

## **Introduction of framework for Accredited Investors in securities market**

### **1. Objective**

1.1 This Board Memorandum proposes to introduce a framework for “Accredited Investors” and suitably amend the SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”), SEBI (Portfolio Managers) Regulations, 2020 (“PMS Regulations”) and SEBI (Investment Advisers) Regulations, 2013 (“IA Regulations”) to facilitate participation by Accredited Investors in the securities market.

### **2. Background**

2.1 The concept of a class of investors who have an understanding of various financial products and the risks- 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 as Accredited Investors or Qualified Investors or Professional Investors.

2.2 From publicly available information, it is seen that most jurisdictions use financial information of the investors (generally ascertained from income and/ or net worth) to determine whether they are eligible to be considered as accredited investors (by whatever term known). Certain jurisdictions such as the United States of America (USA), European Union (EU) have also considered the knowledge and/or investment experience of the investor as one of the qualifying criteria to be an Accredited Investor, alongside financial capacity.

2.3 Accredited Investors are considered to be capable of dealing in relatively riskier investment products due to their financial capacity and ability to absorb possible financial losses. They may either be well advised due to their ability to hire expert managers/ advisors or be well informed with sufficient financial acumen.

2.4 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 investment 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.

2.5 Based on feedback from the market participants, it is felt 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 by a flexible regulatory framework for the various securities market products and services (“investment products”) may be beneficial to the development and growth of the Indian securities market.

2.6 Accordingly, a Consultation Paper was issued on February 24, 2021 to seek public comments on a draft framework for Accredited Investors. Copy of the said Consultation Paper is placed at Annexure A. A summary of public comments and internal views on said comments are placed at Annexure B. Based on analysis of the comments received and internal deliberations, a framework for Accredited Investors in the Indian securities market is proposed in the subsequent paragraphs.

### **3. Benefits associated with Accreditation**

3.1. It is envisaged that accreditation of investors may lead to identifying a class of sophisticated investors who have the ability and willingness to invest in securities market, particularly in investment products that are relatively riskier and have minimal regulatory oversight. It is also expected that such regulation-light approach may lead to development of highly customised investment products.

3.2. For accreditation to achieve the aforesaid outcomes, any benefit offered for accreditation should balance the interests of both investors and providers of investment products (“investment providers”). Accordingly, it may be considered to extend the following benefits to Accredited Investors:

- (i) To participate in investment products with an investment amount lesser than the minimum amount mandated in the respective Regulations (“lower ticket size”)
- (ii) Relaxation from regulatory requirements applicable to investment products, such as prudential norms, investment conditions, filings with SEBI, frequency of Audit/ valuation/ reporting, etc. (“regulation-light framework”)
- (iii) To participate in investment products designed and offered exclusively to Accredited Investors.

3.3. Subject to the terms of the agreement with the investment provider, Accredited Investors may avail the benefit of lower ticket size, without any relaxation to the other regulatory norms applicable to the particular investment product. This would enable such investors to diversify their investments across multiple investment instruments and investment providers.

3.4. Further, the benefit of regulation-light framework may be offered only to those Accredited Investors who invest a minimum specified amount which is significantly higher than the minimum amount applicable for regular investors. Together with the capacity of Accredited Investors to understand the risks associated with various investment products and to negotiate appropriate risk mitigation measures with the investment provider, this may enable investment providers to create customised investment products which fit the risk-return profile of these investors.

#### **Framework for Accredited Investors**

4. Based on an analysis of public comments received on the ways in which the concept of Accredited Investors may be utilized in the Indian securities market and further

internal deliberations, the proposed framework for Accredited Investors for implementation through AIF Regulations, PMS Regulations and IA Regulations is given below.

