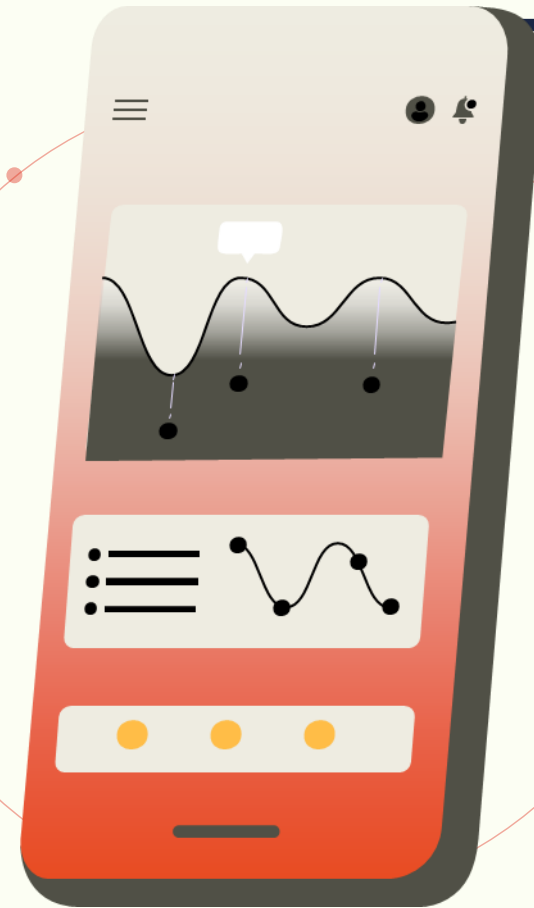


MANDATORY DEMATERIALIZATION OF SECURITIES



Overview

Overview of Dematerialization (1/2)

Dematerialization - Private Companies

- The Ministry of Corporate Affairs ('MCA') vide notification dated 27th October 2023 introduced Rule 9B to the Companies (Prospectus and Allotment of Securities) Rules, 2014 requiring private companies to issue securities only in dematerialized form and facilitate dematerialization of all its existing securities in accordance with the Depositories Act, 1996 and regulations made thereunder, within the timelines specified.
- The new Rule 9B requires every private company, other than a small company and government company ('qualified private company'), to comply with the mandatory dematerialization of securities.
- A small company means a company, other than a public company having:
 - Paid-up share capital which does not exceed **INR 4 crores and**
 - Turnover which as per profit and loss account for the immediately preceding financial year does not exceed **INR 40 crores**.

However, the definition of a small company specifically excludes holding and subsidiary companies. Hence private companies are required to mandatorily comply with Rule 9B irrespective of the above-mentioned threshold limits, if they are either a holding company or a subsidiary company.

- Securities shall include equity shares, preference shares, debentures, compulsorily convertible preference shares (CCPS), compulsorily convertible debentures (CCDs) etc.
- A company, which on the last day of a financial year, ending on or after 31st March 2023, is a qualified private company as per audited financial statements for such financial year, shall, within 18 months of closure of such financial year comply with the Rule 9B i.e., on or before **30th September 2024** (for FY ended 31st March 2023).

Overview of Dematerialization (2/2)

Dematerialization - Unlisted Public Companies

- Every security holder of unlisted public companies is required to dematerialize their securities before the transfer of such securities on or after 2nd October 2018. Further, the security holder is required to dematerialize their existing securities before subscribing to any further issue of securities from such unlisted public company on or after 2nd October 2018. This is not applicable to an unlisted public company which is a wholly owned subsidiary.

Consequences of non-compliance

- Any company shall be able make an offer for issue of securities, buyback of securities, issue of bonus shares or rights issue after the due date for dematerialization, only if the entire securities held by its promoters, directors, and key managerial personnel are dematerialized.
- The holder of securities of a company can subscribe to further securities by way of private placement, bonus shares, rights offer, etc. made after the due date for dematerialization only if their existing holdings are dematerialized.
- The holder of securities of a company can transfer such securities after the due date for dematerialization, only if the same are dematerialized before such transfer.
- Monetary penalties on company and every officer in default:
 - On the company: Rs. 10,000 + Rs. 1,000 for each day the violation continues (maximum limit is Rs. 200,000)
 - Every officer of the company who is in default – same as above (maximum limit is Rs. 50,000)

Process for dematerialization

Process for dematerialization

Obtaining ISIN for the company

ISIN is allotted by Depository and RTA acts as the intermediary for the same.

It shall be noted that a separate ISIN shall be obtained for each class of securities. Therefore, if the Company has multiple classes of securities, more than one ISIN shall be obtained.

