
DEMATERIALIZATION OF SECURITIES IN INDIA: AN ANALYTICAL STUDY OF RULE 9A OF THE COMPANIES (PROSPECTUS AND ALLOTMENT OF SECURITIES) RULES, 2014 AND REGULATION 40 OF SEBI (LODR) REGULATIONS, 2015

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ABSTRACT

In India, the dematerialization of shares is regulated under the Depositories Act, 1996, which facilitates holding securities in electronic or physical form. For trades in listed securities, SEBI has directed that settlement should take place only in the dematerialized form. The MCA, by its notification dated October 27, 2023, mandated that private companies other than small companies issue shares in electronic form by September 30, 2024, and later extended it to June 30, 2025. Non-compliance with the above requirement attracts penalties under the Companies Act, 2013, which also includes folio freezing.

Under Section 29 of the Companies Act and its rules, every public company raising offers needs to offer securities in dematerialized form only, and convertible securities shall be held by promoter in electronic form. Similarly, every unlisted public company issuing securities or converting shares in dematerialized form has been brought under the ambit under SEBI. Government companies, Nidhi companies, and wholly owned subsidiaries are exempted from this.

Further, all the public and rights issues under SEBI (ICDR) Regulations, 2018, have to be made only in dematerialized form, hence requiring investors to provide depository account details. Presently, NSDL and CDSL are the two depositories registered with SEBI for maintaining efficient and transparent records of securities in the country.

INTRODUCTION

The capital market has experienced a progressive increase in participant numbers, particularly among the younger demographic, who are increasingly engaging in trading and investment activities. The pervasive influence of digitization has significantly facilitated the process of investing in securities. A pivotal development in this paradigm is the adoption of Dematerialization, a procedure enabling individuals to convert their physical shares and securities into a digital format. This transformation is effectuated through the establishment of a Demat Account, which serves as a repository for this digital securities.¹

Dematerialization constitutes the method through which the tangible certificates held by an investor undergo conversion into a commensurate quantity of electronic securities. Subsequently, these digital securities are credited into the Beneficial Owner's (BO) account held with their Depository Participant (DP).²

¹ What is dematerialization of shares? A detailed guide: HDFC Bank , Know What is Dematerialisation of Shares. Available at: <https://www.hdfcbank.com/personal/resources/learning-centre/invest/what-is-dematerialisation-of-shares>.

² (2008) Securities and Exchange Board of India. Available at: https://www.sebi.gov.in/sebi_data/docfiles/20618_t.html

APPLICABILITY OF THE PROVISIONS

I. Amendments and changes in provisions for complete dematerialization

Rule 9 of the Companies (Prospectus and Allotment of Securities) Rules 2014, commonly referred to as the PAS Rules, which were officially enforced on April 1, 2014, dictates that promoters of all unlisted public companies are required to hold securities exclusively in dematerialized (demat) form. The proviso to this rule stipulates that if promoters currently hold securities in physical form, they must convert them into demat form before proceeding with an initial public offering (IPO). Additionally, Rule 9A (2) of the PAS Rules mandates that before initiating a buyback offer, issuing bonus shares, making any offer for the issuance of securities, or conducting a rights issue, unlisted public companies must ensure that the holdings of promoters, directors, and key managerial personnel are in demat.

In a recent amendment notification dated October 27, 2023, the Ministry of Corporate Affairs (MCA) introduced a new sub-rule to Rule 9 and added a completely new Rule 9B to the PAS Rules. These new sub-rules specifically address the treatment of share warrants issued by public companies to shareholders under the Companies Act of 1956, which, as of the effective date of the Companies Act 2013, have not been converted into shares. Furthermore, Rule 9B now imposes dematerialization requirements on private companies.

The company is required to revise its Articles of Association to grant authorization for shareholders to possess securities in dematerialized form. This amendment to the Articles of Association should precede the application for the International Securities Identification Number (ISIN) with the depository.

The cut-off date for the conversion of physical shares to dematerialized form was March 31, 2023. Subsequent to this deadline, companies and their Registrars and Transfer Agents (RTAs) are precluded from entertaining any further requests for the dematerialization of physical shares.

