agent are made.
- 7) Except as provided in sub-rule(s), the provisions of the Depositories Act 1996, the securities and Exchange Board of India (Depositories and participants) Regulations, 2018 and the securities and Exchange Board of India (Registrars to an Issue and share Transfer Agents) Regulations, 1993 shall apply mutatis mutandis to dematerialisation of securities of unlisted public companies.
- 8) Every unlisted public company governed by this rule shall submit Form PAS-6 to the Registrar with such fee as provided in Companies (Registration Offices and Fees) Rules, 2014 within sixty days from the conclusion of each half year duly certified by a company secretary in practice or chartered accountant in practice.

- 8A) The company shall immediately bring to the notice of the depositories any difference observed in its issued capital and the capital held in dematerialised form.
- 9) The grievances, if any, of security holders of unlisted public companies under this rule shall be filed before the Investor Education and protection Fund Authority.
- 10) The Investor Education and protection Fund Authority shall initiate any action against a depository or participant or registrar to an issue and share transfer agent after prior consultation with the securities and Exchange Board of India.
- 11) This rule shall not apply to an unlisted public company which is:—
  - a) a Nidhi;
  - b) a Government company or
  - c) a wholly owned subsidiary

**Rule 9B: Issue of securities in dematerialised form by private companies:**

- 1) Every private company, other than a small company, shall within the period referred to in sub-rule (2) –
  - a) issue the securities only in dematerialised form; and
  - b) facilitate dematerialisation of all its securities,in accordance with provisions of the Depositories Act, 1996 (22 of 1996) and regulations made thereunder.
- 2) A private company, which as on last day of a financial year, ending on or after 31st March, 2023, is not a small company as per audited financial statements for such financial year, shall, within eighteen months of closure of such financial year, comply with the provisions of this rule.
- 3) Every private company referred to in sub-rule (2) making any offer for issue of any securities or buyback of securities or issue of bonus shares or rights offer, after the date when it is required to comply with this rule, shall ensure that before making such offer, entire holding of securities of its promoters, directors, key managerial personnel has been dematerialised in accordance with the provisions of the Depositories Act, 1996 (22 of 1996) and regulations made thereunder.

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

- 4) Every holder of securities of the private company referred to in sub-rule (2),-
  - a) who intends to transfer such securities on or after the date when the company is required to comply with this rule, shall get such securities dematerialised before the transfer; or
  - b) who subscribes to any securities of the concerned private company whether by way of private placement or bonus shares or rights offer on or after the date when the company is required to comply with this rule shall ensure that all his securities are held in dematerialised form before such subscription.
- 5) The provisions of sub-rules (4) to (10) of rule 9A shall, mutatis mutandis, apply to the dematerialisation of securities under this rule.
- 6) The provisions of this rule shall not apply in case of a Government company.

## General Frequently Asked Questions on Dematerialisation

---

**Q 1. What is the subject matter discussed in the MCA Notification dated 27th October 2023?**

A 1. The Notification issued by MCA dated 27<sup>th</sup> October 2023 extends the applicability of provisions relating to Issuance of Securities in dematerialised form and facilitating dematerialising of all its securities to all Private Companies except Small Companies and Government Companies by inserting Rule 9B to the Companies (Prospectus and Allotment of Securities) Rules, 2014.

**Q 2. What is dematerialisation of securities?**

A 2. Dematerialisation is the process of converting physical securities, such as share certificates and bonds, into fungible form (an electronic or digital format). This transformation eliminates the need for physical certificates and streamlines securities management.

**Q 3. What is the definition of 'Securities'?**

A 3. Clause (81) of Section 2 of the Companies Act, 2013 defines the term 'securities'. 'Securities' means the securities as defined in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956.

**Q 4. What is the definition of 'securities' under the Securities Contract (Regulation) Act, 1956?**

A 4. Section 2(h) of the Securities Contract (Regulation) Act, 1956 has given an inclusive definition of Securities. "Securities" include—

- shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or a pooled investment vehicle or other body corporate;
  - derivative;
  - units or any other instrument issued by any collective investment scheme to the investors in such schemes;



## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

- security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- units or any other such instrument issued to the investors under any mutual fund scheme;
- units or any other instrument issued by any pooled investment vehicle;
- any certificate or instrument (by whatever name called), issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case may be
- Government securities;
  - such other instruments as may be declared by the Central Government to be securities; and
  - rights or interest in securities;

**Q 5. Which legislative framework governs the dematerialisation of unlisted public securities issued in India?**

A 5. Section 29 of the Companies Act, 2013, read with Rule 9A of the Companies (Prospectus and Allotment of Securities) Rules, 2014, mandates unlisted public companies and other prescribed companies to issue securities only in dematerialised form by complying with the provisions of the Depositories Act, 1966 and the regulations made thereunder.

**Q 6. What is the timeline for Private Companies to facilitate dematerialisation?**

A 6. Every Private Company except which as on the last day of a financial year, ending on or after 31<sup>st</sup> March, 2023 is small company as per audited financial statements for such financial year is required to facilitate the dematerialisation of all securities by 30<sup>th</sup> September 2024. (18 months' timeline from the closure of financial statements.)

These provisions are also not applicable to government companies.

