

Consultation Paper on introduction of separate type of AIF scheme for only Accredited Investors

1. Objective

The objective of this consultation paper is to seek comments/ views/ suggestions of stakeholders on a proposal to provide the option of AIF schemes consisting of only Accredited Investors, with a lighter-touch regulatory framework than a regular AIF.

2. Background

- 2.1 Pooled investment vehicles play the role of channelizing risk capital towards capital formation. AIFs, being privately pooled investment vehicles, connect sophisticated investors having higher risk appetite than retail investors with enterprises in need of such high-risk capital. In comparison to other pooling vehicles like Mutual Funds, AIFs give more flexibility to investors and fund managers and are intended to take on relatively higher risk.
- 2.2 In 2021, SEBI introduced a detailed framework on “Accredited Investor” by way of amendment to SEBI (AIF) Regulations 2012 (“AIF Regulations”) thereby laying down objective standards for determination of a ‘sophisticated investor’, in addition to assessment by way of size of investment. With this, the requirement of minimum investment size was removed for an Accredited Investor. Further, various modalities with respect to the framework were specified vide SEBI circular dated August 26, 2021 [subsumed in Chapter 12 of Master Circular for AIFs dated May 07, 2024 (‘master circular’)].

Focus on strengthening the accreditation process

- 2.3 It is acknowledged that reliance on Accredited Investor framework necessitates readiness of efficient infrastructure/ processes in onboarding of Accredited Investors. Considering the same, the accreditation framework was reviewed in 2023 and norms for grant of accreditation to investors were simplified vide SEBI Circular SEBI/HO/AFD/PoD1/2023/189 dated December 18, 2023 [subsumed in Chapter 12 of the master circular].
- 2.4 Additionally, SEBI is considering certain proposals for easing the accreditation process and giving it greater regulatory impetus. In this context, a consultation paper dated June 17, 2025 was issued, seeking comments on the following proposals:
- a) To leverage KYC Registration Agency (KRA) ecosystem for expansion of Accredited Agencies (AA) and for bringing operational efficiency; and,
 - b) To facilitate seamless on-boarding of Accredited Investors based on first level due diligence by manager of an AIF.
- 2.5 If the aforesaid proposals are implemented, these are expected to increase the number of accreditation agencies, foster more competition, and further simplify the process of accreditation.

- 2.6 SEBI is also taking various steps to reduce turnaround time for accreditation, reduce associated costs, and enable sourcing of financial information from various authentic databases, to further ease the process of accreditation.

3. Issues under consideration

Metric for determination of sophistication

- 3.1 AIF regulations envisage funds to pool money from sophisticated investors, institutional investors or corporates, through private placement, without soliciting money from retail investors. Accordingly, in terms of AIF Regulations 2012, minimum commitment from each investor in a scheme of an AIF is kept at INR 1 crore. Therefore, 'minimum commitment threshold' has been used as a metric to ascertain risk sophistication of an investor.
- 3.2 However, there are certain shortcomings with respect to the minimum commitment threshold metric to ascertain risk sophistication of investors:
- a) Commitment by an investor implies contractual obligation to contribute funds upon identification of suitable opportunity by AIF manager, which however may not lead to actual draw down of these funds by the AIF. Therefore, AIF schemes may be prone to onboarding investors with inflated commitments and thus may not necessarily depict the true risk taking ability of the investor.
 - b) Presently, the minimum commitment amount in a scheme of AIFs is INR 1 Crore per investor, which was stipulated in 2012. As the commitment provided by an investor may not necessarily be a parameter of the investor's financial health (as against income or net-worth criteria), there is a possibility of investors putting majority of their wealth in AIFs, which are, by design, a riskier investment asset class. Accordingly, suitability of commitment model, as the metric of risk sophistication of investors in AIFs may warrant a review.
- 3.3 Accreditation of investors was introduced as a metric of ascertaining investors' risk sophistication. As per Regulation 2 (ab) of AIF regulations, the eligibility criteria to become an Accredited Investor, which is independently verified by the accreditation agencies, is as under:
- "Accredited Investor" means any person who is granted a certificate of accreditation by an accreditation agency who,*
- (i) *in case of an individual, Hindu Undivided Family, family trust or sole proprietorship has:*
 - (a) *annual income of at least two crore rupees; or*
 - (b) *net worth of at least seven crore fifty lakh rupees, out of which not less than three crores seventy-five lakh rupees is in the form of financial assets; or*
 - (c) *annual income of at least one crore rupees and minimum net worth of five crore rupees, out of which not less than two crore fifty lakh rupees is in the form of financial assets.*
 - (ii) *in case of a body corporate, has net worth of at least fifty crore rupees;*
 - (iii) *in case of a trust other than family trust, has net worth of at least fifty crore rupees;*

