Investment in P-notes Continues to Decline

Investments through participatory notes into Indian capital markets plunged to over nine-year low amid stringent norms put in place by the SEBI to check misuse of these instruments.

- Earlier in July 2017, SEBI had notified stricter norms stipulating a fee of $1,000 on each instrument to check any misuse for channelising black money.
- It had also prohibited FPIs from issuing such notes where the underlying asset is a derivative, except those which are used for hedging purposes.
- The Securities and Exchange Board of India (SEBI) had also barred resident Indians, NRIs and entities owned by them from making investment through P-notes.

Participatory Notes

- P-Notes, or Offshore Derivative Instruments (ODIs), are instruments issued by registered foreign portfolio investors (FPIs) to overseas investors who wish to invest in Indian stock markets without registering themselves with SEBI.
- By their very nature, P-Notes are seen as an opaque route for investment which leave room for round tripping. Round tripping is stashing money and bringing it back to India through tax haven in the garb of foreign capital.

Reasons for Tightening Rules on P-Notes

- It will help in keeping track of the beneficial owners of these instruments.
- For ensuring transparency and having checks in place while dealing with P-Notes.
- SEBI aims to bring P-Note holders under the ambit of Indian knowyour-customer (KYC) and anti-money laundering norms.

Securities and Exchange Board of India

- The Securities and Exchange Board of India was established as a non-statutory regulatory body in the year 1988, but it was given statutory status under the Securities and Exchange Board of India Act, 1992.

- Its objective is to protect the interests of investors in securities and to promote the development and regulation of securities market.
- In 2015, the Forward Market Commission was merged with SEBI.
- This merger has created SEBI has a unified regulator for commodities and capital markets in India.