## **General Frequently Asked Questions on Dematerialisation**

---

- Q 7. Which dematerialisation rule applies to Public Companies?**
- A 7. Public Companies are required to follow dematerialisation as per Rule 9A of Companies (Prospectus and Allotment of Securities) Rules, 2014.
- Q 8. Which dematerialisation rule applies to Private Companies?**
- A 8. Private Companies are required to dematerialise their securities as per Rule 9B of Companies (Prospectus and Allotment of Securities) Rules, 2014.
- Q 9. Are Government Companies obligated to dematerialise their securities?**
- A 9. No, Government Companies are not required to dematerialise their securities as they are exempted under Rule 9A and Rule 9B.
- Q 10. Do small companies have a dematerialisation requirement for their securities?**
- A 10. No, small companies are not required to undergo dematerialisation of their securities as they are exempted from this obligation under Rule 9B.
- Q 11. What is Rule 9A, and what are its key provisions?**
- A 11. Rule 9A pertains to the issue of securities in dematerialized form by unlisted public companies. Key provisions include the mandatory issuance of securities in dematerialized form, facilitation of dematerialization of existing securities, and compliance with the Depositories Act, 1996 and related regulations.
- Q 12. Are there specific obligations for unlisted public companies making offers for securities under Rule 9A?**
- A 12. Yes, every unlisted public company making an offer for the issue of securities, buyback of securities, or issuing bonus shares or rights offer must ensure that before making such an offer, the entire holding of securities of its promoters, directors, and key managerial personnel has been dematerialised in accordance with the provisions of the Depositories Act, 1996, and regulations made thereunder.
- Q 13. What actions are required by holders of securities in unlisted public companies under Rule 9A?**

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

A 13. Holders intending to transfer securities after October 2, 2018, must dematerialize the securities before the transfer.

Subscribers to any securities after October 2, 2018, must ensure that all existing securities are held in dematerialized form before such subscription.

**Q 14. How does an unlisted public company facilitate dematerialization of existing securities under Rule 9A?**

A 14. The company must make the necessary application to a depository, secure International Security Identification Numbers (ISIN) for each type of security and inform existing security holders about the dematerialization facility.

**Q 15. What payments are unlisted public companies required to make to ensure compliance with Rule 9A?**

A 15. Unlisted public companies must make timely payments of admission and annual fees to the depository, registrar to an issue, and share transfer agent in accordance with the agreement executed between the parties.

**Q 16. Is there a specific financial commitment that companies need to maintain as per Rule 9A?**

A 16. Yes, unlisted public companies are required to maintain a security deposit all the time, equivalent to not less than two years' fees, with the depository and registrar to an issue and share transfer agent in such form as may be agreed between the parties.

**Q 17. What regulatory compliance is mandated for unlisted public companies under Rule 9A?**

A 17. Companies must ensure strict adherence to the regulations, directions, guidelines, or circulars issued by the Securities and Exchange Board or Depository. This includes compliance with dematerialization related matters and any incidental or related issues.

**Q 18. What restrictions are imposed on unlisted public companies that have defaulted in sub-rule (5) of Rule 9A?**

A 18. Unlisted public companies that have defaulted in sub-rule (5) are prohibited from making offers of any securities, conducting buybacks, or issuing bonus or right shares until the outstanding

## General Frequently Asked Questions on Dematerialisation

payments to depositories, registrar to an issue, and share transfer agent are rectified.

**Q 19. How are the provisions of the Depositories Act 1996 and SEBI regulations applied to unlisted public companies under Rule 9A?**

A 19. Except as provided in specific sub-rules, the provisions of the Depositories Act 1996, the SEBI (Depositories and Participants) Regulations, 2018, and the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 apply mutatis mutandis to the dematerialization of securities of unlisted public companies.

**Q 20. What reporting requirement is mandated for unlisted public companies governed by Rule 9A?**

A 20. Every unlisted public company governed by Rule 9A is required to submit Form PAS-6 to the Registrar within sixty days from the conclusion of each half-year. This form should be duly certified by a company secretary in practice or a chartered accountant in practice, accompanied by the prescribed fee as per the Companies (Registration Offices and Fees) Rules, 2014.

**Q 21. Where should security holders of unlisted public companies file their grievances under Rule 9A?**

A 21. Grievances of security holders of unlisted public companies under Rule 9A should be filed before the Investor Education and Protection Fund Authority.

**Q 22. Which authority is responsible for initiating actions against depositories, participants, or registrars to an issue and share transfer agents under Rule 9A?**

A 22. The Investor Education and Protection Fund Authority is empowered to initiate any action against a depository, participant, or registrar to an issue and share transfer agent after prior consultation with the Securities and Exchange Board of India (SEBI).

**Q 23. Which types of unlisted public companies are exempt from the applicability of Rule 9A?**

A 23. Rule 9A does not apply to the following categories of unlisted public companies:

a) Nidhi companies.

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

- b) Government companies.
- c) Wholly owned subsidiaries.

**Q 24. What is the primary requirement for every private company (excluding small companies) under Rule 9B?**

A 24. Every private company, other than a small company, must issue securities only in dematerialized form and facilitate dematerialization of all its securities, following the provisions of the Depositories Act, 1996, and related regulations.

**Q 25. When is a private company required to comply with the provisions of Rule 9B?**

A 25. A private company, not qualifying as a small company as of the last day of a financial year ending on or after March 31, 2023, must comply with the provisions of Rule 9B within eighteen months from the closure of such financial year.

**Q 26. What requirements apply to private companies making offers for securities or buyback after the compliance date?**

A 26. Private companies, after the compliance date, must ensure that the entire holding of securities of their promoters, directors, and key managerial personnel has been dematerialized before making any offer for the issue of securities, buyback, or issuing bonus shares or rights offers.

**Q 27. What obligations do holders of securities in the concerned private company have under Rule 9B?**

A 27. Holders intending to transfer securities or subscribing to any securities of the private company, on or after the compliance date, must ensure that such securities are dematerialized before the transfer or subscription, respectively.

