

**Consultation Paper on Introduction of concept of “Accredited Investors”
in Indian securities market**

1. Objective:

1.1. The objective of this consultation paper is to seek comments from the public and various stakeholders of the securities market, on the proposal to introduce the concept of “Accredited Investors” in the Indian securities market.

2. Background:

2.1. The concept of a class of investors who have an understanding of various financial products and the risks and returns associated with them and therefore, are able to take informed decisions regarding their investments, is recognized by many securities and financial market regulators around the globe. These investors are typically termed Accredited Investors or Qualified Investors or Professional Investors.

2.2. Accredited Investors (by whatever term known) are considered to be informed investors on the premise that their financial capacity (generally ascertained from income and/ or net worth) enables them to hire expert managers/ advisors as required. Certain jurisdictions have also attempted to consider the knowledge and investment experience of the investor as one of the qualifying criteria to be an Accredited Investor, alongside financial capacity. Thus it is considered that Accredited Investors are well informed or well advised investors. It is also considered that their financial capacity gives them an ability to absorb loss and thus relatively higher risk products may also be suitable for such investors.

2.3. In the jurisdictions which recognize Accredited Investors, it is reckoned that these investors are sophisticated enough to not require extensive regulatory protection, and therefore, issuers of securities and providers of financial / securities market products/ services are offered a regulation-light regime, to offer their products/ services to Accredited Investors. This sometimes implies relaxation with respect to disclosure requirements, filing of offer document/ prospectus etc., and flexibility in respect of investor reporting. It is understood that certain jurisdictions also permit issuers/ providers of financial/ securities market products/ services to design and offer products/ services exclusively to Accredited Investors.

2.4. As on date, a number of investment products/ services are regulated by SEBI, such as Schemes of Mutual Funds, Real Estate Investment Trust (REITs), Infrastructure Investment Trust (InvITs), Alternative Investment Funds (AIFs), Venture Capital Funds (VCFs), Portfolio Management Service (PMS), Investment Advisory Service, etc. Very often, prospective investors in the securities market are introduced to these investment products/ services through distributors or friends/ acquaintances. These introducers and/ or distributors may not always be able to sufficiently educate the prospective

investor regarding the risk-return profile of the product/ service being marketed or its appropriateness as compared to the financial goals of the prospective investor. In respect of distributors, there can also potentially be conflict of interest. Presently, to protect investors from unsuitable investment products in the securities market, one common measure is to stipulate a minimum investment threshold for each regulated product/ service.

2.5. Based on feedback from market participants, it is understood that there is a case to consider introduction of the concept of Accredited Investors in the Indian securities market. It is envisaged that the introduction of the concept of Accredited Investors with uniform eligibility criteria, accompanied with a flexible regulatory framework for the various products and services, may provide the following benefits to the Indian securities market:

Stakeholder	Benefits
Investors	Portfolio diversification through access to <ul style="list-style-type: none"> - customized investment products (structured products) - more investment products due to lower entry barriers such as minimum investment size - customized contractual arrangements with product/ service providers
Issuers of securities (Companies, Funds, Pooled investment products) Financial service providers (Portfolio Managers, Investment Advisers, etc.)	1. Better risk labeling (product classification) and increased transparency 2. Reduced compliances, leading to <ul style="list-style-type: none"> - lesser compliance costs and less time to market - flexibility in designing investment products - ease of launch of innovative (customized) financial products
Market Ecosystem	Light touch regulatory framework for products/ services meant for Accredited Investors, leading to <ul style="list-style-type: none"> - better channelization of regulatory resources for protection of investors other than Accredited Investors - development of securities market through more participation and more products

2.6. In this backdrop, a tentative framework for introduction of the concept of Accredited Investors in the Indian securities market is being placed for public comments.

