SEBI’s Pitch To Boost The Economy: SEBI Accredited Investors
written by Aurelia Menezes | March 10, 2021

While the global financial crisis of 2008 shook the most developed nations and collapsed their financial markets, the Indian markets only took a minor and temporary setback in comparison. This has often been attributed to the active role of several financial bodies in the country, including the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI accredited investor).

Their constant regulation of the Indian markets has not only opened the market for foreign players but has also limited the exposure and vulnerability of the Indian markets to global risks. The role of the RBI and SEBI has been pivotal in preserving the stability of the market in view of global fluctuations and over the years these regulators have been careful in introducing and permitting various financial services and products.

Who is an Accredited Investor?

The latest development being SEBI’s Consultation Paper on the introduction of Accredited Investor (AI) in the Indian securities market on February 24, 2021.[1] Though SEBI has not laid down a clear definition of an AI, the Consultation Paper has briefly outlined who is an AI and the eligibility to be an AI. On careful analysis, the consensus by most regulators globally including SEBI narrows down the definition of an AI to be an investor who is well informed about various financial products and services as well as the risks attached with them, hence, may not require high regulatory protection. However, the main distinction between smaller retail investors and an AI does not lie in the mere understanding of such products and services, rather, it is based on the financial capacity to invest in various products and services and also absorb any loss arising thereof. The Consultation Paper focuses on the prospect of being an AI, the eligibility criteria, the process of being accredited as well as the changes in the market with the introduction of the concept.

The Consultation Paper is welcomed news by all those whose interests lie in the financial markets, as it opens the markets to newer products and services which can cater specifically to AIs. The first and foremost beneficiaries being investors with deep pockets looking to diversify their portfolio; the present market lacks products and services that are flexible and better suited to well-informed and wealthy investors.

The concept of AI can bring in several personalized/customized financial products and services into the market and also gives the opportunity to the investor to directly transact with the provider to formulate such agreements that suit the investor. Further, given that these products and services are customizable to the investor's requirements, the minimum investment is also relaxed. These products and services are customizable and offer higher returns in a shorter duration, however, they come with a higher risk too. Hence, it is expected of such investors to have higher incomes and/or assets to ensure that they can absorb any loss arising thereof.

Eligibility and Accreditation

The Consultation Paper has outlined the proposed eligibility criteria and the same is similar to the criteria set by its counterpart in the U.S.A. However, apart from Individuals, Trusts and Body Corporates, it also takes into account Hindu Undivided Families (HUF). While the proposed eligibility criteria have been clearly specified in the paper, the process of being accredited as an AI has been reserved to be determined separately. The paper has only provided minimal details and has stated that accreditation shall be done through Stock Exchanges and Depositories and/or their subsidiaries.

<u>Proposed Eligibility Criteria for Resident Indians</u>

Class of Investor	Eligibility Criteria
Individuals, HUFs and Family Trusts	1. Annual Income >= INR 2 Crore; OR 2. Net Worth >= INR 7.5 Crore with not less than INR 3.75 Cr of financial assets; OR 3. Annual Income >= INR 1 Cr+ Net Worth >= INR 5 Crore with not less than INR 2.5 Cr of financial assets;
Trusts (other than Family Trusts)	Assets under management >= INR 50 Crore
Body Corporates	Net Worth >= INR 50 Crore
Others	Central and State Governments, developmental agencies such as SIDBI, NABARD, etc., set up under the aegis of Government(s), funds set up by Government(s) and Qualified Institutional Buyers as defined under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

<u>Proposed Eligibility Criteria for Non - Resident Indians</u>

Class of Investor	Eligibility Criteria (only NRIs and Foreign entities permitted to invest in India)
Individuals and Family Trusts	1. Annual Income >= USD 300,000; OR 2. Net Worth >= USD 1 Million with not less than USD 500,000 of financial assets; OR 3. Annual Income >= USD 150,000 Net Worth >= 750,000 with not less than 350,000 of financial assets;
Trusts (other than Family Trusts)	Assets under management >= USD 7.5 Million
Body Corporates	Net Worth >= USD 7.5 Million
Others	Multilateral Agencies, Sovereign Wealth Funds, International Financial Institutions and Category I Foreign Portfolio Investors

Impact on the Financial Market

While investors are delighted about the eventuality of SEBI recognizing AI's, it comes as a big boost to the financial markets, especially to those providing financial products and services. Apart from expanding their business, these service providers will be relieved of the need for extensive regulatory compliance on the new products, as SEBI has hinted towards relaxation in the need of disclosure requirements, investor reporting, filling of other documents, etc.

The prospect of lesser regulations and potential for bigger investments makes AIs a much better avenue for business than small retail investors. This would open up a new spectrum of products and services that will see more money being pumped into the economy at a time where it is slowly recovering from the on-going CoVid-19 pandemic. Given that India is a hub of innovative start-ups who often struggle with obtaining capital, this would be the ideal solution to give the economy the boost it deserves.

As start-ups are unable to raise public funds through the share market, the next best solution would be investments by AIs through new financial products and services, which are already available in markets that recognise AIs.

Though the market is being opened up to newer products and services, the intention of the same is solely to cater to AIs and not smaller retail investors who might not understand the risk involved, nor would have the financial backing to invest or absorb the risk.

The Consultation Paper has clearly outlined the requirements to be followed by providers of such products and services, such as obtaining from the investor their Accreditation Certificate, a declaration of their knowledge of being an AI, risks involved, ability to bear the financial risk, as well as awareness of the relaxed regulatory framework around the products or services.

SEBI's move of classifying investors based on their knowledge, income and assets will not only provide wealthy investors flexibility in the market and the ease of transacting through relaxation in regulatory compliance but will also ensure that SEBI is in a position to better utilize its resources in regulating the market and safeguarding smaller investors who are lesser informed of market risks and susceptible to fraud.

It is most certainly an appreciated decision as it would help boost the domestic market and also cater to those investors for whom the regular share market inhibits their investment potential. If the concept of Accredited Investor formalizes in the near future, we can definitely expect to see positive growth in the market in the long run.

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[1] https://www.sebi.gov.in/reports-and-statistics/reports/feb-2021/consultation-paper-on-introduction-of-the-concept-of-accredited-investors_49269.html

[2] SEBI accredited investor

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