

DEMAT ACCOUNT REQUIREMENTS:

What is Demat?

Demat refers to a dematerialised account. Just as you have to open an account with a bank if you want to save your money, make cheque payments etc, you need to open a demat account if you want to buy or sell stocks. So it is just like a bank account where actual money is replaced by shares. You have to approach the DPs to open your demat account.

Rights

Dematerialisation of your holdings is not mandatory. You can hold your securities either in demat form or in physical form. You can also keep part of your holdings (in the same scrip) in demat form & part in physical form. However, a select list of securities announced by SEBI can be delivered only in demat form in the stock exchanges connected to NSDL.

What is a Depository?

A depository is an organization which holds securities of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities. At present two Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (I) Limited (CDSL) are registered with SEBI.

Depository Participant:

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investor. A DP can offer depository services only after it gets proper registration from SEBI. Banking services can be availed through a branch whereas depository services can be availed through a DP.

The difference between a depository and a depository participant:

A depository is a place where the stocks of investors are held in electronic form.

The depository has agents who are called depository participants (DPs).

Think of it like a bank. The head office where all the technology rests and details of all accounts held is like the depository. And the DPs are the branches that cater to individuals.

There are only two depositories in India -- the National Securities Depository Ltd (NSDL) and the Central Depository Services Ltd (CDSL). There are over a 100 DPs.

Is a demat account a must?

Nowadays, practically all trades have to be settled in dematerialised form. Although the market regulator, the Securities and Exchange Board of India (SEBI), has allowed trades of up to 500 shares to be settled in physical form, nobody wants physical shares any more. So a demat account is a must for trading and investing.

Demat Benefits:

The benefits are enumerated below:-

- A safe and convenient way to hold securities;
- Immediate transfer of securities;
- No stamp duty on transfer of securities;
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.;
- Reduction in paperwork involved in transfer of securities;
- Reduction in transaction cost;
- No odd lot problem, even one share can be sold;
- Nomination facility;
- Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately;
- Transmission of securities is done by DP eliminating correspondence with companies;
- Automatic credit into demat account of shares, arising out of bonus/split/consolidation/merger etc.
- Holding investments in equity and debt instruments in a single account.

Opening an account:

Steps involved in opening a demat account:

First an investor has to approach a DP and fill up an account opening form. The account opening form must be supported by copies of any one of the approved documents to serve as proof of identity (POI) and proof of address (POA) as specified by SEBI. Besides, production of PAN card in original at the time of opening of account has been made mandatory effective from April 01, 2006.

All applicants should carry original documents for verification by an authorized official of the depository participant, under his signature.

Further, the investor has to sign an agreement with DP in a depository prescribed standard format, which details rights and duties of investor and DP. DP should provide the investor with a copy of the agreement and schedule of charges for their future reference. The DP will open the account in the system and give an account number, which is also called BO ID (Beneficiary Owner Identification number).

Rights

1. You can open more than one depository account in the same name with single DP/multiple DPs.
2. No minimum balance is required to be maintained in a depository account.
3. You can give a one time standing instruction to your DP to receive all the credits coming to your depository account automatically.

Procedure

1. Fill account opening form (available with your DP).
2. Give your DP the duly filled account opening form with introduction documents as may be required.
3. Sign agreement with DP (agreement will state rights & obligations of both parties). The agreement will contain the fee structure of your DP. Your DP would give you a copy of this signed agreement for your record.
4. DP would give you Client Id no. (account no.) once your depository account is opened. This Client Id no. along with your DP Id no. forms a unique combination. Both these nos. should be quoted in all your future correspondence with DP/NSDL / Issuing Company/their registrar & transfer (R&T) agent.
5. Your DP would give you pre-printed instruction slips for depository services viz., dematerialisation, delivery instruction for trades, etc. Preserve these carefully.
6. Your DP would give you a list of deadlines for giving instructions for various depository activities viz., transfer for effecting sale, purchase, etc. If not, check with the DP.

Points to Remember:

1. You may choose your DP based on your evaluation of their reputation, service standards, charges, other conveniences, etc.
2. Open depository account with the same holding pattern as there on existing physical securities. You will need to open separate accounts for every different combination of holding pattern. E.g.: If 100 securities of company ABC & 200 securities of company PQR are registered in the name of X as first holder & Y as second holder, one account in name of X as first holder & Y as second holder is sufficient. Whereas, if 100 securities of company ABC are registered in the name of X as first holder & Y as second holder & 200 securities of company PQR are registered in the name of Y as first holder & X as second holder, you will need to open two accounts, one in the name of X as first holder & Y as second holder and the second in the name of Y as first holder and X as second holder.
3. Account opening procedure should typically take 2-5 days.
4. In case of holdings of a partnership firm, the account should be opened in the name of the partner(s).
5. In case of holdings of a HUF, the account should be opened in the name of the Karta.
6. In case of a minor, the depository account should be opened in the name of the minor and the guardian's name should be mentioned. The guardian will sign as signatory on behalf of the minor. For selling the securities of the minor, a court order should be obtained.
7. In case of any difficulties, contact your DP.

