<u>Review of timeframe of the “7 years rule” related to transfer of unclaimed dividend, shares, deposits, etc. by companies to IEPFA</u>

Submitted to IEPFA

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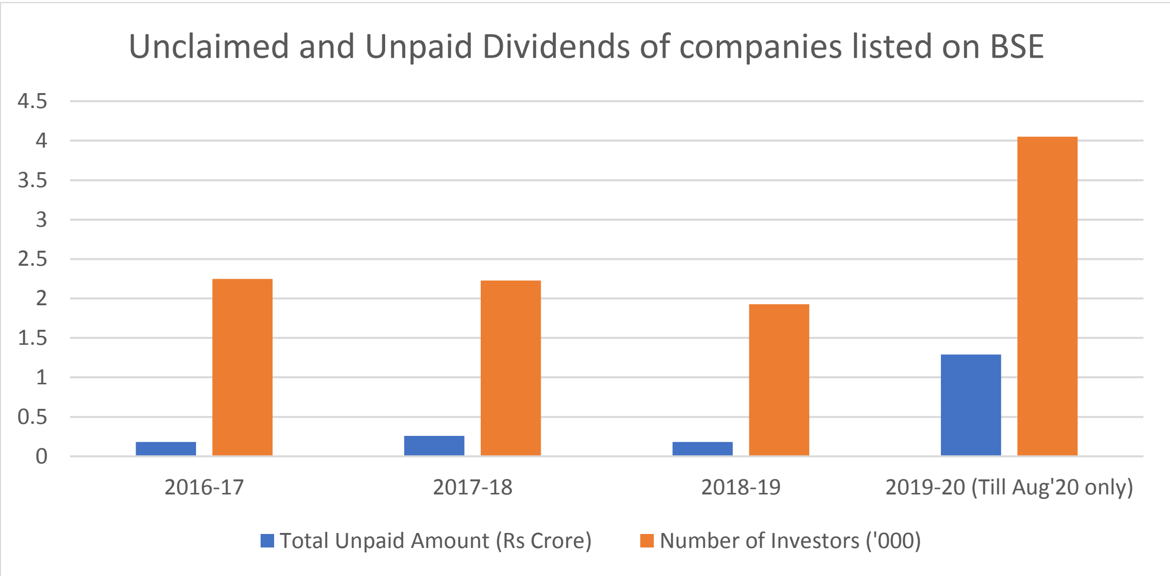
1. Full Statement of the Issue under review

Unclaimed dividends and related shares, matured deposits, matured debentures, etc. lying with the companies refer to the amounts pending to be paid by/on behalf of such companies to the legal beneficial owner of such accounts or deposits. In the year 2019, the total amount of money that was pending to be repaid to the rightful owners stood in excess of Rs 2000 crores in respect of 2.5 million investor accounts (Mani, 2019). As per the data pertaining to BSE alone, for FY 2019-20 (till Aug 2020) Rs 1.29 crore final dividend, in respect of more than 4000 investor accounts, was unpaid due to various reasons (Figure 1).

Figure 1: Trend across unclaimed and unpaid dividends of firms listed on BSE



Source: Compiled by author from Unpaid Dividend Register, BSE

As indicated in a recent report[1], the amount lying with the IEPF, which was Rs 400 crore in 1999, has become more than 10 times of that figure at the end of March 2020, and stood at Rs 4,100 crore. This is apparently after settling about 15,000 claims in two years.

[1]Sucheta Dalal, July 2021. Shouldn't regulators be accountable for returning Rs 82,000 Crore of unclaimed money to savers? https://www.moneylife.in/article/shouldnt-regulators-be-accountable-for-returning-rs82000-crore-of-unclaimed-money-to-savers/64694.html

The importance of savings and investment in a developing economy cannot be over emphasised. It is an important function within an economy, which supplies fuel, in the form of credit, to the productive activities in an economy, thus ensuring economic growth. Further, the crux of an investment is generating returns, which in the case of stocks, come in the form of dividends and capital gains. These investments, in the hands of investors, generally, either aid consumption or fuel further investment, either way contributing to the growth of the economy. Any hindrance in the form of presence of inefficiency in the investment environment may render this process of contributing to economic growth ineffective. Dividends and related shares, company deposits, company debentures, etc. remaining unclaimed by investors/shareholders reflect, in a way, inefficiency in the investment ecosystem. The current paper is an attempt to investigate the issues and provide recommendations on the appropriateness of seven-year policy of transferring unclaimed dividends/shares/deposits by companies to IEPF Authority. It provides recommendations based on the best practices in the important developed and developing countries.

