

THE ROLE OF DEPOSITORY SYSTEMS IN ENHANCING MARKET EFFICIENCY AND SECURITY: AN INDIAN PERSPECTIVE AT ICICI

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ABSTRACT

The depository system plays a crucial role in the modernization and development of financial markets by facilitating the electronic holding, transfer, and settlement of securities. Prior to the introduction of depository systems, investors faced numerous challenges such as delays in share transfers, risks of loss, theft, forgery of physical certificates, and cumbersome paperwork. The establishment of depositories has transformed the securities market by introducing a secure, efficient, and paperless environment for trading and investing.

A depository acts as a custodian of securities and enables investors to hold shares, bonds, mutual funds, and other financial instruments in electronic form through Depository Participants (DPs). The system significantly enhances market efficiency by reducing transaction costs, accelerating settlement cycles, improving liquidity, and ensuring faster transfer of ownership. It also strengthens market security by minimizing operational risks, eliminating counterfeit securities, and providing robust mechanisms for record maintenance and investor protection.

The depository system contributes to transparency, accuracy, and reliability in the securities market. It supports regulatory compliance, facilitates corporate actions such as dividends, bonus issues, and stock splits, and improves overall investor confidence. In India, institutions such as the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) have played a vital role in promoting electronic trading and supporting the growth of the capital market.

This study examines the significance of depository systems in enhancing market efficiency and security, analyzes their impact on investor convenience and market operations, and highlights their contribution to the development of a robust and technologically advanced financial ecosystem. The findings indicate that depository systems are indispensable for ensuring the smooth functioning, safety, and growth of modern capital markets.

I. INTRODUCTION

A depository system is a vital component of the modern financial market that enables investors to hold and transact securities in electronic form. Similar to how a bank holds money on behalf of customers, a depository holds financial securities such as shares, debentures, bonds, mutual fund units, and government securities in a dematerialized (Demat) account. The introduction of depository systems has revolutionized the securities market by replacing the traditional paper-based system with a secure, efficient, and technology-driven framework.

Before the establishment of depositories, investors faced numerous challenges, including delays in the

transfer of securities, risks of theft or loss of share certificates, forgery, and extensive paperwork. These issues often resulted in inefficiencies and reduced investor confidence in the capital market. To overcome these challenges, depository systems were introduced to facilitate faster settlement, secure storage of securities, and seamless transfer of ownership.

The depository system operates through Depository Participants (DPs), who act as intermediaries between investors and depositories. In India, the two major depositories are the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL). These institutions provide

electronic custody and settlement services, ensuring transparency, accuracy, and reliability in securities transactions.

The implementation of depository systems has significantly enhanced market efficiency by reducing transaction costs, shortening settlement cycles, improving liquidity, and enabling quicker execution of trades. Additionally, the system strengthens market security by eliminating risks associated with physical certificates, preventing fraudulent transactions, and ensuring proper record maintenance.

As financial markets continue to evolve and adopt advanced technologies, depository systems have become indispensable for promoting investor confidence, supporting regulatory compliance, and fostering the growth of capital markets. This study focuses on examining the role of depository systems in enhancing market efficiency and security, highlighting their importance in creating a robust and investor-friendly financial environment.

Benefits of Depository System:

In the depository system, the ownership and transfer of securities takes place by means of electronic book entries. At the outset, this system rids the capital market of the dangers related to handling of paper. NSDL provides numerous direct and indirect benefits like:

