

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5199
ANSWERED ON:26.04.2013
MONITORING OF INVESTMENT INFLOW THROUGH PN ROUTE
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Will the Minister of FINANCE be pleased to state:

- (a) the pre-conditions prescribed for Financial Investments in Stock market through Participatory Notes (PN) in the country;
- (b) details of Foreign Institutional Investors who have issued PNs and volume of investment during each of the last three years and current year till date;
- (c) the monitoring mechanism in place for investment made through PN route;
- (d) whether any case of anonymous investments entered into the stock market through PN route have come to/brought to the notice of the Government in the recent times; and
- (e) if so, the details thereof and action taken against such Foreign Institutional Investors?

Answer

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

(a): 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.

(b): As reported by SEBI, 33 FIIs have outstanding PN positions on February 28, 2013. Details of the outstanding PNs position of FIIs at the end of each of the last three calendar years and current year uptill end February 2013 are as under:

At the end of Calendar Year Notional Value of outstanding PNs on Equity, Debt and Derivatives
(INR Crore)

2010	175,584
2011	138,711
2012	151,084
2013 #	164,271

At the end of February 2013

(c): According to Regulation 15A of the SEBI (FII) Regulation 1995, PNs can be issued only to those entities which are regulated by the relevant regulatory authority in the countries of their incorporation, who comply with "Know Your Client" (KYC) norms. Further, Regulation 20(A) of the SEBI (FII) Regulations obligates FIIs to fully disclose information concerning PNs as and when and in such form as the SEBI Board may require.

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.

(d) & (e): SEBI, which has a regulatory role in the matter, has not come across any instances of anonymous investments entered into the stock market through PN route.