2. The Issue under review in Indian Context

As per section 124 (1) of Company's Act, 2013, the unclaimed dividend is that amount which is declared by a company and has not been paid or claimed within thirty days. After, expiry of the said 30 days, within 7 days, the total amount of unpaid/ unclaimed dividend is required to be transferred to a special account, known as Unpaid Dividend Account, which should be opened by the company, specifically for this purpose, with any scheduled commercial bank. In Pursuant to section 124(5) of the Act, companies should transfer all such unclaimed dividend along with interest amounts, if any, on such deposited funds to Investor Education and Protection Fund Authority (IEPFA) after 7 consecutive years of the fund remaining unclaimed. Further, as per section 124(6) of Act, 2013, all shares in respect of which dividend remains unpaid or unclaimed for 7 consecutive years should also be transferred to IEPFA.

The issue of non-transfer of benefits to the rightful owners has become a burgeoning issue in India. As per a report, close to Rs 2000 crore dividend, pertaining to 2.5 million investors was pending to be transferred to the rightful owners (Mani, 2019). Although the Companies Act 2013 prescribes a time period of seven year before the same is transferred to IEPFA, given the practices in developed countries and latest developments in the investment environment in India, the appropriateness of this time period may be relooked at and duly evaluated.

3. Historical Perspective on the "Seven Year" Rule

The historical perspective to the current seven-year law for transferring unclaimed dividends and shares to IEPFA, apparently, can be traced back to the provisions of The Evidence Act, 1872. The relevant sections of the Act, along with respective interpretations, are presented hereunder:

Section 107. *Burden of proving death of person known to have been alive within thirty years*.

Section 107 states that "when the question is whether a man is alive or dead, and it is shown that he was alive within thirty years, the burden of proving that he is dead is on the person who affirms it".

Section 108. "*Burden of proving that person is alive who has not been heard of for seven years*".

Section 108 states that "Provided that when the question is whether a man is alive or dead, and it is proved that he has not been heard of for seven years by those who would naturally have heard of him if he had been alive, the burden of proving that he is alive is shifted to the person who affirms it."

Unpaid dividends and shares may also be construed by nature similar to the case of "Unclaimed Property" for which there are provisions of confiscation as well as disposal in the hands of city Magistrate under The Police Act, 1861. The relevant sections of the Act are presented below so as to better understand the provisions under the same.

Section 25. *"Police-officers to take charge of unclaimed property and be subject to Magistrate's orders as to disposal"*

It shall be the duty of every police-officer to take charge of all unclaimed property, and to furnish an inventory thereof, to the Magistrate of the district. The police-officers shall be guided as to the disposal of such property by such orders, as they shall receive from the Magistrate of the district.

Section 26. *"Magistrate may detain property and issue proclamation"*

The Magistrate of the district may detain the property and issue a proclamation, specifying the articles of which it consists, and requiring any person who has any claim thereto, to appear and establish his right to the same, within six months from the date of such proclamation. [The provisions of section 525 of the Code of Criminal Procedure, 1882 (10 of 1882) shall be applicable to property referred to in this section].

Section 27. "*Confiscation of property if no claimant appears*"

If no person shall, within the period allowed, claim such property, or the proceeds thereof, if sold, it may, if not already sold under sub-section (2) of the last preceding section, be sold under the orders of the Magistrate of the district. (2) The sale-proceeds of property sold under the preceding sub-section and the proceeds of property sold under section 26 to which no claim has been established shall be at the disposal of the State Government.

4. Issue under review in the Global Context

The issue of unclaimed assets, especially financial assets such as deposits, dividends, shares, etc. has been addressed through laws enacted in developed as well as developing countries. These laws have been categorized under the concept of "Unclaimed Property". Provisions of such laws in a few of the developed and developing countries are discussed as under:

4.1 United States of America

US is one of the first countries to enact laws relating to unclaimed property under the Uniform Unclaimed Property Act, 1954. Since then, the laws have been amended in the years 1966, 1981, 1995 and 2016. In the US, the laws governing the unclaimed property are subject to provisions made by the state and therefore these vary from state to state. These laws are derived from the process of transferring ownership called Escheatment. The historical prudence for these laws is derived from the fact that the courts originally developed escheat to assure continued performance of services to the lord as consideration for the grant of land from lord to tenant in fee. If the tenant died without heirs, by definition no member of the tenant's line existed to perform the required services. Consequently, the land reverted to the tenant's immediate lord. If the King was the tenant's immediate lord, or if the immediate lord could not be determined, escheat operated in favour of the Crown (resulted in confiscation of the property by the King).

