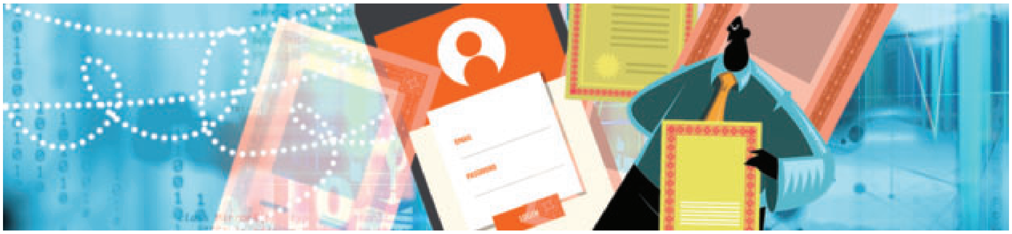
# India's great vanishing Act

## Thirty years ago, an Act made physical securities disappear. Now it's time to extend it to all paperwork

ILLUSTRATION: BINAY SINHA



September 20 marks the 30th anniversary of the Depositories Ordinance, 1995. Few imagined this quiet legislative initiative would trigger one of the boldest financial reforms in independent India. Over three decades, dematerialisation has evolved from a daring experiment to an everyday reality. Today, two depositories serve over 200 million investor accounts, holding securities of more than 100,000 companies, with a custody value exceeding ₹600 trillion. What began as a leap of faith in 1995 is now the backbone of India's securities market.

Humans are fascinated by magic, the thrill of watching something vanish before our eyes — a train, a plane, even the Taj Mahal, if only for a moment. Magicians, however, operate within limits: One trick, one stage at a time. In the mid-1990s, India attempted something more audacious — a grand illusion on a national scale. Not one object, but every share certificate. Not for seconds, but forever.

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Two new institutions, National Securities Depository Limited (NSDL) (1996) and Central Depository Services Limited (1999), pulled it off. In the blink of regulatory eyes, those thick certificates with ornate borders and proud stamps disappeared. From every drawer, every almirah, every pillowcase across the land. No smoke, no mirrors, no trapdoors. The disappearance was total, final, and irreversible. No one asked for an encore.

Curiously, our "depositories" neither accept deposits nor store securities. The term was borrowed from contemporary global markets, where depositories safeguarded physical certificates while maintaining records electronically. India thought differently: Not to digitise papers, but to eliminate them. Out of the conviction was born "dematerialisation", or simply, "demat". There was no blueprint, no assurance of success. Reformers only knew that a paper-based securities system could never support the scale, speed, or integrity that India's newly liberalised market economy required.

The vision was bold. Multiple, interoperable depositories were to ensure free transferability of securities with speed, accuracy, and security. This was achieved by (a) making securities of public limited companies freely transferable; (b) dematerialising the securities held in a depository; and (c) entrusting depositories to maintain ownership records of securities and effect transfers through book entries. After all, the framework enshrined the supremacy of the investor. The choice between physical and demat form rested with the investor, and the system was bound to honour that choice.

New Delhi wrote the script. The 1993-94 Union Budget hinted at a centralised depository. A leading custodian began constructing a vault to store securities. The following year's Budget proposed a depository system of scrip-less trading and signalled a dedicated law to establish depositories. By mid-1995, urgency set in. The finance minister and the finance secretary, who were driving broader securities market reforms, created the momentum and space for the idea to take shape.

An informal team of officials and market participants carried the idea forward. P J Nayak, who had demitted office as joint secretary (capital markets) in June 1995, continued to articulate the vision of dematerialisation and free transferability. R Chandrasekaran, then managing director of the Stock Holding Corporation of India Limited, drew on global practices to design the depository architecture. T K Viswanathan, then additional legislative counsel, translated the vision into the Depositories Ordinance of 1995. Remarkably, the three never met in the process. My role as deputy director in the capital markets division was only to weave their ideas together, often after hours and outside the office.

Mumbai staged the play. C B Bhave, as the first managing director of NSDL, led the institutional and technological foundation that turned the vision into reality. Throughout, the Securities and Exchange Board of India's (Sebi's) steady hand orchestrated the market ecosystem to embrace dematerialisation, while ensuring that both the law and its implementation remained firmly anchored in investor interest.

Scepticism was rife. Some argued that if the US had not gone paperless, India surely could not. Industry feared losing its gatekeeping power over transfers. Registrars, transfer agents, and company secretaries feared their cheese moving away. Legal purists insisted that until investors had the right to hold securities in physical form, the law was unimplementable. The Ordinance lapsed a few times. But reformers stood firm. Through years of resistance, a wide coalition of officials, institutions, industry leaders, and countless individuals sustained the effort forward. The breakthrough came when Sebi required trading/ settlement of trades on stock exchanges only in demat form, first for select shares and certain investors, then progressively extending to all. The rest is history.

Before demat, every transfer of securities required moving paper certificates to the issuer for registration, with ownership evidenced only by endorsement on the certificate. The process routinely stretched far beyond the two-month statutory limit. Many transactions ended in "bad delivery" owing to bad paperwork or signature mismatches. The risks were many: Theft, forgery, duplication, and mutilation. The issuer's right to refuse transfer added to investor misery. The system was weighed down by paperwork, costly printing, insecure custody, settlement delays, restricted liquidity, and a grievance mechanism that barely worked.

Dematerialisation swept all this away. It made markets faster, safer, and more transparent. More importantly, it became the foundation for future reforms: T+1 (and transiting to T+0) settlements that placed India among the world's fastest markets; streamlined initial public offerings (IPOs) and rights issues; corporate governance reforms, such as system-driven disclosures; effective market surveillance and monitoring; and a leap in financial inclusion, as millions of first-time investors opened demat accounts.

As India celebrates 30 years of dematerialisation, one wonders if share certificates could vanish, why not every instrument, every piece of paper that clogs our economy? Bank guarantees, insurance policies, loan agreements, warehouse receipts, land titles, and even academic certificates are all ripe for dematerialisation. Indeed, some of these are getting dematted, though only in patches. A natural progression would be to either integrate them into the demat framework or design tailor-made frameworks for their specific needs. This would confer legal standing on their digital existence, unlock new markets, spark innovation, and create efficiencies no paper system can match.

Dematerialisation is more than a market reform: It is a metaphor for India's digital future where trust endures without paper, scale comes without friction, and transparency displaces opacity. It is also a quiet response to climate change, sparing trees and forests from the paper chase of old systems. Three decades on, India's great vanishing act continues to inspire, is studied worldwide as a model of systemic reform, and a reminder that making things invisible is sometimes the best way to make progress visible.

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