## **Eligibility**

4.1. The following entities shall be eligible to be considered as Accredited Investors:

4.1.1. Individuals, HUFs, Family Trusts and sole proprietorships, which meet the criteria as under:

- (i) Annual Income  $\geq$  INR 2 Crore; OR
- (ii) Net Worth  $\geq$  INR 7.5 Crore, out of which at least INR 3.75 Crore is in the form of financial assets; OR
- (iii) Annual Income  $\geq$  INR 1 Crore+ Net Worth  $\geq$  INR 5 Crore, out of which at least INR 2.5 Crore is in the form of financial assets;

4.1.2. Partnership Firms set up under the Indian Partnership Act, 1932 in which each partner independently meets the Accredited Investor criteria for individuals.

4.1.3. Trusts (other than family trusts) Assets under Management greater than or equal to INR 50 Crore.

4.1.4. Body Corporates with net worth greater than or equal to INR 50 Crore.

4.2. Joint Accounts held by individuals to be considered as Accredited Investor accounts, if:

- (i) The Joint holders are parent(s) & child(ren), and at least one member is independently fulfilling the eligibility criteria for Accredited Investor, or
- (ii) The Joint holders are spouses, and their combined income/ net worth meets eligibility criteria.

4.3. Central and State Governments, Developmental Agencies set up under the aegis of Government(s) (e.g. SIDBI, NABARD, etc.), Funds set up by

government(s), Qualified Institutional Buyers as defined under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, Category I Foreign Portfolio Investors, Sovereign Wealth Funds, Multilateral Agencies (e.g. Asian Development Bank, New Development Bank, International Monetary Fund, World Bank, International Finance Corporation, etc.) etc. shall be deemed Accredited Investors.

4.4. 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 and/ or AUM as evidenced by their documentary proof of income/ net worth/ AUM.

#### **Accreditation Agencies**

4.5. The Board may recognize one or more subsidiaries of a recognized Stock Exchange or a Depository, or any other institution which meet the eligibility criteria specified by the Board as an 'Accreditation Agency' for the purpose of carrying out the accreditation process.

4.6. It is preferred that, to begin with, the number of institutions which are eligible to be Accreditation Agencies be limited to a small number. Accordingly, the following criteria may be specified for Recognized Stock Exchanges whose subsidiaries may be eligible to carry out accreditation as proposed in the framework:

- (a) Minimum 20 years presence in Indian securities market,
- (b) Minimum networth of INR 200 crores,
- (c) Presence of nation-wide terminals,
- (d) Having Investor grievance redressal mechanisms in place, including Arbitration,
- (e) Presence of Investor Service Centers (ISCs) in at least 20 cities, and
- (f) any other criteria as specified by the Board from time to time.

4.7. The Board may also specify additional eligibility criteria for the above mentioned subsidiaries or institutions to be recognized as Accreditation Agencies.

4.8. The detailed eligibility criteria for Accreditation Agencies, process for recognition of Accreditation Agencies and the modalities of according such recognition may be specified separately after consultation with Stock Exchanges and Depositories.

#### **Modalities of Accreditation**

4.9. The prospective investor ("Applicant") desirous of availing the status of an Accredited Investor shall make an application to one of the Accreditation Agencies for this purpose, in the manner prescribed by them. The Accreditation Agencies may use the services of Brokers/ Depository Participants to receive such applications.

4.10. For the purpose of verification of income and net worth, Applicants shall furnish a self-certified copy of their Income Tax Return for the financial year preceding the one in which application for accreditation is being made.

4.11. For calculation of net worth of individuals, value of the primary residence of the Applicant shall not be considered. Also, in case the assets of the Applicant 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 for arriving at the valuation.

4.12. In case of Body Corporates, either the audited accounts (statutory audit) of the financial year preceding the one in which application is being made or more recent audited financials (audited by the statutory auditor) 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 financial year or in the more recent audited accounts (audited by the statutory auditor).

4.13. Accreditation granted on the basis of financial information of one preceding year, shall be valid for a period of one year from the date of accreditation. However, if an Applicant meets the eligibility criteria for each of the three preceding years to the one in which application for accreditation is being made

and furnishes the necessary documents to Accreditation Agency in support of the same, then the accreditation shall be valid for two years from the date of accreditation.

