



## Dematerialization of Securities of Private Companies

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# 1. Dematerialization of Securities

## What is Dematerialization of Securities



Conversion of physical securities certificates into electronic format



Securities include equity shares, preference shares, bonds, debentures etc.



These services can only be provided by depositories appointed by the Government of India



## Benefits of Dematerialization



Reduces the risk of loss, theft & tempering



Reduces the disputes associated with ownership of physical certificates



Easy to issue, allot & transfer securities



Reduction of stamp duty



Uniform process for issue of securities

# 2. Legal Requirement

As per Companies (Prospectus & Allotment of Securities) Second Amendment Rules, 2023, private companies must convert their existing physical securities into dematerialized form on or before 30 September 2024

## Companies covered under the rules



- Private companies
- Holding and subsidiary private companies

## Companies not covered under the rules



- Small private companies  
*(Small private company means a company having paid-up share capital  $\leq$  INR 4 crore **and** annual turnover  $\leq$  INR 40 crore in the last financial year)*
- Government companies

## Timeline for compliance



- To be completed by 30 September, 2024

## Consequences of non-compliance

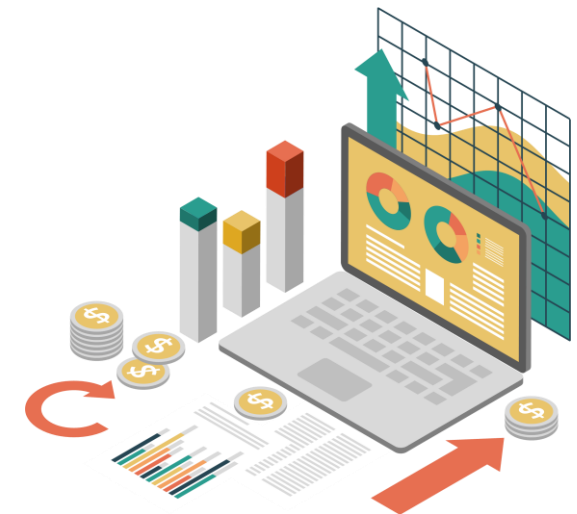


- Issue / allotment of shares not allowed
- Transfer of shares not allowed

## Penalties for non-compliance



- INR 10,000 + INR 1,000 per day on company  
*(maximum upto INR 200,000)*
- INR 10,000 + INR 1,000 per day on every officer in default  
*(maximum upto INR 50,000)*



# 3. Parties involved & their Role

## Private Company

The company shall appoint an RTA & Depository by way of passing Board Resolutions.

## Securityholder

All Securityholders shall be required to open a Demat account with Depository Participant for keeping their securities in electronic format.

## Registrar and Transfer Agent (RTA)

RTA is to act as an Intermediary between the company & Depository for facilitating the dematerialization process.

## Depository

Depository is an institution which holds securities in electronic form. They are responsible and accountable for safe-custody of securities.

## Depository Participant (DP)

DP is to act as an Intermediary between the Depository & the Securityholders. It acts like a bank that stores money & conducts transactions. Instead of money, a DP stores securities in a Demat account.



