

MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 3346
TO BE ANSWERED ON DECEMBER 18, 2015 /AGRAHAYANA 27, 1937 (SAKA)

“Participatory Notes”

QUESTION

3346: SHRI HARINDER SINGH KHALSA

Will the Minister of FINANCE be pleased to state:

- (a) the details of entities/FIIs 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.

Annex mentioned in part (a) to the Lok Sabha Unstarred Question No.3346

Top 10 FPIs issuing PNs with Equity as underlying (as on March 31, 2015)						
S. No.	Name of the FPI	Country	Notional value of Outstanding PNs on Equity (INR Cr.)	% share	Notional value of Outstanding PNs on Equity, Debt & Derivatives (INR Cr.)	% share
1	COPTHALL MAURITIUS INVESTMENT LIMITED	MAURITIUS	31,354	17%	31,354	12%
2	MORGAN STANLEY ASIA (SINGAPORE) PTE.	SINGAPORE	28,038	16%	33,092	12%
3	GOLDMAN SACHS (SINGAPORE) PTE	SINGAPORE	15,455	9%	25,883	10%
4	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A., S.V.	SPAIN	14,930	8%	16,915	6%
5	CREDIT SUISSE (SINGAPORE) LIMITED	SINGAPORE	12,860	7%	18,047	7%
6	JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	USA	11,946	7%	11,946	4%
7	DB INTERNATIONAL (ASIA) LIMITED	SINGAPORE	11,379	6%	12,216	4%
8	SWISS FINANCE CORPORATION (MAURITIUS) LIMITED	MAURITIUS	11,118	6%	13,111	5%
9	HSBC BANK (MAURITIUS) LIMITED	MAURITIUS	7,526	4%	13,488	5%
10	CITIGROUP GLOBAL MARKETS MAURITIUS PRIVATE LIMITED	MAURITIUS	6,191	3%	12,191	4%
Total (for top 10 PN issuing FPIs)			150,797	84%	188,244	69%
Total (for all PN issuing FPIs)			179,598		272,078	

Top 10 FPIs issuing PNs with Equity as underlying (as on March 31, 2014)						
S. No.	Name of the FPI	Country	Notional value of Outstanding PNs on Equity (INR Cr.)	% share	Notional value of Outstanding PNs on Equity, Debt & Derivatives (INR Cr.)	% share
1	COPTHALL MAURITIUS INVESTMENT LIMITED	MAURITIUS	23,059	18%	23,059	11%
2	MORGAN STANLEY ASIA (SINGAPORE) PTE.	SINGAPORE	18,117	14%	20,558	10%
3	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A., S.V.	SPAIN	11,769	9%	14,236	7%
4	CREDIT SUISSE (SINGAPORE) LIMITED	SINGAPORE	10,938	9%	18,437	9%
5	JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	USA	7,592	6%	7,592	4%
6	SWISS FINANCE CORPORATION (MAURITIUS) LIMITED	MAURITIUS	7,352	6%	9,800	5%
7	DB INTERNATIONAL (ASIA)	SINGAPORE	6,620	5%	6,621	3%

	LIMITED					
8	HSBC BANK (MAURITIUS) LIMITED	MAURITIUS	6,254	5%	7,115	3%
9	CLSA (MAURITIUS) LIMITED	MAURITIUS	5,524	4%	7,116	3%
10	CITIGROUP GLOBAL MARKETS MAURITIUS PRIVATE LIMITED	MAURITIUS	5,182	4%	12,898	6%
Total (for top 10 PN issuing FPIs)			102,406	82%	127,433	61%
Total (for all PN issuing FPIs)			125,649		207,639	

Top 10 FPIs issuing PNs with Equity as underlying (as on March 31, 2013)						
S. No.	Name of the FPI	Country	Notional value of Outstanding PNs on Equity (INR Cr.)	% share	Notional value of Outstanding PNs on Equity, Debt & Derivatives (INR Cr.)	% share
1	COPTHALL MAURITIUS INVESTMENT LIMITED	MAURITIUS	14,359	16%	14,359	10%
2	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A., S.V.	SPAIN	10,662	12%	12,435	8%
3	MORGAN STANLEY ASIA (SINGAPORE) PTE.	SINGAPORE	8,269	9%	9,666	7%
4	CREDIT SUISSE (SINGAPORE) LIMITED	SINGAPORE	7,143	8%	10,479	7%
5	SWISS FINANCE CORPORATION (MAURITIUS) LIMITED	MAURITIUS	6,186	7%	7,219	5%
6	CLSA (MAURITIUS) Limited	MAURITIUS	5,685	6%	6,621	4%
7	DEUTSCHE SECURITIES MAURITIUS LIMITED	MAURITIUS	5,585	6%	7,944	5%
8	DB INTERNATIONAL (ASIA) LIMITED	SINGAPORE	5,564	6%	5,822	4%
9	GOLDMAN SACHS INVESTMENTS (MAURITIUS) I LIMITED	MAURITIUS	5,077	6%	10,327	7%
10	CITIGROUP GLOBAL MARKETS MAURITIUS PRIVATE LIMITED	MAURITIUS	4,903	5%	17,648	12%
Total (for top 10 PN issuing FPIs)			73,434	82%	102,521	69%
Total (for all PN issuing FPIs)			89,305		147,905	