PROPOSED FRAMEWORK FOR INTRODUCTION OF “ACCREDITED INVESTORS” (AI)

3. Eligibility criteria

3.1. For resident Indians, the following eligibility criteria are proposed for assessment of AIs:

Category of Investor	Eligibility Criteria for Accredited Investor
Individuals, HUFs and Family Trusts	1. Annual Income \geq INR 2 Crore; OR 2. Net Worth \geq INR 7.5 Crore with not less than INR 3.75 Cr of financial assets; OR 3. Annual Income \geq INR 1 Cr+ Net Worth \geq INR 5 Crore; with not less than INR 2.5 Cr of financial assets;
Trusts (other than Family Trusts)	Assets under Management \geq INR 50 Crore
Body Corporates	Net Worth \geq INR 50 Crore
Others	Central and State Governments, Developmental agencies such as SIDBI, NABARD, etc., set up under the aegis of Government(s), funds set up by government(s) and Qualified Institutional Buyers as defined under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

3.2. For Non-Resident Indians and foreign entities, the eligibility criteria proposed for reckoning AI status are as under:

Category of Investor	Eligibility Criteria for Accredited Investor <i>(only for NRIs and foreign entities permitted to invest in India)</i>
Individuals and Family Trusts	1. Annual Income \geq USD 300,000; OR 2. Net Worth \geq USD 1 Million; with not less than USD 500,000 of financial assets; OR 3. Annual Income \geq USD 150,000+ Net Worth \geq USD 750,000; with not less than USD 375,000 of financial assets
Trusts (other than Family Trusts)	Assets under Management \geq USD 7.5 Million
Body Corporates	Net Worth \geq USD 7.5 Million
Others	Multilateral Agencies, Sovereign Wealth Funds, International Financial Institutions and Category –I Foreign Portfolio Investors.

3.3. In case of Joint Accounts held by individuals, the account shall be considered as an AI account, only in the following scenarios:

- The First holder of the account is an AI
- The Joint holders are parent(s) & child(ren), where at least one person is independently an AI
- The Joint holders are spouses, and their combined income/ net worth meets eligibility criteria

3.4. In case of Individuals,

- The income and asset details considered for assessment of eligibility criteria shall be as per the data furnished in the Income Tax Returns filed for the immediate preceding Financial Year to the financial year in which assessment is being made.
- For calculation of Net worth, value of the primary residence of the investor shall not be included.
- In case the assets of the investor reckoned for assessment of eligibility criteria are in the form of real estate, 'ready reckoner rate' as published by the respective local bodies shall be considered.

3.5. In case of Body Corporates, the latest (Statutory) audited information as on the date of application shall be considered for assessment of eligibility as Accredited Investor. Similarly, for Trusts, the calculation of Assets under Management shall be based on the Valuation data as included in the Statutory Audit report of the preceding FY or as on date of application.

4. **Process for Accreditation**

4.1. Accreditation of investors, irrespective of the financial product/ service they may wish to participate in, may be carried out through 'Accreditation Agencies', which may be the Market Infrastructure Institutions (MIIs) i.e. Stock Exchanges and Depositories and/ or subsidiaries of MIIs. The modalities of accreditation including documentation, fees, etc. shall be determined separately.

5. **Validity of Accreditation**

5.1. Accreditation once granted, shall be valid for a maximum period of one year from the date of accreditation.

6. **Procedure to avail AI status for specific financial products/ services**

6.1. The investors shall submit the necessary data and documents to the Accreditation Agency, for ascertaining eligibility to be an Accredited Investor. If eligible as per the approved criteria, the Accreditation Agency shall provide a certificate to this effect, clearly indicating the period of validity of the same. Each certificate of accreditation shall have a unique certificate number.

- 6.2. The AI shall provide a copy of the Accreditation Certificate to the financial product/ service provider along with a declaration to the effect that,
- i. The Investor is aware that being an AI, he is expected to have the necessary knowledge or means to understand the features of the investment product/ service, including the risks associated with the investment and also has the ability to bear the financial risk associated with the investment.
 - ii. The Investor is aware that the investment product/ service in which he is proposing to participate may have a relaxed and flexible regulatory framework and may not be subject to the same regulatory oversight as retail products/ services.
- 6.3. The providers of the products/ services shall obtain confirmation/ verification directly from the Accreditation Agency that the certificate furnished by the investor is indeed issued to that particular investor and accreditation status corresponding to the specific certificate number is valid as on the date of verification.
- 6.4. Investors such as Central and State Governments, Developmental agencies set up under the aegis of Government(s), funds set up by Government(s), Multilateral Agencies, Sovereign Wealth Funds, QIBs, etc. (i.e. investors in the Category 'Others') shall not be required to obtain an accreditation certificate from the 'Accreditation Agencies' to avail AI status.
- 6.5. Depending on the type of product/ service, the applicability of AI status may be in two ways:
- (i) If the investor is participating in a pooled investment, availing AI benefit jointly with one or more AIs, then the verified declaration submitted to the pooled investment vehicle/ service provider to avail the benefit of AI status shall hold valid for the entire term of the pooled investment vehicle/ service.
 - (ii) However, if the product/ service availed by the AI is governed by bilaterally negotiated contractual terms, then the investor may at any point, withdraw his consent/ declaration. Nevertheless, the transactions executed on behalf of the investor during the period while the AI status and consent were valid, shall be treated as AI transactions. For the subsequent transactions, all the applicable regulations for the particular product/ service shall apply i.e. the investor shall be treated as a regular investor in the product/ service for the purpose of all regulatory compliances.

