

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5124
ANSWERED ON:24.04.2015
PARTICIPATORY NOTICE
Khalsa Shri Harinder Singh

Will the Minister of FINANCE be pleased to state:

- (a) the details of number and value of Participatory Notes (PNs) issued to Foreign Institutional Investors (FIs)/ Entities till date;
- (b) whether the Government has taken any steps to identify Indian entities/ investors using the route of PNs and investing the black money through this route;
- (c) if so, the details thereof including compliance and cross checking mechanism put in place by the SEBI along with the compliance statistics during the last three years;
- (d) whether the Government/SEBI proposes to continue with the investments through PNs; and
- (e) if so, the reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a) The details of number and value of Participatory Notes (PNs) issued to Foreign Institutional Investors (FIs) from 2003 till date is as under:

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

	A	B	C
2003	29,030	148,011	19.6
2004	67,886	222,674	30.5
2005	104,179	366,970	28.4
2006	189,951	565,549	33.6
2007	381,120	1,027,141	37.1
2008	71,320	417,476	17.1
2009	168,632	848,333	20.0
2010	175,584	1,164,623	15.1
2011	138,711	917,930	15.1
2012	151,084	1,335,189	11.3
2013	167,566	1,464,355	11.4
2014	236,677	2,245,157	10.5
2015A	272,078	2,411,810	11.3

A as at March 31, 2015

(b) to (e) There is no information with Government wherein Indian entities/ investors are using the route of PNs and investing the black money through this route. However, following safeguards have been put in place to prevent the misuse of PN route and to identify the beneficial owner of these instruments:

a. In terms of Regulation 22 of the SEBI (Foreign Portfolio Investors) Regulations 2014, 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. Regulation 22 also obligates Foreign Portfolio Investors (FPIs) to fully disclose information concerning PNs, as and when and in such form as the SEBI Board may require. In terms of SEBI circulars, PN issuers are required to provide reports on monthly basis in a prescribed format containing following information pertaining to their PN activities in the preceding month by 10th of the subsequent month:

Name of PN issuer.

The name and jurisdiction of the end beneficial owner of PNs.

Location of end beneficial owner of PN.

Type of the end beneficial owner of PN.

Flagging a PN trade where FPI has issued a PN to another FPI.

Transactional details of PNs such as ISIN Number, Transaction date for PN, quantity/amount (in USD and INR) providing details of opening balance, issued, renewed, Redeemed/Expired/ Cancelled and Outstanding values.

Details of underlying trade(s) in the Indian market.

Details of assets under management(AUM) of FPIs in Indian market

b. Further, SEBI vide its circular dated November 24, 2014 has aligned the applicable eligibility norms between FPI regime and subscription through the PNs. Accordingly FPIs can issue PNs only to those subscribers which meet the following additional criteria among others, namely:

PN subscriber is a resident of a country whose securities market regulator is a signatory to International Organization of Securities Commission's Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to bilateral Memorandum of Understanding with SEBI;

PN subscriber being a bank, is a resident of a country whose central bank is a member of Bank for International Settlements;

PN subscriber is not resident in a country identified in the public statement of Financial Action Task Force as a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply or has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;

PN subscribers do not have opaque structure(s), as defined under Explanation 1 of Regulation 32(1) (f) of SEBI (Foreign Portfolio Investors) Regulations, 2014.

c. FPIs are also prohibited to issue PNs to Resident Indians/Non-Resident Indians (NRIs) and they are also required to give an undertaking to this effect.

d. Further, SEBI, on its part, has mandated that PNs with Indian underlying can only be issued to regulated entities subject to 'KYC' norms.

e. A FPI shall ensure that no further issue or transfer is made of any PNs issued by or on behalf of it to any person other than a person regulated by an appropriate foreign regulatory authority.

f. In addition, SEBI can call for any information from FPIs concerning PN issued by it, as and when and in such form as SEBI may require.

Given these safeguards Government/SEBI proposes to continue with investments through PNs.