As of April 01, 2024, frozen folios shall exclusively qualify for dividends, interest, or redemption payments, solely through electronic means.³

Moreover, if frozen folios persist in a frozen state as of December 31, 2025, the Registrar and Transfer Agent (RTA) or the listed company must formally present such cases to the governing authority under the Benami Transactions (Prohibitions) Act, 1988, and/or the Prevention of Money Laundering Act, 2002.⁴

In compliance with the directive issued by the Securities and Exchange Board of India (SEBI) through its circular, it is imperative for holders of physical securities of the Bank to promptly update the subsequent details/documents with The Registrar and Transfer Agent (RTA) of the Bank, to prevent the freezing of folios:

1. Valid PAN (Permanent Account Number)
2. KYC Details (Including postal address with PIN, mobile number, email address, bank account details, and specimen signature)
3. Nomination details
4. Linking of PAN with AADHAAR number.

II. Amendment to Rule 9 of PAS Rules – Conversion of Warrants Issued under Companies Act, 1956

Prior to this amendment, the Companies Act 2013 did not encompass provisions dealing with share warrants. The recent amendment under Rule 9 of the PAS Rules now addresses share warrants issued under the Companies Act 1956 that have not yet been converted into shares. According to these provisions, companies that have issued such share warrants must disclose details to the relevant Registrar of Companies (ROC) within three months of the effective date of the amendment, which is October 28, 2023. Subsequently, within six months of the amendment coming into effect (by April 27, 2024), warrant holders must deposit these warrants

³ What is dematerialization of shares? A detailed guide: HDFC Bank (no date) Know What is Dematerialisation of Shares. Available at: <https://www.hdfcbank.com/personal/resources/learning-centre/invest/what-is-dematerialisation-of-shares>.

⁴ What is dematerialization of shares? A detailed guide: HDFC Bank (no date) Know What is Dematerialisation of Shares. Available at: <https://www.hdfcbank.com/personal/resources/learning-centre/invest/what-is-dematerialisation-of-shares>.

with the company and convert them into demat shares. The company is required to notify all warrant holders through advertisements in one English and one vernacular language newspaper, as well as on the company's website. If warrant holders fail to convert their warrants within the specified timeframe, the company is obliged to convert these warrants into shares and transfer them to the Investor Education and Protection Fund (IEPF) under Section 124 of the Companies Act 2013. The amended Rule 9 introduces Form PAS-7, which companies must use to provide information about unconverted share warrants to the ROC within three months of the amendment's effective date.

I.II. Insertion of New Rule 9B – Demat of Shares by Private Companies

Through the introduction of Rule 9B to the PAS Rules, the MCA has mandated the dematerialization of shares for private companies that are not classified as small companies. According to Rule 9B, non-small private companies, based on audited financial statements as of March 31, 2023, must facilitate the dematerialization of existing securities and issue further shares exclusively in demat form within eighteen months from March 31, 2023 that is September 30, 2024. Additionally, unlisted private companies must make the facility for demat available to shareholders desiring to transfer their shares. The company will be restricted from making further offers of shares or buybacks unless the shares of promoters, directors, and key managerial persons are in demat form. Notably, Rule 9B does not apply to small companies and government companies. The MCA has clarified that the provisions of sub-rules (4) to (9) of Rule 9A shall apply mutatis mutandis to private companies, indicating the applicability of the Securities Contract Regulation Act, 1956, and the rules made thereunder to private companies. This also entails the application of provisions related to the 'spot delivery of securities' to private companies.

The recent amendments to Rule 9 and the introduction of Rule 9B underscore the government's commitment to enhancing transparency, reducing reliance on paper-based processes, and aligning regulatory practices with international standards. The dematerialization of securities for private companies is expected to bring them in line with their public counterparts, fostering efficiency and transparency in the securities market.