Required Documents:

The extent of documentation required to open a demat account may vary according to your relationship with the institution. If you plan to open a demat account with a bank, a savings account holder has an edge over the non-account holder. In fact, banks usually offer additional incentives to customers who open a demat account with them. Along with the application form, your photographs (with co-applicants) and proof of identity/residence/date of birth have to be submitted. The DPs also ask for a DP-client agreement to be executed on non-judicial stamp paper. Here is a broad list (you won't need all of them though):

- PAN card
- Voter's ID
- Passport
- Ration card
- Driver's license
- Photo credit card
- Employee ID card
- Bank attestation
- IT returns
- Electricity/ Landline phone bill

While they only ask for photocopies of the documents, they will need the originals for verification. You will have to submit a passport size photograph on which you sign across.

No of accounts:

- If your shares are held in joint names, be sure to open the account in the same order of names. If X, Y and Z jointly hold 100 shares in a company and have three share certificates all listing X, Y and Z as the first, second and third holders respectively, one account will suffice.
- For different combinations of names, open separate accounts for each combination. If the three certificates are held as XYZ, YXZ and ZYX, three accounts are necessary.
- There is no limit to the number of accounts you can open.
- There is no limit to the number of DPs you can have accounts with.
- You can even open a multiple-sign demat account, which can be operated by multiple holders, like a joint savings bank account.
- You can open a demat account even before you acquire your first security.

Fees Involved:

NOW to the crux — the cost of opening and holding a demat account. There are four major charges usually levied on a demat account: Account opening fee, annual maintenance fee, custodian fee and transaction fee. All the charges vary from DP to DP.

Account-opening fee:

Depending on the DP, there may or may not be an opening account fee. Private banks, such as ICICI Bank, HDFC Bank and UTI Bank, do not have one. However, players such as Karvy Consultants and the State Bank of India do so. But most players levy this when you re-open a demat account, though the Stock Holding Corporation offers a lifetime account opening fee, which allows you to hold on to your demat account over a long period. This fee is refundable.

Annual maintenance fee:

This is also known as folio maintenance charges, and is generally levied in advance.

Custodian fee:

This fee is charged monthly and depends on the number of securities (international securities identification numbers — ISIN) held in the account. It generally ranges between Rs 0.5 to Rs 1 per ISIN per month. DPs will not charge custody fee for ISIN on which the companies have paid one-time custody charges to the depository.

Transaction fee:

The transaction fee is charged for crediting/debiting securities to and from the account on a monthly basis. While some DPs, such as SBI, charge a flat fee per transaction, HDFC Bank and ICICI Bank peg the fee to the transaction value, subject to a minimum amount. The fee also differs based on the kind of transaction (buying or selling). Some DPs charge only for debiting the securities while others charge for both. The DPs also charge if your instruction to buy/sell fails or is rejected. In addition, service tax is also charged by the DPs.

In addition to the other fees, the DP also charges a fee for converting the shares from the physical to the electronic form or vice-versa. This fee varies for both demat and remat requests. For demat, some DPs charge a flat fee per request in addition to the variable fee per certificate, while others charge only the variable fee.

For instance, Stock Holding Corporation charges Rs 25 as the request fee and Rs 3 per certificate as the variable fee. However, SBI charges only the variable fee, which is Rs 3 per certificate. Remat requests also have charges akin to that of demat. However, variable charges for remat are generally higher than demat. Some of the additional features (usually offered by banks) are:

- Some DPs offer a frequent trader account, where they charge frequent traders at lower rates than the standard charges.
- Demat account holders are generally required to pay the DP an advance fee for each account which will be adjusted against the various service charges. The account holder needs to raise the balance when it falls below a certain amount prescribed by the DP. However, if you also hold a savings account with the DP you can provide a debit authorisation to the DP for paying this charge.
- Finally, once you choose your DP, it will be prudent to keep all your accounts with that DP, so that tracking your capital gains liability is easier. This is because, for calculating capital gains tax, the period of holding will be determined by the DP and different DPs follow different methods. For instance, ICICI Bank uses the first in first out (FIFO) method to compute the period of holding. The proof of the cost of acquisition will be the contract note. The computation of capital gains is done account-wise.