ANNEXURE II

Key Terms used in Depository System

Beneficial Owner: Beneficial owner means a person whose name is recorded as such with a Depository. He is the actual owner of the securities as per the records of the Depository.

Beneficiary Account: A beneficiary account is an account held with the participant by the client for the purpose of holding his/her securities in electronic form.

Bad Delivery: In stock sales, a physical transfer of stock sold which doesn't conform to stock exchange rules; the defects in delivery must be corrected for the transfer to be completed.

Bonus Shares: Shares issued by companies to their shareholders free of cost by capitalization of accumulated reserves available to the shareholders in proportion to their holdings, i.e. conversion of reserves into equity. Bonus shares are issued free of cost.

Business Rules: Rules formulated by a depository for functioning and operations of the depository and for regulating the functioning and operations of the depository participants. These include such manuals notices, circulars containing the practices, and procedures as notified by depository form time to time.
Bye-Laws: Byelaws formulated by a depository, with previous approval of the SEBI and in conformance with the provisions of the Depositories Act, to provide for the matters connected with the operations of the depository and its participants.

Clearing Account: A clearing account is an account held with the participant by a clearing member of a clearing corporation for the purpose of carrying out clearing and settlement functions in respect of electronic trades. A clearing account consists of pool account, delivery account and receipt account.

Clearing House: Each exchange maintains a clearing house to act as the central agency for effecting delivery and settlement of contracts of all members. The day on which members pay or receive the amounts due to them are called 'pay-in' and 'pay-out' days respectively.

Client Identification Number (Client ID): Client ID is a number, which is allotted to each beneficial owner opening an account with a participant in NSDL, the combination of client ID and DP ID is unique number.

Corporate Actions: Corporate action are benefits given by a company to its shareholders. The benefits arising to the investors out of the corporate action may either cash (dividend, interest) or non-cash (rights, bonus, warrants etc.)
**Delivery Versus Payment (DVP):** System of settlement of securities trade where buyer of securities makes payment for securities purchased simultaneously with the delivery of securities by the seller. The actual operational form of DVP depends on the linkage of payment system and the securities settlement system and may vary in different securities market systems. In some cases, there may be some time delay for payment remittance, but it should be take place by the end of the actual settlement day.

**Dematerialisation:** Dematerialisation is a process by which an investor surrenders the physical scrip certificates which are given back to the Company/Registrar and actually destroyed. An equivalent number of securities are credited in the electronic holding of that investor at the depository. This is done at the request of the customer.

**Dematerialisation Request Form (DRF):** Dematerialisation request form is a form filled by the client for the purpose of making request for dematerialisation of scrip Certificates.

**Dematerialisation Request Number (DRN):** DRN is a unique system generated number for every dematerialisation request received by the participant.

**Depository:** Depository is an organisation where the securities of a shareholder are held in the electronic form at the request of shareholder. Depository is an organisation where the securities of a shareholder are held in the electronic form at the request of shareholder. Depository is
an agency to which securities are deposited for safe keeping and handling/dealing in them on behalf of owner. As per the Depositories Act 1996, Depository means a company formed and registered under the Companies Act 1956 and which has been granted a certificate of registration under section 12 (1A) of Securities and Exchange Board of India Act 1992.

**Depository Participant (DP)**: A Depository Participant is the representative or agent in the Depository System. The Depository interfaces with investors through Depository Participants only. Financial institutions, banks, custodians, stockbrokers etc. can become DP.

**Depository Participant Identification number (DP ID)**: Depository Participant number is unique number, which is allotted to each participant by the Depository on registration with it as a business partner.

**Depository Participant Module (DPM)**: Depository Participant module maintains the details about the clients and handles requests from clients of the Depository Participants.

**Electronic Clearing Services (ECS)**: Electronic clearing services is provided through Reserve Bank of India. In this service, credit or debit of amount is done in the bank account of the customer directly. The customer can take the advantage of direct credit of dividend to their bank accounts by opting for ECS facility.
**Execution Date**: Execution date is the date on which securities are actually debited from the account. If execution date is written on the delivery instruction, the DP will enter the same in the DPM system. DPM system remembers the date of debits the account only on that date. Accounts holder can issue the instructions well in advance of the date on which they want the securities to be debited from the account.

**Fungibility**: Fungibility means permitting book entry transfer without attribution to specific scrips or distinctive numbers. All securities held in a Depository are fungible i.e. all certificates of the same security are interchangeable.

