

**GOVERNMENT OF INDIA**

**MINISTRY OF FINANCE**

**RAJYA SABHA**

**QUESTION NO 02.03.2010**

**ANSWERED ON**

**INVESTMENT THROUGH PARTICIPATORY NOTES**

68

DR. K. MALAISAMY

Will the Minister of COAL, HEALTH AND FAMILY WELFARE, INFORMATION AND BROADCASTING, FINANCE be pleased to state :-

- (a) the total amount of investment in Indian companies through Participatory Notes;
- (b) what are the major recommendations of the Tarapore Committee set up by the Reserve Bank of India (RBI) in this regard and the action taken on its report;
- (c) whether the UBS Securities Asia Ltd. had played a key role in these dealings; and
- (d) whether there is a need of probe to find out the major Participatory Notes Clients in terms of their addresses, Directors, Fund Managers, Major Share Holders, Top Five Investors, etc.?

**ANSWER**

MINISTER OF FINANCE

(SHRI PRANAB MUKHERJEE)

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

Statement referred to in the reply to Rajya Sabha Starred Question No. 68 by DR. K. MALAISAMY, Member of Parliament, for 2nd March, 2010 regarding `INVESTMENT THROUGH PARTICIPATORY NOTES`

(a) SEBI has informed that the outstanding Participatory Notes (PNs) issued by the Foreign Institutional Investors (FIIs) as on January 31, 2010 is Rs. 1,31,937 crore.

(b) The major recommendations of the Tarapore Committee set up by the Reserve Bank of India (RBI) in regard to investment through Participatory Notes are as follows:

(i) Fresh inflows under Participatory Notes (P-Notes) should be banned and existing P-Notes should be phased out over a period of one year.

(ii) Corporates should be allowed to invest in Indian stock markets through SEBI registered entities (including Mutual Funds and Portfolio Management Schemes), who will be individually responsible for fulfilling KYC and FATF norms. The money should come through bank accounts in India. The action taken by SEBI on the major recommendations of the Tarapore Committee in this regard are as follows: Further issuance of PNs by the sub-accounts of FIIs has been discontinued, In addition, i. The `broad-based` criteria has been modified to include entities having at least 20 investors, no single investor holding more than 49% . ii. Track record of individual fund managers will be considered for the purpose of ascertaining the track record of a newly set up fund. iii. Issuance of PNs would be limited to only `regulated` entities and not `registered` entities. iv. FII and sub-account registrations will be perpetual, subject to payment of fees.

(c) SEBI has informed that currently there are 28 PN issuing FIIs. UBS Securities Asia Limited was one of the PNs issuing FIIs through its sub-account Swiss Finance Corporation (Mauritius) Limited till November 13, 2007. Post that, Swiss Finance Corporation (Mauritius) Limited converted its registration from Sub Account to FII (on November 13, 2007) and continued to issue participatory notes where as UBS Securities Asia Limited has stopped issuing PNs from December 2007.

(d) Participatory Notes (PNs) or Offshore Derivative Instruments (ODIs) issuances are governed by Regulation 15A, of SEBI (FII) regulations, 1995. This mandates that PNs can be issued only to those entities which are regulated by the relevant regulatory authority in the countries of their incorporation and are subject to compliance of `Know Your Client` norms. Further, downstream issuance or transfer of the instruments can be made only to a regulated entity. Further, the FIIs / sub accounts who issue PNs against underlying Indian securities are required to report issued and outstanding PNs to SEBI in a prescribed format. Regulation 20(A) of the SEBI (FII) Regulations obligates an FII to fully disclose information

concerning offshore derivative instruments issued by it, as and when and in such form as the Board may require. Accordingly, FIIs, which are registered with SEBI and are issuing PNs are required to submit to SEBI a monthly report in a prescribed format containing the following formation:

Name of the subscribers to PNs	Constitution of subscribers to PNs	Jurisdiction of Subscribers	Nature of
Indian	Underlying security	Issue/Redemption/Outstanding	There is a well established surveillance
mechanism and if need arises, SEBI has initiated investigation and has taken appropriate action.			