



18<sup>th</sup> March 2021

Via email to: [aiconsultation@sebi.gov.in](mailto:aiconsultation@sebi.gov.in)

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

At the outset, we, at the Indian Association of Investment Professionals (IAIP), a member society of CFA Institute, appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON INTRODUCTION OF CONCEPT OF “ACCREDITED INVESTORS” IN INDIAN SECURITIES MARKET.**

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the abovementioned consultation paper, we would like to propose a few suggestions consistent with our objective to promote fair and transparent global capital markets and to advocate for investor protection.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the proposed initiatives by SEBI are mentioned below:

**A. Details of our Organisation:**

- 1. Name:** Indian Association of Investment Professionals (CFA Society India)
- 2. Contact number:** +91 98196 30042
- 3. Email address:** [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)
- 4. Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051



**B. Key Contributors:**

Priyank Singhvi, CFA	Soumendra Ghosh, CFA	Vijayanand Venkataraman, CFA
Yogesh Sundaram, CFA	Dwijendra Srivastava, CFA	Sumit Duseja, CFA
Shamit Chokshi, CFA	Sivananth Ramachandran, CFA	Nilesh Saha, CFA
Kshitiz Jain, CFA	Shwetabh Sameer, CFA	Om Jha, CFA
Rashmi Modi, CFA		

**C. Suggestions / Comments:**

<b>Name of the Entity:</b> Indian Association of Investment Professionals (CFA Society India)			
<b>Sr. No.</b>	<b>Particulars of Proposal</b>	<b>Suggestions</b>	<b>Rationale</b>
1.	Resident Indians 3.1 Eligibility Criteria 1. Category of Investors – Individuals, HUFs and Family Trusts	<p>1. In order to protect the interest of the retail investors, we propose that the eligibility criteria for Accredited Investor in terms of Net Worth* should be set higher at INR 10 crore (excluding the primary residence). The net worth can be certified by a Chartered Accountant (CA) or as documents made available to statutory authorities.</p> <p>2. Further, we propose that relaxation of 25% can be provided to the Net Worth criteria of INR 10 crore for individuals can be considered based on prior experience, qualifications, and education etc. of the individuals. We propose the following non-financial parameters can be considered to relax the Net worth criteria:</p> <p>a. More than 8 years of experience of working in financial entities regulated by SEBI,</p>	<p>We believe that an accredited investor should show the following characteristics to recognize investor sophistication –</p> <p>a) ability to bear risk b) access to information and ability to analyze it to make an informed decision.</p> <p>The rationale for each point is based on this premise.</p> <p>1. As investor protection for the retail investor is a primary objective, a high net worth criterion will provide comfort that only investors who have the financial capacity to absorb loss or take risks are classified as Accredited Investors, if they may not show the required degree of sophistication.</p> <p>2. Wealth accumulation, however, can come in different ways and may not actually point to better understanding of</p>



		<p>RBI, IRDA, PFRDA etc.</p> <p>b. If the investor is investing under advisory of a SEBI Registered Investment Advisor (RIA)</p> <p>3. Individuals with required credentials, certifications or designations administered by self-regulatory organizations may be automatically considered as accredited investors</p> <p>a. Individuals who are SEBI Registered Investment Advisor</p> <p>b. Qualified Professional with certifications provided by reputed institutions such as CFA Charter holder from CFA Institute</p> <p><i>* For investors who may have witnessed a sudden rise in wealth, care must be taken to look at their net worth over the past 3 years before providing them the accredited status</i></p>	<p>financial services/products. Adopting only financial criteria for classifying investors as Accredited investor can leave a large set of investors who have the requisite experience of qualifications to understand complex financial products / services and can take an informed decision about their investments. Therefore, considering non-financial parameters and providing relaxation based on them is suggested. Hence, if investors have the required experience working in financial entities or have an RIA to help them make investment decisions (who also have the fiduciary duty to their clients to determine suitability of products), a relaxation of 25% may be provided</p> <p>3. As for credentials, certifications or designations, they should be limited to those that display high standards across a range of financial products and markets. We believe that the examinations pertinent to the CFA charter reliably assess the individual's sophistication and knowledge level to make an informed decision</p>
2.	<p>Resident Indians</p> <p>3.1 Eligibility Criteria</p> <p>3. Category of Investors – Body Corporates</p>	<p>1. We propose that the Net Worth Criteria for Body Corporate to be set lower at INR 25 crore, so that</p>	<p>A body corporate is expected to have relevant resources to make an informed decision,</p>