- 4.14. An Accredited Investor who desires to renew the accreditation status after expiry of validity of the Accreditation Certificate, shall be required to make a fresh application to the Accreditation Agency along with all the necessary documents, including the proof of income/ net worth/ AUM (i.e. Income Tax Return, audited accounts, etc. as mentioned at paragraphs 4.10 and 4.12).
- 4.15. Accreditation Agency shall verify that the investor is 'fit and proper' to participate in the securities market, including the investor not being debarred from securities market, at the time of accreditation.
- 4.16. Accreditation Agency(ies) shall issue an Accreditation Certificate to each Accredited Investor, which specifies, inter-alia, the name and permanent account number (PAN) of the Applicant (or analogous unique identifier for foreign investors), date of accreditation validity of accreditation and a unique accreditation number.
- 4.17. Accreditation Agencies shall be responsible for timely processing of applications, maintaining data of accredited investors, verification of accreditation status and maintaining confidentiality of investor information at all times. The modalities of seeking information on accreditation status, sharing of information by Accreditation Agencies, checks and balances for sharing and/ or using such information, etc. shall be specified separately, after consultation with the Accreditation Agencies.

#### **Procedure to avail benefits linked to Accreditation**

- 4.18. Based on feedback from public consultation, discussion with Stock Exchanges (NSE, BSE)/ Depositories (NSDL, CDSL) and internal deliberations, the following procedure may be considered for prospective investors to avail benefits linked to accreditation:

4.18.1. Prospective investors who are desirous of availing benefit(s) of accreditation shall make an application for the same, along with the necessary documents, to one of the Accreditation Agencies. The application may be submitted either directly to the Accreditation Agency or through a Stock Broker / Depository Participant to the Accreditation Agency. If such investor meets the applicable eligibility criteria, the Accreditation Agency shall provide a Certificate attesting the status of the entity as Accredited Investor, as mentioned at Paragraph 4.16.

4.18.2. At the time of account opening or while entering into agreement with the investment provider, the prospective investor shall inform the investment provider of their status as Accredited Investor and their decision to invest as an Accredited Investor. If the investment provider is agreeable to provide benefits linked to accreditation, the prospective investor shall furnish a copy of the aforesaid Accreditation Certificate to the investment provider along with a declaration to the effect that,

- i. The investor is an Accredited Investor and wishes to avail regulatory benefits linked to their status of accreditation. (“Consent”)
- ii. The investor has the ability to bear the financial risk associated with the investment.
- iii. The Investor is aware that he is expected to have the necessary knowledge or means to understand the features of the investment product, including the risks associated with the investment.
- iv. The Investor is aware that the investment product 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/ regular investment products.

4.18.3. Before on-boarding an Accredited Investor as a client, the investment provider shall furnish to the Accredited Investor, details of all regulatory relaxations considered to be availed for the proposed investment, and the difference between a regular investment product under the relevant



regulatory framework and the proposed investment product with its regulation-light framework.

- 4.18.4. The investment provider shall verify directly from the Accreditation Agency that the certificate furnished by the prospective 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. The investment provider shall ensure that the prospective investor has a valid Accreditation Certificate before entering into a client agreement offering benefits linked to accreditation.
- 4.19. While Accredited Investors are generally expected to meet applicable eligibility criteria during the validity period of the Accreditation Certificate, there may be a case that such eligibility criteria is not met on continuous basis during the validity period due to fall in income or net worth or AUM. In such cases, the investor shall be considered as an Accredited Investor during the validity period of the Accreditation Certificate, and subject to the terms of the agreement entered into with the investment provider, may avail benefits linked to accreditation. Further, while on-boarding Accredited Investors, investment providers shall have the flexibility to stipulate additional criteria or conditions, over and above the eligibility criteria specified by SEBI.