In the US, the latest amended law relating to the unclaimed property is Revised Uniform Unclaimed Property Act 2016 (RUUPA). It has prescribed a period of one to fifteen years, depending on the type of asset, for transfer of property to the states and include both tangible and intangible properties. The law has prescribed a maximum period of 15 years in case of travellers' cheques while in case of dividends (Section 208 and 209 of the Act) and all other financial assets it is 3 years[2]. After the expiry of the said period, the asset is deemed abandoned and are transferred to the respective states.

The state wise data in the US also confirms the same. For example, California State affirms that business associations should transfer funds of a deposit, account, shares, or other interest if such fund has remained inactive for three years[3]. Similarly, North Dakota, which revised the Uniform Unclaimed Property Act (2016) to become effective from 1st July, 2021 also has a

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[2] Revised Uniform Unclaimed Property Act (uniformlaws.org)
[3] https://www.uppo.org/blogpost/925381/Unclaimed-Property-Focus

period of three years as the dormancy period for assets, after which the assets would get transferred to the State Treasury. It is necessary for holder/owner of the property/asset to undertake periodic "property owner contact activity" to prevent that asset/property from getting declared abandoned resulting into escheatment to the appropriate state.

4.2 The United Kingdom

All limited companies in the UK are registered at Companies House, an Executive Agency of the Department for Business, Enterprise and Regulatory Reform (BERR). Further three Registrars viz. Capita, Lloyds TSB / Equiniti and ComputerShare help the investors to trace their investments[4]. National Savings and Investments used to administer unclaimed UK Government Stock (Gilts) and dividends. Now all unclaimed Government Stock is handled by the Registrar at Computershare Investor Services[5].

UK Companies Act, 2006 provides that if twelve years have passed from the date on which a dividend or other sum become due for payment, and the distribution recipient has not claimed it, the distribution recipient is no longer entitled to that dividend (Agarwal, 2015).[6]

Thus, in UK, unclaimed dividends can remain as liability with company, to be paid to shareholders, for a period of 12 years. It is also possible to reduce the period for unclaimed dividends (but not shares) down to six years by amending a company's articles of association.[7] After 12 years, the unclaimed dividend can be claimed back by companies and used for social purpose. Unclaimed shares remain as liability with the company.

Similarly, in Scotland, under the Scots law, ownerless goods (Bona Vacantia) – including the assets of dissolved companies and the assets of missing persons – fall to the Crown, which is administered by the Office of Queen's and Lord Treasurer's Remembrancer (QLTR) which is held by the Crown Agent[8].

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[4] Unclaimed Shareholdings, Dividends and Windfall Shares - UnclaimedAssets.co.uk
[5] UK Government Stock and Dividends - UnclaimedAssets.co.uk
[6] Agrawal, D. R. K. (2015). A Comparative Study of UK Companies Act, 2006 and Indian Companies Act, 2013. International Education & Research Journal [IERJ], Research Paper E-ISSN, (2454-9916).
[7] Rentokil Initial (March, 2019). New approach puts unclaimed dividends and shares to good use – Rentokil Initial plc. (n.d.). Retrieved August 27, 2020, from https://www.rentokil-initial.com/media/news-releases/news-2019/new-approach-puts-unclaimed-dividends-and-shares-to-good-use.aspx
[8] Scotland Unclaimed Estates - UnclaimedAssets.co.uk

4.3 Japan

The Companies Act 2005 provides for the treatment of shares and dividends in cases where notices to such effect could not be delivered to the shareholders for a consecutive period of five years or dividends could not be transferred to the beneficial owner for five consecutive years. In such cases the company is authorised to auction the shares after giving public notice to this affect and a waiting period of not less than three months after this notice. The auctioning is required to be authorised by the board of the company and details of the same have to be entered in appropriate records[9]. Article 196 and 197 under Section 7 of the Companies Act 2005 prescribe the detailed guidelines for the same.

4.4 New Zealand

The three major components to which the unclaimed property can be transferred in New Zealand are the Treasury, Inland Revenue Department (IRD) and Public Trust. Depending on the type of unclaimed assets/proceeds, these have been assigned to any one among the three aforementioned departments. For example, in case of assets belonging to a trust, the same are held by the Treasury in a trust account for a period of 6 years and in case of no claim is received during this period, the same is transferred to the bank account of the Crown as unclaimed money Deposits with banks and financial institutions are transferred to IRD in case the account is not operated for a period of five years. In case of dividends and surpluses in case of company liquidation, the provisions allow some companies to transfer the unclaimed dividends to other shareholders. In case of liquidation, the liquidator may pay the unclaimed amount to Public Trust (if the funds are bona vacantia then the same transferred to Treasury). Further, the life insurance maturity proceeds are transferred to IRD in case of no claims from the beneficiary for a period of five years[10].