Subsequently the Ministry of Corporate Affairs (MCA), vide notification dated February 12, 2025, has extended the deadline for compliance with the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023. All non-small private companies must

dematerialize their existing securities and issue any new securities only in dematerialized form by June 30, 2025. The grace period remains 18 months from March 31, 2023, and this revised deadline supersedes earlier instructions. Companies failing to comply risk statutory penalties and may have their folios frozen, as described under Section 450 of the Companies Act, 2013. This timeline update should be reflected wherever "September 30, 2024" was mentioned previously. Entities are additionally reminded that half-yearly filing of Form PAS-6 for reconciliation of share capital remains mandatory beyond this deadline to prevent adverse regulatory consequences.

II. Overview of Regulatory Changes by the Ministry of Corporate Affairs

In recent times, the Ministry of Corporate Affairs (MCA) has implemented substantial alterations to the regulations governing the dematerialization of securities for private limited companies. This article aims to delve into the latest developments and their impact on businesses and shareholders. The focal point of discussion in this segment is the imperative titled "Dematerialization of Securities for Private Limited Companies."

II.I. The Crucial Notification: Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023

On October 27th, 2023, the Ministry of Corporate Affairs (MCA) issued a significant notification known as the "Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023." This notification mandates all private companies, excluding small companies, to dematerialize their shares before October 1, 2024. It is noteworthy that while the MCA previously mandated public companies to maintain and transact shares in demat form since October 2, 2018, this requirement did not extend to private limited companies at that time.⁵

II.II. Extension of Compliance Deadline for Non-Small Private Limited Companies

In an effort to enhance transparency, safeguard investor interests, and fortify corporate governance, the Ministry of Corporate Affairs introduced the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023. These rules are set to come into

⁵ SEBI eases rule for physical securities' holders without pan, KYC details (no date) The Economic Times. Available at: <https://economictimes.indiatimes.com/markets/stocks/news/sebi-eases-rule-for-physical-securities-holders-without-pan-kyc-details/articleshow/105295341.cms>.

effect on September 30th, 2024. As per these regulations, Non-Small Private Limited Companies are obligated to dematerialize their existing securities and ensure that any future issuance or transfer of securities is conducted exclusively in demat form.

The MCA has granted Non-Small Private Limited Companies a grace period of 18 months, from March 31, 2023, to September 30, 2024, for compliance with these provisions, however The MCA, vide notification dated February 12, 2025, has extended the deadline for compliance with the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023. All non-small private companies must dematerialize their existing securities and issue any new securities only in dematerialized form by June 30, 2025. The grace period remains 18 months from March 31, 2023, and this revised deadline supersedes earlier instructions. Companies failing to comply risk statutory penalties and may have their folios frozen, as described under Section 450 of the Companies Act, 2013. This timeline update should be reflected wherever “September 30, 2024” was mentioned previously. Entities are additionally reminded that half-yearly filing of Form PAS-6 for reconciliation of share capital remains mandatory beyond this deadline to prevent adverse regulatory consequences.

II.III. Provisions of Companies Act, 2013 Relating to Mandatory Demat of Shares for Private Limited Companies

Several provisions within the Companies Act, 2013 are pertinent to the mandatory dematerialization of shares for private limited companies. These include:

II.III.I. Section 29 of Companies Act, 2013

This section outlines the obligation for private companies to dematerialize their securities, with the new amendment coming into effect on September 30, 2024.

II.III.II. Rule 9 of Companies (Prospectus and Allotment of Securities) Rules, 2014

Rule 9 has been amended to introduce Rule 9B, emphasizing the requirement for every non-small private company to issue its securities only in dematerialized form and ensure the dematerialization of all existing securities.

II.III.III. Applicability and Non-Applicability of Rule 9 of Companies (Prospectus and Allotment of Securities) Rules, 2014

The amended regulations specify that certain types of companies, including Nidhi Companies, Government Companies, Wholly Owned Subsidiary Companies of Public Companies, and Small Private Limited Companies, are exempt from the dematerialization requirement.

II.III.IV. Definition of Small Company under Companies Act, 2013

The definition of a "small company" is provided in the Companies Act, 2013, considering factors such as paid-up share capital and turnover.