Eg: If the client of a Portfolio Manager enters into an agreement as an AI, and thereby avails certain relaxations in investment norms, and before the termination of agreement, wished to cease availing such regulatory relaxations,

- *For the transactions executed in the client's PMS account while he dealt as an AI, regulatory relaxations shall continue to apply.*
- *For all subsequent transactions, the same shall be in full compliance with the applicable regulatory framework for PMS.*

6.6. Product/ service providers shall have the flexibility to seek re-validation of AI status on an 'as needed' basis. The frequency of re-validation, payment of charges associated with initial accreditation and subsequent re-validation, etc. may be as determined mutually by the product/ service provider and the investor.

7. **Utilization of AI concept across various financial products/ services**

7.1. The framework for utilization of AI concept across SEBI regulated financial products/ services may offer the following benefits to investors and financial product/ service providers:

- Flexibility in minimum investment amount
- Flexibility and relaxation in regulatory requirements
- Access to products/ services offered exclusively to AIs

7.2. Accredited Investors participating in existing financial products/ services shall have the option to choose the benefit of lower ticket size or flexible regulatory framework, as may be appropriate for them.

A. Flexibility in minimum investment:

7.3. It is proposed that Accredited Investors, subject to the terms of the agreement with the product/ service provider, may participate in an existing investment product/ service at a lower threshold as compared to the minimum amount mandated in the respective Regulations. However, no relaxation shall be available with regard to the other aspects of the regulatory framework.

Illustration:

7.4. Any entity may enter into an agreement with a Portfolio Manager to avail customized asset management (portfolio management) service with a minimum capital of INR 50 lacs. Such capital may be made available to the Portfolio Manager in the form of cash or securities. In case of a client who is an Accredited Investor, the Portfolio Manager may accept capital and manage a portfolio of less than INR 50 Lacs.

7.5. Similarly, the minimum capital commitment required to participate in AIFs is INR 1 Crore. In case of an Accredited Investor, the Manager may accept a capital commitment less than INR 1 Crore.

B. Flexibility in regulatory requirements:

7.6. It is also proposed that a relatively relaxed regulatory framework may be enabled for existing investment products/ services for participation by AIs alone at a certain minimum investment amount (*higher than the minimum amount applicable for regular investors*), as may be specified in the respective Regulations. Such relaxation may be with respect to the regulations/ circulars governing prudential norms, investment conditions, filings with SEBI, frequency of Audit/ valuation/ reporting, etc.

[For example, regulatory framework may be relaxed for an AIF (or scheme of AIF) in which all investors (other than Manager/Sponsor and employees/ directors/partners of Manager/ Sponsor) are AIs and each such investor has committed a minimum capital of INR 70 Cr (or USD 10 Million or its equivalent in non-INR Currency).

Similarly, regulatory framework may be relaxed for the services offered by a Portfolio Manager to a client who is an Accredited Investor and the minimum amount to be managed by the Portfolio Manager in terms of the client agreement, is INR 10 Crore.]

Illustration:

7.7. Under the SEBI (Alternative Investment Funds) Regulations, 2012, AIFs are required to comply, *inter-alia*, with the following norms:

- Maximum investment by Category I and II AIFs in an investee company cannot exceed 25% of its net investible funds. Similarly, a Category III AIF may not invest more than 10% of its net investible funds in a single investee company.
- Schemes may be launched, subject to filing of placement memorandum with SEBI at least thirty days prior to launch of scheme. Comments of SEBI, if any, shall be incorporated in the placement memorandum prior to launch of scheme.
- Category III AIFs may undertake leverage up to two times the Net Asset Value of the scheme.