4.5 Australia

In Australia any unpaid fund, as per the Corporation Act 2001 is transferred to Australian Securities and Investments Commission (ASIC). Section 1343 of the Act deals with the subject of lost shareholders and provides a waiting period of 6 years after which any unclaimed amount has to be transferred to the said authority[11].

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[9] Japanese Law Translation - [Law text] - Companies Act

[10] Unclaimed money (treasury.govt.nz)

[11] Unclaimed money - how to lodge money unclaimed under the Corporations Act | ASIC - Australian Securities and Investments Commission

4.6 Singapore

In Singapore, the Unclaimed Money Fund has been established as on 01 November 2019 under Part VB of the Legal Professional Act (Cap.161) and The Legal Profession (Unclaimed Money Fund) Rules 2019. The law helps solicitors and law practices to deal with the issue of unclaimed money in Singapore. All unclaimed amounts prior to Nov 2019 have been transferred to this Fund. A waiting period of 6 year has been prescribed by the law before transferring funds into the Fund. [12].

4.7. Russia

In Russia, the period for unclaimed dividend to remain claimable is between three to five years. Russia had amended its Federal Law pertaining to the regulation of dividend pay-outs and stated a limitation period of 3 years from the expiration of the term for paying the dividend for the shareholders to claim their dividends. However, this period can be further extended to a maximum of 5 years by the charter of a joint-stock company.

The Law sets out a general limitation period for a shareholder to claim a dividend which has been announced by the company, being three years from the date when the term for paying out the dividend (set out in the Law) has elapsed. The charter of a joint-stock company can provide for a longer limitation period for claiming announced dividends, however this cannot exceed five years from the date when the term for paying out the dividend has elapsed. If the limitation period is missed the shareholder cannot claim the dividend unless its failure to claim was due to pressure of violence or threats[13].

The Law states that upon the expiry of the limitation period, unclaimed dividends are to be recorded as undistributed profit of the company. This provision seeks to eliminate the risk that the retained dividends are recorded as the company's non-operating income, which would mean that they would again become subject to taxation (Clause 9 introduced by Federal Law No. 282-FZ, dated 29 December 2012).

[12] Unclaimed Money Fund – The Law Society of Singapore

[13] (Source: Herbert Smith Freehills LLP (2011). The legal framework in respect of unclaimed dividends and new tax benefits – Lexology. Retrieved August 27, 2020, from https://www.lexology.com/library/detail.aspx?g=d2642877-0dd0-499b-bb36-35e1b59b478b)

4.8 South Africa

In South Africa, all unclaimed dividends or other distributions to participating rights-holders may be held by the company in trust. After a time period of three years the amounts can be forfeited by the company, through a resolution of board, for its own benefit provided that notice of the declaration has been sent to the registered address of the person entitled thereto. Section 46 and 47 in Part D of Companies Act 2008 provides guidelines to the companies for necessary incorporation in Memorandum of Incorporation.[14].

4.9 Brazil

As per the Brazilian Corporate Law, a period of three years has been prescribed for investors to claim their unpaid dividends. After the expiry of this period, the amounts in such dividends is transferred to the Government accounts[15]. Article 205 of Brazilian Corporation Law (Law # 6404 of December 15, 1976) deals with the Payments of Dividend[16].

4.10 Kenya

In 2011, Kenya had established Unclaimed Financial Assets Authority which is authorised to administer the unclaimed financial assets in the country. The time period fixed for transferring the funds to the authority differs as per the nature of the concerned financial instrument and is generally between one to five years. In case of dividends and shares the time period is fixed at three years[17]

4.11 Nigeria

Nigeria had established the Unclaimed Funds Trust through Finance Act, 2020. As per the provisions of the said Act, unclaimed dividends of the firms listed on the Nigerian Stock Exchange and funds in the dormant bank accounts are transferred to the aforementioned Trust after a period of minimum six years[18].

Taking into consideration the prevalent laws and practices related to unclaimed deposits/funds across countries, it can be inferred that every country, while drafting the laws, have taken

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[14] Companies_Act_2008_(as_amended).pdf (ymaws.com)
[15] Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (https://www.sec.gov/Archives/edgar/data/1499849/000121390020034148/f20f2020ex2-5_brasilagro.htm)
[16] Law-6.404-ing.pdf (cvm.gov.br)
[17] Rev. 2010] (ufaa.go.ke)
[18] Finance Act 2020: What You Need To Know About The Unclaimed Funds Trust Fund - Finance and Banking - Nigeria (mondaq.com)

cognizance of the historical background, local conditions and the expected corpus, which can be utilised in social welfare schemes, once these laws come into force. The major emphasis of these laws in most of the cases has been efficient utilisation of resources for maximisation of social welfare. It can also be inferred, taking examples of USA and Australia, that amendments to these laws have been carried out to adjust and incorporate the contemporary developments in the economy, thus making these laws relevant and efficient at all times. As noticed in laws and practices followed by major developed and developing countries, the timelines fixed for transfer of shares and/or dividends ranges from three to six years, with most countries following the three-year rule.

