Demat 2.0: Bonds in Digital Form, Same Rights and Risks

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The value of new technology in financial markets lies not in its name but in whether records of ownership, payment and investors' rights are joined together more reliably. The tokenisation pilot should be understood by this test.

Why in the News

On 20 August 2026, SEBI had spoken of starting a pilot for the tokenisation of corporate bonds in the near future. On 10 September, the successful start of the Demat 2.0 pilot was officially announced. By that day, issues totalling Rs 1,025 crore by three companies were reported. These are the pilot achievements of that date, not a compulsory conversion of the entire bond market.

A Token Is Not New Debt, It Is a New Technology of Record

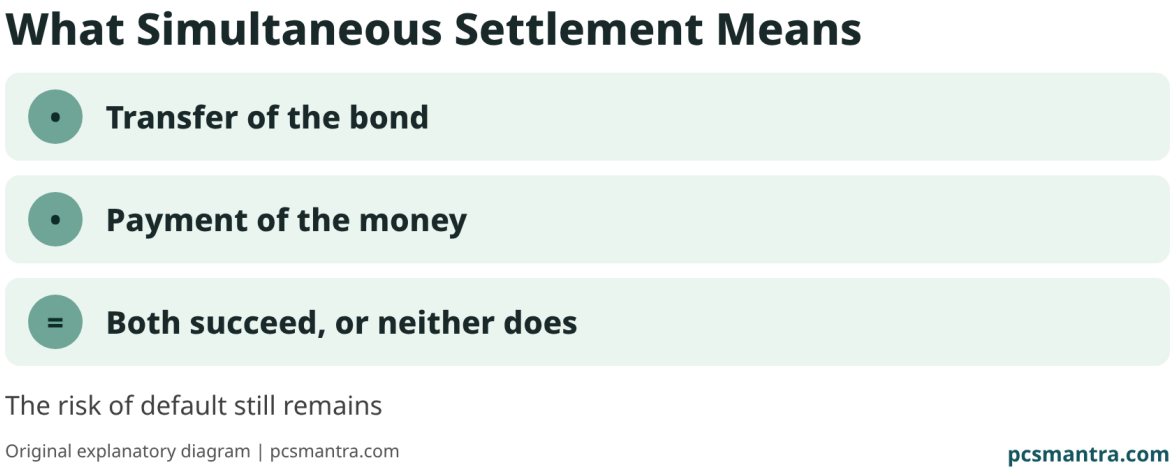
In this pilot, a bond is recorded as a digital token on a private, permissioned distributed ledger. The identity of the issue, the issuer's payment obligation, interest, maturity and investors' rights remain the same. Tokenisation does not by itself make a bond safe or high-yielding.

Key Facts

Shared record: A distributed ledger means a shared electronic record maintained among authorised institutions. In the pilot, the depositories retain responsibility for the statutory record of ownership; this is not an unregulated public crypto market.

Simultaneous settlement: The transfer of the bond and the payment in wholesale central bank digital currency e₹ are linked: both complete or neither does. This has been called atomic Delivery-versus-Payment. It addresses the settlement risk that one side delivers the asset and the other does not pay.

Limits of the experiment: The official FAQ describes initial participation as institutional. Secondary trading and retail access are in later phases. Do not take the extension of existing demat, and the need for consent, as an immediate universal facility for all investors.



Where Can Efficiency Rise and Where Does Risk Remain?

Less reconciliation, less delay: With a single authorised record, institutions may need to match separate files less often. Instructions written into smart contracts can help automate tasks like interest and principal payments. But these benefits will have to be tested against the pilot's trial results.

Old economic risks: If the issuer's ability to pay weakens, a digital record does not strengthen it. Price fluctuation from interest-rate changes and liquidity problems from a lack of buyers can also remain.

New operational dependencies: Software errors, cyberattacks, service disruption or wrong data can cause trouble. Along with automation, arrangements are needed for exceptions, error correction, grievance redress and emergencies.

Analysis and Way Forward

Before expansion, the outcomes on finality of ownership, regulatory control, security, coordination among institutions and handling failed transactions should be explained publicly. The FAQ mentions the possibility of request-based transfer through the depositories at interim exit; there, cash payment can also occur outside the atomic arrangement. So it is wrong to call every transaction at every stage equally risk-free. For the small investor, easy access will be useful only when understanding of the product, cost and actual resale liquidity are also adequate.

Difference in Concepts

Settlement risk is the danger that one side fails to meet its obligation at the time of the transaction. Credit default risk is that the issuer cannot pay interest or principal in the future. Atomic settlement is a tool to reduce the first risk, not a guarantee against the second.

Mains Perspective

In GS-III: capital markets, financial technology, regulation and investor protection. Write the possibilities of the technology together with the trial stage and remaining risks; this is not investment advice.

UPSC CSE Mains Style: Original Practice Question

Bond tokenisation can improve the operational efficiency of markets, but it does not eliminate the basic economic risks of investment. Examine with reference to the Demat 2.0 pilot.

(Answer in 150 words) | 10 marks

Answer Outline

Introduction: Describe Demat 2.0 as a pilot of tokenising corporate bonds on a permission-based distributed ledger. The form of the record changes, not the issuer's debt or the investor's legal rights.

Main Body: Explain the possibilities: a shared authoritative record reducing the need for reconciliation, automation of servicing through smart contracts, and reduced settlement risk with atomic Delivery-versus-Payment in e₹. Keep these separate from the issuer's credit default, interest-rate and liquidity risks. Add the risks of cyber attack, software error and service disruption. Make clear the limit of initial institutional participation, the later retail phase and possible interim exit outside the atomic system.

Conclusion: Tie expansion to the pilot's test results, error correction, grievance redress and regulatory control. Do not take a digital record as a guarantee of a safe investment or a certain return.

Sources

- SEBI: Original comment of 20 August, then-proposed pilot
- SEBI's original press release of 10 September: start and limited achievements
- SEBI's original FAQ: rights, phases, exit and regulatory basis

Remember: Technology changes; a bond's legal rights and the issuer's payment risk do not change by themselves.