- (iv) *in case of a partnership firm set up under the Indian Partnership Act, 1932, each partner independently meets the eligibility criteria for accreditation:*

Provided that the Central Government and the State Governments, developmental agencies set up under the aegis of the Central Government or the State Governments, funds set up by the Central Government or the State Governments, qualified institutional buyers as defined under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, Category I foreign portfolio investors, sovereign wealth funds and multilateral agencies and any other entity as may be specified by SEBI from time to time, shall be deemed to be an Accredited Investor and may not be required to obtain a certificate of accreditation.

- 3.4 Accredited Investors are considered to be a class of investors who have an understanding of various financial products and the risks-returns associated with them and hence, are able to take informed decisions regarding their investments. They are also perceived to be well advised due to their ability to hire expert managers/ advisors and well informed with sufficient financial acumen.
- 3.5 In terms of clause 12.2 of Chapter-12: “Framework for Accredited Investors” of master circular, Accredited Investors are required to provide following undertaking while availing services of Investment Service Providers (‘ISPs’), that is, AIFs, Portfolio Managers and Investment Advisers:
- a. The prospective investor ‘consents’ to avail benefits under the AI framework.
 - b. The prospective investor has the necessary knowledge and means to understand the features of the investment product/service eligible for Accredited Investors, including the risks associated with the investment.
 - c. The prospective investor is aware that investments by Accredited Investors may not be subject to the same regulatory oversight as applicable to investment by other investors.
 - d. The prospective investor has the ability to bear the financial risks associated with the investment.
- 3.6 A third-party validated framework that accredits investors based on certain objective metrics as outlined above, better complements the regulatory philosophy that AIFs as an investment product is meant for sophisticated investors.
- 3.7 Accordingly, investments by Accredited Investors may not be subject to the same level of regulatory oversight with regards to investor protection, as applicable to investments by other investors.
- 3.8 Considering the above, there are certain relaxations to Accredited Investors and/or ISPs for onboarding Accredited Investors under the respective SEBI Regulations. In this direction, it is pertinent to note that SEBI Board has recently approved reliance on the accreditation status of investors while offering a more flexible framework for investing in angel funds and in the framework for co-investing in unlisted securities of investee companies of AIFs.
- 3.9 It is recognized that the number of Accredited Investors at present remains modest. This may be attributed to the fact that many relaxations/ opportunities extended exclusively to Accredited Investors (angel funds framework, Co-Investment Vehicles, Specialized Investment Funds) are fairly recent, and hence, may take some time for the impact to be reflected on the accreditation

numbers. Also, certain types of investors that invest in AIFs have been given deemed Accredited Investor status, which would not reflect in the number of Accredited Investor granted accreditation by accreditation agencies. Also, as mentioned above, it is reiterated that several proposals are under active consideration to streamline and ease the process of accreditation for investors. Thus, the number of Accredited Investors is expected to grow given the regulatory focus and the efforts being undertaken in this area.

3.10 In continuation to this regulatory approach, it may be appropriate to consider a gradual and consultative transition from ‘minimum commitment threshold’ to ‘accreditation status’ as a metric of risk sophistication of an investor. Accordingly, as a long term vision, it is envisaged that AIF schemes shall have investor base constituting of only Accredited Investors (“AI only schemes”). While it is viewed that this should be the eventual norm/eligibility to invest in AIFs, implementing the same immediately would be disruptive to the current AIF ecosystem.

