

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3525
ANSWERED ON:07.09.2007
INVESTMENT THROUGH PARTICIPATORY NOTES
Yerrannaidu Shri Kinjarapu

Will the Minister of FINANCE be pleased to state:

- (a) whether a relatively select number of Foreign Institutional Investors (FIIs) issued 73% Participatory Notes (P-Notes);
- (b) if so, the details of such FIIs;
- (c) whether Participatory Notes are largely restricted to sectors like Finance, Technology and Telecom;
- (d) if so, the reasons therefor; and
- (e) the names of companies which are having more than 10% Participatory Note investors?

Answer

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

(a) and (b): Securities and Exchange Board of India (SEBI) has informed that as per reports being filed with it, there are 28 FIIs issuing Participatory Notes (PNs) as of end July 2007. The top five PN issuing FIIs together account for about 59.59 % of the notional value of the outstanding PNs, as of July 2007. The details are as under:

Sl.No.	Name of the FII	US \$ Million	Rs. Crore
1	Morgan Stanley & Co. International	13,716	55,401
2	Merrill Lynch Espana	11,928	47,928
3	Citigroup Global Markets Limited	11,148	45,018
4	Goldman, Sachs & Co	8,568	34,771
5	CLSA Merchant Bankers Limited (CLSAM)	6,049	24,388

Note : The above figures are inclusive of investments in all asset classes i.e equity and equity indices, debt and derivative

(c) and (d): As per the extant regulatory structure, FIIs, which are registered with SEBI and are issuing PNs are required to submit to SEBI a monthly report in a prescribed format. This format does not facilitate tracking outstanding PNs on the basis of their sectors. Also, there is no uniformly accepted definition / demarcation of the sectors which further makes sectoral tracking of PNs difficult.

(e): A PN in the Indian context, in essence, is a derivative instrument issued in foreign jurisdictions by an FII or one of its associate entities. The instruments generally have Indian securities or indices as the underlying, the underlying Indian security instrument being equity, debt, derivative or an index.

The investors in PNs merely derive the economic benefits of investing in the security, without actually owning the underlying Indian securities, the underlying security being held in the name of the FII that issued the PN. While the value of the PN is directly/indirectly related to the value of the Indian underlying security, there may not be one to one co-relation between the PN and the underlying security. Thus it is not possible to co-relate investments in PNs with the shareholding pattern of companies.