



Decline in Investments Through P-Notes

Why in News

According to [Securities and Exchange Board of India \(SEBI\)](#) data, the value of [Participatory-Note](#) (P-Notes) investments in Indian markets have declined in Jan 2022 in comparison to Dec 2021.

What are the Reasons for Declining P-Note?

- This is in line with **expectations as foreign investors were aggressive sellers** throughout January 2022 continuing the trend seen since October 2021.
- With [Omicron](#) fears largely behind, investors were hopeful of a rapid recovery in the global economy. However, with the US Federal Reserve taking a 'faster and sooner' stance on rate hikes **investors have been cutting their holdings in risk assets** across the board
- The [Ukraine geopolitical situation](#) has put further pressure on already scared global investors. It is expected that [FPIs \(Foreign Portfolio Investors\)](#) will continue their net negative stance till clarity emerges on an end to the Ukraine situation.

What is a Participatory Note?

- P-notes are **Offshore Derivative Instruments (ODIs)** issued by registered [Foreign Portfolio Investors \(FPIs\)](#) to overseas investors who wish to be a part of the Indian stock markets **without registering themselves directly**.
 - P-notes have **Indian stocks as their underlying assets**.
 - FPIs are **non-residents who invest in Indian securities like shares, government bonds, corporate bonds, etc.**
- Though P-note holders have less stringent registration requirements, **they have to go through a proper due diligence process** of the **SEBI**.

What is Foreign Portfolio Investment?

- FPI involves **holding financial assets from a country outside of the investor's own**.
- Holdings can include **stocks, GDRs (Global Depository Receipt), [bonds, mutual funds](#), and [exchange traded funds](#)**.
 - A **GDR** is a bank certificate issued in more than one country for shares in a foreign company
- Along with [FDI \(Foreign Direct Investment\)](#), FPI is **one of the common ways for investors to participate in an overseas economy**, especially retail investors.
- Unlike **FDI, FPI consists of passive ownership; investors have no control over ventures** or direct ownership of property or a stake in a company.

[Source: TH](#)

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