

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1965  
ANSWERED ON:17.07.2009  
VOLATILITY IN THE SHARE MARKET  
Rao Shri Sambasiva Rayapati

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

- (a) whether the issue of Participatory Notes (PNs) by the Foreign Institutional Investors (FIIs) has been increasing during the last Seven months;
- (b) if so, the details including the total volume of transactions by FIIs as well as the total value thereof; and
- (c) the steps proposed by the Government to moderate the growth in issue of PNs by the FIIs so as to avoid any sharp volatility in the Share Market?

**Answer**

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) and (b): SEBI has informed that there is no evidence of any definite trend in the Participatory Notes issued by the Foreign Institutional Investors (FIIs) over the last seven months i.e. from November, 2008 to May, 2009. The details of the PNs issued by FIIs and its value as a percentage of assets under custody of all the FIIs are as below:

Total Value of Participatory Notes (PNs) Vs Assets Under Management of FIIs [in Rs. crore]

Month Total Value of PNotes with Underlying Indian securities Assets Under Management of FIIs Aas%ofB

A	B	C
November-08	70,980	386,365 18.4
December-08	71,320	417,476 17.1
January -09	65,812	392,166 16.8
February-09	60,948	369,155 16.5
March-09	69,445	391,954 17.7
April-09	72,372	469,093 15.4
May-09	103,579	624,488 16.6

Source: SEBI

(c) According to SEBI (FII) Regulations, 1995, an FIIT 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, FIIs are required to report at the end of every month, in prescribed format, all information relating to PNs issued by them including the names of subscribers to the said PNs. FII 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.