

Consultation Paper on extending certain flexibilities under accreditation framework

1. Objective

The objective of this consultation paper is to seek comments/views/suggestions on the following proposals w.r.t. review of accreditation framework to:

- a) leverage the KRAs as accreditation agencies;
- b) facilitate faster and easier onboarding of Accredited Investors.

2. Background

- 2.1 The underlying principle of SEBI's statutory objectives is to ensure sustainable capital formation. In this regard, it is desired that risk capital is channelized for various investments, while also balancing the mandate of investor protection. Accreditation of investors is a way of ensuring that investors are capable of assessing risk responsibly. This may allow SEBI to facilitate fund raising by new businesses, while balancing the role towards investor protection. As an example, in the Angel funds regulatory framework, investors have to approve individual investments in unlisted start-ups through the AIF route, and hence need risk sophistication that is also independently verifiable. Structures like these would be a good fit for leveraging the accreditation framework.
- 2.2 Accredited investor framework was introduced in 2021 by way of amendment to SEBI (AIF) Regulations 2012. Further, various modalities in this regard were specified vide SEBI circular dated August 26, 2021 [subsumed in Chapter 12 of Master Circular for AIFs dated May 07, 2024 ("master circular)]. Subsequently, the 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.
- 2.3 As per the extant regulatory framework, only subsidiaries of Stock Exchanges (with certain conditions) and Depositories are eligible to become an accreditation agency. Presently, there are two accreditation agencies operational in securities market - CDSL Ventures Limited (CVL), a subsidiary of CDSL and NSDL Data Management Limited (NDML), a subsidiary of NSDL. Both these entities are also registered as KYC registration agencies ("KRAs") with SEBI.

- 2.4 There are certain benefits to the accredited investors and/or the Investment Service Providers (ISPs) (i.e. AIFs, PMS, Investment Advisors) for onboarding accredited investors under the respective SEBI regulations. However, to avail such benefits, the investors must have a valid accreditation certificate prior to being on-boarded by the ISPs. As on May 29, 2025, there are 649 accredited investors.
- 2.5 In this context, SEBI is in receipt of a representation from the AIF industry *inter-alia* requesting for reducing turnaround time and cost of accreditation, increasing the validity of accreditation, and allowing investment managers to directly report status of accreditation to the accreditation agencies upon digital verification from various authentic databases. Further, similar recommendations have been received from the working group for Ease of Doing Business for AIFs set up by SEBI.
- 2.6 It is viewed that these recommendations merit consideration, especially since SEBI has been taking measures to give more impetus to the accredited investor framework as a measure of sophistication of investors in the ISP ecosystem. For example, as a regulatory philosophy, AIFs, being a product that is meant for sophisticated investors, is well-suited for a third-party validated framework that accredits investors based on certain objective metrics. In this context, SEBI is examining to exclusively use accreditation status of investors in offering a more flexible framework for investing in angel funds and in framework for co-investing in unlisted securities of investee companies of AIFs. This approach may be extended in a phased manner in the long run.
- 2.7 Reliance on accredited investor framework necessitates readiness of efficient infrastructure/processes in onboarding of accredited investors, especially considering that the demand for accreditation is expected to increase upon implementation of accredited investors only approach as mentioned above.

3. Issues under consideration

(a) To leverage the KRAs as accredited agencies

- 3.1 As per the current framework, accreditation agencies are not SEBI registered intermediaries and they operate based on the recognition provided by SEBI. Due to such 'recognition' only status, there are certain limitations in regulating the activities of accreditation agencies. Further, the recognition status of an accreditation agency remains valid for three years. As a result of this, accreditation agencies need to approach SEBI for re-recognition at periodic intervals, which affects their ease of

doing business. In order to address the aforesaid issues, it may be appropriate if the accreditation activity is carried out by a SEBI registered intermediary.

- 3.2 As per the current framework, all the intermediaries store their clients' records in the systems of KRA so that the same can be easily accessed by any intermediary and other KRAs. This is to primarily avoid duplication of submission of such records by investors. To leverage the aforesaid construct of KRAs, SEBI vide circular dated December 18, 2023 [subsumed in Para 12.7 of master circular], specified that accreditation agencies that are KRAs, may access KYC records of applicants available with them in the capacity of them being a KRA or available with other KRAs, for the purpose of accreditation.
- 3.3 Considering the above, KRAs would be an appropriate category of intermediary to play the role of accreditation agency. Accordingly, it is proposed that eligibility criteria for accreditation agencies may be expanded such that all KRAs are eligible to function as accreditation agencies, as against only the subsidiaries of Stock Exchange and Depositories as per current eligibility. It may be noted that presently there are 5 KRAs registered with SEBI.
- 3.4 Also, it would be an opportune time now to make this transition, since both the currently operational accreditation agencies are KRAs and there would be no disruption to the existing accreditation ecosystem.
- 3.5 This step is also expected to increase the number of accreditation agencies and foster more competition amongst them to facilitate cost-efficient servicing by accreditation agencies.
- 3.6 The Alternative Investment Policy Advisory Committee (AIPAC) of SEBI discussed this proposal and recommended the same.