3.11 Thus, it is proposed that for now and the foreseeable future, AIFs can continue to onboard investors based on a minimum commitment threshold. In parallel, it is proposed that AIFs should have the added option to launch new schemes of AIFs that shall have only Accredited Investors, which shall have a lighter-touch regulatory framework than regular AIFs.

Proposals for consideration:

<i>Proposal 1.</i>	Do you agree with the long-term vision of gradual transition from ‘minimum commitment threshold’ to ‘only accreditation status’ as a metric of risk sophistication of an investor in an AIF, in a gradual and consultative manner?
<i>Proposal 2.</i>	Do you agree that, in the interim, both the metrics may co-exist by providing the option of a separate type of AIF scheme that on-boards only Accredited Investors (“AI-only schemes”), with a lighter-touch regulatory framework?

Proposed flexibilities for AI-only schemes in AIFs

3.12 AIF regulatory framework, apart from aiming to protect interest of investors, also aims to ensure that:

- a) Appropriate disclosures are made to the investors;
- b) Various systemic risks are mitigated;
- c) Misconduct by intermediaries is deterred;
- d) Conflict of interest issues are addressed;
- e) AIFs are not structured for the purpose of circumvention of other laws.

The above objectives are aimed to ensure that the AIFs function in an orderly fashion and integrity of securities market is maintained.

3.13 As mentioned above, investments by Accredited Investors may not be subject to the same prudential norms and regulatory oversight as applicable to investments by other investors. Accordingly, if the investor base of an AIF scheme constitutes exclusively of Accredited Investors (AI only schemes), it is proposed that such schemes may be extended certain flexibilities from investor protection viewpoint, while the provisions pertaining to other regulatory objectives as

mentioned in Para 3.12 above may remain intact. As a thrust towards accreditation ecosystem, the proposal to extend flexibilities aims to incentivize AIFs to launch more AI only schemes.

3.14 Considering the above, the following relaxations may be provided to AI-only schemes, from requirements which primarily aim to protect interest of investors:

- a) Presently, in terms of Regulation 20 (22) of AIF Regulations, the rights of investors of a scheme of an AIF shall be pari-passu in all aspects i.e. differential rights offered to select investors of a scheme of an AIF shall not affect the interest of other investors of the scheme. This condition has been exempted for Large Value Funds (LVFs) on the basis that LVF constituents are Accredited Investors with minimum INR 70 crore commitment amount, and the investors are highly risk sophisticated, have necessary risk appetite, capability and a full-fledged system to carry out independent due-diligence and monitoring of the investments. Extending the same principle, AI only schemes may also be exempted from the requirement of maintaining pari-passu rights among investors, subject to a waiver provided by each investor to this effect.
- b) Presently, extension of the tenure of close ended AIFs is permitted up to 2 years subject to approval of two-thirds of the unit holders by value of their investment in the AIF. In this regard, AI Funds may be permitted to extend term up to 5 years, subject to requisite investor consent, as is the case with LVFs.
- c) In terms of Regulation 4(g)(i) of AIF Regulations, the key investment team of the Manager of an AIF is mandated to have at least one key personnel with relevant certification as may be specified by SEBI from time to time, as an eligibility criterion for obtaining certification of registration as an AIF. Since AI only schemes are meant for investors who are perceived to be capable of conducting independent and adequate due diligence while investing in AIFs, including the assessment of credentials and track record of the manager and its key investment team, it is felt that NISM certification criteria for such AIFs having AI only schemes, may not be required.
- d) The extant regulatory framework stipulates that no scheme of AIF (except for angel funds) shall have more than 1000 investors. Considering that investor base of AI only fund is proposed to constitute Accredited Investors only, the above restriction on number of investors i.e. 1000 may not be relevant.
- e) In case AIF is incorporated in form of a trust, AIFs have a three-tiered structure viz: sponsor, manager and trustee. In accordance with Indian Trust Act 1882, the Trustee holds property of Trust for the benefit of beneficiaries of the Trust and is responsible for managing and administering the trust property in accordance with the terms of the trust deed and for acting in the interest of the beneficiaries. Further, AIF Regulations also cast certain responsibilities on the Trustee (solely or jointly with manager) to enable them to have oversight over the operations of the fund and the manager.