5. Consideration of the underlying basic causes of the Issue under review

Investments can be divided into two parts viz. Fixed Income yielding investments and Variable/Floating Income yielding investments. Under fixed income yielding investments, investors typically invest a principal amount and expect to get fixed income, such as interest income, which is fixed by nature of the instrument. At the end of the investment period, the investor expects to receive all the benefits along with the principal amount. On the other hand, in case of variable or floating income investments, the returns are generally not fixed and depend on the market conditions. These are the instruments where some form of market related risk is involved and accordingly generate higher returns as well. For example, in case of equity shares, income is generated in the form of both capital appreciation and dividends (these are dependent on company policy and may differ from year to year). These floating income instruments have the advantage of being liquid and investors can withdraw their funds on their will.

In both types of investment, the basic premise on which investment decisions are made is to generate returns on surplus funds, which can be utilized for either future consumption or for reinvestment for various purposes like child education, retirement corpus, loan settlements, child marriage and so on.

On the gross investment side in an economy, the funds so invested in the form of bank deposits or other financial investment schemes are channelized through financial institutions to the productive resources in a country, which generate returns that are shared with and percolate down to the investors. Thus, the rate of investment within an economy plays a crucial role in its performance. Any sums, which are out of this “productive-channel” may be construed as loss of opportunity to augment the investment rate within the economy. It is precisely for this savings-productive investment cycle leading to welfare in the economy, that government and regulators endeavour on creating a conducive environment for investors to participate in financial markets. However, due to some of the issues mentioned below, which have been observed through various reports, it appears that more efforts in improving the processes and financial literacy levels among investors are needed.

From the review of literature and interaction with stakeholders, it has emerged that some of the major causes of unclaimed financial assets in India are:

- *Lack of financial awareness and education:* Financial literacy is the base of investing activity in any economy. Financially literate investors are able to take sound financial decisions and ensure their financial well-being in the long run.

- *Change in address:* Not updating the change of address in the investment records is one of the primary reasons for non-payment of the benefits of investments to investors.

- *Wrong address:* Providing a wrong or incomplete address while doing the investment.

- *Shares in paper format:* This refers to holding of financial instrument (certificate) in physical form i.e., paper format instead of electronic format (demat account). Electronic accounts make it easier for the investor to subscribe, monitor, update and transfer the shares, while ensuring updating of the data in the latest demographic profile in investor records.

- *Missing/Misspelt/ Invalid Nominee:* Investors often forget to mention the name of nominee or misspell it. Further, in several cases they fail to update the records of nominee, in case of change in their status.

- *Miscellaneous reasons:* These include human forgetfulness, loss of original share certificate, change in marital status (especially for female investors), incorrect bank account details, mismatch of signature, absence of legal heir of shareholder, typing errors on application forms/certificate, etc.

