



Consultation Paper on Distribution of Cash Benefits through Depositories

For investments in various securities, investors receive cash benefits such as dividend, interest and redemption payments. At present, cash benefits are distributed directly by issuer companies to the investors mostly through their Registrar and Transfer Agents (RTAs). Though this model has worked fine, there is further scope for improvement in the areas related to efficient tracking of payment, having a consolidated view of all benefits received, non-payment and delayed payment, updation of investor bank details, disclosure of unpaid cash benefits, etc. In order to further enhance the investor experience and to make securities market more efficient, SEBI is considering a proposal for distribution of cash benefits through depositories. It is proposed to seek the views of various stakeholders and public on the proposal in order to take an informed decision.

Background

In India, although distribution of non-cash benefits such as bonus, rights, amalgamations, demergers, sub-division etc are handled through depositories, cash benefits are handled outside the depository system. Depositories provide details of shareholders and bondholders including name, address and bank details to the respective issuer companies which, in turn, arrange for distribution of cash benefits.

Issues in the current process

All cash benefit distributions are being processed outside the depository system. Thus, no information is available in the demat account with respect to entitlement of cash benefits and payment of the same to the investors.

In case any investor requires any information or has a complaint with respect to above benefits, they are required to approach the respective issuer companies or their Registrar & Transfer Agents (RTAs) which may be inconvenient to the investors.

The issues that investors may be facing are as under:



- 1. Tracking of payments:** It may be difficult for the investors to track whether they have received all the cash benefits due. Investors need to track the corporate announcements for the benefits due to them and correlate the same with bank credits to understand if any credits are missing. Investor can only see a credit in his bank statement and the narration is often incomplete for the investor to understand the nature of credit. In case of missing or wrong bank details, the investor is despatched a physical warrant. In case of any problem with the warrant or revalidation, the investor is required to contact the issuer company or RTA.
- 2. Consolidated statement for all cash benefits received:** Investors do not get a consolidated statement of all cash benefits due and paid to them. Depositories cannot provide such a statement as they do not have the information. Investors need to engage in culling out such details by browsing through their bank statements when such information is needed, for example, for tax filings.
- 3. No alerts:** Unlike in the case of non-cash corporate actions where depositories send SMS alerts, investors may not get SMS alerts or email alerts for cash benefits paid to them.
- 4. No correlation with demat transactions:** In the case of bonds and other debt instruments, securities may be debited from the client's account by the issuer/RTA but at the same time the redemption payment may not have been received by the investor. An investor needs to track and ensure that he has indeed received redemption proceeds and contact the issuer/RTA in case of any problem.
- 5. No tracking of invalid bank details:** When electronic credit to the investor's bank account fails, such information is only available at the issuer company/ its RTA. In such cases, Issuer Company delivers a physical warrant to the investor. It is also not uncommon where investor receives electronic credit from one company, but does not get electronic credit from another company, despite his bank details being the same. Besides, every individual company will independently attempt to send electronic credit



since it is not aware that such credit has failed in other companies and thus the bank details may not be correct.

6. **No tracking of returned undelivered:** Warrants despatched by issuer companies may be returned undelivered due to address of client not being updated. There is no central tracking of the same, as the information is only available with each company/ its RTA.
7. **Information on unpaid dividend on company website:** To check unpaid dividend information, an investor needs to visit websites of each company.
8. **No central monitoring:** As currently all information related to cash benefit and redemption proceeds distribution is handled by Issuer Company or RTA, there is no central information available to monitor the same. There is no independent way to check whether the company has indeed distributed all the cash benefits and followed legal provisions including timelines.
9. **Investor inconvenience:** With the demat system, for all transactions such as transfer, demat and remat requests, address and contact details change, nomination and transmission, etc, the investor is no longer required to approach each issuer company or its RTA. All such transactions, service requests and changes can be carried out at a single place, viz., the Depository Participant (DP) where the demat account is held. In the case of cash benefits, for any information or complaint, investors have to contact the Issuer company or its RTA.

Proposal

All cash benefits including dividend, interest and redemption proceeds may be distributed by depositories in the case of all securities held in demat form. Issuers may be required to transfer the total amount due to clients of each depository to that depository, which is also the registered holder of such securities. The depository in turn will distribute the same to its beneficial owners. In respect of securities held in physical form, the issuer company may continue to handle the distribution of cash benefits.



