

FAQs on Demat 2.0: Pilot for Tokenised Corporate Bonds

1. What is Demat 2.0?

Demat 2.0 is a pilot being undertaken by SEBI to explore the next-generation financial market infrastructure. It tests the issuance, holding, trading and settlement of corporate bonds in tokenised form using Distributed Ledger Technology (DLT).

The pilot is the next step in dematerialisation. Instead of recording ownership through a conventional database architecture, the corporate bond is issued as a native digital token on a private, permissioned DLT network owned by the Depositories. The token is the corporate bond.

The pilot does not change the legal character, rights, obligations or regulatory treatment of the corporate bond. What changes is only the technology. Ownership recording, transfer of securities and settlement of the funds leg now take place on a Distributed Ledger Technology (DLT) platform.

2. Is a tokenised bond a new type of security or asset class?

No. A tokenised corporate bond remains a security under the Securities Contracts (Regulation) Act, 1956 and continues to be governed by the applicable SEBI regulatory framework.

It retains the same ISIN, issuer obligations, coupon, maturity, covenants, rating, security and investor rights as a conventional dematerialised bond. Tokenisation changes the technology used to maintain the ownership record; it does not create a new asset class.

3. What exactly is being tokenised?

The corporate bond itself is issued as a digital token on DLT infrastructure. The token bears the same ISIN as the corresponding bond issue.

The bond's key terms – such as coupon rate, payment dates, day-count convention and redemption terms – are encoded into the token through a smart contract.

4. How is the tokenised bond issued?

The issuer will continue to use the existing Electronic Bidding Platform (EBP) of stock exchanges for issuance. The ISIN is obtained from the depositories in the usual manner but is flagged as a pilot/tokenised ISIN.

Bidding, bid modification, cancellation and allotment timelines remain as they are today. On allotment the depository credits the securities directly to the Demat 2.0 accounts (*a Demat 2.0 account is an extension of the investor's existing demat account and is not a separate demat account*) of the allottees. Issue proceeds are received by the issuer in its CBDC wallet.

5. Does the issuer need a Demat 2.0 account?

No. The issuer does not require a Demat 2.0 account.

Following allotment, the tokenised corporate bonds are credited directly to the Demat 2.0 accounts of the allottees (within their existing demat account). The issuer does, however, need a CBDC wallet linked to its designated bank account to receive issue proceeds and, where applicable, make coupon and redemption payments.

6. Does an investor need a new demat account or fresh KYC?

No. The Demat 2.0 account is an extension of the investor's existing demat account and is not a separate demat account.

The investor's existing KYC is used. Registration takes place through the existing depository interface by linking the eligible demat account with the CBDC wallet and providing the required consent. The tokenised holding will continue to be visible through the depository's existing interface and holding statement.

7. Who holds the private keys of the Demat 2.0 account?

The depositories will hold and manage the private keys on behalf of investors.

Therefore, investors do not need to independently manage cryptographic keys or acquire specialised DLT infrastructure. From the investor's perspective, the holding continues to be managed through the existing depository interface.

8. What accounts and wallets are required to participate?

Two arrangements are involved:

- Demat 2.0 account: linked to the investor's existing demat account and managed through the depository.
- CBDC wallet: opened with the participant's own bank under the RBI's e₹ pilot.

No separate technology infrastructure or investment is envisaged for the issuer or investor.

9. Why is CBDC being used for settlement?

CBDC provides digital money (e₹) for the funds leg of the transaction.

The securities and CBDC legs are linked through the DLT infrastructure so that they settle atomically—either both legs settle or neither does. This eliminates the risk of one party delivering securities without receiving the corresponding payment, or vice versa.

10. What is atomic Delivery-versus-Payment (DvP)?

Atomic DvP means that the transfer of the bond and transfer of funds occur as a single linked transaction.

If the securities transfer succeeds, the CBDC payment succeeds; if one leg fails, the other leg does not settle either. This removes the conventional interval between trade and settlement, and with it the counterparty exposure that arises in that interval.

11. Will secondary trading happen on a new tokenised exchange?

No. The pilot does not propose a separate trading venue or segregated market segment.

Existing RFQ platforms and OTC reporting platforms of stock exchanges will be linked to the DLT infrastructure. Price discovery, order handling and reporting arrangements will continue through existing channels, while the securities and funds settlement legs are integrated with the tokenised infrastructure.