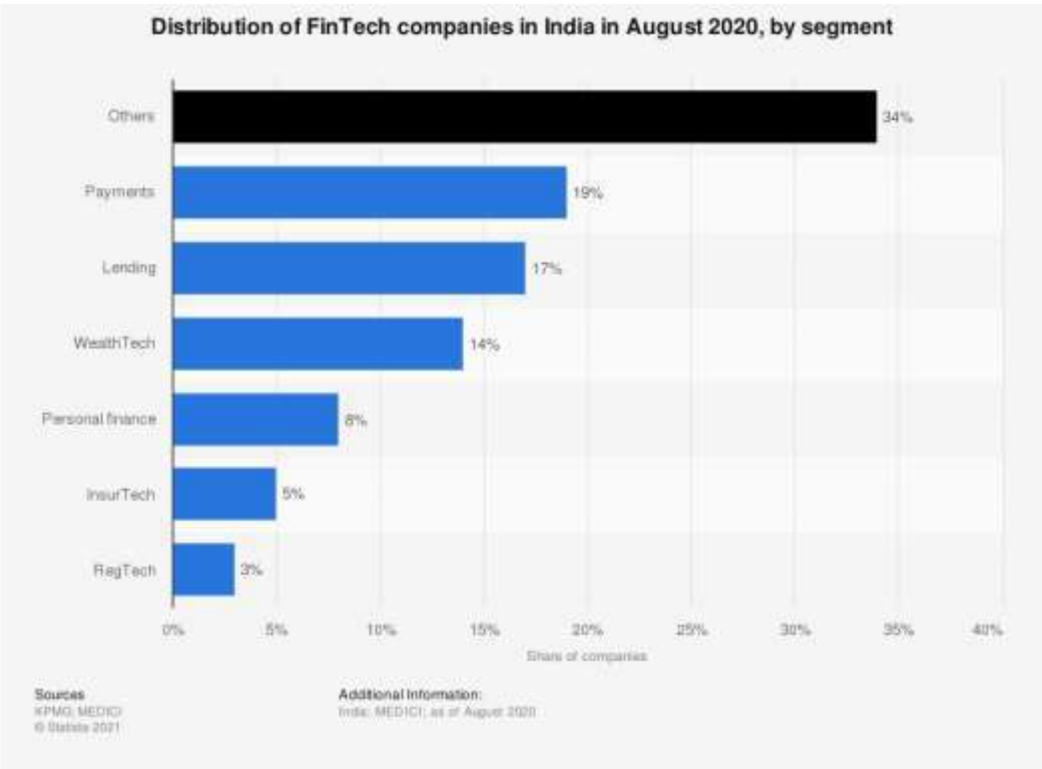
Major aspects of the reasons mentioned above can be attributed to the lack of financial awareness among the investors regarding the consequences of and the related impact on their investments and financial well-being. However, with the advent of ITES and amendments of concerned laws/practices, the processes have become investor friendly and subscribing, regular monitoring, updating of details as well as exiting the investment can be done electronically from anywhere. The availability of web and mobile based applications has considerably reduced deficiency of information related to investors' details, while enhancing the operative ease of investors.

6. Policy Recommendation

Policy makers and regulators around the world focus on increasing efficiencies of their internal systems and processes employed for the benefit of its citizens. They are entrusted to create an enabling environment, within the country, which is conducive to economic growth, thereby increasing the standards of living of its citizens. With this intention in mind, the regulators in India have worked out various policies which have revamped the financial system to make it more efficient in delivering financial services to individuals. These initiatives coupled with developments in the ITES (IT Enabled Services) have not only ensured ease of accessing the financial markets and related operability but also provided a great tool in the hands of investor that can ensure systematic and long run benefits and financial well-being. A brief overview of recent changes in the investment landscape in the country, which have contributed to removing inefficiencies in the financial investment ecosystem, is presented below:

6.1 ITES Environment: The number of smart phone user in the world is expected to reach 3.8 billion in the year 2021. In India also, the smart phone user penetration has shown 815 percent growth from 2013 to 2020 (from 76 million in 2013 to 696 million in 2020). This penetration is forecasted to further grow to 973 million by the year 2025 (Statista Report).

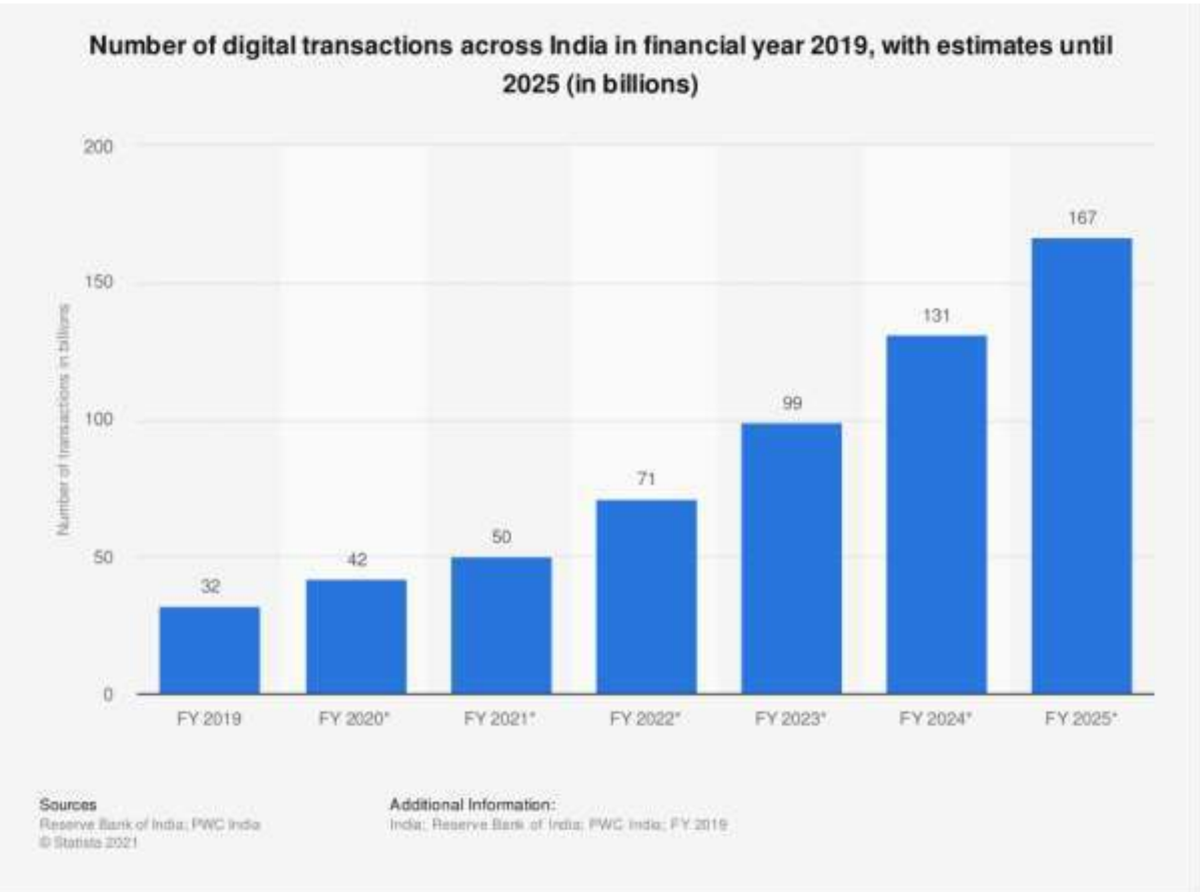
Figure2: Distribution of Fintech Companies