**Flexibility to investors to withdraw 'Consent'**

- 4.20. Investors shall have the flexibility to withdraw their 'Consent' to be treated as Accredited Investors any time during the term of their investment (or term of service for which agreement with the investment provider is entered into), except in case of investment in pooled investment products which are launched exclusively for Accredited Investors and in which the benefit of regulation-light framework has been availed.
- 4.21. For pooled investment products which are launched exclusively for Accredited Investors and in which the benefit of regulation-light framework has been availed, investment strategy would be designed by the investment provider after considering the regulatory relaxations agreed upon by all such investors.

Revocation of consent by any investor to be treated as accredited investor may have significant adverse implications for the overall investment strategy and the portfolio. Therefore, investors in pooled investment products (e.g. AIFs) which are launched exclusively for Accredited Investors and wherein regulation-light framework has been availed, may not be permitted to withdraw their consent before expiry of the term of the investment product.

### **Discontinuation of benefits linked to Accreditation**

4.22. Accredited Investors who have availed benefits linked to their accreditation status at the time of entering into client agreement, may lose such benefits under the following scenarios:

#### **4.22.1. Investor becomes ineligible to be Accredited Investor**

4.22.1.1. After entering into an agreement with an investment provider to avail benefits linked to accreditation, if an investor ceases to be eligible to be an Accredited Investor, the investment(s) already made shall continue to be reckoned as investment by an Accredited Investor. Accordingly, the investment provider shall ensure that the necessary 'grandfathering' clause is incorporated in the client agreement.

4.22.1.2. Further, the investment provider and investor shall ensure that the client agreement adequately provides for other consequences, if any, in the event of the investor becoming ineligible to be an Accredited Investor during the term of the client agreement and such consequences shall take into account the specific characteristics of the investment product.

#### **4.22.2. Withdrawal of 'Consent' by investors who have availed lower ticket size**

4.22.2.1. Having availed the benefit of lower ticket size, if an investor wishes to withdraw the 'Consent' furnished to the investment provider before the expiry of the client agreement, he shall be required to bring up the investment to the minimum investment size

that is mandated for non-Accredited Investors in the particular investment product.

4.22.2.2. The investment provider and investor shall ensure that the client agreement clearly mentions the timeframe for increasing the investment amount and adequately provides for the course of action in the event of the investor failing to increase the invested capital to the minimum investment size that is mandated for non-Accredited Investors.

**4.22.3. Withdrawal of 'Consent' by investors who have availed regulation-light framework of investment (other than pooled investments)**

4.22.3.1. If an investor who has availed a regulation-light framework withdraws the 'Consent' furnished to the investment provider, before the expiry of the investment agreement/ client agreement, the investments already made shall be 'grandfathered' i.e. those investments shall continue to be reckoned as investments by an Accredited Investor.

4.22.3.2. Any further transaction (investments or capital infusion or capital commitment, as the case may be), during the term of the client agreement with the investment provider shall be considered to be transactions by a non- Accredited Investor and shall require to be in compliance with all applicable regulatory norms. For example, in case of investment products like PMS wherein investment amount (capital) is drawn down upfront, further transaction shall mean further investments made using the existing capital.

4.22.4. In case of investments by joint accounts and partnership firms, the investment provider and investor(s) shall ensure that the client agreement specifically provides for the modalities for withdrawal of 'Consent', change in accreditation status of partners/ account holders of the investor(s) and consequences thereof. The broad principles to be followed with respect to client accounts in case of withdrawal of 'Consent', change in accreditation

status of partners/ account holders, etc. shall be as outlined in the paragraphs above.

### **Proposal**

4.23. The proposed framework for Accredited Investors as specified above may be implemented by way of a Circular.

## **5. Proposals with respect to Alternative Investment Funds (AIFs)**

### **Definition of “Accredited Investor”, “Accreditation Agency” and “Fund for large value Accredited Investors”**

5.1. To implement the framework for Accredited Investors in the AIF space, definition of “accredited investors”, “accreditation agency” and “Fund for large value accredited investors” may be introduced in the AIF Regulations as under:

“accreditation agency” means a subsidiary of a recognised stock exchange or a subsidiary of a depository, or any other entity as may be specified by the Board from time to time.