- Elimination of bad deliveries in the depository environment, once holdings of an investor are dematerialised, the question of bad delivery does not arise i.e. they cannot be held "under objection". In the physical environment, buyer was required to take the risk of transfer and face uncertainty of the quality of assets purchased. In a depository environment good money certainly begets good quality of assets.
- Elimination of all risks associated with physical certificates- Dealing in physical securities have associated security risks of theft of stocks, mutilation of certificates, loss of certificates during movements through and from the registrars, thus exposing the investor to the cost of obtaining duplicate certificates etc. This problem does not arise in the depository environment.
- No stamp duty for transfer of any kind of securities in the depository. This waiver extends to equity shares, debt instruments and units of mutual funds.
- Immediate transfer and registration of securities - In the depository environment, once the securities are credited to the investors account on pay out, he becomes the legal owner of the securities. There is no further need to send it to the company's registrar for registration. Having purchased securities in the physical environment, the investor has to send it to the company's registrar so that the change of ownership can be registered. This process usually takes around three to four months and is rarely completed within the statutory framework of two months thus exposing the investor to opportunity cost of delay in transfer and to risk of loss in transit. To overcome this, the normally accepted practice is to hold the securities in street names i.e. not to register the change of ownership. However, if the investors miss a book closure the securities are not good for delivery and the investor would also stand to lose his corporate entitlements.
- Faster settlement cycle - The settlement cycle follow rolling settlement on T+2 bases i.e. the settlement of trades will be on the 2nd working day from the trade day. This will enable faster turnover of stock and more liquidity with the investor.
- Faster disbursement of non cash corporate benefits like rights, bonus, etc. - NSDL provides for direct credit of non cash corporate entitlements to an investors account, thereby ensuring faster disbursement and avoiding risk of loss of certificates in transit.

- Reduction in brokerage by many brokers for trading in dematerialised securities. Brokers provide this benefit to investors as dealing in dematerialised securities reduces their back office cost of handling paper and also eliminates the risk of being the introducing broker.
- Reduction in handling of huge volumes of paper
- Periodic status reports to investors on their holdings and transactions, leading to better controls.
- Elimination of problems related to change of address of investor - In case of change of address, investors are saved from undergoing the entire change procedure with each company or registrar. Investors have to only inform their DP with all relevant documents and the required changes are effected in the database of all the companies, where the investor is a registered holder of securities.
- Elimination of problems related to transmission of demat shares - In case of dematerialised holdings, the process of transmission is more convenient as the transmission formalities for all securities held in a demat account can be completed by submitting documents to the DP whereas, in case of physical securities the surviving joint holder(s)/legal heirs/nominee has to correspond independently with each company in which shares are held.
- Elimination of problems related to selling securities on behalf of a minor - A natural guardian is not required to take court approval for selling demat securities on behalf of a minor.
- Ease in portfolio monitoring since statement of account gives a consolidated position of investments in all instruments.

Reduction in brokerage by many brokers for trading in dematerialised securities:

One of the major advantages of the depository system is the reduction in brokerage charges for

trading in dematerialised (Demat) securities. Since securities are held and transferred electronically, the process becomes faster, more accurate, and less costly compared to the traditional physical certificate system. Brokers do not have to incur expenses related to handling, verification, storage, and transportation of physical securities. As a result, many brokerage firms offer lower brokerage rates and transaction charges for trades conducted through Demat accounts. This reduction in costs benefits investors by making securities trading more affordable, encouraging greater participation in the stock market and improving overall market efficiency.

NEED FOR THE STUDY:

The study on "**The Role of Depository Systems in Enhancing Market Efficiency and Security**" is important because depository systems have become an essential part of modern capital markets. With the increasing volume of securities transactions, the traditional paper-based system became inefficient, time-consuming, and prone to risks such as loss, theft, forgery, and delays in settlement. The introduction of depository systems has addressed these challenges by enabling electronic holding and transfer of securities.

This study is needed to understand how depository systems contribute to improving the efficiency, transparency, and security of securities markets. It helps evaluate the benefits of dematerialization, faster settlement processes, reduced transaction costs, and enhanced investor protection. The study also examines the role of depositories in supporting regulatory compliance and facilitating smooth market operations.