# 4. Steps for Dematerialization of Securities

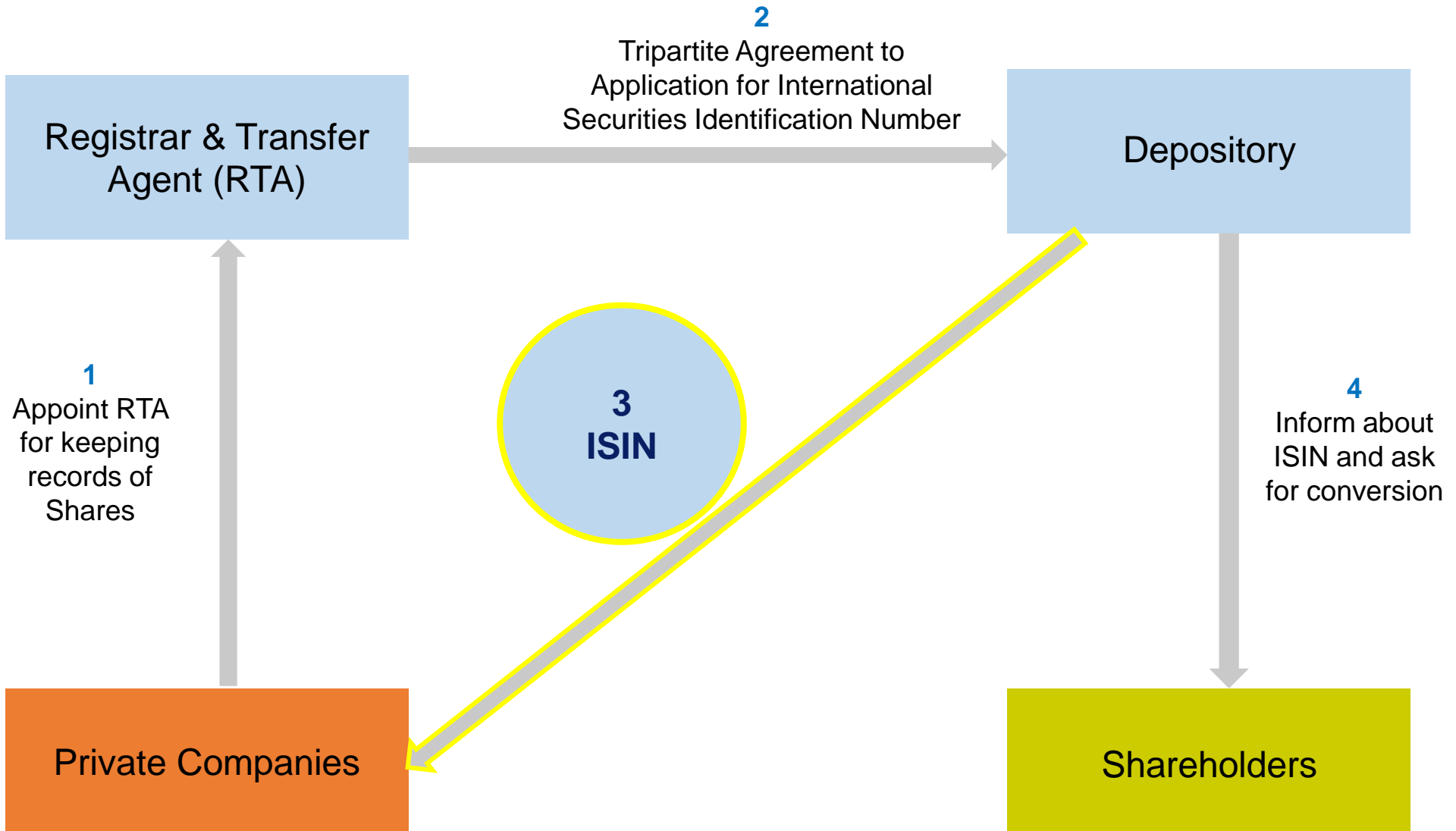
## A. Private Companies:

1. Appointment of Registrar & Transfer Agent (RTA)	2. Appointment of a Depository (National Securities Depository Ltd 'NSDL' / Central Depository Services Ltd 'CDSL')	3. To obtain International Securities Identification Number (ISIN) from Depository	4. Inform all securityholders about ISIN and ask for dematerialization of securities
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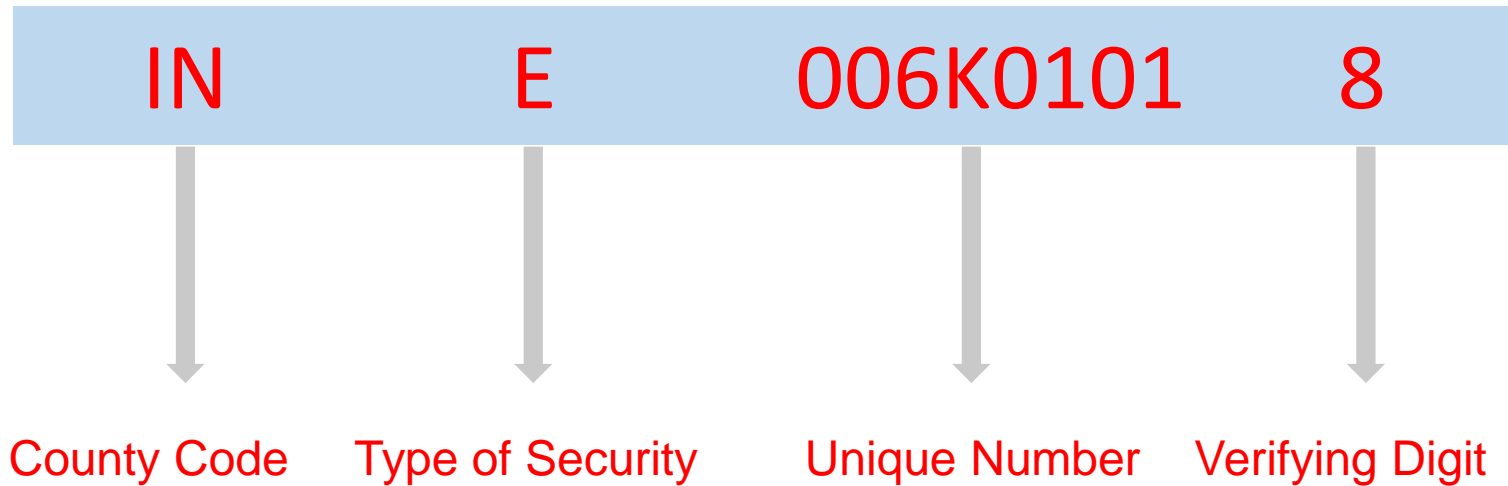
## B. Securities Holders (Shareholders)

5. Obtain Permanent Account Number (PAN) in India	6. Open a De-mat Account with Depository Participant (DP)	7. Submit the physical shares certificate with DP along with De-mat Request Form (DRF)	8. Credit (deposit) of shares in the De-mat account
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# 4A. Steps for a Private Company

