

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:920

ANSWERED ON:17.08.2007

MENACE OF OVERSEAS TERRORISTS IN THE INDIAN STOCK MARKET

Oram Shri Jual

**Will the Minister of FINANCE be pleased to state:**

(a) whether Reserve Bank of India and the Securities and Exchange Board of India had called for banning the participatory notes which facilitates foreign investors without identity to invest in Indian stock markets;

(b) if so, the details thereof; and (

(c) the action taken by the Government thereon?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) and (b): Reserve Bank of India is of the opinion that participatory notes (PNs) should not be permitted and accordingly it has suggested that no fresh issuance of PNs be allowed. However, the Securities and Exchange Board of India (SEBI) has not called for banning of participatory notes. The Expert Group headed by Dr. Ashok Lahiri, constituted by the Government of India, on "Encouraging FII Flows and Checking the Vulnerability of Capital Markets to Speculative Flows" examined the issue of PNs and recommended that the current dispensation for PNs may continue.

(c): In terms of the SEBI Act, 1992 read with SEBI (FII) Regulations, 1995, an FII may issue PNs with Indian instruments (equity/debt/derivative) as the underlying securities, to a subscriber being a regulated entity. Further downstream issuance of PNs, if any, can also be done to regulated entities only. The Regulations also require the FII, which issue PNs, to file a report in a prescribed format at the end of each month disclosing the names of all subscribers to the PNs issued by it. The FII also gives an undertaking wherein it declares that it or its associates have not issued / subscribed / purchased any PNs to/from Indian residents/NRIs/PIOs/OCBs during the reporting period.