

Sebi tightens norms for issue of participatory notes

NEW DELHI: Tightening norms for issue of participatory notes (P-Notes) by overseas investors, Sebi has barred "unregulated" foreign funds from dealing in offshore derivative instruments even if their investment managers are appropriately regulated by their concerned regulators.

The guidelines, which are part of the newly notified Foreign Portfolio Investor (FPI) Regulations, have come into force with immediate effect. They provide for stricter oversight of P-Notes, the preferred route for overseas high net worth individuals (HNIs) and hedge funds for investing in the Indian market.

Earlier, according to the draft regulations by the Securities and Exchange Board of India, it had been proposed that only 'Category-III,' or high-risk foreign investors, would be barred from issuing P-Notes.

However, the gazette notification that brought the FPI guidelines into force also prohibits certain entities under 'Category-II,' or medium-risk investors, from issuing P-Notes.

"Provided that those unregulated broad-based funds, which are classified as Category-II foreign portfolio investor by virtue of their investment manager being appropriately regulated, shall not issue, subscribe or otherwise deal in offshore derivatives instruments directly or indirectly," Sebi has said in its final FPI regulations.

P-Notes, or offshore derivative instruments, are mostly used by overseas HNIs, hedge funds and other foreign institutions to invest in Indian markets through registered foreign institutional investors (FIIs), while saving on time and costs associated with direct registrations.

The new FPI regime has classified foreign investors into three groups based on their risk profile and would eventually replace existing categories such as FIIs, their sub-accounts and qualified foreign investors. ..

Category-I FPIs, entities with the lowest risk, would include foreign governments and government-related foreign investors.

Category-II FPIs would include appropriately regulated broad-based funds, university funds, university-related endowments and pension funds, among others.

Category-III FPIs would include all others not eligible under the first two categories.

(Economic Times)