7.8. An AIF (or scheme of AIF) in which all investors (other than Manager/Sponsor and employees/ directors/partners of Manager/ Sponsor) are AIs and each such investor has committed a minimum capital of INR 70 Cr (or USD 10 Million or its equivalent in non-INR Currency, subject to contractual agreements with the investors, may have flexibility in respect of norms listed above.

7.9. Under the SEBI (Portfolio Managers) Regulations, 2020, Portfolio Managers are required to comply, *inter-alia*, with the following norms:

- Manner and periodicity of disclosures, exit load, fees charged etc. shall be as specified by SEBI from time to time.
- Portfolio Manager offering non-discretionary or advisory services is allowed to invest or provide advice for investment in unlisted securities, only up to 25% of the assets under management (AUM) of the clients. A Portfolio Manager offering discretionary service may invest the client funds only in listed securities, money market instruments or units of mutual funds.

7.10. Portfolio Management Service availed by an AI client for a portfolio at least INR 10 Crore, subject to the terms of the client agreement, may have the following flexibility:

- (i) The terms of agreement between the Portfolio Manager and client including terms of termination of contract, type and periodicity of client reporting, frequency of audit of client account, exit load, fees, etc. may be as determined mutually between the Portfolio Manager and the client.
- (ii) The portfolio of the client (whether discretionary PMS or non-discretionary PMS) may be invested up to 100% in unlisted securities.

7.11. Under the SEBI (Investment Advisers) Regulations, 2013 there is no requirement of minimum Asset under Advice (AUA) for availing the services of Investment Advisers (IAs). The regulatory framework provides extensive norms for client level segregation, fees, risk profiling, suitability, agreements with client incorporating the terms and conditions as specified by SEBI, etc. In case the client of the Investment Adviser is an Accredited Investor, subject to the terms of the client agreement, the following regulatory exemptions/ relaxations may be availed:

- (i) The terms of the agreement may be determined mutually between the IA and the client, without diluting the fiduciary responsibility cast on IAs under SEBI (Investment Advisers) Regulations.
- (ii) Limits and modes of fees may be governed in its entirety through bilaterally negotiated contractual terms.

C. New products exclusively for AIs:

7.12. Jurisdictions around the globe have been witnessing a demand for tailor made investment products i.e. products designed to meet the specific investor(s)'s risk-return-holding period profile. Many of these products may be suitable only for well-informed/ well advised investors, with a relatively high capacity to take financial risks. One of the key requirements for a thriving market for such products is a light touch regulatory regime. Accordingly, it is proposed that, in addition to participation of AIs in existing products/ services, a framework for introduction of new products which are to be offered exclusively to AIs may be enabled.

7.13. If such products are to be offered only to AIs, there is scope to consider regulating them with minimal prudential norms. While such products may not be readily available in the Indian securities market at this juncture, putting in place the required enabling framework may lead to introduction of such products and thereby, innovation in and development of the securities market.

- 8. Further, each provider of investment product/ service shall have the flexibility to stipulate additional criteria or conditions, over and above the eligibility criteria specified by SEBI, to avail regulatory relaxations.

The illustrations discussed in the Consultation Paper are only meant to indicate the possible ways in which the proposed AI concept may be used, and are neither an exhaustive list of such opportunities nor any indication of regulatory changes under consideration by SEBI.

9. Public Comments:

9.1. Comments from public are invited on the aforementioned proposal to introduce the concept of Accredited Investor. The comments may be sent to aiconsultation@sebi.gov.in and should reach SEBI latest by March 18, 2021.

9.2. Suggestions/ comments may also be provided on other ways in which the concept of Accredited Investors may be utilized in the Indian securities market and implications, thereof.

9.3. Comments/ suggestions may kindly be provided in the format given below:

Name of the Entity/ Person:			
Sl. No.	Particulars of Proposal	Suggestions	Rationale

Name of the Entity/ Person:			
Sl. No.	Other Issues	Suggestions	Rationale

[Note: The respondent may specify whether they are market intermediary/ participant (mention type/ category) or public (student, lawyer, investor, academician etc.)]
