



Leveraging Central KYC Records Registry to facilitate ease of business for AIF

Background

- ❑ The current Alternative Investment Fund (AIF) regulations require an investor to invest at least Rs 1 crore in any AIF
- ❑ This is to ensure that only well-informed investors with knowledge of the commensurate risk, invest in sophisticated products such as AIFs

High Minimum Ticket Size for AIF Investments have worked well;
However a suite of emerging opportunities require alternate
mean of evaluation investor qualification / sophistications

Proposed Solution



Basis the progress made on **digital India** and the government's goal of **ease of doing business**, it is suggested to leverage **digital technology** and device an **accreditation mechanism** in line with the global best practices






Accredited Investors

Individuals who satisfy the following conditions may be recognised as accredited investors:

- Capable of identifying potential investments and their underlying risks
- Possess sufficient financial sophistication to take on the risks associated with the offerings
- Have a sound financial track record
 - i.e. reported total income exceeding Rs 50 lakhs annually in any three of five assessment years immediately preceding the assessment year in which the investment is proposed to be made

Broad Process flow

The broad flow for creating and validating the investor's accredited status has been stated below

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- At the time of registering on Income Tax e-Portal, assessee be provided the choice of applying to become an accredited investor, which will be authenticated through an OTP procedure
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- Income tax database (CBDT) creates an accredited investor flag against each PAN based on the income criteria used for testing accreditation
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- The assessee shall go through a simple online test with around 15 questions, which is oriented as much towards instructing the individual on good practices of investing as much as to test his knowledge . If the assessee is unable to pass the test it can be taken again within a week's time and can give the test repeatedly till he clears
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- Accreditation information of the investor to be captured at the time of the KYC record creation / update in the Central KYC Records Registry (CKYCRR)
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- Central KYC Records Registry (CKYCRR) to integrate with CBDT for authentication of accreditation status and/or update on account of change in the investor's accreditation status



Revalidation of Accredited Status

- At a defined points in time, CKYCRR will revalidate the accredited status of the individual with the Income Tax department

- Update to the accredited status may also be initiated by the AIF

- Any change in the accredited status will be notified to all the AIFs linked to the KYC record

Way Forward

Income Tax Department to facilitate validation of financial status and creation of accredited status against the PAN

CKYCRR Common KYC Template to include a field to capture individual's accredited status (Y/N)

Web-services to enable authentication of the accredited status captured by CKYCRR with Income Tax Department

SEBI support needed for the following:

- Getting the accreditation status included in the Income Tax database which would be available for authentication
- Submission to the CKYCRR Sub-Committee to include this field in the common KYC template



Use Cases of the Accredited Status

The Accredited Investor status can be used as an “**Investor AADHAAR**” for verifying investors investing in:

- UHNI investments in IPOs / QIBs**
- Mid-Market Permanent Capital Vehicles (Listed AIFs)**
- Start-up Exchange**
- Angel investments** – Also can identify and dematerialise the invested shares through an recognised depository
- RBI’s Peer-to-Peer (P2P) lending scheme**
- In PMS with high risk investments strategies**



Thank You!