**Paperless Trading**

24. All institutional investors (FIs, FIIs, mutual funds and banks) having a portfolio worth more than Rs.10 crore were required to compulsorily trade in and settle eight scrips only through the electronic route with effect from January 15, 1998. The scrips are those of Bank of India, ICICI, IDBI, IPCL, Reliance, SBI, L&T and TISCO. The decision to restrict paperless trading to these eight scrips is to ensure efficient working of the new system before switching to broad based paperless trading or dematerialised trading. The advantages of dematerialised trading include reduction in time as well as cost, and elimination of various risks associated with paper-based or physical settlement. The expected efficiency gains of electronic trading may go a long way in higher foreign investment and increased trading volumes on stock exchanges (Box 4.4).

25. A Working Group consisting of the representatives of FIIs, Custodians, Stock Exchanges, Mutual Funds and officers of SEBI has been set up to examine the issues involved in compulsory dematerialised trading. The first review undertaken by the Group in February 1998 revealed that 57.1 per cent of the holdings of institutional investors in the 8 specified scrips in the custody of the custodians had been dematerialised upto January 15, 1998. However, trading in dematerialised scrips continued to remain poor on account of apprehension of lack of liquidity in these scrips. To address this problem, the Group proposed that dematerialised equities be allowed as 'good delivery' in the physical segment at both NSE and BSE, so as to improve liquidity, which has been affected by paperless trading. In pursuance of this proposal SEBI has allowed dematerialised securities against delivery obligations in the physical market of both NSE and BSE. It has been decided to expand the list of scrips for compulsory dematerialised trading to 30 from June, 1998 and further to 50 from August, 1998. In order to popularise dematerialised trading a Core Group with NSDL, NSE,BCL and SHCIL under the leadership of SEBI has been set up.

**BOX 4.4**

**Depository**

National Securities Depository Limited (NSDL), the first and only depository in India so far, completed one year of operations on November 8, 1997. NSDL was set up to provide an efficient solution to the ills associated with paper in the Indian capital market, reduce settlement risk and facilitate movement towards rolling settlement. The depository infrastructure grew with more companies, depository participants (DPs) and stock exchanges joining NSDL. As on March 31, 1998, 191 companies had entered into agreements with NSDL. The market capitalisation of these companies constituted about 53 percent of the total market capitalisation. Amongst these, dematerialisation facilities were available for shares of 171 companies and trading facilities were available for shares of 160 companies. On the said date, the number of DPs, through whom NSDL interfaces with investors, stood at 49 which included all custodians providing services to local and foreign investors. These DPs are catering to investors from about 214 locations across the country. The two largest stock exchanges in India viz., the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) joined NSDL to facilitate settlement of trades executed in their dematerialised segments. As on January 26, 1998, 828 out of 962 active member brokers of NSE and 329 out of about 600 active members of BSE had opened accounts in NSDL. About 11200 investors, both institutional and retail, had opened accounts with NSDL and had dematerialised about 160 crore shares valued at about Rs. 22,000 crore. Transaction/holding costs in the depository environment are cheaper when compared to the same in the physical environment. Enhanced participation in the depository provided the necessary platform to NSDL to make the depository more cost effective. Custody charges were halved from 7 basis points (0.07%) to 3.5 basis points (0.035%) per annum. NSDL also decided to accept a one time payment of 5 basis points (0.05%) from a company on its market capitalisation and thereafter completely exempt custody charges to its DPs on shares of such companies. As on March 31, 1998, twenty seven companies had availed of this facility. Some banks charged a lower rate of interest on loans and advances given against shares pledged in the dematerialised form.

Affirmative regulatory intervention at a critical juncture imparted additional momentum to the depository process. The Securities and Exchange Board of India (SEBI) amended the relevant statutory provisions to make it mandatory for FIIs and MFs to settle only in the dematerialised segment with respect to a select basket of eight securities w.e.f. January 15, 1998. Directives to the above effect were also issued by the Government of India and the Reserve Bank of India (RBI) to financial institutions and banks respectively. Further, the RBI also advised the banks to consider joining the depository as DPs.