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Demat 2.0:

Tokenisation of Corporate Bonds and the Future of Securities Law



India has rebuilt the plumbing of its securities market once before. The Depositories Act, 1996 replaced paper certificates, transfer deeds and signature verification with book entries. It cut down forgery and bad delivery, and it made the market of the last thirty years possible. The work was not glamorous, and its success came from what it removed.

On 10 September 2026, SEBI and the Reserve Bank of India jointly announced what they have chosen to call “Demat 2.0”, a pilot under which corporate bonds are issued, held and serviced as tokens on a permissioned distributed ledger, with the cash leg settled in the RBI’s central bank digital currency. In the days before the announcement, REC Limited issued □ 500crore of tokenised bonds to 18 investors. Larsen & Toubro followed with □ 500crore and IIFL with □ 25 crore, taking the first round to □ 1,025 crore.

These numbers are small against India’s corporate bond market. The name is the more telling choice. By calling the project Demat 2.0 rather than a digital asset framework, the regulators have said where they want tokenisation to sit in law: inside the existing depository system, not beside it. This article looks at what the pilot does, the legal questions it settles and leaves open, and what it could mean commercially for issuers, investors and intermediaries.

What the Pilot actually does

The structure is set out in SEBI’s FAQs on the pilot, issued in September 2026. Several points stand out.

First, SEBI says the token *is* the bond. It is not a wrapper, a receipt or a derivative representation. The tokenised instrument keeps the same ISIN, coupon, maturity, covenants, rating and investor rights as a conventional debenture. In SEBI’s words, it “remains a security under the Securities Contracts (Regulation) Act, 1956.”

Second, the ledger is private and permissioned. The market infrastructure institutions run it: the depositories and stock exchanges operate the nodes in the first phase, with NPCI providing technology support. No public blockchain is involved, and no one outside the regulated perimeter validates anything.

Third, the investor’s position is held in a “Demat 2.0 account,” which the FAQs describe as an extension of the investor’s existing demat account. There is no fresh KYC. The depositories hold and manage the private keys on investors’ behalf. Most importantly for the legal analysis, SEBI states that “the depository remains the authoritative record of beneficial ownership.”

Fourth, the funds leg settles in the e-rupee through the RBI’s Unified Market Interface. Each investor links a CBDC wallet with its bank to its demat account. The securities leg and the funds leg are linked, so either both settle or neither does. This is atomic delivery-versus-payment.

Fifth, primary issuance continues through the existing Electronic Bidding Platform. There is no new trading venue. When secondary trading is enabled in a later phase, the existing RFQ and OTC reporting platforms will connect to the ledger rather than being replaced by it.

Finally, the pilot runs under SEBI's Regulatory Sandbox. Any relaxations are granted for a defined scope and period. The usual requirements on ratings, debenture trustees, listing, disclosure, valuation and investor protection continue to apply. SEBI has set out three stages: tokenised primary issuance with servicing on the ledger; secondary trading with retail access; and wider node access, possibly covering more instruments and corporate actions. It has not given an end date.

In short, this is a conservative design. The regulators have taken a new technology and changed as little of the legal architecture as they could. Whether that conservatism lasts beyond the pilot is the more interesting question.

The legal Foundation: Why Tokenised Bonds fit the existing Law

A security, not a crypto asset

Indian lawyers advising on tokenisation have always started with characterisation. Section 2(h) of the Securities Contracts (Regulation) Act, 1956 defines "securities" to include bonds and debentures, as well as "other marketable securities of a like nature." A token carrying exactly the rights of a debenture fits comfortably within this definition. SEBI has now said so expressly.

This matters because India has no comprehensive statute on crypto assets. Virtual digital assets are dealt with mainly through the Income-tax Act's specific tax regime and through the anti-money laundering reporting regime that applies to service providers. A tokenised bond issued under Demat 2.0 sits outside that space entirely. It is a debt security, issued under the Companies Act, 2013 and the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, and held through a depository. Its tax treatment, as far as the pilot discloses, is that of a debenture and not a virtual digital asset. Issuers and investors will want that confirmed explicitly before the pilot widens.