Furthermore, as technology continues to transform financial markets, it is important to assess the effectiveness of depository services in meeting the needs of investors and market participants. The findings of this study can provide valuable insights for investors, financial institutions, policymakers, and researchers regarding the significance of depository systems in strengthening the overall financial ecosystem and promoting investor confidence.

SCOPE OF THE STUDY

The scope of the study "The Role of Depository Systems in Enhancing Market Efficiency and Security" is to examine the functioning, benefits, and significance of depository systems in modern capital markets. The study focuses on understanding how depositories facilitate the electronic holding, transfer, and settlement of securities, thereby improving the efficiency and security of market transactions.

The study covers the role of depositories such as NSDL and CDSL, the process of dematerialization, and the services provided through Depository Participants (DPs). It evaluates the impact of depository systems on reducing paperwork, minimizing risks associated with physical certificates, ensuring faster settlement of trades, and enhancing investor convenience.

Further, the study analyzes the contribution of depository systems to market transparency, investor protection, regulatory compliance, and overall market development. It also examines the challenges and opportunities associated with the adoption of electronic securities management systems.

The scope is limited to the securities market and the functions performed by depository institutions in facilitating secure and efficient trading and settlement activities. The study provides insights into how depository systems support the growth and modernization of financial markets while strengthening investor confidence.

OBJECTIVE OF THE STUDY

- To study the role of depository systems in enhancing market efficiency and security in the securities market.
- To understand the concept and functioning of the depository system.
- To examine the process of dematerialization and electronic holding of securities.
- To analyze the services provided by depositories and Depository Participants (DPs).

- To evaluate the impact of depository systems on the speed and efficiency of securities transactions.
- To study the role of depository systems in reducing risks associated with physical share certificates.
- To assess the contribution of depository systems in ensuring transparency and investor protection.
- To examine the effect of depository systems on reducing transaction costs and paperwork.
- To analyze the role of depositories in facilitating faster settlement of trades.
- To study the contribution of depository systems to market liquidity and operational efficiency.
- To identify the challenges and opportunities associated with depository services in the modern financial market.
- To evaluate the role of depository systems in strengthening investor confidence and market integrity.
- To provide suggestions for improving the effectiveness and security of depository operations.

II. METHODOLOGY OF THE STUDY:

The data collection methods include both primary and secondary Collection methods.

Primary method:

This method includes the data collected from the personal interaction with authorized members of **ICICI Limited and NSDL & CDSL**.

Secondary method:

The secondary data collection method includes:

- The lecturers delivered by the superintendents of respective departments.
- The brochures and material provided by Securities limited.
- The data collected from the magazines of the NSE, economic times, etc.

- Various books relating to the investments, capital market and other related topics.

LIMITATIONS OF THE STUDY:

- The study is limited to the analysis of depository systems and their role in the securities market.
- The findings are based on available secondary data collected from books, journals, websites, annual reports, and other published sources.
- The study focuses primarily on the depository framework in India, particularly the services provided by NSDL and CDSL.
- Time constraints may limit the depth of analysis and coverage of all aspects of depository operations.
- The study does not include detailed comparisons with depository systems operating in other countries.
- Changes in market regulations, technology, and depository practices may affect the relevance of certain findings over time.
- The study may not fully capture the perceptions and experiences of all investors and market participants.
- Limited access to confidential operational data of depositories may restrict detailed analysis.
- The research focuses on the securities market and does not cover other financial sectors extensively.
- The conclusions drawn are subject to the accuracy and reliability of the data sources used in the study.
- Rapid technological advancements in financial markets may create new developments that are beyond the scope of this study.
- The study does not examine every service offered by depositories in detail and is confined to major functions related to market efficiency and security.

III. LITERATURE REVIEW

The National Stock Exchange of India Limited has genesis in the report of the High Powered Study Group on Establishment of New Stock Exchanges. It recommended promotion of a National Stock Exchange by financial institutions (FIs) to provide access to investors from all across the country on an equal footing. Based on the recommendations, NSE was promoted by leading Financial Institutions at the behest of the Government of India and was incorporated in November 1992 as a tax-paying company unlike other stock exchanges in the country.

