December 2025

The Securities and Exchange Board of India amends Alternative Investment Funds regulations to introduce 'Accredited Investors Only Fund'

On November 18, 2025, the Securities and Exchange Board of India ("**SEBI**") notified the SEBI (Alternative Investment Funds ("**AIF**")) (Third Amendment) Regulations, 2025 ("**AIF Third Amendment**"). The AIF Third Amendment has introduced a new AIF scheme called 'Accredited Investors only Fund' ("**AIOF**") under the SEBI (Alternative Investment Funds) Regulations, 2012 ("**AIF Regulations**"), along with associated relaxations and exemptions applicable to such schemes.

This regulatory development follows SEBI's consultation paper dated August 8, 2025 ("**AIOF Consultation Paper**"), pursuant to which SEBI sought public comments on introduction of a separate type of AIF scheme that caters exclusively to accredited investors.

Background to the AIF Third Amendment

Over the last few years and as part of its 'ease of doing business by AIFs' initiative, SEBI has been working to promote a lighter-touch regulatory framework for AIFs onboarding sophisticated investors.

As noted in the AIOF Consultation Paper, SEBI's long term vision is to envisage AIF schemes to have investor base constituting of only accredited investors as SEBI views accredited investors as a class of investors: (a) who have an understanding of various financial products and the risk-returns associated with them; (b) who are able to take informed decisions regarding their investments; (c) who are perceived to be well advised due to their ability to hire expert managers/advisors and well informed with sufficient financial acumen.

In 2021, SEBI introduced the concept of an 'accredited investor' defined as any person who is granted a certificate of accreditation by an accreditation agency who:

1. is an individual, hindu undivided family, family trust or sole proprietorship and has:
    a) annual income ≥ INR 2,00,00,000 (Indian Rupees two crore); or
    b) net worth ≥ INR 7,50,00,000 (Indian Rupees seven crore fifty lakh), out of which at least INR 3,75,00,000 (Indian Rupees three crore seventy-five lakh) in financial assets; or
    c) annual income ≥ INR 1,00,00,000 (Indian Rupees one crore) and net worth ≥ INR 5,00,00,000 (Indian Rupees five crore), with at least INR 2,50,00,000 (Indian Rupees two crore fifty lakh) in financial assets;
2. is a body corporate, and has net worth ≥ INR 50,00,00,000 (Indian Rupees fifty crore);
3. is a trust (other than family trust), and has net worth ≥ INR 50,00,00,000 (Indian Rupees fifty crore); and

4. is a partnership firm set up under the Indian Partnership Act, 1932, and each partner independently meets the eligibility criteria for accreditation.

The definition also deems certain investors to be 'accredited investors' who are not required to obtain a certificate of accreditation. Such investors include the Central and State Governments and funds set up by them, developmental agencies set up under the aegis of such governments, qualified institutional buyers as defined under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, Category I foreign portfolio investors, sovereign wealth funds, and multilateral agencies.

With the above definition of 'accredited investor', the regulatory intent was to set out objective criteria for ascertaining sophistication of investors rather than relying on the metric of minimum investment size.

Simultaneously, SEBI provided for a relaxed regulatory framework for 'large value funds ("**LVFs**") for accredited investors' where each investor (other than the manager, sponsor, and employees and directors of the AIF or of the manager) is an accredited investor not investing less than INR 70,00,00,000 (Indian Rupees seventy crore).

Now, the AIF Third Amendment represents an additional step in the said 'ease of doing business' initiative by reducing the aforesaid minimum investment amount for LVFs to INR 25,00,00,000 (Indian Rupees twenty-five crore), and by carving out a separate type of AIF scheme namely 'Accredited Investors only Fund'.

Key amendments

Introduction of AIOF

Pursuant to the AIF Third Amendment, an AIOF is defined as an AIF or scheme of an AIF in which each investor (other than the manager, sponsor, employees or directors of the AIF or of the manager) is an accredited investor.

It is, therefore, clear that AIOFs is an umbrella category of funds or schemes that subsumes the existing category of LVFs. Accordingly, any regulations applicable to AIOFs would also apply to LVFs but not *vice versa*.

The AIF Third Amendment also allows for the possibility of AIFs to onboard investors with minimum investment value of INR 1,00,00,000 (Indian Rupees one crore) (which is the default condition for investment in AIFs) but also establish new schemes as AIOFs.

Particularly, SEBI has provided for existing AIFs or schemes of AIFs launched prior to the notification of the AIF Third Amendment to convert to AIOFs, subject to the conditions as may be specified.

Reduction in minimum investment threshold for LVFs

As noted above, the AIF Third Amendment, has by way of an amendment to Regulation 2(1)(pa) of the AIF Regulations, reduced the minimum investment threshold for accredited investors forming part of LVFs from INR 70,00,00,000 (Indian Rupees seventy crore) to INR 25,00,00,000 (Indian Rupees twenty-five crore).

This is in line with SEBI's objective of broadening the investor base in AIFs without compromising on the level of sophistication of investors, as noted in its consultation paper on providing flexibilities to LVFs.