12. How will coupon, redemption and other corporate actions work?

The terms of the bond are encoded in the smart contract. Coupon, redemption and other scheduled corporate actions can therefore be executed automatically based on the holdings recorded on the ledger on the relevant record date.

The objective is to reduce the need for repeated manual instructions and reconciliation between institutions for each corporate action.

13. Will existing regulatory requirements for the bond change?

No. The pilot is technology-neutral and does not dilute the existing regulatory framework.

Requirements relating to credit rating, debenture trustees, listing, disclosure, investment eligibility, valuation, classification, investor protection and applicable SEBI regulations continue to apply. However, some instances where exceptions are required, it is already accommodated under SEBI regulatory sandbox through application made by Market Infrastructure Intermediaries.

14. Does tokenisation require a separate credit rating?

No. There is no separate rating requirement merely because the bond is tokenised.

The rating continues to address the credit risk of the issuer and its obligations. Since tokenisation does not alter the issuer's obligation or the bond's cash flows, the existing rating framework applies.

15. Does tokenisation change investment eligibility for institutions?

No. Investment eligibility is determined by the characteristics of the security—such as its status as a security, listing, rating, issuer and dematerialised form—not by the underlying database technology.

Therefore, where the conventional dematerialised bond qualifies as a permissible investment, the corresponding tokenised bond under the pilot would equally qualify, subject to the applicable rules.

16. Who remains the authoritative record keeper?

The depository remains the authoritative record of beneficial ownership.

The DLT ledger is the form in which the record is maintained for purposes of the pilot; it does not displace the depository's statutory role under the Depositories Act, 1996.

17. What happens if a demat account or security needs to be frozen or attached?

Existing regulatory and legal controls continue to apply.

A freeze, attachment or direction applicable to the demat account or the relevant ISIN/token holding will apply to the linked tokenised holding as well.

18. Does participation require investment in new technology?

No. The pilot does not require investment in specialised technology, hardware, connectivity or blockchain infrastructure by issuers or investors.

The Demat 2.0 account operates through the depository infrastructure, while the CBDC wallet is provided through the participant's existing bank.

19. What happens if an investor wants to sell before secondary-market trading is enabled?

The pilot specifically provides an interim exit mechanism.

During the period before secondary-market trading is enabled, a peer-to-peer/demat-to-demat transfer may be enabled on request through Depositories. The payment leg may be completed outside the atomic settlement architecture through CBDC or banking channels. Thus, the investor is not intended to be locked into the investment during the interim period.

20. Who will operate the DLT infrastructure?

The infrastructure is being developed and operated by the Market Infrastructure Institutions (MIIs), with technology and implementation support from NPCI.

The distributed ledger is private and permissioned. Initially, nodes will be operated by the depositories and stock exchanges, with the possibility of extending controlled access to other regulated entities as the pilot progresses.

21. What are the key objectives of the pilot?

The pilot is intended to test, among other things:

- issuance and holding of native tokenised corporate bonds;
- integration with existing EBP, RFQ and OTC infrastructure;
- atomic DvP using CBDC;
- smart-contract-based servicing and exception handling;
- regulatory controls and restrictions;

- cyber security, scalability, resilience and auditability; and
- implications for clearing, settlement finality and the roles of MIIIs.

22. What is the proposed rollout of the pilot?

The pilot is proposed to be rolled out in three stages:

Stage I: Tokenised corporate bond issuance through EBP integration, with asset servicing on the ledger; participation initially expected to be institutional.

Stage II: Enablement of secondary-market trading, with access extended to retail participants. An interim P2P/demat-to-demat transfer mechanism may operate before this stage for liquidity.

Stage III: Potential extension of nodes to CRAs, depository participants and other regulated entities, along with consideration of other instruments and a wider range of corporate actions.

23. What is the regulatory basis for the pilot?

The pilot is being conducted under SEBI's Regulatory Sandbox. Any specific relaxation required for the pilot would be provided within the sandbox framework and for a defined scope and period.

The pilot is therefore intended to test the architecture and operational arrangements before a broader regulatory framework is considered.

24. What are the main expected benefits of Demat 2.0?

The pilot is intended to examine whether tokenisation can provide:

- near-instant/atomic settlement, reducing settlement-related counterparty exposure;
- automated asset servicing through smart contracts;
- reduced operational intervention and reconciliation;
- improved auditability and traceability of transactions;
- controlled confidentiality through a permissioned network;
- greater integration between securities and central-bank-money settlement; and
- a potentially more efficient securities-market infrastructure without creating a separate trading market.