**Q 28. Do the provisions of Rule 9A apply to private companies under Rule 9B?**

A 28. Rule 9A covered unlisted public companies. The provisions of sub-rules (4) to (10) of rule 9A shall, mutatis mutandis, also apply to the dematerialisation of securities under this rule for private companies (Rule 9B sub rule 5), the key contents of Rule 9A which are required to be complied is placed below:

### **General Frequently Asked Questions on Dematerialisation**

---

- Company shall facilitate dematerialisation of all its existing securities by making necessary application to a depository as defined in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996 and shall secure International Security Identification Number (ISIN) for each type of security and shall in-form all its existing security holders about such facility.
- Company shall ensure that:
  - it makes timely payment of fees (admission as well as annual) to the depository and registrar to an issue and share transfer agent in accordance with the agreement executed between the parties;
  - it maintains security deposit at all times, of not less than two years, fees with the depository and registrar to an issue and share transfer agent in such form as may be agreed between the parties; and
  - it complies with the regulations or directions or guidelines or circulars, if any, issued by the securities and Exchange Board or Depository from time to time with respect to dematerialisation of shares of unlisted public companies and matters incidental or related thereto.
- No company which has defaulted in sub-rule (5) shall make offer of any securities or buyback its securities or issue any bonus or right shares till the payments to depositories or registrar to an issue and share transfer agent are made.
- Except as provided in sub-rule (8), the provisions of the Depositories Act 1996 the securities and Exchange Board of India (Depositories and participants) [Regulations, 2018] and the securities and Exchange Board of India (Registrars to an Issue and share Transfer Agents) Regulations, 1993 shall apply mutatis mutandis to dematerialisation of securities of companies.
- Every company governed by this rule shall submit Form PAS-6 to the Registrar with such fee as provided in Companies (Registration Offices and Fees) Rules,2014 within sixty days from the conclusion of each half year duly certified by a company secretary in practice or chartered accountant in practice.

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

- The company shall immediately bring to the notice of the depositories any difference observed in its issued capital and the capital held in dematerialised form.
- The grievances, if any, of security holders of unlisted public companies under this rule shall be filed before the Investor Education and protection Fund Authority.
- The Investor Education and protection Fund Authority shall initiate any action against a depository or participant or registrar to an issue and share transfer agent after prior consultation with the securities and Exchange Board of India.

**Q 29. Why has the Ministry of Corporate Affairs extended the provision of dematerialisation of securities to Private Companies?**

A 29. The Ministry of Corporate Affairs has extended the provision of dematerialization of securities to private companies to enhance transparency, mitigate risks associated with physical certificates, and enable ease of doing business.

**Q 30. Why has the government not linked this requirement to specific shareholder numbers or financial thresholds?**

A 30. The government's decision not to link dematerialization to specific shareholder counts or financial thresholds aims to ensure a universal implementation, covering a broad spectrum of private companies. This approach prioritizes comprehensive transparency and accountability across the board, irrespective of company size or capital structure.

**Q 31. What advantages does dematerialization offer in terms of corporate governance and regulatory oversight?**

A 31. Dematerialization fosters authenticity, transparency, and traceability of shareholding information, making it easier to identify true owners in complex ownership structures. It aids in preventing fraud, promotes sustainability, and assists regulatory bodies in conducting more thorough oversight by having access to comprehensive digital data.

**Q 32. What is the primary objective of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014?**

## **General Frequently Asked Questions on Dematerialisation**

---

A 32. Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 aims to mandate private companies (excluding small and government companies) to issue securities only in dematerialized form and facilitate the dematerialization of all their securities in accordance with the provisions of the Depositories Act, 1996.

**Q 33. What is meant by the term “Depository”?**

A 33. Depository is an organisation which holds securities of investors in electronic form at the request of the investors.

Currently, In India there are two registered depositories with SEBI, namely:

- National Securities Depository Limited (NSDL) and
- Central Depository Services (India) Limited (CDSL)

**Q 34. What is meant by the term “Registrar & Transfer Agent”? What role is played by them?**

A 34. Registrar & Transfer Agent (R&T Agent) is the one who is responsible for communicating with the Depository (NSDL/CDSL) for all share credits and transfers.

The R&T Agent acts as an intermediary between the Issuer and the Depository (NSDL/CDSL) for facilitating dematerialisation and share credits/transfers by the Issuer thereafter.

A Company who wishes to offer demat facility to its shareholders, may avail the services of R&T Agent by entering into a tri-partite agreement with the R&T Agent, Depository and the Company.

**Q 35. What is meant by the term “Depository Participant”?**

A 35. Investors/ Shareholders cannot directly trade through depositories and therefore for this purpose, they are required to interact through a Depository Participant.

Accordingly, a Depository Participant (DP) is an agent of the Depository (NSDL/CDSL) through which it interfaces with the investor and provides depository services.

Shareholders of the company can open a Beneficial Owner (BO) account with a Depository Participant (DP) of any Depository as, both the NSDL and CDSL has hundreds of Depository Participants through whom investors can deal.



## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

Many public financial institutions, commercial banks, stock-brokers, clearing corporations /clearing houses and NBFCs complying to the requirements of SEBI are registered as Depository Participants.