(b) To facilitate on-boarding of accredited investors based on first level due diligence by manager of an AIF

- 3.7 Presently, the manager of an AIF on-boards an investor as an accredited investor only after the investor obtains an accreditation certificate. The commitment given by such accredited investor is included in the contribution agreement executed between the investor and the AIF. Therefore, any delay in the investor getting accredited may lead to delay in finalisation of contribution agreement. This also consequently delays solicitation of funds, negotiating the investment opportunity, declaration of first close etc. by the investment manager.

3.8 In this regard, the working group for Ease of Doing Business (EoDB WG) for AIFs has recommended the following:

SEBI to consider permitting registered intermediaries (as opposed to KRAs) to conduct the onboarding of investors as “accredited investors” and upload the necessary certification to the Accreditation Agencies. This will speed up the process and registered intermediaries, being the first point of contact of investors, investors would be comfortable in sharing information about their assets / net worth. Further, registered intermediaries conduct KYC as part of onboarding and hence can add this process of checking underlying documents for qualification criteria thereby avoiding duplication of checks by an accreditation agency. The Working Group recommends to SEBI to consider necessary amendments to enable this transition for onboarding of Accredited Investors.

3.9 The working group’s suggestion that ISPs may on-board accredited investors and upload the necessary certification to the accreditation agencies may not be appropriate since it is important to have a third party verification of accreditation status. This is critical to ensure adherence to the eligibility for accredited investors and uniformity/consistency in necessary due diligence in this regard. However, the EoDB WG’s suggestion to speed up the process and leverage the due diligence carried out by the AIF manager merits consideration.

3.10 It is understood from our discussion with the AIF industry that the practice of the manager of AIF being the first point of contact and forwarding application of investors to accreditation agencies is being followed presently as well, as a market practice.

3.11 This was also deliberated in the AIPAC. After discussions, AIPAC recommended allowing AIFs to on-board investors as accredited investors, on the basis of the AIF Managers’ due diligence. However, only after receipt of respective accreditation certificate from an accreditation agency, any money shall be received by the AIF from an investor.

3.12 Taking into account the recommendation of AIPAC and internal deliberations, it is viewed that flexibility may be provided to the manager of AIFs to provisionally on-board an investor as an accredited investor, based on their due diligence, pending certification from an accreditation agency. If an investor is provisionally on-boarded as an accredited investor, the manager would have the flexibility to continue its operations in terms of finalisation / execution of contribution agreement etc., thereby obviating any delays attributed to investors’ accreditation. It would also provide

flexibility to the manager to resolve queries, if any, with the accreditation agency regarding pending accreditation status of its investors.

3.13 However, as investors are provisionally on-boarded, it may be appropriate that the following conditions are incorporated while providing the said flexibility:

- a) Any commitment made by such provisionally on-boarded investor shall not be included in calculation of corpus of the scheme until such investor obtains accreditation certificate from an accreditation agency. This is to maintain sanctity of several prudential norms for AIFs which are based on corpus.
- b) Schemes of AIFs shall receive funds from such investors only after they obtain accreditation certificate from an accreditation agency;
- c) Schemes of AIFs that are close ended shall not raise any money from such investors and their respective contribution agreements shall be considered null and void, if they fail to obtain accreditation certificate prior to final close.

4. Proposals for consideration

Proposal 1.	Do you agree with the proposal to revise the eligibility criteria for accreditation agencies such that all KRAs are eligible to function as accreditation agencies replacing the existing criteria of only subsidiaries of Stock Exchange and Depositories?
Proposal 2.	Do you agree that AIFs may be allowed to provisionally onboard investors as accredited investors on the basis of their own due-diligence subject to the following conditions: <ol style="list-style-type: none">a) Any commitment made by such provisionally on-boarded investor shall not be included in the calculation of corpus of the scheme until such investor obtains accreditation certificate from an accreditation agency;b) Schemes of AIFs shall receive funds from such investors only after they obtain accreditation certificate from an accreditation agency;c) Schemes of AIFs that are close ended, shall not raise any money from such investors and their respective contribution agreements shall be considered null and void, if they fail to obtain accreditation certificate prior to final close.

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 July 08, 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 extending certain flexibilities under accreditation framework*".

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