		<p>corporate who have relevant resources to make an informed decision, can participate in alternative investments</p> <p>2. For corporate registered as Investment Advisors, accountancy firms, investment management firms, etc., the net worth requirement can be done away with.</p>	<p>so a lower net worth criterion for them is proposed.</p> <p>Further, many financial service providers or firms which are in the financial advisory or investment management business are expected to have the expertise to make an informed decision, so we propose that they are exempted from financial net worth criteria</p>
3.	<p>Resident Indians</p> <p>3.1 Eligibility Criteria</p> <p>4. Category of Investors – Others</p>	<p>We propose that the following entities automatically be eligible as Accredited Investor:</p> <ul style="list-style-type: none"> <li>• Scheduled Commercial Banks and Small Finance banks regulated by RBI</li> <li>• Insurance companies regulated by IRDA</li> <li>• Pension Funds regulated by PFRDA</li> </ul>	<p>We would request that the regulated entities by RBI, IRDA, PFRDA automatically classify as Accredited Investor, since they have the required resources to make an informed decision</p>
4.	<p>3.2 For Non-Resident Indians and foreign entities</p>	<p>Kindly refer to our suggestion Net worth criteria for Resident Indian, we propose the same criteria for nonresident Indians and foreign entities (Net Worth denominated in USD equivalent to the INR amount suggested above). An exchange rate as of the date of accreditation may be used to calculate Income, Net Worth and/or AUM in INR</p>	<p>We should have a uniform net worth criterion for residents and non-residents to simplify the rules and have a level playing field for everyone</p>
5.	<p>3.2 For Non-Resident Indians and foreign entities</p> <p>Eligibility Criteria</p> <p>4. Category of Investors – Others</p>	<p>We propose that all category of Foreign Portfolio Investors (FPI), including Categories 2 and 3, be automatically be eligible as Accredited Investors (even if they may be covered in another category of Investor)</p>	<p>All the categories of FPI are already registered with SEBI, providing eligibility to only one category may unnecessarily increase complexity.</p>
6.	<p>3.4 In case of Individuals, – The income and asset details considered for assessment of eligibility</p>	<p>1. We propose that the net worth can be certified by Chartered Accountants</p>	<p>A certified document from a CA or CPA can serve as a qualifying</p>



	<p>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.</p> <p>– For calculation of Net worth, value of the primary residence of the investor shall not be included.</p>	<p>(CAs), CPAs or as documents made available to tax/statutory authorities.</p> <p>2. We agree to the proposal that the primary residence shall not be included in the calculation of Net Worth.</p>	<p>proof for net worth and income. This will help increase the number of participants in this field since not every investor may want to share their Income Tax returns. Moreover, certain assets may need to be valued at the current market price, which may not be covered in the Income tax returns in the first place.</p>
7.	4. Process for Accreditation	<p>We propose that the process of accreditation to be handled by regulated intermediaries, SEBI registered investment advisors or financial product/service provider involved in the investment transactions instead of “Accreditation agencies”.</p>	<p>There is no need to centralize the accreditation process since the required documents needed to validate whether the investor is accredited aren’t complicated. Additionally, this process may not require scale similar to that of a KYC process. However, when there is a significant traction, an accreditation process can be set-up wherein the Accredited Investors have to acquire a unique “Accredited Investor Number” (AIN) that can be used universally by the manufacturers and it can also be used for ongoing reporting to / monitoring by SEBI.</p>
8.	5. Validity of Accreditation	<p>The accreditation will be carried out by above suggested intermediaries, advisors or financial product/service provider at the time of every new investment by “Accredited investors”, so this will be an ongoing exercise. Also, even if centralization is chosen as the next step</p>	<p>See Point 7. In addition, if a centralized process is chosen, it would be good to increase the validity period to 3 years to reduce the burden of compliance on both sides (investors to validate every year and product provider to ask for the accreditation proof)</p>



		forward, the validity period should be extended to 3 years	
9.	6. Procedure to avail AI status for specific financial products/ services	<p>As we propose that accreditation be carried out by the financial product/service provider on ongoing basis, there is no need of providing accreditation certificate to the financial product /service provider.</p> <p>Also, the financial product/service provider does not require taking certification or validation of accreditation from any agency.</p> <p>The onus of classifying investor as Accredited Investor will be with the financial service/product providers and intermediaries, who are registered with SEBI.</p>	See Point 7 and 8.
9.	<p>7. Utilization of AI concept across various financial products/ services</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Flexibility in minimum investment amount</li> <li>• Flexibility and relaxation in regulatory requirements</li> <li>• Access to products/ services offered exclusively to AIs</li> </ul> <p>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.</p>	<p>We completely agree and support the proposal that Accredited investors should have ample flexibility in almost all regulatory aspects related to financial product/services.</p> <p>We propose that instead of giving product wise flexibility, SEBI should take the approach of light touch regulation for Accredited investor and allow the financial product/service provider and Accredited investor to decide on the modalities of investment i.e. minimum investment amount, concentration limits etc., in the agreement among them.</p>	AIs and financial product/service providers can mutually agree upon the minimum ticket size, etc., that will suit each other's needs, and help the markets grow
10	7.6 It is also proposed that a relatively relaxed regulatory framework may be enabled for existing investment	We support the idea behind proving relaxed regulatory	If all investors in a given product are AIs, they are well equipped to decide



	<p>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.</p>	<p>framework for products where AIs are participating alone. However, a certain minimum threshold of INR 70 Cr can be done away with, since all investors in the product are AIs</p>	<p>whether the relaxed regulatory framework is suitable for them. If the AIs feel that the product with such features is not suitable for them, they can always choose another product or even go through the normal route where products need to meet certain requirements.</p> <p>With this relaxed regulatory required, the market will allow more AIs to participate and hence, will flourish</p>
<p>11.</p>	<p><b>C. New products exclusively for AIs:</b> 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.</p> <p>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.</p>	<p>SEBI can look to have a separate approval process for financial product/service providers to seek approval for new products to be offered only to individual AIs or a group of AIs</p> <p>Further, we propose that Products regulated in approved foreign jurisdictions may be offered through private placement to AIs.</p>	<p>There is growing appetite for global investment products among the AI community, and it is structurally difficult to offer local investment solutions for many of such strategies. SEBI could provide a regulation light framework for registration of such funds, provided offered through local exclusive representatives. SEBI could also cap the total amount of assets that can be raised in such products, through the LRS route</p>



Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)

Sincerely yours,

Rajendra Kalur, CFA  
Director - Research and Advocacy Committee  
Indian Association of Investment Professionals, Member Society of CFA Institute