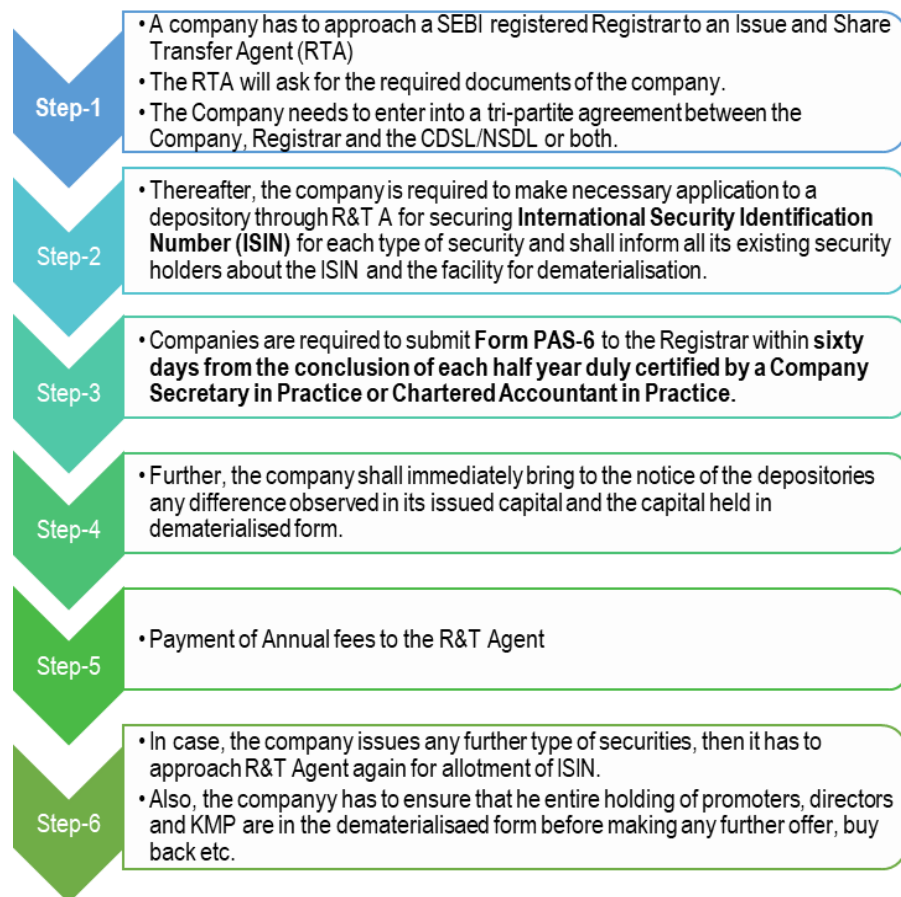
**Q 36. Whether the dematerialisation as per the new amendment in Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 is limited to only “shares” of the Private Company or is it applicable to “other securities” as well?**

A 36. The MCA Notification dated 27th October 2023 uses the word “securities” and therefore the applicability of provisions relating to dematerialisation is applicable to all the securities of Private Companies viz Equity Shares, Preference Shares, Debentures etc.

## Frequently Asked Questions on Dematerialisation by Companies

**Q 37. What is the procedure for facilitating dematerialisation of securities by Private Companies?**

**A 37.** To facilitate the dematerialisation of securities, every private company except small company and government company is required to follow the below mentioned procedure:



## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

**Q 38. What are the list of documents that are required for facilitating dematerialisation of securities by Private Companies?**

A 38. The list of documents that are generally required for facilitating dematerialisation of securities i.e. applying for ISIN by private companies are as follows:

- Certified true copies of Memorandum & Articles of Association along with Certificate of Incorporation
- Certified true copy of Board Resolution mentioning name of signatories who are authorized by Board to execute documents and list of Authorised Signatories along with specimen signature
- Certified true copy of Audited annual report for the last financial year
- Net worth Certificate as per audited annual report for the last financial year ([Format](#))
- Confirmation letter from Registrar & Transfer Agent (R&T Agent) ([Format](#))
- Undertaking from Company ([Format](#))
- Tripartite Agreement between Issuer, R&T Agent and NSDL/CDSL (3 copies with franking)
- Other Depository specific documents may be required

**Q 39. Whether the private company is required to pass board resolution for facilitating dematerialisation of its Securities?**

A 39. Yes, a private company is required to pass board resolution for facilitating dematerialisation of its Securities and submit the same to Depository while applying for ISIN.

**Q 40. Whether amendment in AOA of a Private Company is required to be done for facilitating dematerialisation of securities?**

A 40. The Depository may check whether the AOA contain provision relating to Dematerialisation in the companies' AOA.

Accordingly, in case, the AOA of the Private Company does not contain provision relating to dematerialisation of securities, then the company shall amend the AOA to include the same.

**Q 41. Which companies are required to dematerialise their securities as per the provisions of the Companies Act, 2013?**

## **Frequently Asked Questions on Dematerialisation by Companies**

---

A 41. All the companies which are governed by the Companies Act, 2013 are required to dematerialise their securities except Small Companies and Government Companies.

As per Rule 9A of the Companies (Prospectus and Allotment of Securities) Rules, 2014 introduced in September 2018, all the unlisted public companies are required to issue their securities in dematerialised form only.

Now, post insertion of Rule 9B in the Companies (Prospectus and Allotment of Securities) Rules, 2014, all private companies are also encompassed within the requirement to issue securities exclusively in dematerialized form except Small Companies and Government Companies.

**Q 42. Which companies are exempted from the provisions of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014?**

A 42. Small companies and government companies are exempted from the requirements of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

Accordingly, they are not mandatorily required to dematerialise their securities.

**Q 43. What is a Small Company as per the provisions of the Companies Act, 2013?**

A 43. Small Company means a company, other than a public company, whose paid-up capital does not exceed Rs 4 crores and whose turnover does not exceed Rs 40 crores.