Advantages of distribution through Depositories

A. Benefits to Investors

- 1. Single record of all cash benefits received by investor in his account:** Investors will be able to get a consolidated statement of all the cash benefits due to them and credited, along with all details such as announcement date, dividend rate, amount due, date of credit to bank account, bank transaction reference, etc. Demat account statement can thus become a single record of all details with respect to cash benefits such as entitlement of cash benefit, details of credit received in bank account, tax deducted at source, etc.
- 2. Simplified monitoring:** As all details related to cash benefits are available at a single place, monitoring of the same will become easy for the investor. For example in case of non-receipt of some cash benefits, investor will easily be able to identify from his demat account statement. In fact, such missed payments would be minimised as there will be central monitoring by the depository. Investors will also be able to easily view which companies in their portfolio are paying dividend, the rate of dividend and which companies are not paying dividend.
- 3. Immediate alerts:** Investors can receive directly from the depository SMS or email alerts on cash benefits distributed, just as in the case of other transactions.
- 4. Shorter turnaround time for receiving cash benefits:** As majority of cash distribution will be carried out in electronic form, investor will get cash benefits in short time. Further, in case of any rejection of electronic credit, DP will also be able to approach investor for updation of bank details so that investor can get credit directly to his bank account electronically.
- 5. Better enforcement of fixed pay date:** In order to enable investors to manage their cash/securities flows efficiently and to enhance process transparency, SEBI had mandated companies to have a pre-announced fixed pay date for payment of



dividends. With depositories crediting directly, better enforcement of fixed pay date can be achieved. Investors will be able to expect credit of dividend on specified dates.

6. **No need for safe-keeping of paper related to cash benefits:** As details of cash benefits will become part of demat account statement, investors will not be required to maintain papers related to cash benefits. Investors will be able to view these details as and when required.
7. **Updation of bank details:** In case of failure to credit electronically due to invalid or absent bank details, such accounts can be tagged and efforts can be made by the depository to contact the client and get updated details. Information can be provided to DPs to contact the client and update the details. Investors can also be informed through SMS and email alerts. Messages will be included in the Consolidated Account Statement and demat statement. This will facilitate achievement of the goal to eventually have all cash benefits credited electronically.
8. **Investor convenience:** As information of cash benefits for all issuers will be available centrally in depository system, for any query related to cash benefits, investor can contact his DP who will be able to provide the necessary details instead of approaching various issuers.

B. Benefits to Issuers

1. The need to maintain separate infrastructure to maintain cash benefit information will reduce. For example, today in the case of companies whose shares are held in dematerialised form, no infrastructure is required on part of issuer companies to maintain shareholder data. Similarly, all information related to cash benefits including paid, unpaid details will be available in the depository system for the companies to download as and when required.
2. At present, each issuer appoints banker for distribution of cash benefits and sends communication to its each shareholder about credit of cash benefits separately. In case cash benefit distribution is carried out by depository, there may be economies of



scale. Depositories will also send SMS or email alerts to investors instantaneously. All information of cash benefits will be available in demat account statements which are sent to investors at defined frequency. Therefore, issuers will not be required to send communication to each shareholder separately saving on the costs.

3. As complete data is available in depository system, reconciliation will be simplified and automated for the issuers. Compliance with obligations of distribution, disclosure of unclaimed cash benefits, and transfer of unclaimed benefits to Investor Education and Protection Fund etc under Companies Act can be automatically ensured through market infrastructure.

Public comments

1. In order to take into consideration views of various stakeholders, public comments are invited on the consultation paper with respect to following issues.

a) Do you think investors will benefit from this proposal?

Yes

No

b) Do you think time taken in distribution of cash benefits will get reduced and better enforcement of pay date can be achieved?

Yes

No

c) Do you think it will become convenient for investors for tracking cash benefits?

Yes

No

d) Do you think that it will ease the burden on issuers and reduce reconciliation, servicing and compliance costs?



Yes

No

e) Do you think depositories should handle distribution of cash benefits only for demat holdings or whether the depositories should handle distribution for all holdings i.e. demat as well as physical holdings?

Only for Demat Holdings

For Demat as well as Physical Holdings

f) Any other comment:

2. In addition to the above, you may provide your comments / suggestions by **May 05, 2016** on the proposal which may be emailed to cashbenefits@sebi.gov.in or sent by post, to:-

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