



CONSULTATION PAPER ON REGULATORY FRAMEWORK FOR ACCREDITED INVESTORS IN IFSC

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A. Background

1. In line with the recommendations made by the Expert Committee on Investment Funds and practices prevalent in developed financial centres, the IFSCA (Fund Management) Regulations, 2022 (hereinafter referred to as “Regulations”) provide certain flexibility with respect to investors who are expected to be better aware of and have wherewithal to withstand the risks emergent from their investments. Such investors have been termed as “Accredited Investors” and are defined in regulation 2(1)(c) as follows:

“accredited investor” means any person who fulfils the eligibility criteria as specified by the Authority and in the manner specified;”

2. The IFSCA (Fund Management) Regulations, 2022 provide the following flexibilities in respect of Accredited Investors:
 - a. The minimum investment threshold specified in the Regulations for investing in Venture Capital Schemes, Restricted Schemes and Portfolio Management Services do not apply to Accredited investors.
 - b. In case of Venture Capital Schemes and Restricted Schemes which have 2/3rd of investors as Accredited Investors, the FME is exempted from the requirement of contributing to the scheme.
 - c. In case of Venture Capital Schemes and Restricted Schemes which have only Accredited Investors, the placement memorandum may be filed to IFSCA under a green channel.
3. Similarly, the regulatory framework for Distributors of capital market products and services, specified vide Circular dated December 21, 2022 under IFSCA (Capital Market Intermediaries) Regulations, 2021, also makes a reference to “Accredited Investors” in clause 8 and enables distribution of a wider bouquet of products and services to such investors as compared to other investors.
4. In view of the need to specify the norms for identification and onboarding of Accredited Investors, a review of the recommendations made by the Expert Committee on Investment Funds¹ and the relevant norms applicable in developed financial centres was undertaken.

¹ Report of the Expert Committee on Investment Funds may be accessed at <https://shorturl.at/cdpAL>



5. Accordingly, a framework for Accredited Investors which adopts the best international practices while also addressing the IFSC specific nuances has been proposed in Paragraph-B below.

B. Proposed Framework for Accredited Investors in IFSC

1. The eligibility criteria for Accredited Investors are as follows:

- a. **Individuals, Sole Proprietorships, One Person Companies and any other legal form comprising of only a natural person**, which meet any of the following criteria:

- i. **Income Criteria** – Annual gross income in the preceding financial year not less than USD 200,000, with a reasonable expectation of reaching similar income level in the current financial year.

- ii. **Net Assets Criteria** - Net Assets not less than USD 1 Million, wherein the value of primary residence is not included, and at least USD 500,000 worth of net assets comprise of financial assets.
Explanation – For this purpose, “financial assets” shall mean and include:

- I. demand and time deposits with any Banking Units in IFSC, banks in India or in any foreign jurisdiction,
- II. investments in capital market products, as defined under Circular dated December 21, 2022 bearing F. No. 817/IFSCA/Distribution/2022-23, issued under International Financial Services Centres Authority (Capital Market Intermediaries) Regulations, 2021, and
- III. any other product, as may be specified by the Authority.

- iii. **Joint Investments Criteria** - In case of joint investments by (i) parent(s) and their child(ren), or (ii) spouses, such investments may be considered to have been made by Accredited Investors if the following conditions are met:

- I. Where the joint investments are made by parent(s) and their child(ren) (including stepchildren, adopted children, ex nuptial children), at least one person should independently fulfill the eligibility criteria and such person should be responsible for the investment decisions.
- II. Where the joint investments are made by spouses, their combined income/ net worth should meet the eligibility criteria.



- b. **Hindu Undivided Families (HUFs) in India and similar such family structures in India and foreign jurisdictions, which are created solely for the benefit of the members of a single family**, which meet the eligibility criteria specified at paragraphs B(1)(a)(i) or B(1)(a)(ii) above.

Explanation – “single family” shall have the same meaning as defined under IFSCA (Fund Management) Regulations, 2022 and Circulars issued thereunder from time to time.

- c. **Partnership firms**, wherein each partner independently meets the applicable eligibility criteria of an Accredited Investor.

Explanation – For a partnership firm to become eligible to be considered as an Accredited Investor, if an individual is a partner, it should meet the eligibility criteria as specified at paragraph B(1)(a)(i) or B(1)(a)(ii) above; if a HUF is a partner, it should meet the eligibility criteria as specified at paragraph B(1)(b); if a body corporate is a partner, it should meet the eligibility criteria as specified at paragraph B(1)(d), and so on, such that all the partners in their independent capacities meet the eligibility criteria as applicable to them.

- d. **Body corporates** (including Limited Liability Partnerships), which meet any of the following criteria:

- i. **Net Worth Criteria** - Net worth not less than USD 5 Million.
- ii. **Constituent Criteria** – All the constituents of the body corporate independently meet the applicable eligibility criteria of Accredited Investors.

