



# Participatory Notes

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**Important disclosures can be found in the Disclosures Appendix.**



## Registration requirements create a business opportunity

- India, Taiwan and China have registration requirements for foreign equity investors
- As a result investment banks write access notes for all 3 countries:
  - India: Participatory Notes;
  - China: about half of USD10 bn allocated to QFII in access notes
  - Taiwan: after FII registration eligibility was relaxed in 2004, outstanding access notes have come down



## Where are P Notes written?

- All written offshore, mainly Hong Kong and Singapore
- But Hong Kong and Singapore issuers are regulated by SEBI through their onshore presence in India



## Who are the P Notes holders?

- Offshore investors
- Hedge funds, i.e. leveraged long/short total returns investors
- Smaller long asset managers who find the registration process too heavy
- No secondary market in P notes: issuer buys back from buyer
- Documentation typically set contracts for 2 years but contract can be rolled over.
- Long funds typically hold 2 to 4 years



## What are the financial assets underlying P notes?

- Cash equity
- Exchange traded derivatives contracts



## Impact of new SEBI rules

- Lower business volumes
- No price pressure so far: spreads could go down as SEBI has widened registration eligibility and more investors are likely to take the FII route than the PN route



# Disclosures Appendix

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