II.III.V. Introduction to Amendment Vide Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023

Rule 9B has been introduced, compelling non-small private companies to issue securities only in dematerialized form and ensure the dematerialization of all existing securities. This rule came into effect on September 30, 2024.

II.IV. Major Impact of Dematerialization on Companies and Shareholders

The dematerialization requirement has significant implications for both companies and shareholders:

II.IV.I. Impact on Companies

Companies are mandated to ensure that the entire holding of securities of their promoters, directors, and key managerial personnel is in dematerialized form. Failure to comply restricts companies from issuing securities, conducting buy-backs, issuing bonus shares, and offering rights issues.

II.IV.II. Impact on Shareholders (Transfer/Subscription of Securities)

Shareholders intending to transfer or subscribe to securities must ensure that all their existing securities are held in dematerialized form. Failure to do so limits their ability to transfer or subscribe to shares.

II.V. Small Companies

The exemptions from dematerialization provisions extend to Small Companies. A "small company" is defined as a company, excluding public companies, meeting the following criteria:

- i. The paid-up share capital does not surpass Four Crore rupees or such higher amount as may be prescribed.
- ii. The turnover, as per the profit and loss account for the immediately preceding financial year, does not exceed Forty crore rupees or such higher amount as may be prescribed.

However, it's important to note that the exemption does not apply to:

- a. Holding companies or subsidiary companies.
- b. Companies registered under section 8.
- c. Companies or body corporates governed by any special Act.

II.VI. Producer Company

Given that the company's name concludes with "Producer Company Limited," it may appear to be a public company. However, in accordance with clause (5) of Section 581C of the Companies Act, 1956, upon registration, a producer company assumes the status of a body corporate, akin to a private company. Under no circumstances shall it be deemed as a public company. As a result, small producer companies are not obligated to adhere to the dematerialization provisions.

II.VII. Consequences of Non-Compliance

The absence of specific penalties or fines under Rule 9B or Rule 9A directs non-compliance consequences to Section 450 of the Companies Act, 2013. Both companies and officers in default may be subject to fines.

Requirement	Updated Deadline	Applicability
Demat for Private Co.	June 30, 2025	Non-small Pvt. Co.
PAS-6 Filing	Semi-Annual	All Pvt. & Unlisted
SEBI Transmission/Nomination	2025 Circulars	All Demat Accounts

COMPLIANCE PROCEDURE

III.I. Procedure to attain ISIN by Companies

Dematerialization constitutes the procedure through which a client may convert tangible certificates into electronic balances. It is imperative for every unlisted public or private company to facilitate the dematerialization of all its extant securities by submitting the requisite application to a depository, as per the definition provided in section 2(1)(a) of the Depositories Act, 1996. Furthermore, such companies are mandated to obtain an International Security Identification Number (ISIN) for each category of security and duly notify all existing security holders regarding the availability of this dematerialization facility.

Companies aspiring to dematerialize their shares must first obtain an International Securities Identification Number (ISIN), following which shareholders can proceed with the dematerialization process through any Depository Participant (DP) subsequent to establishing a demat account.⁶

III.I.I. Documentary Compliance for CDSL:

1. Passing Board Resolution:

⁶ Angel One, How to open Demat account online? account opening process Angel One (2023), <https://www.angelone.in/knowledge-center/demat-account/how-to-open-demat-account>.

- Board resolution approval is mandatory.
2. Execution of Bi-party Agreement:
- An executed bi-party agreement between the Registrar and Transfer Agent (RTA) and the company is required.
3. Execution of Tri-partite Agreement:
- A tri-partite agreement involving the RTA, Depository Participant (DP), and the company is essential.

Documentation Annexures:

Annexure I. RTA Agreement (Submission of Original plus 1 Photocopy)

- Execution of the agreement with the RTA.

Annexure II. Master Creation Form (Submission of Two Originals)

- Submission of the master creation form.

Annexure III. Tri-partite Agreement (Submission of Original plus 2 Photocopies)

- Execution of the tri-partite agreement on stamp paper of Rs. 600/-.

Annexure IV. Board Resolution (Submission of Two Sets)

- Submission of the board resolution approving the CDSL process.