Explanation: For the purpose of this clause, the Board may recognize an accreditation agency subject to such conditions as may be specified.

“accredited investor” means any person who fulfils the eligibility criteria as specified by the Board and is granted a certificate of accreditation by an accreditation agency.

“Fund for large value accredited investors” means an Alternative Investment Fund or scheme of an Alternative Investment Fund in which each investor (other than the Manager, Sponsor, employees or directors of the Alternative Investment Fund or employees or directors of the Manager) is an Accredited Investor and invests not less than seventy crore rupees.

## **Minimum investment**

5.2. Presently, investors (other than employees or directors of the Alternative Investment Fund or employees or directors of the Manager) are required to have minimum investment of rupees one crore in an AIF. However, an Accredited Investor may invest an amount in the AIF, lower than the minimum investment amount, subject to appropriate disclosures in the placement memorandum and terms agreed upon between the investor and investment manager of the AIF.

## **Relaxation of regulatory requirements for 'Fund for large value accredited investors' (AI Funds)**

5.3. Accredited Investors are considered sophisticated enough to understand the risks associated with investment products and also able to negotiate the necessary risk mitigation norms with the investment provider in their client agreements. Also, accredited investors who are able and willing to invest significantly large amounts to avail regulation-light framework for their investments are expected to be capable of undertaking independent due diligence of the investment products offered to them and negotiating terms best suited for them.

5.4. Presently, segmented approach is adopted under the AIF Regulations and Circulars issued thereunder, with respect to applicability of certain obligations cast on members of Investment Committee, use of template PPM specified by SEBI and annual audit of compliance with the terms of PPM. The criteria for segmentation, inter-alia, specifies a minimum capital commitment of INR 70 Crore by each investor. Accordingly, considering that Accredited Investors are well informed/ well advised investors capable of carrying out independent due diligence of investment products and the precedence of segmented approach already adopted, "AI Funds" may be permitted regulatory relaxations as detailed below.

### **Launch of Scheme(s) by AIF**

5.4.1. Presently, AIFs may launch schemes subject to filing of placement memorandum (PPM) with the Board at least thirty days prior to launch of

scheme along with the applicable fees. Comments of SEBI on the PPM have to be provided to the Applicant within 30 days of filing the PPM and these comments have to be incorporated in the PPM by the Applicant.

5.4.2. The requirement of SEBI comments for the PPMs of schemes which are AI Funds, whether in SEBI specified template or otherwise, may be dispensed with. Instead, such schemes may be launched under intimation to SEBI by filing the PPM with SEBI before launch of the scheme. Information to be submitted by Applicants while intimating SEBI about launch of AI Funds shall be specified separately. Subsequent to launch of the scheme, if it is found that the information submitted by the Applicants is at variance with the information in the PPM or is in contravention to the AIF Regulations and the Circulars issued thereunder, appropriate enforcement actions may be initiated against such Applicants.

#### **Portfolio diversification norms**

5.4.3. Presently, Category I and II AIFs may invest not more than 25% of their investable funds in a single investee company and Category III AIFs may invest not more than 10% of their investable funds in a single investee company. Portfolio diversification requirement (25% or 10%, as the case may be) may be relaxed for 'AI Funds' such that, AI Funds of Category I and II may invest up to 50% of the investable funds in a single investee company and AI Funds of Category III may invest up to 20% of the investable funds in a single investee company.

#### **Extension of term of AIF**

5.4.4. Presently, extension of the tenure of close ended AIFs is permitted up to two years subject to approval of two-thirds of the unit holders by value of their investment in the AIF. However, AI Funds may be permitted to extend term beyond 2 (two) years, subject to consent of investors, terms of the contribution agreement entered into between the investor(s) and investment manager and other fund documents. Further, such extension of term shall also be subject to maximum tenure permitted for a close

ended fund and other conditions, as specified by the Board from time to time.