The impact of the smart phone penetration on the digital fintech indutry can be understood by the fact that as of August 2020, around 19 percent of FinTech companies in India belonged to the digital payments segment. It was followed by digital lending with 17 percent and WealthTech with 14 percent. In total, nearly 2,200 companies and start-ups were attributed to the FinTech business in 2020, making India the second largest FinTech hub behind the United States. Further the number of digital transactions have also seen phenonimal growth in India. During the FY 2019, the number of digital transactions done in India was close to 32 billion which is expected to reach 167 billion transactions by the year 2025 (figure 3).

Considering the growth and potential of the ITES sector in India, especially in the fintech segment, it my be concluded that financial services now have a deeper reach to the Indian population, which was hitherto deprived of benefits of full financial inclusion. It is also indicative of the efficiencies, combined with advantage of low cost accessibility and usability, that have been brought in by ITES to the over all system of delivering and maintening financial services in India.

Figure2: Digital Financial Transaction Trend and Forecast in India



6.2 Regulatory Changes

The Indian financial system has evolved into a multi regulatory framework of institutions. These institutions are entrusted with not only financial regulation of their respective financial sectors but also making policy recommendations, in consultation with respective Central Government Ministries. These regulatory institutions, in consultation with the experts, establish the systems and procedures, to smoothen the entire ecosystem of routine operations and make it robust, thereby increasing the overall efficiency of the financial sector. While the RBI regulates the Banking and non-Banking Financial institutions, the SEBI is entrusted with regulating the financial intermediaries such as Mutual Funds, Stockbrokers, Equity and Commodity Exchanges and other related institutions like depositories. Likewise, the insurance sector is regulated by IRDAI, while the pension sector is regulated by PFRDA.

Just to give one example of policy intervention by financial sector regulators, until the year 2002, the Indian Financial system was marked by the absence of unified processes in terms of creating accurate records of customer details and ensuring periodic updation of the same. The whole process of capturing the customer details was largely pen-and-paper based, with minimal intervention of Information Technology. In 2002, the RBI introduced the detailed KYC norms in which guidelines to record and update the 'Know Your Customer' details were established for both banks and non-banking financial companies. Presently, with the digital system of compliance of KYC norms, the system of data capturing of investors has got revolutionized.

6.3 Security market initiatives by SEBI

In the year 2011, SEBI implemented a unified KYC norm for the security market participants. These KYC norms ensured that the customer details are accurately and adequately captured by the systems along with physical verification of a customer's permanent or correspondence address by authorised official of the institution. It went further to make it compulsory in case of financial accounts like Bank or Demat accounts to opt for a nominee. Further, SEBI has recently amended relevant provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to disallow listed companies from accepting request for transfer of securities which are held in physical form, with effect from April 1, 2019.

