CBSE CLASS X

# Introduction to Financial Markets (405)

ANSWER KEY

*From previous CBSE Board Exam questions*

| Code: B7VEGO | Questions: 12 | Maximum Marks: 16 | Generated: 2026-06-15 13:05 |
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**SELECTIONS USED**

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|---|---|
| Source | Previous-year board |
| Subject | Financial Market Management |
| Lessons | Depository |
| Year | 2023-2026 |
| Questions selected | 12 |

Composition — Types: 8 MCQ · 4 Short · 2 Very short

**Q1.** § How is a depository similar to a bank? § What are the benefits of participation in a depository? § Who is a Depository Participant (DP)? **[1]**

It is like a bank wherein the securities are deposited in electronic form :

(A) Demat Account
(B) Depository
(C) RBI
(D) NSE

Previously asked in: 2025 92 Q5 (i)

◆ **Depository** | Depository - Definition and Concept

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### Model Answer

**(B) Depository** — It acts like a bank, but instead of holding funds, it holds securities in electronic (demat) form in an account.

Source: Chapter 6, How is a depository similar to a bank?

### Explanation

The passage directly compares a **Depository** to a bank — a bank holds funds, while a depository holds securities in an account. Do not confuse a **Demat Account** (which is the account held *within* a depository) with the depository itself. The question asks about the institution, not the account.

**Q2.** § Who is a Depository Participant (DP)? **[2]**

Depository Participants (DPs) open investor accounts, in which they hold the securities that they have bought in dematerialised form. Brokers and Banks offer DP services to investors. DPs help investors receive and deliver securities when they trade in them. While the investor level accounts in securities are held and maintained by the DP the company level accounts of securities issued is held and maintained by the depository. Who can be depository participants ? Mention two depositories in India.

Previously asked in: 2025 92 Q13

◆ **Depository** | Depositories in India – NSDL and CDSL | Depository Participants (DPs) – Eligibility and Role

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### Model Answer

**Depository Participants (DPs):** According to SEBI regulations, three categories of entities can become DPs — **Banks, Financial Institutions, and SEBI registered trading members.**

**Two Depositories in India:**

1. National Securities Depository Limited (NSDL)
2. Central Depository Services (India) Limited (CDSL)

*Source: Chapter 6 — Depository Participants and Depositories in India*

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### Explanation

- The question has two parts: (i) who can be DPs, and (ii) name two depositories. Address both clearly.
- Examiner expects all **three categories** of DPs to be named — missing one may cost half a mark.
- NSDL and CDSL are the **only two depositories** in India; both must be written in full.
- Keep the answer crisp — no elaboration needed for 2 marks.

**Q3.** § What are the benefits of participation in a depository? § Do dematerialised shares have distinctive numbers? **[1]**

Do stock splits, corporate actions have an effect on corresponding shares held by an investor ?

(A) No change in investors' holdings.
(B) Yes, the number of shares held by investors increased to double.
(C) Yes, the number of shares held by investors increased in proportionate ratio in which a stock spilt.
(D) Yes, the number of shares held by investors decreased in proportionate ratio in which a stock split.

Previously asked in: 2026 92 Q4 (v)

◆ **Depository** Stock Split and Split of Shares

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### Model Answer

**(C) Yes, the number of shares held by investors increased in proportionate ratio in which a stock split.**

In a stock split, existing shares are divided into smaller denominations, increasing the number of shares held by investors in proportion to the split ratio (e.g., 4-for-1 split quadruples the shares held).

### Explanation

The passage clearly states that a stock split increases the number of shares outstanding in proportion to the split ratio (e.g., 2-for-1, 4-for-1). Option (B) is a trap — it says "double," which is only true for a 2-for-1 split, not all splits. Option (C) is the correct general answer. Note: the *value* of holdings remains unchanged after a split; only the number of shares increases proportionately.

**Q4.** § Who is a Depository Participant (DP)? **[1]**

"The Depository provides its services to investors through its agents." By what destignation are the agents known as ?

Previously asked in: 2023 92 Q7

◆ **Depository** Depository Participants (DPs) as Agents of Depository

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### Model Answer

The agents of a Depository are known as **Depository Participants (DPs)**.

Source: Who is a Depository Participant (DP)?, Chapter 6

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### Explanation

The examiner expects just the term "Depository Participants (DPs)" — the full form with abbreviation earns full marks. No further detail is needed for a 1-mark question.