5.4.5. However, any investor who does not furnish explicit consent for extension of term beyond 2 years shall be given exit as per the terms of the contribution agreement entered into between the said investor and investment manager.

5.5. It is informed that the existing segmented approach under the AIF Regulations and Circulars issued thereunder with respect to applicability of certain obligations cast on members of Investment Committee, use of template PPM specified by SEBI and annual audit of compliance with the terms of PPM shall continue and also be available to AI Funds, subject to each investor in the AI Fund furnishing the appropriate waiver as specified by SEBI.

### **Proposal**

5.6. The proposals at paragraph 5.1, 5.2, 5.4.2, 5.4.3, and 5.4.4 may be implemented by way of amendment to AIF Regulations.

5.7. The proposals at paragraph 5.4.5 may be implemented by way of issuance of a Circular.

## **6. Proposals with respect to Portfolio Managers (PMs)**

### **Definition of “Accredited Investor”, “Accreditation Agency” and “High Value Accredited Investor”**

6.1. To implement the framework for Accredited Investors in the Portfolio Management space, definition of “Accredited Investors”, “Accreditation Agency” and “High Value Accredited Investor” may be introduced in the PMS Regulations as under:

“accreditation agency” means a subsidiary of a recognized Stock Exchange or a subsidiary of a Depository or any other entity as may be specified by the Board from time to time;

Explanation: For the purpose of this clause, the Board may recognize an accreditation agency subject to such conditions as may be specified.

“accredited investor” means any person who fulfils the eligibility criteria as specified by the Board and is granted a certificate of accreditation by an accreditation agency;”

“high value accredited investor” means an accredited investor who has entered into an agreement with the portfolio manager for a minimum investment amount of ten crore rupees;”

### **Minimum investment**

6.2. Presently, in terms of Regulation 23(2) of the PMS Regulations, the minimum investment amount to become a client of Portfolio Manager is INR 50 Lacs. However, an Accredited Investor may become a PMS client with an investment less than the minimum investment amount, subject to appropriate disclosures in the Disclosure Document and terms agreed upon between the client and Portfolio Manager.

### **Relaxation of regulatory requirements for “High Value Accredited Investor”**

6.3. Considering that High Value Accredited Investors (hereafter referred as “PMS AI”) are well informed/ well advised, capable of negotiating terms best suited to them and would invest a minimum capital of INR 10 crore, the following regulatory relaxations may be considered for PMS AI:

#### **Investment in unlisted securities**

6.3.1. As provided in the PMS Regulations, portfolio of a discretionary PMS account may not be invested in unlisted securities. Further, a portfolio manager offering non-discretionary or advisory services to clients may invest or provide advice for not more than 25% of the portfolio of the client managed or advised by the portfolio manager. In case of PMS AI, subject to appropriate disclosures in the Disclosure Document and terms of agreement with clients, Portfolio Managers may invest or provide advice for investment



up to 100% of the assets under management (or advice) in unlisted securities.

### **Other regulatory relaxations**

6.3.2. Presently, the PMS Regulations and Circulars issued thereunder, specify various norms for minimum terms of client agreement, exit load, etc.

6.3.2.1. In terms of Regulation 22(1) of the PMS Regulations, a Portfolio Manager shall, before taking up an assignment of management of funds and portfolio on behalf of a client, enter into an agreement in writing with such client that clearly defines the inter se relationship and sets out their mutual rights, liabilities and obligations relating to management of portfolio containing the details as specified in Schedule IV of the PMS Regulations.

6.3.2.2. Para 3 (iv) of the SEBI Circular No. SEBI/HO/IMD/DF1/CIR/P/2020/26 dated February 13, 2020 specifies the quantum and manner of exit load applicable in case client portfolio is redeemed in part or full.

6.3.3. In case of PMS AI, the terms of agreement may be determined mutually between the Portfolio Manager and PMS AI, subject to such terms being explicitly provided in their agreement and being in compliance with regulations/ circulars, as applicable. Accordingly, for clients who are PMS AI, Portfolio Managers may be exempted from the requirements stipulated in Regulation 22(1) of the PMS Regulations.

