

SEBI amends Alternative Investment Funds Regulations to introduce a new sub-category of 'Angel Funds' under Category I – AIF

The Securities Exchange Board of India ('SEBI') has at its board meeting held on June 25, 2013, inter alia amended the SEBI (Alternative Investment Fund) Regulations, 2012 by introducing 'Angel Funds' as a sub-category under Category I – Venture Capital Funds.

Salient features of 'Angel Funds'

(a) 'Angel Funds' will be included in the definition of "Venture Capital Funds" i.e. Category – I of the AIF Regulations.

(b) Requirements & Qualifications of Angel Investors:

- Individual angel investors will be required to have early stage investment experience/ experience as a serial entrepreneur/be a senior management professional with 10 years experience;
- Individual angel investors will have to have net tangible assets of minimum Rs. 2 crore;
- Corporate angel investors will have to have a net worth of Rs. 10 crore net worth or be registered as AIF/VCF.

(c) Registration Requirements:

- Minimum corpus size of Angel Funds - Rs.10 crore (as against Rs. 20 crore for other AIFs);
- Minimum investment by an investor will have to be Rs. 25 lakhs (may be accepted over a period of maximum 3 years) as against Rs. 1 crore for other AIFs;
- Further, the continuing interest by sponsor/manager in the Angel Fund will have to be not less than 2.5% of the corpus or Rs. 50 lakh, whichever is lesser.

(d) Investment Conditions:

Angel funds will be able to invest only in investee companies which:

- are incorporated in India and are not more than 3 years old; and
- have a turnover not exceeding Rs.25 crore;
- are unlisted;
- are not promoted, sponsored or related to an Industrial Group whose group turnover is in excess of Rs.300 crore; and
- have no family connection with the investors proposing to invest in the company.
- Minimum investment in an investee company by an Angel Fund will have to be Rs.50 lakhs and not more than Rs.5 crore;

(e) Tenure of investment: Minimum 3 years.

ARA LAW's Views:

Introduction of Angel Funds under alternative investment funds is a welcome move which will not only give impetus to angel investment activities but also a boost to budding entrepreneurs. Since Angel

Funds are a sub-category of Category I Venture Capital Funds, they will also enjoy exemption from SEBI insider trading regulation, lock-in requirements at the time of listing of the company SEBI (ICDR) Regulations and can also avail tax pass through status.

However, SEBI should leave minimum investment criteria to be negotiated by the investors and company as early start ups may not require such huge investments. Another striking requirement is that angel funds should not have family connection in the company in which it invests. However, clarity is required on what does 'family connections' means since the irony of angel investments is that most of them come from relatives and friends of such companies. Further, we would also require clarity on what SEBI means by 'Industrial Group'; whether it has the same meaning as that of the group company under the SEBI (ICDR) Regulations or something more stringent. Once the fine print on this class of alternative investment funds is available we will have greater clarity on this class of funds.