

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:115  
ANSWERED ON:10.07.2009  
PARTICIPATORY NOTES  
Sukur Shri Jadhav Baliram

**Will the Minister of FINANCE be pleased to state:**

- (a) whether there is opposition from certain sections to Government's decision for the continuation of Participatory Notes in the capital market;
- (b) if so, the details thereof and the reasons therefor; and
- (c) the corrective steps taken or proposed to be taken by the Government in this regard?

**Answer**

FINANCE MINISTER(SHRI PRANAB MUKHERJEE)

(a)to (c) : A statement is placed on the Table of the House.

Statement referred to in reply to parts (a) to (c) of the Lok Sabha Starred Question No. 115 regarding "PARTICIPATORY NOTES" raised by SHRI BALIRAM JADHAV for reply on 10TH JULY 2009.

(a) to (c): SEBI has informed that, as per their records, no such opposition has been received from any entity.

Participatory Notes (PN) in the Indian context, is a derivative instrument issued in foreign jurisdictions, by an FI/sub-accounts or one of its associates, against underlying Indian securities. PNs are "market access products" variously known as Overseas Derivative Instruments, Equity Linked Notes, Capped Return Notes, and Participating Return Notes etc. The investors in PNs derive the economic benefits of investing in the security without actually holding it. The investor in PN does not own the underlying Indian security, which is held by the FI which issues the PN. The PN holder also does not enjoy any voting rights in relation to security/shares referenced by the PN. In February, 2004, the SEBI regulations were amended and regulation 15 A was introduced in order to recognize and regulate PNs.

However, concerns have been expressed in some quarters on account of money-laundering concerns arising out of the fact that as PNs are issued outside India and the transaction is essentially a transaction between two non-residents who are not subject to Indian law. Hence, it is said that the identity of the actual investor is not likely to be known to the regulatory bodies.

When a PN is traded on an overseas exchange, the regulator in that jurisdiction would be the authority to regulate that trade. However, SEBI also has provisions in terms of the SEBI (FI) Regulations, 1995, according to which an FI may issue Offshore Derivative Instruments (ODIs)/ Participatory Notes (PNs) with Indian instruments as the underlying securities, subject to the subscriber being a regulated entity. Further downstream issue of PNs, if any, may also be done only to regulated entities. Besides, FIs are required to report at the end of every month, in a prescribed format, all information relating to PNs issued by them including the names of subscribers to the said PNs. FI investments into India are also subject to Indian Anti-Money Laundering laws and strict KYC norms. SEBI has mandated that P-Notes with Indian underlyings can only be issued to regulated entities subject to 'Know-Your-Client' norms.