

## Process of Transfer of Shares of Private Company In Demat Form

Section 56 of Companies Act, 2013 read with The Depository Act, 1996

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### **INTRODUCTION:**

The author will cover the "*Process and provisions of transfer of shares of Private Limited Company in Demat form instead of Physical shares*" in this column.

### **SHORT SUMMARY:**

With the advancement of technology and regulatory reforms, the transfer of shares in India has shifted from the physical mode to dematerialized (demat) mode. The Depositories Act, 1996, governs the process of share transfer through depositories such as NSDL and CDSL.

This article explains the step-by-step process of transferring shares through the demat system, the applicable legal provisions, and compliance requirements.

### **❖ Legal Framework Governing Stamp Duty:**

- ✓ **Depositories Act, 1996:** Governs the electronic holding and transfer of shares.
- ✓ **Companies Act, 2013 (Section 56 & Section 58):** Deals with the transfer and transmission of securities.

## **STEP-BY-STEP PROCESS OF TRANSFER OF SHARES THROUGH DEMAT**

- I. **Agreement Between Transferor and Transferee:** The seller (transferor) and buyer (transferee) agree on the share transfer. The buyer must have an active Demat Account with a Depository Participant (DP) registered with NSDL or CDSL (wherever company has registered itself).

**II. Submission of Delivery Instruction Slip (DIS) by Transferor:**

The seller must fill out and submit a Delivery Instruction Slip (DIS) to their Depository Participant (DP).

The DIS must contain following informations:

- ISIN (International Securities Identification Number) of the company's shares.
- Name of the company.
- Number of shares to be transferred.
- Buyer's DP ID and Client ID.
- Type of transfer (market/off-market).
- Execution date.

**III. Verification and Processing by DP:**

- ✓ The seller's DP verifies the DIS details.
- ✓ The DP shall send an intimation to RTA/ Company for verification of same.
- ✓ If DP receive the confirmation from RTA/ Company they processes the transfer request electronically through NSDL/CDSL.

**IV. Debit from Transferor's Demat Account & Credit to Transferee's Account:**

- ✓ Once processed, the shares are debited from the seller's Demat Account.
- ✓ The shares are then credited to the buyer's Demat Account.

**V. Payment Consideration:**

- ✓ The buyer makes the payment to the seller based on agreed terms (in case of an off-market transfer).
- ✓ In case of off-market transfers, payment is usually made via bank transfer, cheque, or RTGS.

### **Additional Considerations**

#### **1. Off-Market vs. Market Transfers**

- ✓ Market Transfer: When shares are sold through a stock exchange.
- ✓ Off-Market Transfer: Direct transfer between individuals/entities, such as for gift, family settlement, or private sale

#### **Stamp Duty on Off-Market Transfers**

- ✓ 0.015% of the consideration value of shares is payable as stamp duty (collected via NSDL/CDSL online).

#### **Conclusion:**

The process of transferring shares through **demat mode** ensures efficiency, security, and transparency. Investors must comply with regulatory requirements under **the Depositories Act, and the Companies Act** to execute a valid share transfer.

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