It is important to note that the following types of companies cannot be classified as small company even if the threshold meets the requirement of a small company:

- a holding company or a subsidiary company;
- a company registered under section 8; or
- a company or body corporate governed by any special Act;

**Q 44. What is a government company as per the provisions of Companies Act, 2013?**

A 44. Government company means any company in which not less than fifty-one per cent. of the paid-up share capital is held by the Central

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary company of such a Government Company.

**Q 45. Whether a private company which meets the thresholds of a small company and is also a subsidiary of another private company, is exempted from the requirement of mandatory dematerialisation of securities?**

A 45. A private company which meets the thresholds of a small company but which is also a subsidiary of another private company, cannot be classified as a small company as per the definition of small companies specified under section 2(85) of the Companies Act, 2013.

Accordingly, such types of companies are mandatorily required to dematerialise its securities.

**Q 46. Whether a company limited by guarantee is covered under the ambit of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014?**

A 46. No, a company limited by guarantee will not be covered under the ambit of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 as there is no capital/securities in such companies which could be dematerialised.

**Q 47. By when are the private companies required to dematerialise their securities as per Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014?**

A 47. The Private Companies other than small companies and government companies are required to facilitate dematerialisation of securities by 30<sup>th</sup> September 2024, i.e. within 18 months from the closure of financial year ending on 31<sup>st</sup> March 2023.

**Q 48. If a private company became a small company in the subsequent year, can it convert its securities into physical form again?**

A 48. The situation where a private company becomes a small company in the subsequent year is not specifically prescribed in the provisions of the Companies Act, 2013 read with Rules thereunder. But it can be presumed that the demat status will continue.

## **Frequently Asked Questions on Dematerialisation by Companies**

---

It is advisable for the companies to keep their securities in dematerialised form only, as it reduces the paperwork and enhances transparency and efficiency.

**Q 49. If a Small Private Company is a subsidiary of Unlisted Public Company, is it required to convert its shares into dematerialised form?**

A 49. Yes, if the Small Private Company is the subsidiary of Unlisted Public Company, then it is mandatorily required to convert its shares into dematerialised form due to the following reasons:

- As per the definition of Small Companies, a company cannot be classified as small company if it is a holding company or subsidiary company. Henceforth, being a subsidiary company, it loses the benefits of small companies' exemption.
- Further, a subsidiary of an Unlisted Public Company is deemed to be an Unlisted Public Company.

Accordingly, such small private company will fall under the requirement of Rule 9A of the Companies (Prospectus and Allotment of Securities) Rules, 2014 to dematerialise their securities.

**Q 50. Whether a section 8 private company meeting the thresholds of a small company is exempted from the requirement of dematerialisation of its securities?**

A 50. No, a section 8 private company is not exempted from the requirement of dematerialisation of its securities.

Section 8 Companies are mandatorily required to dematerialise its securities, as such type of companies cannot be classified as a small company irrespective of its paid-up share capital and turnover. (Definition of small companies as per section 2(85) of the Companies Act)

**Q 51. What actions must a private company take before making any offer for the issue of securities, buyback of securities, or issuing bonus shares or rights offer, after the compliance date mentioned in sub-rule (2) of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014?**

A 51. The company must ensure that the entire holding of securities of its promoters, directors, and key managerial personnel has been dematerialized in accordance with the provisions of the Depositories

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

Act, 1996, before making any offer for the issue of securities, buyback of securities, or issuing bonus shares or rights offer, after the compliance date mentioned in sub-rule (2) of Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

**Q 52. Where can the details of SEBI recognised Registrars to an issue and share Transfer Agents be found?**

A 52. The details of SEBI recognised Registrars to an issue and share Transfer Agents can be found at

<https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognise&dFpi=yes&intmId=10>

**Q 53. What is the purpose and structure of an ISIN (International Securities Identification Number), and does each security issued by the same issuer have a unique ISIN code within the depository system?**

A 53. An ISIN is a unique 12-digit alphanumeric code assigned to securities like shares, debentures, and bonds upon admission to the depository system. The first two digits of the ISIN code signify the country of registration, and in the case of Indian securities, the first two digits are 'IN.'

No, different securities issued by the same issuer will have distinct ISIN codes, ensuring unique identification within the depository system.

**Q 54. Can a shareholder who has a demat account with CDSL can dematerialise its shares whose ISIN has been allotted by NSDL?**

A 54. In case, a company has applied for ISIN through NSDL and the shareholder has a demat account with CDSL, the shareholder will not be able to dematerialise its shares.

Accordingly, when applying for an ISIN, the company should take into account the depository with which the current shareholders have established their demat accounts in most of the cases.

**Q 55. What penalties or consequences might a private company face for non-compliance with the dematerialisation requirements outlined in Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014?**

## **Frequently Asked Questions on Dematerialisation by Companies**

---

A 55. The specific penalties or consequences for non-compliance are not mentioned in section 29 of the Companies Act, 2013. General penalties will be applicable to companies in such scenarios.

**Q 56. What are the broad details that are required for filing form PAS-6?**

A 56. The broad details required for filling form PAS-6 are as follows:

- ISIN (International Securities Identification Number)
- Period for which return is filling.
- Details of capital of the Company.
  - a. Issued Capital
  - b. Held in Dematerialised Form in CSDL
  - c. Held in Dematerialised Form in NSDL
  - d. Held in Physical Form
  - e. Total No. of Share (b)+(c)+(d)

Further, the reasons for difference if any in (a) and (e) Details of changes in Share Capital during the half –year under due to any, are required to be reported: such as: Amalgamation, Private Placement, ESOPs, Right Issue, Bonus Issue, Advertisement, Conversion, Buy Back, Capital Reduction

**Q 57. What is the purpose of Form PAS-6, and what is the duration within which the form is to be filed?**

A 57. Form PAS-6 is a reporting requirement by MCA for companies regarding dematerialisation of securities.