These responsibilities were cast on trustee primarily from an investor protection standpoint. In case of AI only schemes, such responsibilities under AIF Regulations may be fulfilled by the manager itself, subject to terms of agreement between the Trustee and the Manager and the fund documents.

- 3.15 Relaxations proposed to be extended to AI only schemes are also proposed to be extended to LVF schemes, if not already available.
- 3.16 An agenda in this regard was discussed in Alternative Investment Policy Advisory Committee (AIPAC). AIPAC noted that Accredited Investors are considered to be a class of investors who have an understanding of various financial products and the risks-returns associated with them and hence, are able to take informed decisions regarding their investments. Accordingly, AIPAC recommended the proposal to introduce AI only fund with aforesaid flexibilities.

Proposals for consideration:	
Do you agree with the following relaxations/flexibilities proposed to be extended to AI only funds -	
Proposal 3.	Exemption from requirement of maintaining rights pari-passu among investors of a fund/scheme, subject to a waiver provided by each investor to this effect.
Proposal 4.	AI Funds may be permitted to extend term up to 5 years, subject to consent of two-thirds of the investors by value of their investment in the fund/scheme.
Proposal 5.	Exemption from NISM certification requirement for key investment team of the manager of AIFs having only AI only schemes.
Proposal 6.	Exemption from restriction on maximum number of investors in a scheme.
Proposal 7.	Extant responsibilities on trustee of the fund shall solely rest with the manager, subject to the terms of agreement between the manager and the trustee and the fund documents.

- 3.17 In view of the above proposals, draft amendments to be carried out to AIF Regulations is placed at [Annexure A](#).

Proposals for consideration:	
Proposal 8.	Do you agree with the draft amendments to AIF Regulations placed at Annexure A ?

5. Public comments

- 5.1 Considering the implications of the aforementioned matters on the market participants, public comments are invited on the above proposals. The comments/suggestions should be submitted latest by August 29, 2025, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

- 5.2 In case of any technical issue in submitting your comment through web based public comments form, you may contact Mr. Ashutosh Parauha, Manager at ashutoshp@sebi.gov.in or afdconsultation@sebi.gov.in with the subject: "Consultation Paper on Accredited Investors only funds".

Issued on: August 08, 2025

A. Draft amendments to SEBI (Alternative Investment Funds) Regulations, 2012

1. Insert new provision Regulation 2(1)(ac):

“Accredited Investors only fund” 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;]

2. New proviso to be inserted under Regulation 4(g):

Provided further that the requirement specified in regulation 4(g)(i) shall not apply to Accredited Investors only fund.

3. New proviso to be inserted under Regulation 10(f):

Provided further that the requirement specified in regulation 10(f) shall not apply to Accredited Investors only fund.

4. Proviso to Regulation 13(5) to be amended as under:

*Provided that a large value fund for Accredited Investors and **an Accredited Investor only fund** may be permitted to extend its tenure up to five years’ subject to the approval of two-thirds of the unit holders by value of their investment in the large value fund for Accredited Investors **or the Accredited Investor only fund**:*

5. Proviso to Regulation 20(22) to be amended as under:

*Provided further that the requirement under sub-regulation (22) of this regulation shall not apply to Large Value Fund for Accredited Investors **and Accredited Investors only fund**:*

6. To insert new provision Regulation 20(24):

In case of Accredited Investors only fund, the responsibilities and obligations cast on trustee of an Alternative Investment Fund in terms of provisions of these regulations shall be carried out solely by the manager of the Alternative Investment Fund.