

Accredited Investors and AIFs

Accredited investors (“**AIs**”) are investors who satisfy the eligibility criteria prescribed under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, as amended (“**AIF Regulations**”), and are accredited in accordance with the framework established thereunder.¹ The concept is premised on the regulatory recognition that certain investors possess the financial sophistication and economic capacity to evaluate investment risks without requiring the same degree of regulatory protection as retail investors.

Consistent with this approach, the Securities and Exchange Board of India (“**SEBI**”) introduced a formal framework for AIs through amendments to the AIF Regulations on August 3, 2021, the operational contours of which continue to evolve through subsequent regulatory guidance and market practice.²

The regulatory framework affords AIs certain flexibilities, including lower minimum investment thresholds and other investment-related concessions. To operationalize this regime, SEBI has authorized designated accreditation agencies (also functioning as KYC registration agencies) to evaluate and accredit eligible investors, thereby enabling them to avail themselves of these benefits.

ELIGIBILITY CRITERIA³

SEBI has prescribed the eligibility criteria for various classes of investors, and has also specified the method of calculating their net-worth for the same. The following is the criteria:

¹ Regulation 2(1)(ab), Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

² SEBI circular no. SEBI/HO/IMD/IMD-I/DF9/P/CIR/2021/620 dated August 26, 2021, available at: https://www.sebi.gov.in/legal/circulars/aug-2021/circular-on-modalities-for-implementation-of-the-framework-for-accredited-investors_52116.html.

³ *Supra* Note 2, Annexure A Paragraph 1.

Type of AI	Eligibility
Individuals, Hindu undivided family, sole proprietorship, family trust ⁴	<ol style="list-style-type: none"> 1. Annual income \geq INR 20 million; or 2. Net worth \geq INR 75 million, out of which at least INR 37.5 million is required to be in the form of financial assets; or 3. Annual income \geq INR 10 million AND net worth \geq INR 50 million, out of which at least INR 25 million is required to be in the form of financial assets.
Partnership firms ⁵	Each partner must independently meet the eligibility criteria for accreditation.
Body corporates ⁶	Net worth \geq INR 500 million
Trusts other than family trusts ⁷	Net worth \geq INR 500 million

The eligibility criteria for foreign investors is determined on the basis of the rupee equivalent of their income and/ or net worth.⁸ Foreign investors incorporated/established in form other than those mentioned above shall be subject to eligibility criteria as applicable to body corporates.

Further, in case of investments held jointly by more than one individual, the following conditions shall apply for eligibility as AI:

1. Where the joint holders are parent(s) & child(ren), at least one person should independently fulfill the eligibility criteria for AI; or
2. Where the joint holders are spouses, their combined income/ net worth should meet the eligibility criteria for AI.

DEEMED ACCREDITED INVESTORS

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.

⁴ For calculation of net-worth, their primary residence is not considered.

⁵ Each partner must individually meet the criteria.

⁶ Net worth = (Capital + free reserves) – (Accumulated losses + deferred expenditure not written off).

⁷ Net worth = (Book value of all assets, other than intangible assets) – (Book value of total liabilities).

⁸ Annexure 1 Paragraph 1.7, SEBI circular No.: SEBI/HO/AFD/PoD1/CIR/2023/189 dated December 18, 2023, available at: https://www.sebi.gov.in/legal/circulars/dec-2023/simplification-of-requirements-for-grant-of-accreditation-to-investors_79990.html.

PROCEDURE FOR ACCREDITATION⁹

A prospective AI needs to apply using the procedure specified by the accreditation agency and further, needs to provide the documentation as required by SEBI.¹⁰ Pursuant to SEBI Circular dated January 9, 2026, the requirement of submitting a detailed break-up of net worth (as annexure to the net worth certificate) has been done away with. Further, it has been clarified that it is optional for the chartered accountant to specify the actual net worth in the net worth certificate, while certifying whether it meets the specified threshold. The AI also needs to be 'fit and proper' and should not be a wilful defaulter.