**Freezing of Demat Account**: A state wherein a depository account held with a depository participant is suspended for any further transaction. An account may be frozen either on the request of the account holder itself or on receipt of an order to that effect from depository, income-tax authorities or any other competent authority. Account freezing may be partial i.e. for debits only or complete i.e. for both debit and credit entries.

**Immobilization**: Immobilization means storage of scrips in the vaults of the depository so that physical movement of scrips is frozen.

**Initial Public Offer (IPO)**: First offering of shares to the public is known as IPO. It is almost invariably an opportunity for existing investors and participating venture capitalists to make profit, since for the first time their shares will be given a market value reflecting expectations for the Company's future growth.
**Insider Training**: An illegal activity in which a person in a Company or outside having confidential information, such as expansion plans, financial results, takeover bids, etc., take advantage of such information to make a profit on the Stock Exchange by buying or selling shares.

**Inter - Depository transfers**: Transfers executed between accounts held with different depositories are known as Inter-Depository transfers. In our country, there are two depositories namely NSDL and CDSL. Whenever a customer of CDSL is transferring securities to a customer of NSDL, the transfers will be inter - Depository.

**Inter - DP**: Transfers executed between accounts held two different Depository Participants are inter-DP transfers.

**Intra - DP**: Transfers executed between accounts held with the same Depository Participant are called intra-DP transfers.

**International Securities Indentification Number (ISIN)**: ISIN is a unique identification number for each security admitted in the Depository System.

**Market Trades**: Trades which are executed on a participating stock exchange and are cleared and settled through the clearing members of a Clearing Corporation or Clearing House of a Stock Exchange.

**Off - Market Trades**: Off - Market trade is the deal, which is negotiated outside the trading system of Stock Exchange. Off - Market trades result in transfer from one beneficiary account to another beneficiary account.
**Pledged Securities**: Securities pledged by one person (pledgor) to another person (Pledgee) as a security for payment of a debit or performance of a promise. The pledgee has a special lien on the property in the pledged securities with a right to sell the same after notice, if the pledgor fails to discharge the debit or perform his promises on the stipulated date.

**Rematerailisation**: Dematerialised share certificates can again be rematerialised. Rematerialisation (Remat) is the term used for the process of converting electronic holdings back into certificates. Investors may or may not be allotted Certificates with the earlier distinctive and Certificate Numbers.

**Rematerialisation Request Form (RRF)**: Remat request form is required to be filled by the client for the purpose of rematerialisation of securities.

**Rematerialisation Request Number (RRN)**: RRN is a unique system generated number for the purpose of rematerialisation request.

**Rolling Settlement**: A system of settling trades in securities which requires all the trades to be settled after same number of days after trade date. For example, in T+5 Settlement environment, trades done on Monday are settled on Friday. The advantages of rolling settlement is that it substantially reduces the level of outstanding trades at any given point in time, thus limiting the market risk.
**Securities:** Securities have been defined in Section 2(H) of the Securities Contracts (Regulation) Act, 1956 and it includes:

a) Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or body corporate.

b) Government securities.

c) Any right or interest in securities

d) Other instruments as declared by the Central Government to be securities.

**Standing Instruction:** Standing instruction is the instruction given by the account holder to the Depository Participant authorising receipt of all credits into its account.

**Stock Brokers:** Stockbroker is a person engaged in the business of trading of securities and is a registered stock broker in accordance with the Rules and regulations made under the Securities and Exchange Board of India Act 1992. Stockbrokers are members of recognised Stock Exchange.

**Straight Through Processing:** Straight-through processing (STP) involves electronically capturing and processing transactions in one pass, from the point of first deal to final settlement. STP enables trade orders
to be processed, confirmed, cleared and settled in a shorter time period, more cost effectively, with fewer errors since human intervention in the course of processing and communication of the trade orders is minimised.

**Sub - Brokers** : Sub - broker is a person registered as a sub broker in accordance with the rules and regulations made under the SEBI Act 1992 and is attached to or works under a stockbroker and deals in securities. He is a link between a stockbroker and investors.

**Transfer Agents** : Professional firms, which maintain the records of shareholders of their client Companies, and endorse payments of call money on Certificates, register and endorse transfer of shares, cancel or issue Certificates and resolve problems arising from lost, destroyed, or stolen Certificate.

**T+2 Settlement system** : Presently, in our country, T+2 settlement system is followed. In this system, trades are settled two business days after the transaction. This system has allowed the investors to obtain the proceeds of a transaction sooner.