On its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, NSE commenced operations in the Wholesale Debt Market (WDM) segment in June 1994. The Capital Market (Equities) segment commenced operations in November 1994 and operations in Derivatives segment commenced in June 2000.

The following years witnessed rapid development of Indian capital market with introduction of internet trading, Exchange traded funds (ETF), stock derivatives and the first volatility index – India VIX in April 2008, by NSE.

August 2008 saw introduction of Currency derivatives in India with the launch of Currency Futures in USD INR by NSE. Interest Rate Futures was introduced for the first time in India by NSE on 31st August 2009, exactly after one year of the launch of Currency Futures.

With this, now both the retail and institutional investors can participate in equities, equity derivatives, currency and interest rate derivatives, giving them wide range of products to take care of their evolving needs.

NSE Nifty:

The S&P CNX Nifty (nicknamed Nifty 50 or simply Nifty), is the leading index for large companies on the National Stock Exchange of India. S&P CNX Nifty is a well diversified 50 stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such

as benchmarking fund portfolios, index based derivatives and index funds.

Nifty was developed by the economists Ajay Shah and Susan Thomas, then at IGIDR. Later on, it came to be owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL. IISL is India's first specialized company focused upon the index as a core product. IISL have a consulting and licensing agreement with Standard & Poor's (S&P), who are world leaders in index services.

CNX stands for CRISIL NSE Indices. CNX ensures common branding of indices, to reflect the identities of both the promoters, i.e. NSE and CRISIL. Thus, 'C' stands for CRISIL, 'N' stands for NSE and X stands for Exchange or Index. The S&P prefix belongs to the US-based Standard & Poor's Financial Information Services.

BSE SENSEX:

The BSE Index, SENSEX, is India's first and most popular stock market benchmark index. Sensex is tracked worldwide. It constitutes 30 stocks representing 12 major sectors. The SENSEX is constructed on a 'free-float' methodology, and is sensitive to market movements and market realities. Apart from the SENSEX, BSE offers 23 indices, including 13 sectoral indices. It has entered into an index cooperation agreement with Deutsche Börse and Singapore Stock Exchange. These agreements have made SENSEX and other BSE indices available to investors across the globe. Moreover, Barclays Global Investors (BGI), at Hong Kong, the global leader in ETFs through its iShares® brand, has created the exchange traded fund (ETF) called 'iShares® BSE SENSEX India Tracker' which tracks the SENSEX. The ETF enables investors in Hong Kong to take an exposure to the Indian equity market.

The exchange traded funds (ETF) on SENSEX, called "SPICe" and Kotak SENSEX ETF are listed on BSE. They bring to the investors a trading tool that can be easily used for the purposes of investment, trading, hedging and arbitrage. These ETFs allow small investors to take a long-term view of the market.

BSE provides an efficient and transparent market for trading in equity, debt instruments and derivatives. It has always been at par with the international standards. The systems and processes are designed to safeguard market integrity and enhance transparency in operations. BSE is the first exchange in India and the second in the world to obtain an ISO 9001:2000 certification. It is also the first exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its BSE On-line Trading System (BOLT).

IV. DATA ANALYSIS AND INTERPRETATION

DEPOSITORY REFORMS:

- I. Introduction of T + 2 rolling settlement cycle
- II. Admission of debt instruments
- III. Abolition of account closure charges
- IV. SEBI directive to issuers/RTAs
- V. Common agency
- VI. Transfer-cum dematerialization.

RIGHTS AND REFORMS OF SEBI

Enquiry and Inspection:

On being satisfied that it is necessary in public interest/in the interest of the investors, the SEBI can call for information from, or, make an enquiry or inspection in relation to the affairs of, the issuer/beneficial owner/depository participant. It may also give appropriate directions.

