

## SEBI issues the modalities for implementation of Accredited Investors' framework

SEBI had recently introduced the concept of accredited investors (**AIs**) in the securities market, and accordingly, carried out certain changes to SEBI (Alternative Investment Funds) Regulations, 2012, SEBI (Portfolio Managers) Regulations, 2020 and SEBI (Investment Advisers) Regulations, 2013. The framework allowed the AIs to avail certain flexibility in minimum investment amount (**Lower ticket size**) or concessions from specific regulatory requirements applicable to investment products, subject to conditions applicable for specific products/services under the aforesaid regulations. For example, in case of alternative investment funds (**AIFs**), minimum investment norms require an investor to make an investment of value not less than INR 1,00,00,000, however, the said requirement has been relaxed for AIs.

Now, SEBI has issued the detailed framework for modalities of accreditation and has elaborated on aspects including: (a) who can grant accreditation, that is, who can become the accreditation agency (**AA**); (b) responsibility and infrastructure norms for AAs; (c) net worth requirements for seeking AI certification, including how primary residential premises will not be included in the net worth; (d) documents required to seek accreditation, including declarations and undertakings; (e) validity of AI certification, for one year and two years; (f) mechanism to seek benefits of accreditation; (g) entering into client agreements; and (h) withdrawal of accreditation benefits and its consequences.

These are analyzed in detail below:

### A. Who will grant the accreditation?

A person seeking AI status will need to approach an accreditation agency (**AA**) as per the manner specified by the AA and with relevant prescribed documents. The AA will review the application and will verify that, at the time of accreditation, the applicant is 'fit and proper' to participate in the securities market, including absence of any convictions or restraint orders, not being a willful defaulter, etc., and post verification, issue an AI certificate. Following table sets out the eligibility for an AA and process to become an AA:

	Description
<b>Eligibility criteria for AA</b>	<ul style="list-style-type: none"> <li>▪ Subsidiaries of recognized Stock Exchanges, provided the Stock Exchange meets the following criteria:               <ul style="list-style-type: none"> <li>- Minimum 20 years presence in Indian securities market,</li> <li>- Minimum net worth of INR 200 crores,</li> <li>- Presence of nation-wide terminals,</li> <li>- Having Investor grievance redressal mechanisms in place, including arbitration,</li> <li>- Presence of Investor Service Centers (<b>ISCs</b>) in at least 20 cities, and</li> <li>- Any other criteria as specified by SEBI from time to time.</li> </ul> </li> <li>▪ Subsidiaries of Depositories.</li> </ul>
<b>Application process and timeline – 3 weeks from August 26, 2021</b>	Eligible subsidiaries are required to make an application to SEBI through the concerned stock exchange or depository for recognition as an AA within <b>3 weeks</b> from August 26, 2021.
<b>Responsibility of AA &amp; Infrastructure and Manpower</b>	<p>AAs shall have the requisite infrastructure including systems and manpower to fulfill their responsibilities as specified below:</p> <ul style="list-style-type: none"> <li>▪ Verification of documents submitted.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Timely processing of applications.</li> <li>▪ Maintaining data of accredited investors.</li> <li>▪ Verification of accreditation status.</li> <li>▪ Maintaining confidentiality of investor information at all time; and</li> <li>▪ Any other responsibilities as notified by SEBI.</li> </ul>
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## B. Eligibility Criteria for AIs and other features of accreditation

