Participatory Notes

Objective of BITs

- Participatory notes are often referred to as PNs or P-Notes.
- These are financial instruments used by investors and hedge funds to invest in the Indian securities, and no registration is required with the SEBI, the market watchdog in India.
- Investments flowing in through PNs are considered as offshore derivative investments (ODIs).
- Any capital gains and dividends accumulated through these PNs will go into the hands of investors.
- The SEBI and other market regulatory bodies in India are in favour of participatory notes as they are worried about hedge funds functioning via these instruments leading to volatility in the Indian exchanges.
- These instruments are used for making investments in the stock markets. However, they are not used within the country. They are used outside India for making investments in shares listed in the Indian stock market. That is why they are also called offshore derivative instruments.
- Participatory notes are issued by brokers and FIIs registered with SEBI. The investment is made on behalf of these foreign investors by the already registered brokers in India. For example, Indian-based brokerages buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors.
- The brokers that issue these notes or trades in Indian securities have to mandatorily report their PN issuance status to SEBI for each quarter. These notes allow foreign high net worth individuals, hedge funds and other investors to put money in Indian markets without being registered with SEBI, thus making their participation easy and smooth. P-Notes also aid in saving time and costs associated with direct registrations.

Advantages of Participatory Notes

- PNs can be easily traded in foreign countries via endorsement and delivery.
- PNs are well known as investors, and hedge funds can enter Indian markets anonymously and go about their operations.
- Some individuals and entities are investing through PNs so that they can benefit from tax laws in particular countries.