The Depositories Act carries the weight

The real legal anchor is the Depositories Act, 1996. Under Section 10, the depository is deemed to be the registered owner of the securities for the purpose of effecting transfers, while the beneficial owner holds all rights and liabilities attached to them. Securities held in a depository are fungible, and the depository must maintain a register and index of beneficial owners.

By keeping the depository as the authoritative record, Demat 2.0 avoids the hardest question in tokenisation law: can an entry on a distributed

ledger by itself confer title? Many jurisdictions have had to legislate to answer it. Switzerland amended its Code of Obligations to recognise "ledger-based securities." Germany passed a dedicated statute on electronic securities. The European Union created a pilot regime for DLT market infrastructure under Regulation (EU) 2022/858. India has, for now, avoided that legislative step by treating the ledger as a new way for depositories to maintain records they are already statutorily required to keep.

This is efficient, but it has a cost. It means the ledger's legal significance comes from the depository's statutory role, not from the ledger. If a ledger entry and the depository's holding statement diverge, whether through a smart contract error, a node failure or a reconciliation gap, the law will very likely treat the depository record as decisive. SEBI's two statements, that "the token is the bond" and that "the depository remains the authoritative record," sit together comfortably only as long as the two never diverge. The pilot should be used to test what happens when they do, and the operating rules should say plainly which record prevails and how errors are corrected.

Freezes, attachments and enforcement

One of the more practical clarifications in the FAQs is that freezes, attachments and other directions on a demat account or ISIN holding apply equally to the linked token holding. This keeps tokenised bonds within the reach of courts, tax authorities, the Enforcement Directorate and insolvency professionals, without any new procedure.

It also shows how the custody model works. Because the depositories hold private keys, a court order can be enforced through the same institution that enforces it today. An investor cannot move tokens out of reach by transferring them to an outside wallet, because there is no outside wallet. In a self-custody model, enforcement would have been much harder. Demat 2.0 gives up some of the decentralisation that tokenisation promises in exchange for keeping the enforcement framework intact. For a regulated debt market, that trade-off is defensible.

Settlement finality and the CBDC leg

The cash side raises separate questions. The e-rupee rests on amendments made by the Finance Act, 2022 to the Reserve Bank of India Act, 1934, which bring the digital form of currency within the definition of bank notes. Wholesale CBDC is therefore legal tender issued by the central bank. Settling in it removes the credit risk of commercial bank money from the funds leg.

Atomic DvP removes principal risk between the two legs. It does not by itself answer when settlement becomes final and irrevocable. In the existing system, Section 23 of the Payment and Settlement Systems Act, 2007 protects settlements effected

under a system operator's rules from being unwound, including on the insolvency of a participant. Whether a DLT-based atomic settlement through the Unified Market Interface has the same protection depends on how the arrangement is characterised under that Act, and on whether the ledger operators are authorised or designated for that purpose.

SEBI lists settlement finality as an area the pilot will examine, not as a settled point. That is a fair reflection of the position. Until it is resolved, an investor's liquidator or an issuer's resolution professional could, at least in theory, challenge a ledger settlement that went through shortly before insolvency proceedings started. In practice the risk in the pilot is low, because the participants are large, rated institutions. It will matter much more once retail investors and smaller issuers come in.

Smart contracts and the debenture trust deed

Demat 2.0 encodes the bond's terms in smart contracts, so coupons, redemptions and scheduled corporate actions can run automatically based on holdings on the record date. This is where the commercial gains are clearest, and also where some of the less obvious legal questions sit.

Under Indian law, a smart contract is simply code that carries out obligations already created elsewhere, here in the debenture trust deed, the offer document and the terms of issue. The Indian Contract Act, 1872 governs the bargain; the code is the means of performing it. Three questions follow.

Which document prevails if the code and the trust deed differ?

Market practice should be settled now: the legal documents prevail, and the code is a performance mechanism the issuer or its agent is responsible for. Issue documents for tokenised bonds should say this expressly and allocate the risk of coding errors.

Who is liable for a failed or wrong automated payment?