6.3.4. Similarly, in case of PMS AI, Portfolio Managers may also be exempted from applicability of Para 3 (iv) of the SEBI Circular No. SEBI/ HO/ IMD/ DF1/ CIR/ P/ 2020/ 26 dated February 13, 2020.

### **Proposal**

6.4. The proposals at paragraph 6.1, 6.2, 6.3.1 and 6.3.3 may be implemented by way of amendment to PMS Regulations.

6.5. The proposal at paragraph 6.3.4. may be implemented by way of issuance of a Circular.

## **7. Proposals with respect to Investment Advisers (IAs)**

### **Definition of “Accredited Investor” and “Accreditation Agency”**

7.1. To implement the framework for Accredited Investors in the Investment Advisory space, definition of “Accredited Investors” and “Accreditation Agency” may be introduced in the IA Regulations as under:

“Accreditation Agency” means a subsidiary of a recognized Stock Exchange or a subsidiary of a Depository or any other entity as may be specified by the Board from time to time;

Explanation: For the purpose of this clause, the Board may recognize an accreditation agency subject to such conditions as may be specified.

“Accredited Investor” means any person who fulfils the eligibility criteria as specified by the Board and is granted a certificate of accreditation by an accreditation agency;”

### **Relaxation of regulatory requirements with respect to fees**

7.2. Paragraph 2(iii) of the SEBI Circular SEBI/HO/IMD/DF1/CIR/P/2020/182 dated September 23, 2020 specifies the limits and modes of charging fees by Investment Advisers. However, in case the client of the Investment Adviser is an Accredited Investor, limits and modes of fees payable to the Investment Adviser may be governed in its entirety through bilaterally negotiated contractual terms between the Accredited Investor and the Investment Adviser Accordingly, in case of clients who are Accredited Investors, paragraph 2(iii) of the SEBI Circular SEBI/HO/IMD/DF1/CIR/P/2020/182 may not be applicable to Investment Advisors.

### **Proposal**

7.3. The proposal at paragraph 7.1 may be implemented by way of amendment to IA Regulations.

7.4. Proposals at Paragraphs 7.2 may be implemented by way of issuance of a circular.

## **8. Proposal to Board**

8.1. The Board may consider and approve the proposals at paragraphs 5.6, 6.4 and 7.3. Draft amendment to SEBI (Alternative Investment Funds) Regulations, 2012, and the draft notification for the proposed amendment are placed at **Annexure C1 and C2**. Draft amendment to SEBI (Portfolio Managers) Regulations, 2020 and the draft notification for the proposed amendment are placed at **Annexure D1 and D2**. Draft amendment to SEBI (Investment Advisers) Regulations, 2013 and the draft notification for the proposed amendment are placed at **Annexure E1 and E2**.

8.2. The Board is requested to consider and approve the proposed amendments to SEBI (Alternative Investment Funds) Regulations, 2012, SEBI (Portfolio Managers) Regulations, 2020 and SEBI (Investment Advisers) Regulations, 2013, and authorize the Chairman to make such necessary consequential or incidental changes to the aforementioned Regulations and take consequent steps, as may be deemed appropriate, to give effect to the decision.

## **Annexure A**

Consultation paper on Introduction of framework for Accredited Investors in securities market is a publicly available document and same is placed on SEBI website [www.sebi.gov.in](http://www.sebi.gov.in)

## **Annexure B**

This has been excised for reasons of confidentiality.

## **Annexure C1**

This has been excised for reasons of confidentiality.

## **Annexure C2**

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012 shall be notified after following the due process.

## **Annexure D1**

This has been excised for reasons of confidentiality.



## **Annexure D2**

Amendment to SEBI (Portfolio Managers) Regulations, 2020 shall be notified after following the due process.

## **Annexure E1**

This has been excised for reasons of confidentiality.

## **Annexure E2**

Amendment to SEBI (Investment Advisers) Regulations, 2013 shall be notified after following the due process.