

SEBI

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SEBI proposes new category of 'accredited investors'

At its Board Meeting held on 29th June 2021, SEBI has finally proposed the concept of Accredited Investors ("AIs"). The idea is to certify certain well informed persons from whom funds can be raised by issuers without necessarily following the elaborate requirements applicable to small investors. Other entities can also deal with such AIs without similar restrictions presently existing in law which are again intended to protect small investors.

It will also help certain funds and portfolio managers be able to offer more choices of investments to a wider category of persons. It will thus help, even if indirectly, companies seeking investments without the elaborate requirements of public issue. Investment Advisors and their AI clients will also be permitted to negotiate terms of fees with more flexibility than the law presently permits generally. Several other relaxations may be given.

While at this first stage, the approach seems to be cautious and there are likely to be significant parameters for qualifying as AIs and also prior registration through approved agencies. However, it is possible that, with experience, this framework may be gradually broadened and more entities may be able to attract investments and more persons may be certified as AIs, as is so in certain western countries.

Presently, the SEBI Regulations are elaborate and the general approach is from the perspective of the small public investor who needs protection. Hence, there are detailed requirements of disclosures, restrictions, etc. not just at the time of raising funds but later in day to day management of the issuing entities as also even delisting. This makes it difficult for many categories of entities to raise funds even if well informed investors are ready. This proposed new setup ought to make it easier for companies and even others to approach such AIs. Also such well informed AIs will have more opportunities to invest their monies.

At this stage, it is only a policy decision and hence only the broad contours are known. We will have to wait for detailed regulations for the details. However, the aspects revealed are interesting. SEBI will authorize certain bodies such as subsidiaries of depositories and stock exchanges as Accreditation Agencies to certify AIs. To become an AI, the person will have to satisfy requirements of being well informed or well advised about investment products and it is likely that this may be benchmarked on the basis of net worth and/or educational qualifications.

Portfolio managers and Alternate Investment Funds will be able to accept investments from AIs below the minimum amount otherwise mandated for clients. This is a recognition of the fact that AIs are expected to have financial knowledge sufficient to take informed decisions.

The AI can be an individual, partnership firm, HUF, company, Family Trusts, etc.

However, some things are not clear and one hope when the final details are notified through appropriate regulations, answers to these are available. These include things like the specific benchmarks for qualifying as an AI, the entities that will be able to deal with such AIs directly, the type of instruments in which AIs will be able to invest, etc.

It is possible that provisions of other laws such as Companies Act, RBI directions, etc. may also have to be modified to provide for exceptions for funds raised from or dealings with AIs. The regulations relating to AIs that SEBI may notify may also specify some minimum disclosure requirements and terms for safety of such AIs.

To conclude, SEBI is finally recognizing that there are now mature and savvy investors who do not need hand holding at every step by law and can make well informed decisions for themselves. All in all, this will be an interesting area to watch for developments and a new chapter in securities markets in India.