Annexure V. Certified Copy of Certificate of Incorporation

- Submission of a certified copy of the Certificate of Incorporation.

Annexure VI. Undertaking on Company Letterhead

- Submission of an undertaking on the company letterhead duly stamped and signed by the authorized signatory.

Annexure VII. Submission of Security Details

- Submission of soft and hard copies of security details in the prescribed format.

Annexure VIII. Certified True Copy of GSTIN Registration Certificate

- Submission of a certified true copy of the GSTIN registration certificate.

Annexure IX. Certified Copy of PAS-3 and SH-7

- Submission of certified copies of PAS-3 and SH-7 filed with the Ministry of Corporate Affairs (MCA) for securities-related actions post the last balance sheet date.

Annexure X. Certified Copies of Memorandum and Articles of Association

- Submission of certified copies of the Memorandum and Articles of Association.

Annexure XI. Annual Report for the Last Financial Year

- Submission of the annual report for the most recent financial year.

Annexure XII. Net worth Certificate from a Practicing Chartered Accountant (PCA)

- Submission of a net worth certificate issued by a Practising Chartered Accountant.

Annexure XIII. Undertaking/Indemnity

- Submission of an undertaking/indemnity document.

Annexure XIV. Payment Cheque Favours CDSL Ventures Limited (Amount: Rs. ####)

- Submission of a payment cheque in favour of CDSL Ventures Limited.

Annexure XV. Copy of Company PAN Card

- Submission of a copy of the company's PAN card.

Annexure XVI. Declaration for Freezing/Unfreezing of Securities

- Submission of a declaration regarding the freezing or unfreezing of securities.⁷

III.I.II. Documentary Compliance for NSDL⁸

1. Submission of Issuer Admission Application:

- Submission of the Application for Admission as an Issuer of Eligible Securities, encompassing Part I (Issuer Details) and Part II (Security Details for Equity Shares), along with the requisite document list.

2. Net Worth Certification by Chartered Accountant:

- Provision of a net worth certificate from a Chartered Accountant, aligned with the audited annual report for the preceding Financial Year (enclosed format).

3. Certified True Copy of Board Resolution:

- Submission of a certified true copy of the Board Resolution.

4. Execution of Tri-partite Agreement:

- Completion of three sets of the Tripartite Agreement, executed on Stamp Paper of Rs. 200/- each (Stamp Paper/Franking), bearing signatures and stamps from both the Company and Registrar and Transfer Agent (RTA) on all pages. The execution date is to be left blank.

5. Submission of Certified True Copy of Audited Annual Report:

- Provision of a certified true copy of the audited annual report for the most recent Financial Year.

6. Certified True Copies of Memorandum & Articles of Association:

- Submission of certified true copies of the Memorandum & Articles of Association, accompanied by the Certificate of Incorporation. If applicable, the

⁷ Central Depository Services (india) limited, CDSL (2021), <https://www.cdslindia.com/>.

⁸ Central Depository Services (india) limited, CDSL (2021), <https://www.cdslindia.com/>.

Incorporation Certificate pursuant to a change in the company's name should also be included.

7. Submission of Certified True Copy of TAN, PAN & GST Allotment Letter:

- Provision of a certified true copy of the TAN, PAN, and GST allotment letters. In the absence of the GST letter, a declaration on the company letterhead explaining the reason is required.

8. NSDL Undertaking Form for Private Limited Companies:

- Submission of the NSDL Undertaking Form specifically designed for Private Limited Companies.

III.II. Compliance procedure after attaining ISIN

Following the acquisition of the International Securities Identification Number (ISIN), the client, designated as the registered owner, is required to submit a Dematerialisation Request Form (DRF) to the Depository Participant (DP) for the dematerialization process. Simultaneously, the client must furnish the physical securities certificates earmarked for dematerialization along with the DRF. Prior to submission, the client is obligated to deface the certificates by inscribing the statement "SURRENDERED FOR DEMATERIALISATION."