**Q5.** § How is a depository similar to a bank? § What are the benefits of participation in a depository? § Who is a Depository Participant (DP)? **[2]**

List two services that depository participants offer to investors.

Previously asked in: 2026 92 Q13

◆ **Depository** Services Offered by Depository Participants

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### Model Answer

Two services offered by Depository Participants (DPs) to investors are:

1. **Transmission of securities** — The DP directly transmits securities on behalf of the investor, eliminating the need for correspondence with companies.
2. **Change of address registration** — A change of address recorded with the DP gets registered electronically with all companies in which the investor holds securities.

Source: Chapter 6, Depository Participants

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### Explanation

The question asks for **two services**, so two distinct points are sufficient. Examiners expect specific DP services, not general depository benefits. Avoid vague answers like "helps in buying shares." Always name the service clearly and add a brief explanation to secure full marks (1 mark per service).

**Q6.** § What are the benefits of participation in a depository? § Who is a Depository Participant (DP)? **[1]**

It keeps the client informed of corporate actions taken or to be taken by the issue of securities, having a bearing on the benefits or rights accruing to the client.

(A) Depository Participant
(B) Bank
(C) Financial Institution
(D) Custodian

Previously asked in: 2025 92 Q5 (iv)

◆ **Depository** Services Offered by Depository Participants

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### Model Answer

**(D) Custodian** — A Custodian keeps the client informed of corporate actions taken or to be taken by the issuer of securities, which have a bearing on the benefits or rights accruing to the client.

### Explanation

A **Custodian** is responsible for safekeeping client assets and notifying clients about corporate actions (dividends, bonus issues, rights issues, etc.) that affect their holdings. Do not confuse with a Depository Participant, who only facilitates holding of securities in dematerialised form. In MCQs, focus on the phrase "informs client of corporate actions bearing on benefits/rights."

**Q7.** § Do dematerialised shares have distinctive numbers? **[2]**

Describe the process of dematerializing of shares.

Previously asked in: 2023 92 Q13

◆ **Depository** Process of Dematerialization of Shares

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### Model Answer

To dematerialise physical securities, the investor must fill a **Demat Request Form (DRF)**, available with the Depository Participant (DP), and submit it along with the physical share certificates. A separate DRF is required for each ISIN number. The shares are then converted into electronic form and held in a demat account through depositories like **NSDL** or **CDSL**.

*Source: Chapter 6*

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### Explanation

- Examiners expect you to mention: DRF, submission of physical certificates, separate DRF per ISIN, and the role of DP/depositories.
- Naming NSDL and CDSL adds value and may fetch full marks.
- Avoid writing about benefits of demat here — that's a different question. Stick to the *process* only.

**Q8.** § Do dematerialised shares have distinctive numbers? **[1]**

What do you understand by 'Dematerialisation'?

Previously asked in: 2023 92 Q4 (iv)

◆ **Depository** Dematerialisation

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### Model Answer

Dematerialisation is the process of converting physical share certificates into electronic form, held in a demat account through a depository, making shares fungible and eliminating distinctive numbers.

*Source: Chapter 6*

### Explanation

The examiner expects a one-line definition covering two key ideas: (1) conversion of physical certificates to electronic form, and (2) the role of a depository/demat account. The word "fungible" is a bonus term that shows understanding. Avoid writing more than one sentence for a 1-mark question.

**Q9.** § Which are the depositories in India? **[1]**

Which of the following provides dematerialization of securities ?

(A) Reserve Bank of India (RBI)
(B) National Securities Depository Limited (NSDL)
(C) National Stock Exchange (NSE)
(D) Securities Exchange Board of India (SEBI)

Previously asked in: 2025 92 Q4 (iv)

◆ **Depository** | Dematerialization of Securities

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### Model Answer

**(B) National Securities Depository Limited (NSDL)**

NSDL and CDSL are the two depositories in India that provide dematerialization of securities.

Source: Chapter 6

### Explanation

The passage clearly states there are **two** depositories — NSDL and CDSL. RBI is the central bank, NSE is a stock exchange, and SEBI is the regulator; none of them provide dematerialization. Examiners expect the correct option with a one-line justification.

**Q10.** § Do dematerialised shares have distinctive numbers? **[1]**

It is essential to recognise the implications of these options to fully understand the impact of dematerialisation. Clearly identify which of the following is NOT a benefit of dematerialisation ?

