

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:174  
ANSWERED ON:08.03.2013  
BLACK MONEY THROUGH PARTICIPATORY NOTES  
Kumar Shri Kaushalendra

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

- (a) the details of the investments flowing into the country through Participatory Notes (PNs) during each of the last three years and the current year;
- (b) whether it has come to the notice of the Government that PNs are used for money laundering;
- (c) if so, the details thereof;
- (d) whether any mechanism has been placed by the Government to monitor such investments and detect money laundering and if so, the details of the achievements made as a result thereof during the said period; and
- (e) the Foreign Institutional Investors (FIIs)/entities prosecuted and punished therefor and the corrective measures taken/ being taken by the Government to address the issue?

**Answer**

MINISTER OF FINANCE (SHRI P.CHIDAMBARAM)

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

Statement referred to in the reply to Lok Sabha Starred Question No. 174 (a to e) by Shri Kaushalendra Kumar, Member of Parliament, for 8th March, 2013 regarding "Black Money through Participatory Notes"

A Participatory Note (PN) in the Indian context is a derivative instrument issued by SEBI registered Foreign Institutional Investors (FIIs) against underlying Indian securities. PNs can be issued only to those entities which are regulated by the relevant regulatory authority in the country of their incorporation and are subject to compliance with 'Know Your Client' norms. The investor in PN has neither ownership of the underlying Indian securities nor any voting rights.

Details of the outstanding PNs position of FIIs at the end of each of the last three calendar years are as under:

At the end of Total Notional Value of outstanding PNs on Equity & Debt including PNs on derivatives (INR crore) Assets Under Custody of all FIIs (INR crore) A as % of B

	A	B	C
2010	175,584	1,164,623	15.1
2011	138,711	917930	15.1
2012	151,084	1,335,189	11.3

SEBI and Directorate of Enforcement (ED), which have a regulatory role in the matter, have not come across any instances of PNs being used for money laundering.

The FIIs issuing PNs are required to report details such as name, location, type and jurisdiction of the end beneficial owner of PNs on a monthly basis to SEBI. Further, FIIs are also required to provide an undertaking that they have not issued the PNs to Indian residents or non-resident Indians and KYC compliance norms have been followed for the beneficial owner of the PN.

In addition, SEBI can call for any information from FIIs concerning off-shore derivative instruments issued by it, as and when and in such form as SEBI may require.