The accreditation agency issues an accreditation certificate with details including unique accreditation number, name of the accreditation agency, PAN of the applicant and validity of accreditation (start date and end date). Pending receipt of the accreditation certificate, based on the manager's assessment of the investor's eligibility criteria, the manager may finalize/execute the contribution agreement and initiate related operational procedures, subject to the following conditions till an accreditation certificate is granted to such investor:¹¹

1. Any commitment made by such investor shall not be included in calculation of corpus of the scheme until such investor obtains accreditation certificate from an accreditation agency; and
2. Schemes of the alternative investment fund ("AIF") shall receive funds from such investors only after they obtain accreditation certificate from an accreditation agency.

The accreditation certificate shall include a disclaimer that the assessment of the applicant for accreditation is solely based on the applicant's KYC and financial information and does not in any way exempt market intermediaries and pooled investment vehicles from any due diligence required to be carried out of the AIs at the time of on-boarding them as their clients.

VALIDITY OF ACCREDITATION¹²

Particulars	Validity from the date of issuance
If eligibility is met in the preceding one financial year	Valid for two years
If eligibility is met in each of the preceding two financial years	Valid for three years
If it is a newly incorporated entity with no previous record but meets the net worth requirement currently	Valid for two years

⁹ *Id*, Annexure 1 Paragraph 2.

¹⁰ *Id*, Annexure 2.

¹¹ Paragraph 2, SEBI circular No. HO/19/34/11(9)2025-AFD-POD1/2286/2026 dated January 9, 2026 available at: https://www.sebi.gov.in/legal/circulars/jan-2026/simplification-of-requirements-for-grant-of-accreditation-to-investors_99005.html.

¹² *Supra* Note 8, Annexure 1 Paragraph 3.

PROCEDURE FOR AVAILING BENEFITS¹³

1. Once accredited, AIs must submit their accreditation certificate to the investment service provider, with an undertaking to the effect that:
 - The prospective investor 'consents' to avail benefits under the AI framework;
 - The prospective investor has the necessary knowledge and means to understand the features of the investment product/service eligible for AIs, including the risks associated with the investment;
 - The prospective investor is aware that investments by AIs may not be subject to the same regulatory oversight as applicable to investment by other investors; and
 - The prospective investor has the ability to bear the financial risks associated with the investment.
2. The investment service provider shall independently verify the status of accreditation of the prospective investor from the concerned accreditation agency. Further, investment service providers may obtain additional undertakings from prospective investors, provided they do not dilute or contravene the undertakings as stated above.
3. Prior to entering into a client agreement with an AI, the investment service provider shall disclose to the AI, details of the relevant conditions and regulatory concessions available for the proposed investment, applicable under the AI framework.
4. The client agreement between the investment service provider and AI shall, *inter-alia*, provide the following:
 - Details of regulatory concessions agreed upon between the investor and the investment service provider, and the conditions for availing the concessions;
 - Consequences, if any, in the event of the investor becoming ineligible to be an AI during the tenure of the said agreement; and
 - The modalities for withdrawal of 'consent' and consequences of the investor withdrawing the 'consent'.

BENEFITS POST ACCREDITATION

Under the AIF Regulations, the minimum capital commitment of INR 10 million ordinarily required from each investor (other than the employees or directors of the Fund and the employees or directors of the manager) in an AIF, does not apply to

¹³ *Id.*, Annexure 1 Paragraph 4.

Als.¹⁴ Further, Als are excluded from the computation of the maximum number of investors permitted in a scheme of an AIF, subject to an overall cap of 1,000 investors.¹⁵ In addition, only Als of Category I or Category II AIF are eligible to participate in a co-investment scheme launched by the AIF.

CONSENT¹⁶

1. Als can withdraw their consent and stop availing accreditation benefits. If consent is withdrawn after availing a lower investment ticket size, the investor must increase the investment to the minimum amount required under the applicable regulatory framework within the timeframe specified in the client agreement.
2. Investments made before the withdrawal of consent will be grandfathered, i.e., such investment shall continue to be reckoned as investments by an AI. With effect from the date of withdrawal of consent, any further transaction shall be in accordance with the regulatory framework applicable to investors other than Als.
3. Investors in pooled investment products which are launched exclusively for Als, in which concessions to regulatory framework has been availed, shall not have the flexibility to withdraw their consent.