- e. **Trusts**, which meet any of the following criteria:

- i. **Net Worth Criteria** - Net worth not less than USD 5 Million.
- ii. **Beneficiary Criteria** – All the beneficiaries of the trust meet the applicable eligibility criteria of Accredited Investors.
- iii. **Responsible Person Criteria** – Person(s) responsible for managing the assets of the trust meets the applicable eligibility criteria of an Accredited Investor.



f. Following entities shall be **deemed to be Accredited Investors**:

- i. Government and Government related investors of India and foreign jurisdictions, such as central banks, sovereign wealth funds or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s).
- ii. Multilateral agency, supranational agency or any international organization of similar nature;
- iii. Pension funds and provident funds incorporated in IFSC, India or foreign jurisdiction;
- iv. Venture Capital Schemes, Restricted Schemes, Retail Schemes, Exchange Traded Funds and Investment Trusts in IFSC. Any such schemes or funds in India or foreign jurisdiction which are regulated in their jurisdiction and wherein no single investor holds more than 33% beneficial interest;
- v. Family investment funds set up in IFSC and similar regulated vehicles set up in India or foreign jurisdictions.
- vi. A body corporate, when acting on its own account or on account of its clients who are Accredited Investors, which is licensed, authorised, recognised or registered by Authority as any of the following, or an entity, when acting on its own account or on account of its clients who are Accredited Investors, which is permitted by a financial sector regulator of India or of a foreign jurisdiction to carry out a financial activity which corresponds to the activities permitted by the Authority to the following:
 - I. banking unit,
 - II. finance company or finance unit,
 - III. fund management entity,
 - IV. stock exchange,
 - V. depository,
 - VI. clearing corporation,
 - VII. investment bank,
 - VIII. investment adviser,
 - IX. debenture trustee,
 - X. broker dealer,
 - XI. clearing member,
 - XII. credit rating agency,



- XIII. depository participant,
- XIV. global regional corporate treasury center,
- XV. insurance offices, and
- XVI. any other entity, as may be specified by Authority.

Responsibilities of Regulated Entities

2. The Regulated Entities, which intend to accept an investor as an Accredited Investor, shall ensure that:

- a. They lay down adequate procedures and internal policy for verifying and periodically reviewing the eligibility of such investor.
- b. They take all reasonable steps to verify that such investor meets or continues to meet the eligibility criteria as specified at paragraph B(1) above.
- c. They keep and maintain the records of verification and review of such investor for the entire duration of relationship with such investor and thereafter in electronic retrieval form for a minimum period of ten years.
- d. They ensure complete confidentiality of investor's information and compliance with applicable laws while seeking and storing information of investor. Notwithstanding the same, the information related to investor shall be made available to IFSCA as and when desired for its regulatory purpose.
- e. For verification of eligibility of a body corporate and trust, the Regulated Entities may rely on —
 - i. their most recent audited financial statement, which date shall be within the preceding 12 months; or
 - ii. where the body corporate or trust is not required to prepare audited financial statements, a balance sheet certified by an authorised person of such body corporate or trust as giving a true and fair view of its state of affairs as of the date of the balance sheet, which date shall be within the preceding 12 months;
- f. For verification of eligibility of an Individual, Sole Proprietorship or One Person Company, the value of the primary residence of such individual or proprietor of the Sole Proprietorship or member of the One Person Company shall not be taken into consideration while deriving the value of the net assets. Similarly, primary residence of Karta and the natural person, shall be excluded in case of HUF and any other legal form comprising of only a natural person, respectively. However, any indebtedness that is on account of primary residence, to the extent that it is in excess of the fair



at any time upon intimation to the concerned Regulated Entity. In case of joint investments, the withdrawal of consent by any of the joint investors shall be tantamount to withdrawal of consent by all the joint investors.

Withdrawal of Consent

7. The Regulated Entities shall put in place a mechanism and a time-bound process for processing the withdrawal of consent of an Accredited Investor. Upon such withdrawal, transactions previously entered by that investor will not be affected by the change in status. The Regulated Entity may continue to deal with that investor as if it were an Accredited Investor in respect of any contractual agreement entered into with that investor prior to withdrawal of consent.

For example, investments in schemes or for portfolio management services which were made when the investor was an Accredited Investor, are not expected to be redeemed or liquidated when the investor subsequently withdraws its consent from being treated as an Accredited Investor. However, additional investments, if any, intended to be made by such investor in such scheme or portfolio management service shall be required to be of such value that it brings the total invested amount at least to the minimum level as specified by the Authority from time to time.

C. Public Comments

1. Comments and suggestions from public are invited on the proposed regulatory framework for Accredited Investors in IFSC as specified under paragraph B above.
2. Comments may be sent by email to Mr. Aditya Sarada, Deputy General Manager, IFSCA at aditya.sarda@ifsc.gov.in with a copy to Mr. Pavan Shah, General Manager, IFSCA at pavan.shah@ifsc.gov.in latest by **December 07, 2023**.
3. The comments may be provided in the following format (MS Word or MS Excel only):

Name and Details of the Person / Entity				
[Organisation name (if applicable), Contact No., Email address]				
S. No.	Paragraph No.	Comments / Suggestion	Detailed Rationale	Other supporting information*

* such as relevant practices prevalent in other financial centres, practices in others business areas, potential impact of the suggestion, etc.