The DP is responsible for meticulous verification, ensuring that the DRF is adequately completed, and cross-referencing the number of certificates, the quantity of securities, and the type of security (e.g., equity, debenture) with the information stipulated in the DRF. In the event that the form and security details align, the DP will issue an acknowledgment slip, duly signed and stamped, to the client.

The DP's scrutiny involves the following procedures:

1. Verification of Client's Signature:

- Scrutinizing the client's signature on the dematerialization request to confirm its authenticity by comparing it with the specimen signature provided during the account opening process. In cases where a disparity exists, the DP is obligated to undertake measures to ascertain the client's identity.

2. Comparison of Names:

- Cross-referencing the names specified in the DRF and on the certificates with the client's account details to ensure consistency and accuracy.

3. Verification of Paid-Up Status:

- Confirming the paid-up status of the securities subject to dematerialization.

4. ISIN (International Securities Identification Number) Verification:

- Ensuring the accuracy and validity of the ISIN associated with the securities.

5. Lock-In Status Verification:

- Verification of any lock-in status imposed on the securities being dematerialized.

6. Scrutiny of Distinctive Numbers:

- Thoroughly examining and validating the distinctive numbers associated with the dematerialization request.

This comprehensive verification process underscores the DP's commitment to ensuring the integrity and accuracy of the dematerialization request and the associated securities.⁹

III.III. Procedure for Opening a Demat Account

III.III.I Procedure for Online Demat Account Opening:

1. Select a Reliable DP Website:

- Conduct thorough research and carefully choose a secure and reputable Depository Participant (DP) website. Visit the selected website.

2. Opt for 'Open Demat Account':

⁹ Release 1 - ICSI, https://www.icsi.edu/media/webmodules/Referencer_on_e-Form_PAS-6.pdf.

- Upon reaching the chosen DP website, select the 'Open Demat Account' option and follow the on-screen instructions provided.
3. Complete Demat Account Opening Form Online:
- Fill out the online Demat account opening form with accurate details, including personal information such as phone number, email address, etc.
4. Receive One-Time OTP:
- Upon initial submission of your details, you will receive a One-Time Password (OTP) for verification.
5. Submit Required Documents:
- Provide essential documents for demat account opening, including your PAN card and banking details. Enter your PAN number and relevant bank information for transaction purposes.
6. Conduct E-KYC Process and Digital Authentication:
- Complete the Electronic Know Your Customer (E-KYC) process by verifying your details online. The provided KYC information undergoes online verification.
7. Receive Demat Account Number:
- Following successful verification, you will be allocated a Demat account number. This process is typically facilitated by the DP contacting you to finalize the necessary formalities.¹⁰

III.III.II. Offline Demat Account Opening Procedure:

1. Select a Depository Participant (DP):

¹⁰ Groww, How to open a Demat account online Groww (2023), <https://groww.in/blog/how-to-open-demat-account-online>.

- Initiate the demat account opening process by selecting a licensed Depository Participant (DP), such as a bank, financial institution, or broker. Consider factors such as brokerage fees, annual fees, and offered leverage when making your choice.
2. Prepare Required Documents:
 - Gather necessary documents, including a duly filled account opening form, along with attached copies of PAN, residential proof, ID proof, and passport-size photos.
 3. Sign and Submit a Comprehensive Contract:
 - Sign an agreement outlining the terms, conditions, limitations, and rights associated with holding a Demat Account. Carefully read and understand the contents, seeking clarification on any queries. Submit the signed agreement to the DP, and retain a copy for reference.
 4. Receive Unique Client ID:
 - Upon successful account opening, the DP will furnish you with a unique Client ID. This information, along with other details, enables online access to your Demat Account.
 5. Instruction Sheets Provision:

The DP will provide instruction sheets outlining procedures for depository services, including transfers and purchases. These sheets serve as a guide for utilizing various services related to the Demat Account.¹¹

As of 2025, SEBI has implemented further simplification of transmission processes. Documentary requirements for securities transmission post death have been minimized, threshold for transmission in demat mode elevated, and nomination rules for demat accounts

¹¹ Zerodha, Account opening Zerodha (2023), <https://support.zerodha.com/category/account-opening/offline-account-opening/individual-accounts/articles/how-do-i-open-an-account-offline>.

strengthened. The latest reforms authorize direct payouts to demat holders, bypassing intermediary brokers, which expedites transfer and enhances investor protection.