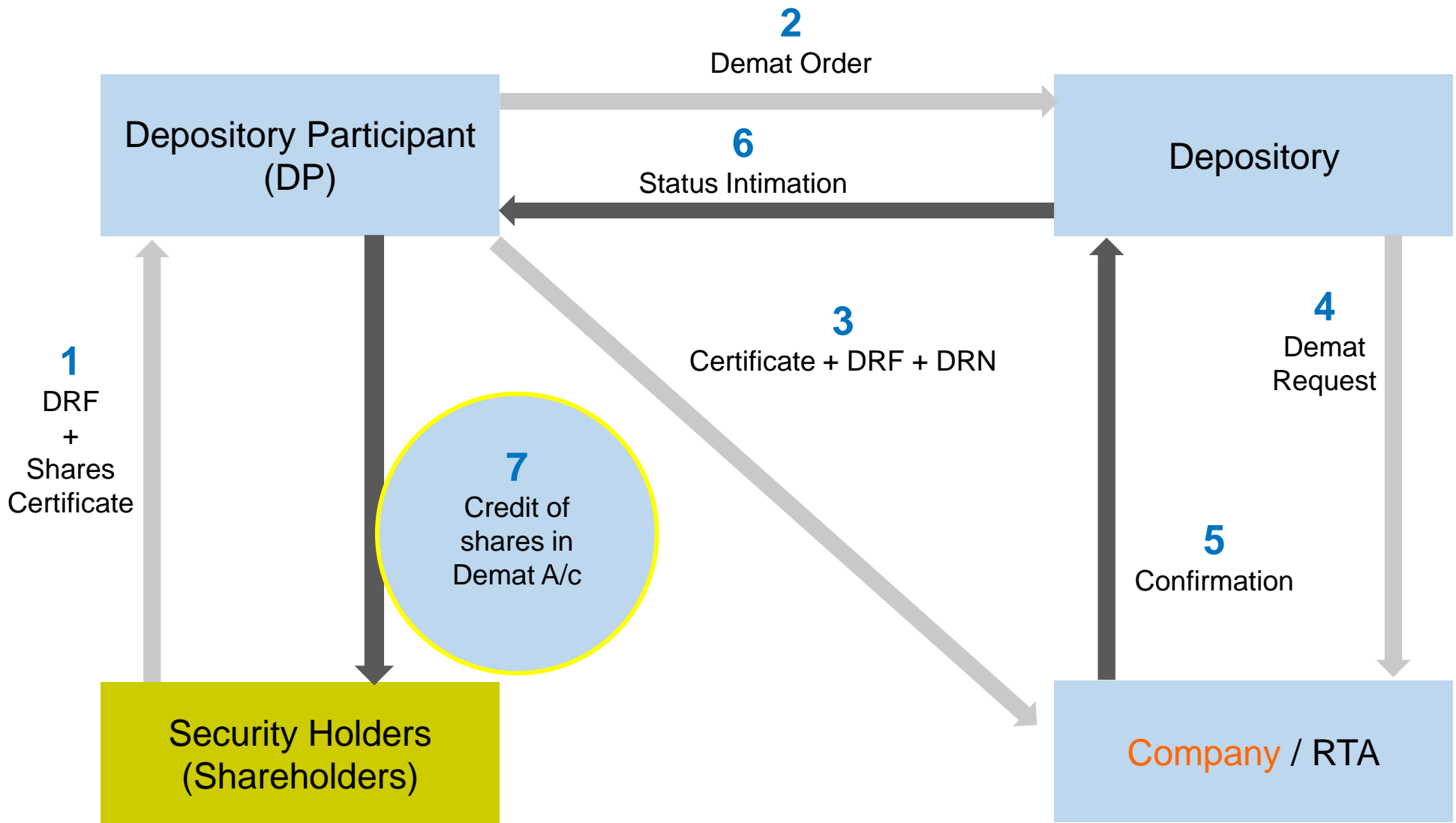


# 4A. International Securities Identification Number



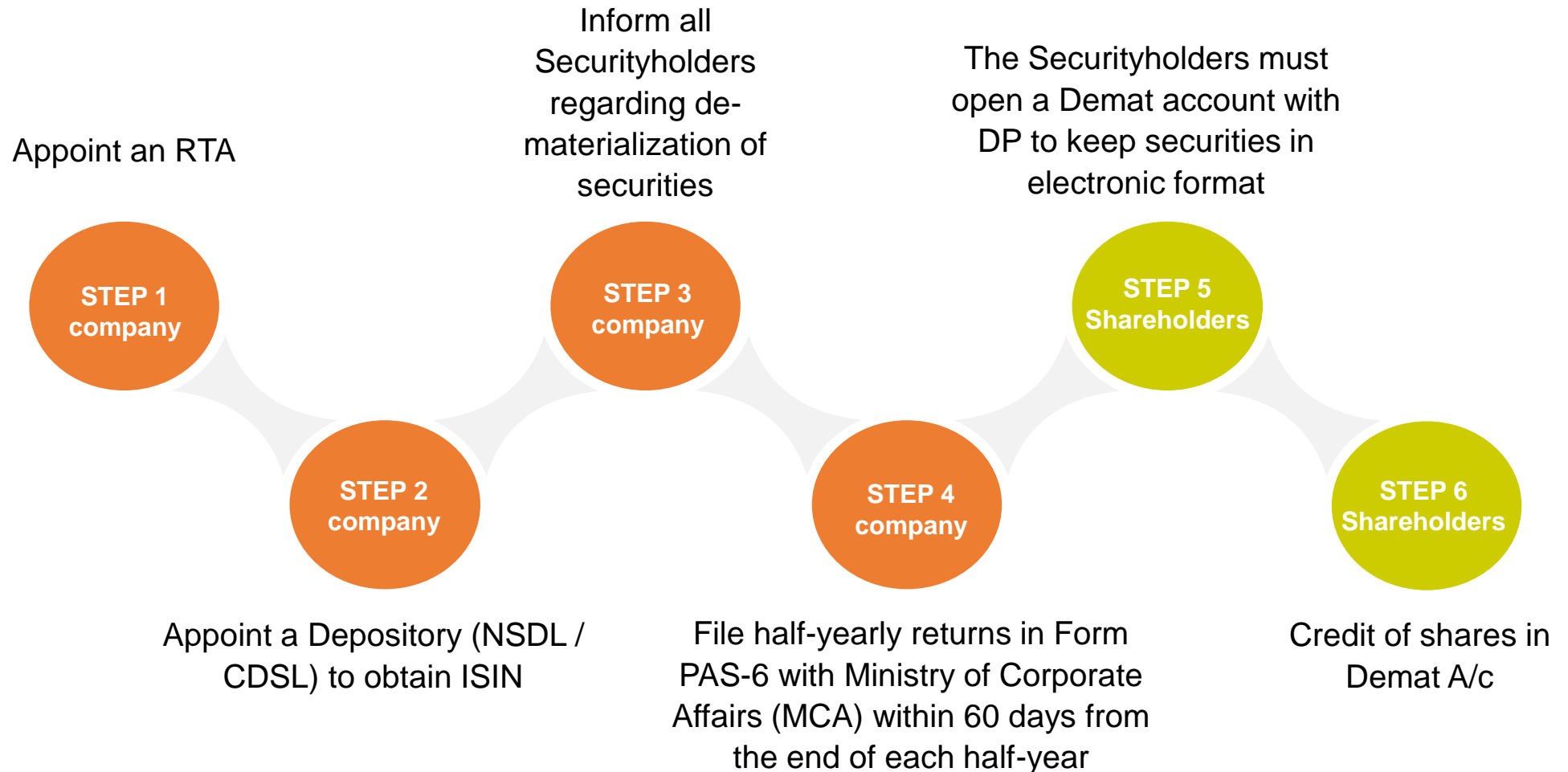


# 4B. Steps for Shareholders



- DRF: Demat Request Form
- DRN: Demat Requisition Number
- RTA: Registrar and Transfer Agent