Following the KYC trail, in October 2017, Securities Exchange Board of India (SEBI) had found a scam, running into crores of rupees pertaining to the unclaimed securities and dividend payments in physical form. From the account of a deceased holders of securities, whose money was not claimed by their legal heir or nominee, the shares and related dividends were fraudulently getting claimed, all because the shares were apparently in the physical form! This fraud was reportedly carried out by some fraudulent agents collectively with employees of companies, banks, share transfer agencies, and some government offices through forged documents and signatures and opening the bank account and Demat account in the name of the deceased investor. Prior to this, a share transfer agent named Sharepro Services defrauded many companies by illegally withdrawing the unclaimed dividends worth crores of rupees in 2016. Following all this and the recommendations by the depositories and brokerage houses, SEBI has made it mandatory to dematerialize all the physical shares after 31st March 2019.[19]

6.4 Initiatives by Ministry of Corporate Affairs

In one of the major policy decisions focussed on imparting greater efficiency to the financial market participants, the Ministry of Corporate Affairs (MCA) vide the Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2018 dated September 10, 2018 inserted a new Rule 9A, which came into effect on October 02, 2018. As per the said new Rule 9A, every unlisted public company is required to issue its securities only in dematerialised form and take all necessary actions to facilitate dematerialisation of all its existing securities in accordance with the provisions of the Depositories Act, 1996 and regulations made thereunder. It further mandated that a company shall ensure that entire holding of securities of its promoters, directors, key managerial personnel (KMP) has been dematerialised before it makes any offer for issue of any securities or buyback of securities or issue of bonus shares or rights offer.

6.5 Other developments in the investing environment in India

One of the major breakthroughs in imparting efficiency in delivery of financial services was achieved by introduction of Adhaar card facility. With the introduction of Adhaar the whole financial system has been further empowered to be become more robust and efficient. It has enabled the capturing of the demographic details as well as biometric validation of customers correctly. This has ensured easier KYC norms for the customers.

Another recent major development in the financial markets in India is the increased participation of retail investors in the security market. The number of new demat accounts opened in the country has seen a huge upsurge in recent years. As on January 2021, there were

[19] Sinha (2017). Sebi probes agents cashing in on unclaimed shares of deceased - Times of India. (n.d.). Retrieved August 26, 2020, from https://timesofindia.indiatimes.com/business/india-business/sebi-probes-agents-cashing-in-on-unclaimed-shares-of-deceased/articleshow/61177800.cms

5.15 million demat accounts in the country (Kurup, 2021). Further, during FY 2021, 14.9 million new demat accounts were opened in India (Ramarathinam, 2021).

The above discussion on recent changes in the investment landscape in the country goes to show that there may be a need to relook at the prescribed period of 7 years, for which the unclaimed funds remain with companies, before, finally getting transferred to IEPFA.

7. Conclusion

Every dividend declared by a company belongs to its shareholders. It is a reward for investing in the company and forms part of the returns that an investor expects from the company. Technically once declared, the sums pertaining to dividends don't belong to the company anymore, and hence should be transferred promptly to the authority so that the same may be utilised for socio-economic development initiatives like investor education, investor protection, etc., which have higher social impact. It may also needs to be kept in view that the longer the time period of the funds remaining under the control of the company, the higher would-be possibility of inappropriate use of the amounts. Thus, the earlier the funds are made available to the concerned authorities (IEPFA), the better would be its utilisation as per the mandate of the authority.

With the increasing efficiency in the processes adopted by various banking and other financial intermediaries, greater deployment of technology has brought about considerable improvements in the financial system in India. Further, with the increase in the smart phone usage and related technologies, the investors, in general, are becoming aware of their financial well-being as well as dos and don'ts of investing. Such a trend, which is growing exponentially, should, in the coming years, lead to a better investment environment and improve its efficiency, resulting in substantial decline in the overall cases of unclaimed dividends, deposits, etc.

In light of the above facts, the evolving investing ecosystem in India, and review of similar practices across the world, it may be recommended to shorten the time period of seven years for transferring unclaimed dividend, shares, deposits, etc. by companies to IEPFA. The period can be considered for reduction from seven years to anywhere between five to three years. Further, it would be insightful to carry out extensive interactions with stakeholder such as Indian companies, investors/shareholders, regulatory authorities and government institutions, before arriving at the exact period. This could be done, for example, by forming a committee of experts to look more thoroughly in the matter. The committee could also consider evaluating the data generated by primary survey, carried out to get response from companies and investors on one hand and conducting focussed group discussion/interview with regulatory authorities and government agencies on the other hand, before making specific recommendation.

Subject to maintenance of security and checks by the companies and IEPF Authority, it is expected that the reduction in the period of transferring unclaimed dividend, shares, deposits, etc. by companies to IEPFA could result in:

a) a shorter period of inactivity related to unclaimed funds,

b) lesser chances of frauds and scams,

c) more effective and productive utilization of the money,

d) lower burden of compliance on the companies and on the banks as well for maintaining separate accounts,

e) higher welfare of the shareholders, and

f) better alignment of policies with international best practice.

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8. References

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