Obtaining of PAN for security holder

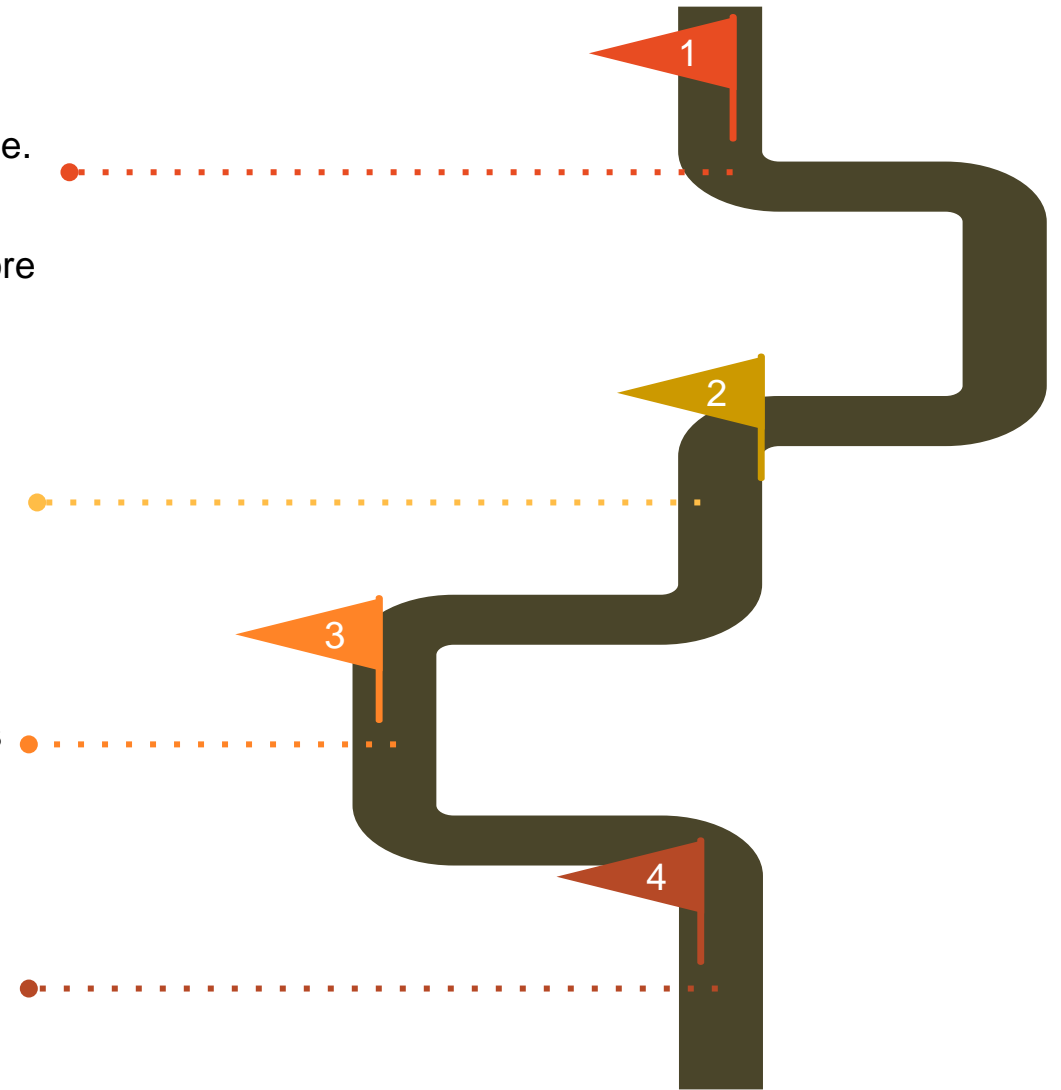
PAN is mandatory for opening a demat account in India. It shall be noted that this step may not be required if there are resident shareholders / non-resident shareholders already having PAN.

Opening of demat account for security holder

Demat account is allotted by Depository and Depository Participant acts as the intermediary for the same.

Facilitating dematerialization

The original share certificates are surrendered and the securities are credited into the demat account.



Key terminologies

Key terminologies (1/2)

Terms	Meaning
International Securities Identification Number ('ISIN')	<p>ISIN is a unique 12-digit alpha-numeric code that identifies a security globally for the purposes of facilitating clearing, reporting and settlement of security transactions.</p> <p>An ISIN has to be obtained for each class of security of a company.</p>
Depository	<p>A depository is an entity that holds financial securities in dematerialized form. Currently in India there are two major depositories namely National Securities Depository Limited ('NSDL') and Central Depository Services Limited ('CDSL').</p>
Registrar and Share transfer agent ('RTA')	<p>RTAs are SEBI registered entities that provide services related to share registry maintenance and share transfer activities on behalf of companies. They also act as an intermediary between the companies and depository for providing services such as dematerialization, rematerialization, initial public offers, corporate actions, etc.</p>
Depository Participant ('DP')	<p>DP is a registered intermediary between the depository and investors in India. They maintain investor level accounts for securities and facilitate the trading process.</p>
Demat Account	<p>A demat account is similar to a bank account that helps investors hold securities in electronic format. A demat account is opened with a DP.</p>

Key terminologies (2/2)

Terms	Meaning
Small company	<p>A company, other than a public company,—</p> <p>(i) paid-up share capital of which does not exceed rupees four crore; and (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed rupees forty crore.</p> <p>Provided that nothing in this clause shall apply to —</p> <p>(A) a holding company or a subsidiary company; (B) a company registered under section 8; or (C) a company or body corporate governed by any special Act</p>
Form Benpos	<p>Form Benpos is a statement issued by RTAs to the Company every Friday containing the list of security holders in dematerialised form and the change in the holding during the week.</p>
Freezing of ISIN	<p>Securities held in demat form can be traded freely by the holders using their demat account. In order to prevent free transferability of securities, Company can instruct the depositories to freeze the ISIN, thereby preventing any trading.</p>

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Thank you