# 5. Snapshot

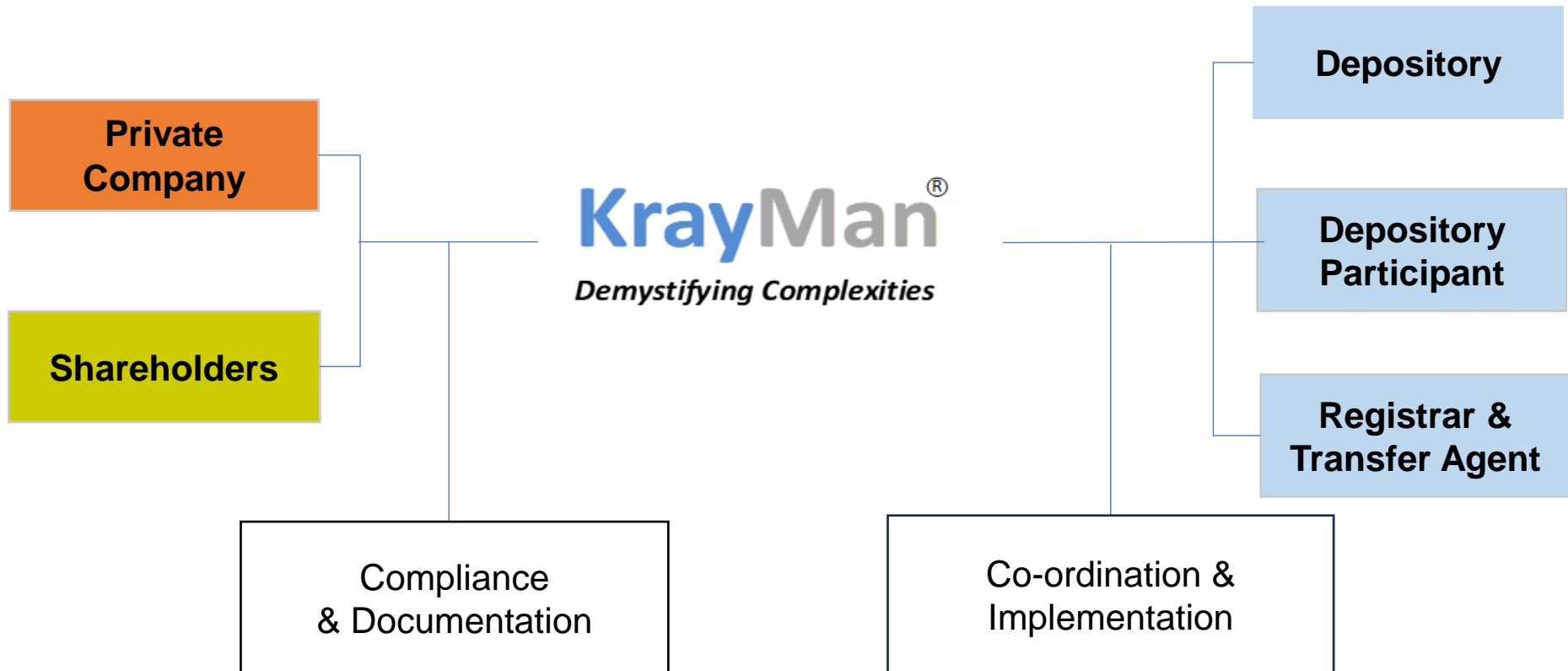


## Note:

- Separate ISIN needs to be obtained for each category of security (such as one ISIN for equity shares, one ISIN for preference shares, etc.)
- After 30 September 2024, securities shall only be issued / transferred in dematerialized form

# 6. How KrayMan can assist

March	April	May	June	July	August	September
Very safe	Very safe	Safe	Alarming	Little late	Late	Too Late



Note: A private company can also complete this entire process at its own provided it has internal professional team.

# 6. How KrayMan can assist

## Company

- Assistance in obtaining ISIN from CDSL / NSDL
- Facilitate dematerialization of all existing securities
- Co-ordination with Registrar & Transfer Agent (RTA) to maintain a record of all securities in electronic format, including their allotment and transfer
- File half-yearly returns in Form PAS-6 with MCA

## Shareholders

- Obtain Permanent Account Number (PAN) from tax authorities in India
- Open a demat account with a Depository Participant in India
- Translation, Notarization & Apostilisation of documents in Japan (if required)

# Legal & Regulatory Team



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# About KrayMan

KrayMan Consultants LLP (KrayMan) is an accounting & consulting Firm head quartered in National Capital Region of India & serving Clients across India for more than 12 years. We were founded in 2012 by professionals from Big 4 accounting firms & industry background. We are a team of Chartered Accountants, Company Secretaries, Advocates & MBAs.

We specialize in India-Entry, Accounting, Taxation, Legal, Regulatory, Assurance, HR, Payroll & Loan staffing services. We provide services in the areas of Compliance, Advisory & Litigation. We have been serving Domestic as well as International Clients from countries like USA, Japan, Australia, EU etc.

We have been Awarded under the category 'Small Business Award 2021' by the International Business Council of Australia. We are member of the prestigious Japan Chamber of Commerce & Industry in India (JCCII) and its Tax Committee.

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