- In the interest of investors or orderly development of the securities market or
- To prevent the affairs of any depository/participant being conducted in a manner detrimental to the interest of the investors or securities market. Any person aggrieved by an order of the SEBI may like to appeal to the SAT.

Penalties:

contravention/attempt to or abatement of contravention for the provisions if this Act/any regulation/bye-laws is punishable with imprisonment for a term up to five years or with fine, or with both.

Power of the SEBI:	Dematerialisation charges : Rs 5/- per certificate with min. Rs.40/-Per request
➤ To carry out the purposes of this ACT, the SEBI can make regulations, in particular, to provide for	+Rs45/-courier charges Per request
➤ The from in which the record is to be maintained/certificate of commencement of business issued,	Rematerialisation charges : Rs20/- per certificate/ every 100
➤ The manner of surrendering a security certificate/creating pledge, hypothecation by BOs	Securities whichever is higher Pledge - setup (to pledger) : Rs25/- per instruction
➤ Condition /fee payable for the issue of certificate of securities,	Pledge – removal (to pledger) : Rs25/- per instruction
➤ Rights/obligations of depositories/participants/issuers and	Pledge Invocation : Rs5/- per instruction
➤ Eligibility criteria for the admission of securities into the depository.	Fax indemnity charges – one time : Rs200/-
Name of DP : NETWORKTH STOCK BROKING LTD	Name of DP : SBI
Advance/Deposit : Nil	Account opening documentation Charges : Applicable stamp duty
Documentation/statutory Charges –one time : Rs230/-	Account maintenance charges
Account opening : Rs400/-+service tax	First year : Nil
Account maintenance : Rs500/-for corporate accounts only	Next year : Rs250/-
Custody charges : Nil	Custody charges : Nil
Transaction charges credit (BUY) : Nil	Dematerialisation charges : Rs 3/- per certificate + applicable Courier charges
Transaction charges Debit (SELL) : as below	Rematerialisation charges : Rs 35/- per certificate
Market transfers to nsbl* accounts : Nil	Transaction charges
Market transfers to accounts other than nsbl* Accounts with NSBL DP** : Rs20/-per transaction	Purchase : Nil
Market transfers to accounts other than nsbl*DP** : Rs30/- per transaction	Sell – through SSL** : Nil
Off market transfers to NSBL* accounts : Nil	Sell – off market transfer within SSL : Rs15/-
Off market transfers to accounts other than nsbl*accounts with NSBL DP** : Rs10/- per transaction	Sell – market / off market transfer out side SSL : 0.04% of total transaction value minimum of Rs25/- per transaction +CDSL charges
Off market transfers to accounts other than with NSBLDP** : Rs25/- per transaction	Pledge - Creation/closure/ Invocation : 0.02% of total transaction value minimum of Rs25/- per transaction + CDSL charges
Account Closing : Nil	Name of DP : karvy
	stock broking ltd
	Advance/Deposit :

