

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3346
ANSWERED ON:18.12.2015
Participatory Notes
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Will the Minister of FINANCE be pleased to state:

- (a) the details of entities/FIs holding Indian equities through Participatory Notes (PN) along with the value of PNs held during the last three years and the current year;
- (b) whether the Government has taken any step to identify Indian entities/ investors using the route of PNs and investing the black money through this route and if so, the details thereof during the said period; and
- (c) the compliance statistics for the period ending December 2014 along with the reasons for continuing PNs route of investment in Indian bourses?

Answer

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

- (a) Top 10 Foreign Portfolio Investors (FPIs) issuing Participatory Notes (PNs) with Equity as underlying along with the value of PNs held during the last three years is placed at the Annex.
 - (b) FPIs are prohibited from issuing PNs to Resident Indians / Non-Resident Indians (NRIs) and they are also required to give an undertaking to this effect.. There is no information with SEBI wherein Indian entities / investors are using the route of PNs and investing the black money through this route. Several safeguards have been put in place to prevent the misuse of PN route and to identify the beneficial owner of these instruments. 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. An FPI shall also 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. Further, SEBI vide its circular dated November 24, 2014 has aligned the applicable eligibility norms between FPI regime and subscription through PNs.
 - (c) Regulation 22 of the SEBI (Foreign Portfolio Investors) Regulations 2014 obligates 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 a monthly basis in a prescribed format containing information pertaining to their PN activities in the preceding month by 10th of the subsequent month.
- PNs are subscribed by regulated entities with the objective to take exposure in Indian securities even if they are not registered as FPIs. This avenue to take exposure in Indian securities brings in additional foreign exchange to the country. It also has the effect of increasing the depth of the Indian capital market and allows for a more diversified source of capital investment from investors located in different countries. By allowing more investors to trade, directly or indirectly, in the Indian market, price discovery in Indian securities takes place on the exchanges in India and not in overseas exchanges where Indian securities may also be listed.
