

Why no KYC norms for Participatory Notes? OCTOBER 26, 2015

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ALL of us are familiar with the arduous procedures involved in the opening of a simple savings bank account, ration card, mobile phone connection, LPG cylinder domestic connection and a host of other common necessities, wherein demands are made for identity proof, residence proof, and sometimes even secondary identification. In keeping with our unwritten national motto of **"Harass the poor and pamper the rich"**, all such requirements stand waived for those having loads of cash, and a foreign location to deal in Participatory Notes. This is a term employed by Foreign Institutional Investors (FII's) through Offshore Derivative Instruments (ODI's) such as Participatory Notes, Equity-Linked Notes, Capped Return Notes, and Participatory Return Notes. In other words, the super-rich can hide under a cloak of invisibility, conceal their identity, or be a ghost investor, while the ordinary investor of this country will be badgered for all kinds of identity proofs. Simply put in other words, address-less funds are free to fish in our financial markets without any identification proof!

Look at the quantum of funds floating around unquestioned - SEBI has informed the Supreme Court that the outstanding value of ODI's or P-Notes at the end of February 2015 was a whopping Rs.2.715 lakh crores!

And where do these worthies come from? The Special Investigation Team (SIT) in its report to the Supreme Court has identified the top 5 sources of P-Notes as the Cayman Islands, U.S.A., U.K., Mauritius, and Bermuda. Major chunk of ODI's invested in India, about 31.31% i.e. approximately Rs.85, 006 crores, comes from the Cayman Islands!

What is the profile of this country called Cayman Island?



Its population is approximately around 55,000 (fifty five thousand) but they have invested a mind boggling Rs.85,000 crores in India! And none of our enforcement agencies have any idea as to who among this fifty five thousand population has invested Rs.85,000 crores in our country! Our politicians and enforcement agencies make a song and drama in the media about terror funding and terror financiers, but the stark reality is that our financial markets are an open playground for all kinds of anonymous entities. Terror financiers can safely exploit our legal provisions for anonymity to indulge in all kinds of nefarious activities. Who has designed such provisions? Who is responsible for

rolling out the red carpet for anonymous investors?

I often speak about the secret coterie of Politicians & Bureaucrats having a tacit understanding to connive, contrive and sustain such shady arrangements. While the whole nation is kept busily engrossed by the media in meaningless charades of return of awards, and beating beef eaters, real issues get masked from public scrutiny. How it is that secret coteries of politicians and bureaucrats are able to formulate, implement, and successfully keep running such dubious investment rackets? At least, it is easy to identify the faceless bureaucrat who is manufacturing such dubious schemes.

There are three categories of bureaucrats in every Ministry/Department:

1) Frequent flyer: No nonsense bureaucrat, so routinely transferred as they are inconvenient to the powers that be.

2) Non-transferable: Bureaucrats who manage to stay for extended periods of time in strategic places like New Delhi, Mumbai, Chennai, and Bangalore. Pliable and flexible, will participate in engineering any scheme as desired by the bosses.

3) The Untouchables: Bureaucrats who are invincible and cannot be dislodged, policy or no policy. These are the real manipulators, can twist and turn any policy, this way or that way. *An apposite example would be the much-hyped "Public Servants Declaration of Assets" policy that has been repeatedly postponed for the third time in succession!* What is the message being conveyed? Policy or no policy, we will decide whether to declare or not. Even the honest bureaucrat who wants to make a declaration is prevented from doing so. What is the message we are conveying to the fresh recruits in the bureaucracy? Why the Government can't permit the honest bureaucrat to declare his assets, those who desire to seek an extension can be granted permission, but it will be an eye opener. It can be safely assumed that the Untouchables (those who cannot be dislodged) are likely to seek extension.

Funds parked in Participatory Notes are in rich measure belonging to the Politician-bureaucrat cabal, who has designed these dubious schemes. A Cayman Island national would hardly seek anonymity in India, but an Indian residing in India, and routing funds through Cayman Islands needs anonymity as the funds are dubious. Funds generated as kickbacks, commissions, through money laundering and terror funds are those flowing into the country in the guise of Participatory Notes. The sleight of hand of the Politician-bureaucrat cabal is plainly evident.

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