The Form PAS-6 is required to be filed with the Registrar within sixty days from the conclusion of each half year duly certified by a Company Secretary in Practice or Chartered Accountant in Practice.

**Q 58. What are some reasons a company might report changes in share capital during a specified period?**

A 58. Companies might report changes in share capital due to various events such as amalgamation, private placements, employee stock ownership plans (ESOPs), rights issues, bonus issues, conversions, buybacks, or capital reductions.



## Frequently Asked Questions on Dematerialisation by Security Holder/Share Holder

---

**Q 59. What are the Security holders' Obligations ?**

A 59. Every holder of securities of the private company referred to in Rule 9B:

- who intends to transfer such securities on or after the date when the company is required to comply with this rule, shall get such securities dematerialised before the transfer; or
- who subscribes to any securities of the concerned private company whether by way of private placement or bonus shares or rights offer on or after the date when the company is required to comply with this rule shall ensure that all his securities are held in dematerialised form before such subscription.

**Q 60. What are the steps involved in dematerializing physical securities by security holder of a private company?**

A 60. The steps involved in dematerializing physical securities by security holder of a private company are as follows:

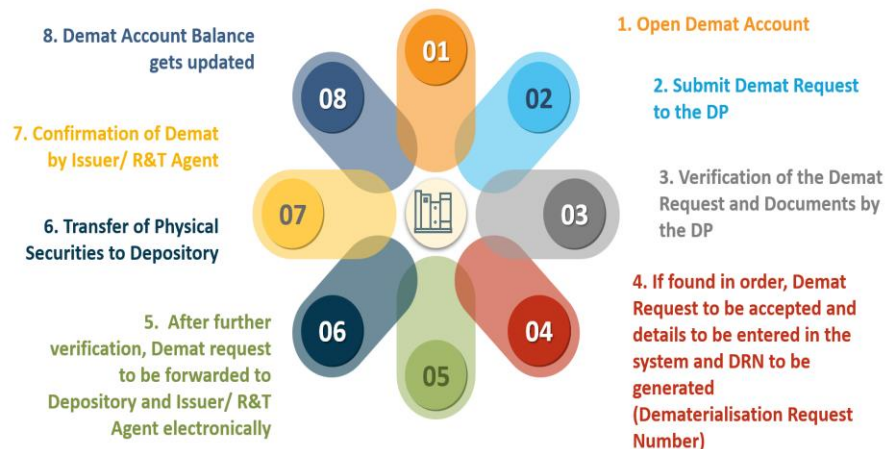
- **Open Demat Account:** The investor needs to open a Demat account with a Depository Participant (DP), who serves as an intermediary between the Investor and the Depository. The Investor has to provide necessary documents to complete the account opening process.
- **Submit Dematerialization Request to the DP:** The client (registered owner) has to submit a request to the DP in the Dematerialisation Request Form for dematerialisation, along with the certificates of securities to be dematerialised. Before submission, the client has to deface the certificates by writing "SURRENDERED FOR DEMATERIALISATION".

## FAQ on Dematerialisation by Security Holder/Share Holder

---

- **Verification of the Dematerialisation Request and Documents by the DP:** The DP will verify that the form is duly filled in and the number of certificates, number of securities and the security type (equity, debenture etc.) are as given in the DRF. If the form and security count is in order, the DP will issue an acknowledgement slip duly signed and stamped, to the client.
- The DP verifies and checks the accompanying documents for accuracy and completeness.
- If found in order, Demat Request to be accepted and details to be entered in the system and DRN to be generated (Dematerialisation Request Number)- In case the securities are in order, the details of the request as mentioned in the form are entered in the DP's software and a Dematerialisation Request Number (DRN) gets generated by the system.
- **After further verification, Dematerialisation Request to be sent to Depository and Issuer/ R&T Agent electronically:** After due verification, the request is released by the DP which is forwarded electronically to Depository through its electronic software, The request is further forwarded to the Issuer/ R&T agent electronically.
- **Transfer of Physical Securities to Depository:** The DP will then dispatch the certificates along with the request form and a covering letter to the Issuer/ R&T agent.
- **Confirmation of Dematerialization by the Issuer/ R&T Agent:** The Issuer/ R&T agent confirms acceptance of the request for dematerialisation to Depository Participant and Depository, if the request is found in order.
- **Update Demat Account Balance:** On confirmation by the Issuer/ RTA, the client's account is automatically credited with the appropriate number of securities electronically.

## Procedure for Dematerialisation of Securities for the Security Holder



**Q 61. What is the procedure for opening a demat account?**

A 61. Opening a demat account is comparable to the process of opening a bank account. The investor selects a Depository Participant (DP) to assist in completing the formalities. The investor is required to fill out a form, submit a PAN card, proof of address, and bank account details. Many DPs offer the option to open an account online. The applicant can open a demat account through the NSDL website or through DPs registered with CDSL or NSDL.

**Q 62. Where can the details of Depository Participants registered with NSDL/CDSL be found?**

A 62. The details of Depository Participants registered with NSDL/CDSL can be found at:

- NSDL:  
<https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=19>
- CDSL:  
<https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=18>

**Q 63. How can the lost share certificates be dematerialised?**

A 63. The lost share certificates can be dematerialized by applying for duplicate share certificates by the shareholder:

## **FAQ on Dematerialisation by Security Holder/Share Holder**

---

A company may issue duplicate certificate of shares if such certificate is proved to have been lost or destroyed; or has been defaced, mutilated or torn and is surrendered to the company.