A coupon that fails because the issuer's CBDC wallet is underfunded is an ordinary payment default. A coupon paid to the wrong holder because of a ledger error is different. The issuer, the depository and the node operators will each argue that the error was someone else's. The pilot rules and the depository's bye-laws need to deal with this, along with the usual indemnity and limitation provisions.

How do discretionary events fit an automated structure?

Most of a bond's life is mechanical, but the important moments are not. Acceleration on an event of default, waivers, consents to restructuring, call options with conditions and the enforcement of security all require judgment, and usually require the debenture trustee to act on investors'

instructions. These cannot be fully automated, and should not be. The better approach is for smart contracts to handle scheduled cash flows while discretionary actions stay with the trustee, with the ledger recording the outcome.

The debenture trustee's role is worth a closer look. SEBI already requires depositories to use DLT for recording and monitoring security creation and covenants for listed debt securities, under its 2021 framework. Demat 2.0 builds on that infrastructure. It is reasonable to expect that trustees will eventually run nodes and monitor covenants on the same ledger that records holdings and payments. That would reduce the information lag that has made bond enforcement in India slow, especially in stressed situations.

Stamp duty, tax and other open points

Since July 2020, stamp duty on the issue and transfer of securities in demat form has been collected centrally through the stock exchanges, clearing corporations and depositories under the amended Indian Stamp Act, 1899. Because a tokenised bond is a debenture held through a depository, the same collection mechanism should apply in principle. The pilot material does not deal with this expressly, and the mechanics of collecting duty on atomic DvP settlement through the UMI should be confirmed.

The same goes for tax deduction at source on interest. When smart contracts automatically pay coupons in CBDC, the code has to handle withholding at the correct rate for each holder, issue certificates, and deal with holders claiming lower or nil deduction. None of this is conceptually hard. All of it has to be built correctly before the instrument can be used at scale.

Foreign investors raise a further layer of questions. Foreign portfolio investors are significant buyers of Indian corporate debt. Their participation in Demat 2.0 would depend on their custodians being able to operate CBDC wallets and on the RBI's foreign exchange framework accommodating CBDC-settled transactions. The first phase is domestic and institutional. Extending it to foreign investors will need regulatory work beyond SEBI's sandbox.

The commercial case

The problem tokenisation is supposed to solve

India's corporate bond market has a well-known set of problems. It is dominated by private placements, concentrated among highly rated public sector and financial issuers, and illiquid in the secondary market. Most bonds are bought by institutions and held to maturity. Retail participation, despite efforts such as the reduction of face value for privately placed debt securities to □ 10,000and the regulation of online bond platform providers, is still marginal.

Tokenisation does not fix credit concentration. A ledger cannot turn a BBB issuer into an AAA one. It does

address several frictions that keep the market thin.

Where the efficiency gains are

Faster access to funds. Today, issuers typically receive funds a day or two after bidding closes on the Electronic Bidding Platform. Under Demat 2.0, funds reach the issuer on the same day. For a large borrower, that cuts bridge financing costs and gives more certainty on the timing of drawdown.

Lower counterparty and operational risk. Atomic settlement removes the window in which one party has delivered and the other has not. Reconciliation between depositories, clearing corporations, banks and registrars, much of which is still done in batches, can largely be replaced by a single shared record.

Cheaper bond servicing. Coupon payments, record date determinations and redemptions involve registrars, paying agents and manual verification. Automation through smart contracts can reduce cost and error, especially for issuers with many series outstanding.

Better secondary market infrastructure. If secondary trading moves to the ledger with instant settlement, dealers can recycle capital faster and hold less inventory. This is the most important commercial gain and the one furthest away. It depends on the second phase, and on market makers actually showing up, which a ledger cannot guarantee.

Who benefits and who is exposed

The early beneficiaries are large issuers and institutional investors who already dominate the market. REC and L&T are not borrowers who struggle to raise money. Their participation lends credibility, but it also shows that the pilot is so far a technology test, not a market development tool.

Depositories and exchanges strengthen their position. Because they operate the nodes and hold keys, Demat 2.0 deepens their role rather than disrupting it. This is a deliberate policy choice, and probably a sensible one at this stage, but it means the competitive pressure that tokenisation produces in some other markets will be limited in India.