<p>Account opening : Rs100/-</p> <p>Account maintenance : Rs250/-</p> <p>per annum</p> <p>Demat : Rs 3/-</p> <p>PER</p> <p>CERTIFICATE</p> <p>+courier charges</p> <p>Rs.25/-</p> <p>Remat : a) a fee of</p> <p>Rs20/- for every 100 securities or part</p> <p>Thereof; or</p> <p>b) a flat fee of Rs20/-per certificate</p> <p>is higher</p> <p>Transaction (debit) : up to 50</p> <p>Pledge Creation : 000-</p> <p>Rs20/- >Rs50/-</p> <p>Pledge Creation Confirmation : 000-</p> <p>Rs50/-</p> <p>Pledge Closure : Rs25/-</p> <p>Pledge Closure Confirmation : Nill</p> <p>Pledge Invocation : Rs25/-</p> <p>Failed Instruction Charges : Nill</p> <p>Other Charges, if any : Rs25/-</p> <p>Name of DP : India</p> <p>infoline ltd</p> <p>Advance/Deposit : Rs550/-</p> <p>Account opening : Rs450/-</p> <p>Account maintenance : Rs450/-</p> <p>per annum</p> <p>Demat : Rs 10/-</p> <p>per cert +Rs40/-</p> <p>as postal charges</p> <p>Remat : Rs 15/- per cer</p> <p>+Rs40/- as postal charges</p> <p>Transaction (debit) : min Rs15/- max</p> <p>Rs100/- or 0.05% of the</p> <p>Value of the</p> <p>securities</p> <p>Pledge Creation : Rs25/-</p> <p>Pledge Creation Confirmation : Nill</p> <p>Pledge Closure : Rs25/-</p> <p>Pledge Closure Confirmation : Nill</p> <p>Pledge Invocation : Nill</p> <p>Failed Instruction Charges : Rs50/- per</p> <p>instruction</p>	:	<p>Other Charges, if any : Nill</p> <p>Remarks : we have</p> <p>introduce a special annual scheme of</p> <p>Rs600/- for</p> <p>debit transaction. No debit transaction</p> <p>Charges for</p> <p>whole year to the client.</p> <p>V. FINDINGS</p> <ul style="list-style-type: none"> ❖ Demat in Indian scenario is a new concept. Undoubtedly by seeing its success in other developed countries, its good move towards the development in the Indian stock market. Dematerialization of the shares not only safeguards the investor interest, it also has many advantages as said before. ❖ Financial markets are not fully fledged so it is under the process of development with effect of reforms. ❖ stock exchange is one of the regional exchanges; it had to take images for improved the number of investor's geographical area and intermediary system. ❖ stock exchange has to develop the intermediary network and brokers and bubs brokers to meet the needs of investor of all over the Andhra Pradesh. ❖ The exchange also provides services to depository participant providing national securities depository participant with national securities depository limited (NSDL) and central depository services limited (CDSL). The requisite infrastructure for NSDL is it place. ❖ As per the available statistics at BSE and NSE, 99.9 per cent transactions take place in dematerialized mode only. ❖ Therefore, in view of the convenience of trading in dematerialized mode, it is advisable to have a beneficial owner (BO) account for trading at the exchanges. <p>VI. CONCLUSION</p> <p>Client account holders enjoy the convenience of obtaining immediate electronic securities transfer. No risks in handling certificates such as bad delivery, fake securities.</p>
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Reduction of paper work for all concerned. Lower costs for investors and listed companies. Convert physical share certificates into electronic form (Dematerialization)

Convert the securities held electronically into physical form (Rematerialisation)

Facilitating the post trade settlement of all secondary market transactions conducted through the CSE. Direct credit to client accounts of shares arising out of new share issues, rights issues share splits, mergers and consolidation Account maintenance service for address changes , dividend disposal instructions etc Transmission and Nomination facility.

Investor need not open separate demat a/c for demat of debt or instruments Procedure for demat of debt instruments is same as that of equity shares The investor has to ensure that before the certificates are handed over to the DP for demat, he marks 'surrendered for dematerialization' on the face of the certificates

VII. SUGGESTIONS

❖ Stock exchange depository services are fully operational.

- Central government should implement various measures to improve the financial system.
- Stock exchange has to improve Demat services in consideration of small investors also.
- Stock exchange should concentrate on expanding the investors market, broker's network; demat services, geographical expansion and large trade numbers.
- Stock exchange provides better service to the investors than that of brokers. It should also take

measures to compete with BSE and NSE.

- As a depository participant with both NSDL and CDSL stock exchange has to provide better services to investors, brokers, as well as others who interested in demat.
- However to facilitate trading by small investors in physical mode the stock exchanges provide an additional trading window, which gives one time facility for small investors to sell physical shares which are in compulsory demat list.
- The buyer of these shares has to demat such shares before further selling.

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