Exemption from National Institute of Securities Markets certification requirements

Pursuant to Regulation 4(g)(i) of AIF Regulations, the key investment team of the manager of an AIF is required to have at least one key personnel with relevant certification from the National Institute of Securities Markets ("**NISM**"), as an eligibility criterion for obtaining registration as an AIF. With the AIF Third Amendment, this requirement has been done away with for AIOFs.

SEBI's rationale, as noted in its AIOF Consultation Paper is that AIOFs are meant for investors who are capable of conducting independent due diligence while investing, including an assessment of the credentials and track record of the manager and its key investment team, and accordingly, they need not be subject to the NISM certification criteria for their investment team.

Exclusion of accredited investors from investor count

Regulation 10 (f) of the AIF Regulations requires that no scheme of an AIF will have more than 1,000 (one thousand) investors.

Under the AIF Third Amendment, accredited investors will be excluded while computing the number of investors in a scheme of an AIF allowing AIFs to have a larger base of accredited investors without breaching the maximum investor limit applicable to schemes.

Tenure extension flexibility

Prior to the AIF Third Amendment, Regulation 13(5) of the AIF Regulations permitted LVFs to extend tenure up to 5 (five) years subject to the approval of two-thirds of the unit holders by value of their investment.

The AIF Third Amendment substitutes all references to 'large value fund for accredited investors' with 'Accredited Investors only Fund' in Regulation 13(5) of the AIF Regulations, thereby providing all AIOFs with the same flexibility in respect of tenure extension.

Pari-passu rights exemption

Regulation 20(22) of AIF Regulations requires that, other than LVFs, the rights of investors of a scheme of an AIF will be pari-passu in all aspects i.e. differential rights offered to select investors of a scheme of an AIF will not affect the interest of other investors of the scheme.

Here again, the AIF Third Amendment has substituted all references to 'large value fund for accredited investors' with 'accredited investors only fund" in Regulation 20(22) of the AIF Regulations, thereby extending the exemption to the larger umbrella category of AIOFs.

Manager to discharge trustee responsibilities

Notably, the AIF Third Amendment introduces a new sub-regulation (24) under Regulation 20 of the AIF Regulations, providing that the responsibilities and obligations of a trustee of an AIF specified under the AIF Regulations will, in the case of an AIOF, be carried out by the manager of the AIOF, thereby eliminating the requirement for a separate trustee for AIOFs.

Conclusion

As noted in the SEBI board meeting on September 12, 2025, the number of accredited investors participating in AIF investments is expected to increase in the coming years, owing both to the lighter-touch regulatory framework under the AIF Regulations, as well as additional steps being taken by SEBI to streamline the accreditation process itself.

Finance Practice

JSA has a widely recognised market leading banking & finance practice in India. Our practice is partner led and is committed to providing quality professional service combining domain knowledge with a constructive, consistent, comprehensive and commercial approach to issues. Clients trust our banking lawyers to take a practical and business-oriented approach to achieving their objectives. Our lawyers have a clear understanding of the expectations and requirements of both sides to a financing transaction and provide tailored advice to each client's needs. The practice is especially praised for its accessibility and responsiveness and its ability to work well with international firms and clients. We represent a variety of clients including domestic and global banks, non-banking finance companies, institutional lenders, multi-lateral, developmental finance and export credit institutions, asset managers, funds, arrangers and corporate borrowers in different sectors on a wide range of financing transactions.

Our full spectrum of services includes advising clients on corporate debt transactions (including term and working capital debt), acquisition finance, structured finance, project finance, asset finance, real estate finance, trade finance, securitisation, debt capital markets and restructuring and insolvency assignments.

Our practice has been consistently ranked in the top-tier for several years, and several of our partners are regarded highly, by international publications such as Chambers and Partners, IFLR, Asia Law, Legal 500, Asia Legal Business, IBLJ and Leaders League.

This Prism is prepared by:

Varun Sriram
Partner

Varsha Srinivasan
Principal Associate

Nandini Menon V
Senior Associate

Nithyashree Venkatesh
Associate

18 Practices and
41 Ranked Lawyers

7 Ranked Practices,
21 Ranked Lawyers

14 Practices and
12 Ranked Lawyers

13 Practices and
49 Ranked Lawyers

20 Practices and
24 Ranked Lawyers

8 Practices and
10 Ranked Lawyers
Highly Recommended in 5 Cities

Regional Legal Expertise Awards (APAC) of the Year
Energy Firm Competition/
Antitrust Firm

Among Best Overall
Law Firms in India and
14 Ranked Practices

----

9 winning Deals in

IBLJ Deals of the Year

----

11 A List Lawyers in

IBLJ A-List - 2025

Recognised in World's 100 best
competition practices of 2025

Ranked Among Top 5 Law Firms in
India for ESG Practice

Asia M&A Ranking
2024 – Tier 1

For more details, please contact km@jsalaw.com

www.jsalaw.com

advocates & solicitors

Ahmedabad | Bengaluru | Chennai | Gurugram | Hyderabad | Mumbai | New Delhi