Accordingly, the Shareholder should take the following steps for applying for duplicate share certificate:

- The shareholder(s) shall on an immediate basis convey to the Company either by post or courier on the Company's registered/Corporate address or through electronic means as may be feasible informing the loss/destruction of the share certificate.
- The Shareholder is required to file F.I.R with Police with comprehensive details such as: Name of Shareholder(s), Folio Number, Distinctive number of shares, Share Certificate Number.
- In addition to the F.I.R copy, letter of allotment except in case of Bonus share and Indemnity Bond confirming ownership of Shares mandatorily to be furnished to the Company.

**Q 64. Whether it shall be ensured that the stamp duty is paid on the share certificate?**

A 64. Yes, before dematerialisation of the shares, it shall be ensured that the stamp duty has been paid on the share certificate.

**Q 65. What is the significance of the Dematerialization Request Form (DRF) in the dematerialization process?**

A 65. The DRF is a critical document used to convert physical securities into electronic form. It contains essential details such as security folio number, certificate numbers, and holder information necessary for the dematerialization process.

**Q 66. What is in-person verification?**

A 66. In accordance with SEBI guidelines, establishing the identity of the account applicant is a mandatory procedure during the account opening process. The DP's staff conducts in-person verification by comparing the photograph affixed on the account opening form with the photo on the PAN card of the individual. In the case of joint account holders, in-person verification is required for all holders to ensure compliance with this procedure.

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

**Q 67. Who is the Registered Owner of Securities, and what happens when securities are converted into electronic form?**

A 67. When securities are held in physical form, the investor is the 'Registered Owner' recorded in the company's books, identified by a Folio number, certificate number, and distinctive range numbers. Upon conversion to electronic form, the depository becomes the 'Registered Owner,' and the investor's name is removed from the company's books. The depository, acting as a custodian, cannot claim benefits or be held liable for any loss related to the holdings.

**Q 68. Who is a Beneficial Owner (BO) of the securities?**

A 68. The Beneficial Owner (BO) of securities is the investor whose securities are held in electronic form in a demat account opened with a depository through a Depository Participant. The BO is entitled to all the benefits resulting from holding the securities.

**Q 69. What is the difference between a Beneficial Owner (BO) and a Registered Owner (RO) of securities?**

A 69. The BO is the ultimate owner of securities held in dematerialized form, while the RO is the owner of securities held in physical form. In dematerialization, the BO holds beneficial ownership while the depository holds legal ownership.

**Q 70. What obligations do holders of securities in the private company as mentioned in sub-rule 4 of Rule 9B have concerning the dematerialization of their securities after the compliance date?**

A 70. Holders of securities must either (a) dematerialize their securities before transferring them or (b) ensure that all securities are held in dematerialized form before subscribing to any securities of the concerned private company.

**Q 71. Is it possible to open multiple demat accounts?**

A 71. Certainly, it is possible to open more than one demat account, whether with the same DP or different DPs, based on individual needs and preferences.

**Q 72. Is it possible to open a single demat account for dematerializing individually owned securities and securities held jointly with a spouse?**

## **FAQ on Dematerialisation by Security Holder/Share Holder**

---

A 72. No, the demat account must be established following the same ownership pattern as the securities held in physical form.

For instance, if one share certificate is in the name of an individual and another certificate has names jointly with a spouse, two demat accounts would be necessary (one in the individual's name and another in the joint names of the individual and the spouse and in the same order as well).

**Q 73. Can a joint holder independently request modifications in a joint demat account, and what happens if one joint holder passes away?**

A 73. No, in a joint demat account, modifications require the signatures of all joint holders. If one joint holder passes away, the name of the deceased account holder cannot be deleted. Instead, the procedure involves opening a new demat account in the name of the surviving joint holders and transferring securities from the previous account to the new one.

**Q 74. Can a Demat account be opened for a minor, and can the minor be a joint holder in another demat account?**

A 74. Yes, a Demat account can be opened in the name of a minor, with the account operated by a guardian until the minor reaches the adulthood. The guardian must be the father or, in the absence of the father, the mother.

If both parents are unavailable, a guardian can be appointed by the court. However, a minor cannot be a joint holder in another demat account.

**Q 75. Can a shareholder with multiple demat accounts consolidate their holdings into one account?**

A 75. Yes, shareholders with multiple demat accounts can consolidate their holdings by transferring securities from one account to another through an inter-depository transfer.

**Q 76. Can a security holder use their demat account, which has been opened in CDSL, for the purpose of dematerialization of securities registered with NSDL?**

A 76. No, if the securities are registered on the NSDL platform, then the security holder is required to open a demat account with NSDL through Depository Participant registered with NSDL.

## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

**Q 77. Can an investor with an existing demat account open another account with a different CDSL DP (Depository Participant)?**

**A 77.** Yes, an investor holding a demat account has the option to open another demat account with any other CDSL DP. Additionally, for more information, the investor can refer to FAQs on BSDA (Basic Services Demat Account) category demat accounts.

**Q 78. Can securities held in a demat account be pledged or hypothecated for obtaining a loan?**

**A 78.** Yes, dematerialized securities can be pledged or hypothecated to avail of loans or credit facilities from financial institutions. This is facilitated through the creation of a pledge in favour of the lending institution.

**Q 79. Is there any difference in the tax treatment of securities held in dematerialized form compared to physical form?**

**A 79.** From a taxation perspective, there's generally no distinction between holding securities in dematerialized or physical form.

**Q 80. Can a demat account holder access their transaction history online?**

**A 80.** Yes, demat account holders can log in to their respective depository participant's online portal to access transaction history, holdings, and other relevant details.

