

# P-notes: Offshore derivative instruments

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A foreign entity can invest in India only after getting registered in India and also they are under stricter regulation of market regulators(SEBI-capital market)



So, what happens to all those overseas investors, who want to invest in the Indian stock markets without getting into the regulatory approval process and other hassles? Well, the answer is participatory notes.

## What are these?

- Participatory notes also called P-Notes are offshore derivative instruments with Indian shares as underlying assets. 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.

## Some details

- 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.