

Participatory Notes(PNs): Notes for UPSC Economy

This article will talk about the Participatory Note in detail. P-Note is an important topic to cover under the UPSC Syllabus.

Candidates appearing for the IAS Exam should be clear about the international trade system in India. IAS aspirants can also download the notes PDF at the end of this article.

What are Participatory Notes?

Participatory Notes which are also regarded as P-Notes (PNs) are the instruments issued by registered FIIs. The PNs are issued for the overseas investors who want to invest in the stock markets in India, without being registered under SEBI. In the year 2007, the percentage of participatory notes in FIIs was almost 50%. The participatory notes are also regarded as offshore derivative instruments as they are used by the investors abroad but not within India. They are used by the clients of Foreign Institutional Investors (FIIs) who do not wish to participate directly in the Indian stock market.

What are FIIs?

Foreign Institutional investors (FIIs) are the entities established outside India that are responsible for making investment proposals in India. They play an important role in the economy of a country. There are over 1450 FIIs registered under the Securities and Exchange Board of India (SEBI).

During 1996-97, the following changes were made in the SEBI Regulations, 1995 to facilitate the inflow of foreign portfolio investment:

- Each of the Foreign Institutional investors can now invest up to 10% of the equity of any one company, subject to the overall limit of 24% on investments by all FIIs, NRIs and OCBs.
- The FIIs have been permitted to invest 100% of their portfolios in debt securities under the approval of SEBI.
- The FIIs that are eligible under SEBI are permitted to include the endowments, university funds, foundations, charitable trusts and societies registered with a statutory authority of their country and having a track record of 5 years.

Advantages of participatory notes

The participatory notes play an important role in the Indian Economy. About 45 % of the total investments are made through the participatory notes by the foreign instructional investors

(FIIs). P-Notes also helps in keeping the investor's name anonymous along with reducing the transaction costs. Some of the major advantages of participatory notes are as follows:

1. Any entity can invest in the participatory notes without registering under SEBI while registering under SEBI is compulsory for all FIIs. PNs also enable the large hedge funds to continue their operations without disclosing their identity.
2. Participatory notes are transferable through endorsement and delivery making trading easy in the country.
3. Some of the entities route their investment through participatory notes to take advantage of the tax laws of certain preferred countries.

Participatory Note is an important tool of the Indian economy and is also an important topic for the Civil Service Exam. Candidates preparing for UPSC 2020 are also advised to keep a track on the latest current affairs topics related to several economic developments in the country.