Category of investor	Financial Parameters
<ul style="list-style-type: none"> <li>▪ Individual,</li> <li>▪ Hindu Undivided Family (<b>HUF</b>),</li> <li>▪ Family trust, or</li> <li>▪ Sole proprietorship</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual income of at least INR 2 crore or</li> <li>▪ Net worth of at least INR 7 crore 50 lakh, out of which not less than INR 3 crore 75 lakh is in the form of financial assets; or</li> <li>▪ Annual income of at least INR 1 crore and minimum net worth of INR 5 crore, out of which not less than INR 2 crore 50 lakh is in the form of financial assets.</li> </ul> <p><b>Certain conditionalities:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Primary residence excluded from net worth:</b> In case of accreditation of individual investors, HUFs and Sole Proprietorships, the value of the primary residence of the individual, Karta of HUF and the Sole Proprietor respectively, shall not be considered for calculation of net worth.</li> <li>▪ <b>Cases of joint investments:</b> In case of investments held jointly by more than one individual, the following conditions shall apply for eligibility as AI: (i) Where the joint holders are parent(s) &amp; child(ren), at least one person should independently fulfil the eligibility criteria for AI; (ii) Where the joint holders are spouses, their combined income/net worth should meet the eligibility criteria for AI.</li> </ul>
Body corporate	Net worth of at least INR 50 crore
Trust other than family trust	Net worth of at least INR 50 crore
Partnership firm set up under the Indian Partnership Act, 1932	Each partner independently meets the eligibility criteria for accreditation
<ul style="list-style-type: none"> <li>▪ <b>Documentation:</b> SEBI has prescribed a list of documents on the basis of which eligibility criteria shall be reckoned.</li> <li>▪ <b>Net worth calculation:</b> For the purpose of reckoning eligibility criteria, net worth of Body Corporates shall be calculated as under: Net worth = (Capital + free reserves) – (Accumulated losses + deferred expenditure not written off) For the purpose of reckoning eligibility criteria, net worth of Trusts shall be calculated as under: Net worth = (Book value of all assets, other than intangible assets) – (Book value of total liabilities)</li> <li>▪ For Body Corporates and Trusts, eligibility criteria for accreditation shall be considered on the basis of the following: <ul style="list-style-type: none"> <li>(a) Financial information as per statutory audit; or</li> </ul> </li> </ul>	

(b) Financial information as per audit by the statutory auditor as on a date during the financial year in which application is made (if furnished).

- The eligibility of foreign investors to be accredited shall be determined on the basis of the rupee equivalent of their income and/or net worth as applicable.

#### Validity of AI Certificate

- One year from the date of accreditation, if the applicant meets the eligibility criteria for accreditation for preceding one year;
- Two years from the date of accreditation, if the applicant consistently meets the said eligibility criteria for accreditation in each of the preceding three years.

#### Process to avail benefits linked to accreditation

- a. Undertakings from the Prospective investors:** A prospective investor shall, inter-alia, submit a copy of the Accreditation Certificate and an undertaking to the investment provider (i.e. provider of securities market product or service) to the effect that:
- Consent that it wishes to avail benefits under the AI framework. (**Consent**).
  - It has the ability to bear the financial risks associated with the investment.
  - It has the necessary knowledge and means to understand the features of the Investment Product, including the risks associated with the investment.
  - It is aware that the investment product is meant for AIs and may not be subject to the same regulatory oversight as over investment products meant for investors other than AI.
- b. Verification by investment provider and additional undertakings:** The Investment provider shall independently verify the status of accreditation of the prospective investor from the concerned AA. Further, investment providers may obtain additional undertakings from prospective investors, provided they do not dilute or contravene the undertakings mentioned above.
- c. Client agreement and its content:** The client agreement shall, inter-alia, provide the following: details of regulatory concessions agreed upon between the investor and the investment provider, and the conditions for availing the same, and (ii) consequences, if any, in the event of the investor becoming ineligible to be an AI during the tenure of the said agreement. Prior to entering into a client agreement with an AI, the investment provider shall disclose to the AI, details of regulatory concessions available for the proposed investment, and the relevant conditions applicable under the AI framework. The client agreement shall, inter-alia, provide the modalities for withdrawal of 'Consent' and consequences of the investor withdrawing the 'Consent'.
- d. Withdrawal of Consent by AI and its consequences:**

<b>Withdrawal permitted</b>	<p>An AI shall have the flexibility to withdraw their 'Consent' and discontinue availing benefits of accreditation, subject to following:</p> <ul style="list-style-type: none"> <li>▪ An investor who withdraws 'Consent' after availing the benefit of lower ticket size shall be required to increase the investment to the minimum amount that is stipulated under the applicable regulatory framework for the particular investment product, within the timeframe specified in the client agreement.</li> <li>▪ If an investor who has availed concessions to the regulatory framework withdraws the 'Consent' furnished to the investment provider before the expiry of the client agreement, the investments already made shall be 'grandfathered' i.e. such investments shall continue to be reckoned as investments by an AI. With effect from the date of withdrawal of consent, any further transaction shall be in accordance with the applicable regulatory framework.</li> </ul>
<b>No withdrawal permitted</b>	Investors in pooled investment products which are launched exclusively for AIs, in which concessions to regulatory framework have been availed

The aforesaid changes has been introduced by SEBI circular dated August 26, 2021 ([available here](#)).

We hope you have found this information useful. For any queries/clarifications please write to us at [insights@elp-in.com](mailto:insights@elp-in.com) or write to our authors:

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