Registrars, transfer agents and paying agents face the most change. Much of their routine work can move onto the ledger. Their role will likely shift towards reconciliation, exceptions management and investor servicing, with lower fees. Debenture trustees, by contrast, may find that better data on the ledger strengthens their position, provided they invest in the capability to use it.

For law firms and in-house teams, the change is practical and immediate. Issue documents, trust deeds, information memoranda and subscription terms will need provisions on smart contract execution, the hierarchy of documents, ledger errors, CBDC payment mechanics and the treatment of tokens in default and insolvency. Diligence on tokenised issues will need to cover the issuer's

operational readiness, not just its credit.

How India compares

Several jurisdictions have experimented with tokenised bonds. Hong Kong has issued tokenised green bonds. The European Investment Bank has issued digital bonds on both public and private ledgers. Singapore's Project Guardian has tested tokenised fixed income across institutions. The United Kingdom has a digital securities sandbox, and the US Securities and Exchange Commission approved a Nasdaq rule in March 2026 allowing trading of tokenised securities that match their conventional counterparts in identifiers and rights.

India's approach is distinctive in two respects. First, it combines tokenised securities with a wholesale CBDC from the start, so both legs of the transaction are on a regulated digital rail. Many overseas pilots have struggled with the cash leg and relied on commercial bank tokens or stablecoins. Second, it anchors everything within the existing depository framework, rather than creating new categories of DLT market infrastructure. This makes India's model less ambitious than the Swiss or EU regimes, but easier to scale, because it uses institutions and law that already work.

GIFT City is on a separate track. IFSCA issued a consultation paper on tokenisation of real-world assets in February 2025, and its FinTech sandbox framework was updated in March 2026. As things stand, the onshore and IFSC regimes are developing separately. Over time, cross-border tokenised debt, such as an Indian issuer raising foreign currency through the IFSC, will need the two frameworks to work together.

What comes next

The pilot raises a basic question for Indian securities law: should the law continue to treat a distributed ledger as a tool used by depositories, or should it eventually recognise ledger entries as a source of title in their own right?

For the current phase, the first approach is clearly right. It allows tokenised bonds to be issued without legislative change, keeps enforcement and investor protection intact, and lets the regulators learn before committing. Its limits will show as the project grows. Wider node access in the third stage, more participants, non-standard instruments and interoperability with overseas ledgers will each strain a model in which the ledger has no independent legal status.

Several reforms are worth considering as the pilot matures:

1. **An express statutory provision on ledger-based records.** A targeted amendment to the Depositories Act, recognising records maintained on a permissioned distributed ledger by a depository as records under the Act, would remove any doubt about their evidentiary and legal status.

2. **Clear settlement finality protection.** The Payment and Settlement Systems Act, or the RBI's directions under it, should confirm that atomic DvP settlements on the Unified Market Interface are final and irrevocable, including on insolvency.
3. **A rule on conflicting records.** The pilot operating rules, and later the regulations, should state which record prevails if the ledger and the depository's records diverge, and set out the correction process.
4. **Model documentation.** Industry bodies, working with SEBI, could develop standard provisions for tokenised bond documents dealing with smart contract execution, error allocation and the trustee's role in discretionary events.
5. **Tax and stamp duty clarification.** A short circular confirming that tokenised debentures are taxed and stamped as debentures, and explaining the withholding mechanics in automated coupon payments, would remove a source of hesitation.

Conclusion

Demat 2.0 is a careful start. It does not try to rebuild the bond market on a blockchain or open the door to unregulated digital assets. It moves an existing instrument onto a faster and more transparent record, settles it in central bank money, and leaves the legal rights of every participant where they were.

That restraint is its strength. The first dematerialisation succeeded because investors did not have to understand book entry to trust it. The law gave the depository's record the same certainty a share certificate once had. Demat 2.0 will succeed on the same terms: if a bondholder holding a token has exactly the certainty of title, payment and enforcement that a bondholder in demat has today, and a faster, cheaper market as well. The pilot has established the first of these. Reaching the second will depend on the harder work still ahead on secondary liquidity, settlement finality and how the law treats the ledger itself.

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