**Q 81. How many nominees can be appointed for a demat account, and can the nomination be changed or deleted?**

**A 81.** Only one individual can be appointed as a nominee for a demat account. However, the nomination can be changed or deleted as needed by submitting the prescribed form, duly signed by all account holders, to the Depository Participant (DP).

**Q 82. Is it possible to nominate in a Joint demat account?**

**A 82.** Yes, it is possible to nominate in a joint demat account. However, it's crucial to understand that only one nominee can be appointed for all the account holders of the demat account; separate nominees for each joint holder are not allowed.

**Q 83. Who is ineligible to make a nomination, and can a NRI be appointed as a nominee?**

## **FAQ on Dematerialisation by Security Holder/Share Holder**

---

A 83. Non-individual entities, including societies, trusts, body corporate, Karta of Hindu Undivided Family, and holders of power of attorney, cannot make a nomination. However, a NRI can be appointed as a nominee.

**Q 84. Is it a requirement for investors to align their demat account with the same DP as their broker for trade settlements?**

A 84. No, there are no obligations for investors to open a demat account with the same DP as their broker. Investors have the flexibility to choose any DP they prefer and are free to engage in trading activities through a broker of their choice.

**Q 85. What is the timeline for dematerialization after submitting the DRF form and certificates to the DP? And what should be done if the demat request is not processed within the stipulated time?**

A 85. The dematerialization process, as per current regulations, should be completed within 15 days of the Issuer/RTA receiving the physical certificates. In case of any delay, the BO can contact their DP to investigate the issue. Additionally, the BO has the option to inform the Investor Grievances department of the Depository to address the delay.

**Q 86. What happens to a demat account when a minor becomes a legal adult?**

A 86. Upon reaching adulthood, there are two choices:

- Close the existing account and open a new one in the name of the individual now legally of age, with the transfer of all securities from the minor's account.
- Maintain the current account. The individual, now an adult, must sign 'the Rights and Obligations of the Beneficial Owner of Depository Participant' with the DP and complete the necessary steps for establishing a new demat account, including the removal of any guardian details previously recorded.

**Q 87. What is the process for investors with dematerialized Rights Entitlements (REs) to renounce them?**

A 87. Investors with dematerialized REs can renounce their entitlements through trading or off-market transfer. The transfer of dematerialized REs will be conducted using the depository mechanism, similar to



## **Handbook on Demat of Securities for Private Co. & Shareholders**

---

other securities, and the settlement of transactions in REs will be on a trade-for-trade basis.

**Q 88. Where is it possible for an NRI/PIO to open a demat account?**

A 88. An NRI/PIO can open a demat account with any Depository Participant [DP] of CDSL. In the account opening form obtained from the DP, the NRI/PIO should specify the type ('NRI' as opposed to 'Resident') and the sub-type ('Repatriable' or 'Non-Repatriable').

**Q 89. If a non-resident Indian becomes a resident in India, must the holding status change from Non-Resident to Resident?**

A 89. Yes, it is the responsibility of the NRI to inform the change of status to the authorized dealer branch and DP. Following this, a new resident demat account needs to be opened, securities transferred from the NRI demat account to the resident account, and finally, the NRI demat account closed.

**Q 90. Can dematerialized securities be pledged, and what occurs during the pledging process?**

A 90. Yes, dematerialized securities can be pledged, and the pledging procedures are convenient for both the pledgor and the pledgee.

During the pledging of dematerialized securities, they remain in the pledgor's demat account but are blocked to prevent their use in any other transaction.

**Q 91. What is the meaning of the transmission of shares?**

A 91. The transmission of shares refers to the process of transferring shares, following the death of a shareholder, to their legal heir(s). Unlike the voluntary transfer of shares, transmission is a legal requirement. The transmission is completed by submitting the necessary documents to the company.

**Upon registration of the transmission of shares, the legal heir(s) entitled to the transmission becomes the shareholder, gaining all rights and being subjected to all liabilities associated with shareholding.**

**Q 92. How is the dematerialization process concluded for the security holder?**

## **FAQ on Dematerialisation by Security Holder/Share Holder**

---

- A 92. Upon confirmation of acceptance by the issuer or R&T agent, the client's Demat account is credited with the appropriate number of securities electronically, completing the dematerialization process.
- Q 93. How does the dematerialization process impact the security holder's ownership?**
- A 93. Dematerialization does not alter ownership. It merely converts the ownership proof from physical certificates to electronic entries, maintaining the holder's ownership rights and interests in the securities.
- Q 94. What role does the Depository Participant (DP) play in the dematerialization process?**
- A 94. The DP serves as an intermediary between the investor and the depository. They verify dematerialization requests, ensure the accuracy of documents, and facilitate the electronic transfer of securities from physical to electronic form.
- Q 95. What is the recourse for investors if they encounter discrepancies or errors in their demat account statements?**
- A 95. Investors can approach their Depository Participant (DP) to rectify any discrepancies or errors in their demat account statements. The DP is responsible for maintaining accurate records and rectifying any inaccuracies promptly.
- Q 96. How does dematerialization affect the process of receiving information like annual reports or notices from the issuing companies?**
- A 96. Issuing companies send information like annual reports or notices electronically to the email addresses linked to the demat accounts of shareholders. This facilitates quicker and more eco-friendly dissemination of information compared to physical mode.
- Q 97. Can dematerialization be reversed to convert electronic holdings back into physical certificates?**
- A 97. Yes, a process called rematerialization allows investors to convert their electronic holdings back into physical certificates, subject to the conditions.

ISBN: 978-81-19472-63-5



[www.icai.org](http://www.icai.org)