(A) Faster trading and settlement
(B) Reduced paperwork
(C) Increased trading cost
(D) Lower risk of loss or theft of certificates

Previously asked in: 2026 92 Q5 (iv)

◆ **Depository** | Benefits of Dematerialisation

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### Model Answer

**(C) Increased trading cost**

Dematerialisation actually **reduces** transaction cost; hence, "Increased trading cost" is NOT a benefit of dematerialisation.

### Explanation

The source passage explicitly lists "Reduction in transaction cost" as a benefit of depository participation. All other options — faster settlement, reduced paperwork, and lower risk of loss/theft — are genuine benefits. Examiners expect the student to identify the odd one out based on the listed benefits.

**Q11.** § What are the benefits of participation in a depository? § Can one dematerialise his debt instruments, mutual fund units, government securities in his demat account? **[2]**

Describe any two benefits of dematerialized (Demat) account.

Previously asked in: 2023 92 Q13

◆ **Depository** Benefits of Demat Account

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### Model Answer

Two benefits of a Demat account are:

1. **Elimination of risks** associated with physical certificates such as bad delivery, fake securities, and loss/theft of certificates.
2. **No stamp duty** on transfer of securities, which reduces the overall transaction cost for investors.

*Source: Chapter 6, Benefits of participation in a depository*

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### Explanation

The question asks for **any two** benefits, so pick two distinct points from the list provided. Examiners award 1 mark per valid benefit. State each benefit clearly with a brief explanation — don't just list one-word answers. Avoid repeating the same idea in different words.

**Q12.** § How is a depository similar to a bank? § Can one dematerialise his debt instruments, mutual fund units, government securities in his demat account? **[1]**

Hold the fund in _______ account.

(a) Bank
(b) Depository
(c) Demat
(d) Cash

Previously asked in: 2023 92 Q5 (iv)

◆ **Depository** Depository Account (Demat Account) for Holding Funds

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### Model Answer

The correct answer is **(a) Bank.**

A bank holds funds in an account, just as a depository holds securities in an account.

### Explanation

The source passage directly states the analogy: "Bank — Holds funds in an account." The question is based on the comparison table between a bank and a depository from Chapter 6. Remember: **bank → funds; depository → securities.**

**Q13.** § Can odd lot shares be dematerialised? **[1]**

Mr. Anil owns 500 physical shares of XYZ Ltd. He wants to sell them on the stock exchange but is worried about the risks of holding physical certificates. He needs a quicker and safer way to trade.
What should Mr. Anil do ?

(A) Sell the physical share certificates at stock exchange.
(B) Transfer the physical shares to XYZ Ltd. and then sell them.
(C) Open a Demat account with a Depository Participant (DP) and dematerialize his share before selling.
(D) Ignore the risks and sell the shares as they are.

Previously asked in: 2026 92 Q5 (i)

◆ **Depository** 1.3 Electronic Shares

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### Model Answer

**(C)** Mr. Anil should open a Demat account with a Depository Participant (DP) and dematerialise his shares, eliminating risks like bad delivery and fake certificates before selling.

### Explanation

The source passage clearly states that dematerialisation eliminates risks associated with physical certificates (bad delivery, fake securities, etc.) and ensures immediate transfer of securities. A Demat account with a DP is the correct and safe route to trade on a stock exchange. Physical share certificates cannot be directly traded on modern stock exchanges.

**Q14.** § Which are the depositories in India? § What are the benefits of participation in a depository? § Can one dematerialise his debt instruments, mutual fund units, government securities in his demat account? **[1]**

Mr. Sandeep, a new investor, is interested in investing in the stock market. He has learned about the advantages of holding securities in electronic form and has decided to open a demat account. To do this, he approached a local financial institution called "Arron Financials", which is a registered Depository Participant with both NSDL and CDSL. Arron Financials helps him open a demat account and dematerialize his physical shares.
Who serves as the intermediary between the depository and the investors ?

(A) Stock Exchange
(B) Clearing Corporation
(C) Registrar and Transfer Agent
(D) Depository Participant

Previously asked in: 2026 92 Q4 (iv)

◆ **Depository** 1.3 Electronic Shares

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### Model Answer

**(D) Depository Participant**

A Depository Participant (DP) serves as the intermediary (agent) between the depository and the investors, appointed by the depository with SEBI's approval.

Source: Chapter 6, "Who is a Depository Participant (DP)?"

### Explanation

The passage clearly states: *"The Depository provides its services to investors through its agents called depository participants (DPs)."* In the question, **Arron Financials** is itself a DP — confirming option (D). Stock exchanges, clearing corporations, and RTAs play different roles and are not described as the depository–investor intermediary in this context.

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