ACCREDITED INVESTORS ONLY FUNDS

AI only funds (“**AI Only Funds**”) mean an AIF or scheme of an AIF in which each investor other than the manager, sponsor, employees or directors of the AIF or employees or directors of the manager, is an AI.¹⁷ AI Only Funds include Large Value Fund for Accredited Investors (“**LVFs**”),¹⁸ which are an AIF or scheme of an AIF where each investor (other than the manager, sponsor, employees or directors of the AIF or employees or directors of the manager) is an AI and makes a minimum investment of not less than INR 250 million. In addition, angel funds are a sub-category of Category I- AIFs that raise funds from Als and invest in accordance with the provisions of Chapter III- A of the AIF Regulations.

Previously launched eligible AIF or AIF schemes are permitted to convert to AI only schemes, subject to obtaining positive consent from all the investors and meeting the respective conditions. Upon conversion, the manager of the AIF shall ensure the following:¹⁹

¹⁴ *Supra* Note 1, Second Proviso of Regulation 10(c).

¹⁵ *Id*, First Proviso of Regulation 10(f).

¹⁶ *Supra* Note 8, Annexure 1, Paragraph 5.

¹⁷ *Supra* Note 1, Regulation 2(1)(ac).

¹⁸ *Id*, Regulation 2(1)(pa).

¹⁹ Paragraph 4, SEBI circular No. HO/19/34/11(5)2025-AFD-POD1/1/188/2025 dated December 8, 2025, available at: https://www.sebi.gov.in/legal/circulars/dec-2025/modalities-for-migration-to-ai-only-schemes-and-relaxations-to-large-value-funds-for-accredited-investors-under-sebi-alternative-investment-funds-regulations-2012_98244.html.

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1. The name of the converted scheme is changed to incorporate 'AI only fund' or 'LVF' as the case may be;
 2. Such conversion and change in name of the scheme shall be reported to SEBI within 15 days of the conversion; and
 3. Such change in name of the scheme is to be reported to depositories within 15 days.

REGULATORY RELAXATIONS FOR AI ONLY FUNDS

1. Under the standard regime, an AIF must file its placement memorandum with SEBI through a merchant banker at least 30 days prior to launching a scheme, and incorporate any SEBI comments before launch. However, LVFs are exempt from these requirements;²⁰
2. AI Only Funds may extend their tenure up to five years subject to approval of two-thirds of the unitholders by value of their investment in the AI Only Funds.²¹ The maximum permissible tenure for AI Only Funds, inclusive of tenure extensions, is five years;²²
3. The requirement for at least one key personnel with the relevant certification in the key investment team does not apply to AI Only Funds;²³
4. The provisions of Regulation 20(8) of the AIF Regulations, which require members of the investment committee to ensure that decisions are in compliance with policies and procedures, shall not apply to LVFs;²⁴
5. AI Only Funds are not required to maintain *pari-passu* rights in all aspects amongst investors;²⁵
6. The responsibilities and obligations of the trustee of an AIF shall, in case of an AI Only Fund, be carried out by the manager of such AI Only Fund;²⁶
7. LVFs of Category I and Category II AIFs may invest up to 50% of the investable funds in an investee company directly or through investment in the units of other AIFs, as opposed to 25% for regular AIFs;²⁷ and

²⁰ *Supra* Note 1, Proviso to Regulation 12(3).

²¹ *Id*, First Proviso of Regulation 13(5).

²² *Supra* Note 19, Paragraph 6.

²³ *Supra* Note 1, Proviso of Regulation 4(g).

²⁴ *Id*, Second Proviso of Regulation 20(8).

²⁵ *Id*, Proviso of Regulation 20(22).

²⁶ *Id*, Regulation 20(24).

²⁷ *Id*, Proviso of Regulation 15(1)(c).

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8. LVFs of Category III AIFs may invest up to 20% of the investable funds in an investee company directly or through investment in units of other AIFs, as opposed to 10% for regular AIFs.²⁸

CONCLUSION

1. In introducing the accredited investor framework, SEBI has sought to adopt a more calibrated approach to investor protection by recognising the financial sophistication and risk-bearing capacity of certain classes of investors. The framework accordingly permits a degree of regulatory flexibility where the underlying investor base comprises AIs.
2. For managers and sophisticated investors alike, the ability to structure AI Only Funds, including LVFs, provides a degree of operational and structural flexibility that is not available under the standard AIF regime. At the same time, the framework retains core safeguards to preserve the integrity of the market and ensure that the benefits of regulatory relaxation are limited to genuinely sophisticated investors.

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²⁸ *Id.*, Regulation 15(1)(d).