TRANSMISSION OF SHARES ON DEATH OF THE SHAREHOLDER

IV.I. Transmission of Securities upon the Death of a Shareholder in a Demat Account:

In the event of the death of a demat account holder, the process of transmitting securities, usually involving the transfer of shares from one demat account to another, necessitates consideration for three prevalent scenarios:

1. Nomination in Place:

- When a nominee has been designated by the demat account holder, the transmission of securities requires the nominee to submit specific documents to the Depository Participant (DP) office. These include:
 - Transmission Request Form: Detailing client, nominee, and assets information, downloadable from the DP's website.
 - Notarized or Gazetted Officer-Attested Death Certificate.
 - Client Master Report (CMR) of the nominee, obtainable from the DP's trading platform.

2. Jointly Operated Demat Account:

- In the case of a jointly operated demat account, the surviving account holder assumes ownership of the assets. Necessary documents include:
 - Transmission Request Form: Adapted annexure provided by the DP for joint accounts.
 - Duly signed Death Certificate, attested by a notary or Gazetted Officer.
 - CMR of the joint account holders.

3. Single Owner with No Nominee Designation:

- For a singularly operated demat account without a nominated individual, the transmission process involves the submission of the following documents to the DP:
 - Transmission Request Form: Completed form.
 - Attested Death Certificate: Notarized or Gazetted Officer-attested copy.
 - One of the following additional documents:
 - Letter of Indemnity: Legal declaration on non-judicial paper, notarized, affirming the applicant as the legal heir.
 - Affidavit: A sworn statement on non-judicial stamp paper, notarized, asserting the applicant's status as the legal heir.
 - No-Objection Certificate (NOC): Required when multiple legal heirs exist, confirming no objection to the transmission of securities.
 - Family Settlement Deed: Utilized for partitioning deceased's assets among surviving heirs, detailing the allocation of shares.

Understanding the intricacies of these procedures is vital for the seamless and legally compliant transmission of securities following the death of a demat account holder.¹²

IV.II. Transmission of Securities upon the Death of a Shareholder in a Demat Account:

In the case of a single shareholder with a nominated individual, the transmission of shares will occur in favour of the nominee upon the execution of an indemnity cum affidavit. The properly executed indemnity cum affidavit, along with a duly attested copy of the death certificate of the deceased registered shareholder by a competent authority (such as a magistrate, Notary Public, Government of India, or managers of any Scheduled Bank), and the original share

¹² Angel One, How securities are transmitted on death of Demat account holder Angel One (2023), <https://www.angelone.in/knowledge-center/demat-account/how-securities-are-transmitted-on-death-of-demat-account-holder>.

certificate, must be forwarded to either the Bank or our Registrar for the implementation of the transmission process.

For a single shareholder without an appointed nominee but with a valid will, the transmission of shares will be directed to individuals identified as heirs in accordance with the probated will.

In the event of the deceased shareholder having passed away without leaving a valid will or appointing a nominee, the transmission of shares will be facilitated only upon adherence to the requisite procedures. In this context, the legal heirs are obliged to execute the following:

1. Sworn Affidavit by the claimants
2. Indemnity Bond
3. Title Claim Form
4. No Objection Certificate from other heirs in favour of the individual asserting the title to shares
5. Surety Form

The aforementioned documents, accompanied by a duly attested copy of the death certificate of the deceased registered shareholder by a competent authority (magistrate, Notary Public, Government of India, or managers of any Scheduled Bank), and the original share certificate, are to be submitted to either the Bank or our Registrar to facilitate the transmission process. It is important to note that these procedures do not apply to shares held in dematerialized form. For such cases, the nominee or legal heirs must engage with the respective Depository Participant where the demat account is maintained, rather than the Bank or the Registrar.¹³

Note:

The regulatory authority for the capital market, SEBI (Securities and Exchange Board of India), has streamlined the protocol for the transfer of securities from the account of a deceased

¹³ India's leading Public sector Bank Bank Of Maharashtra, What is the procedure to be followed for transmission of shares? Bank of Maharashtra, <https://bankofmaharashtra.in/procedure-for-transmission-of-shares#:~:text=The%20duly%20executed%20indemnity%20cum,or%20to%20our%20Registrar%20for.>

individual, concurrently elevating the threshold limit for such transactions in dematerialized format to Rs. 5 lakh.

Transmission, in this context, refers to the transfer of securities from the account of a deceased holder to that of a surviving joint holder, nominee, or legal heir.

In the case of transmitting securities in dematerialized mode, specifically when the securities are held in a single name without a nominee, SEBI has revised the existing threshold limit from Rs. 1 lakh per beneficiary owner account to Rs. 5 lakh, as indicated in a notification issued by SEBI on Monday.

For the transmission of securities in physical mode, where the securities are held in a single name with a nominee, SEBI has directed share transfer agents or issuer companies to adhere to the standardized documentary requirements stipulated by the regulatory body. This entails the submission of an application in a prescribed format, accompanied by supporting documents serving as evidence for the death of the holder.

In instances where securities are held in a single name without a nominee, SEBI has specified that additional documents, such as an identity card and a claim of legal ownership to the securities, may be requested in the transmission process.¹⁴

CONCLUSION

This paper has delved into the intricacies of regulatory changes and procedural requirements surrounding the dematerialization and transmission of securities in the Indian capital market. The hypothesis posited that standardized documentary requirements specified by SEBI positively influence procedural adherence by share transfer agents or issuer companies. The research questions probed issues related to the effectuation of transmission in the absence of dematerialization, entitlements for holders of physical shares, and the impact of recent regulatory changes.

The amendments to Rule 9 of the Companies (Prospectus and Allotment of Securities) Rules 2014, especially the introduction of Rule 9B, underscore the government's commitment to

¹⁴ Home, SEBI relaxes share transfer norms for deceased holders' accounts | India Infoline, <https://www.indiainfoline.com/knowledge-center/share-market/sebi-relaxes-share-transfer-norms-for-deceased-holders-accounts>.

enhancing transparency and aligning regulatory practices with international standards. The mandatory dematerialization requirements for private companies, as outlined by the Ministry of Corporate Affairs, signify a significant shift in the securities market, fostering efficiency and transparency.

The compliance procedures outlined for obtaining ISIN, opening a demat account, and the transmission of securities provide a detailed roadmap for companies and individuals navigating the evolving regulatory landscape. The extension of the compliance deadline for non-small private limited companies and the exemptions for small companies has been outlined to bring clarity to diverse categories of businesses.

The transmission process, particularly in the event of the death of a shareholder, has been elucidated with detailed procedures for different scenarios, including nominations, joint accounts, and cases without a nominee. The significance of adhering to regulatory standards, especially in the context of freezing folios and the presentation of cases under the Benami Transactions Act and the Prevention of Money Laundering Act, has been highlighted.

It is evident that SEBI's efforts to streamline procedures, coupled with amendments introduced by the Ministry of Corporate Affairs, aim to create a more transparent, efficient, and accountable securities market in India. However, stakeholders, including companies, transfer agents, and individual shareholders, must remain vigilant in complying with these evolving regulations to ensure the smooth functioning of the capital market.

In 2025, NCLT Mumbai (*Amrex Marketing Pvt. Ltd. v. Harinagar Sugar Mills Ltd.*) established that issuances or transfers not in compliance with the mandatory dematerialization regime are void ab initio for covered companies. Additionally, professional commentary highlights ambiguities in PAS-6 filings and non-compliance penalties, underscoring the need for possible legislative clarification as these reforms mature.

As the landscape of the Indian capital market continues to evolve, stakeholders are urged to stay abreast of regulatory changes, engage proactively in compliance procedures, and contribute to the overall integrity and efficiency of the securities ecosystem. This document serves as a comprehensive guide to navigating the current regulatory framework and understanding the implications of recent changes in the Indian capital market.