

**DEPUTY GENERAL MANAGER
ALTERNATIVE INVESTMENT FUND AND FOREIGN PORTFOLIO INVESTOR DEPARTMENT
DIVISION OF POLICY AND DEVELOPMENT**

AFD/PoD/OW/2024/3685

January 24, 2024

**Mrs. Gandhimadhy Varadarajan,
LetsVenture Advisors LLP,
Investment Manager of LV Angel Fund,
No. – 51, Indiqube Penta,
5th Floor, Wing – B, Richmond Road,
Shanthala Nagar,
Bangalore – 560025.**

Dear Sir,

Sub: Request for Informal Guidance by way of interpretive letter under the provisions of the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 in connection with provisions for Angel funds under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012

Ref: Your letter dated September 07, 2023

1. In your letter / communication under reference, you have, *inter-alia*, stated the following –
 - 1.1. LV Angel Fund (“Fund”) is registered with SEBI as a Category I – Venture Capital Fund – Angel Fund with Registration No. IN/AIF1/18-19/0585 dated September 06, 2018.
 - 1.2. The Fund being registered on September 06, 2018 will be completing 5 years’ tenure by September 06, 2023. The Fund has certain angel investors who have under-utilized the threshold amount of INR 25 Lakh within the period of five years as mentioned in Regulation 19D (3) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (‘AIF Regulations’).
 - 1.3. There have been scenarios where the Fund has invested into a start-up complying with the minimum amount requirement under Regulation 19F(2) of AIF Regulations and the start-up owing to several reasons (such as flipping to foreign jurisdictions, change in business line etc.,) restructure to form a new legal entity. As the original investors of the

start-up, the Fund gets an offer to mirror the shareholding in the newly incorporated entity, by investing a nominal amount which will be less than INR 25 Lakh. Consequent to the mirroring of shareholding, the Fund gets the original shareholding percentage in the new legal entity and the Fund's shareholding in the old entity will be zeroed down. To comply with the regulation 19F(2) of AIF Regulations, the Fund often rejects the offer to participate in the new company or subscribe INR 25 Lakh to get shares which are valued for just a few thousands rupees.

1.4. The Fund, being an Angel Fund, files the term sheet specified in Annexure 15 of Master Circular dated July 31, 2023 for AIFs, containing all the material information within ten days of launching the scheme. There have been scenarios where changes in a few particulars like amount of investment, addition or deletion of investors, total capital commitment by investors or any other particular mentioned under Annexure 15 of the Master Circular, result in change or modifications in the commercial arrangements after the launch of scheme or filing of term sheet.

2. In this context, you have sought an interpretive letter under the Securities and Exchange Board of India (Informal Guidance) Scheme 2003 ('Informal Guidance Scheme') from SEBI on the following queries -

Query I: Can the time limit provided under the Regulation 19D(3) i.e., 5 years, be extended any further?

Query II: Whether the minimum investment amount in a start-up of INR 25 Lakh as per Regulation 19F(2) of AIF Regulations is to be complied with in cases when the fund mirrors its shareholding in the new entity?

Query III: When does the obligation to file the revised term-sheet arise? Whether it arises with every minor change incorporated in the details of the term sheet or with relevant material change? Further, is there any specific time period within which the revised term sheet can be filed?

Query IV: Can we create sub schemes under each existing Schemes which shall comply with all the AIF Regulations?

Our Comments:

3. The submissions made in your letter have been considered and without necessarily agreeing with your analysis, our view on the queries raised in your letter are as under:

Response to Query I:

- 3.1. Regulation 19D(3) of AIF Regulations states as under:

"Angel funds shall accept, up to a maximum period of five years, an investment of not less than twenty-five lakh rupees from an angel investor."

- 3.2. AIF Regulations do not specify any provision for extension of the 5-year period for accepting funds from angel investors specified under Regulation 19D(3) of AIF Regulations. Therefore, the said 5-year period cannot be extended any further.

Response to Query II:

- 3.3. Regulation 19F(2) of AIF Regulations states as under:

"Investment by an angel fund in any venture capital undertaking shall not be less than twenty-five lakh rupees and shall not exceed ten crores rupees."

- 3.4. In terms of Regulation 19F(2) of AIF Regulations, the minimum amount to be invested in a venture capital undertaking/start-up is INR 25 Lakh. Therefore, whenever an Angel fund makes a new or fresh investment in a separate entity (venture capital undertaking/start-up), it shall not be less than INR 25 Lakhs. However pursuant to an initial investment made in a venture capital undertaking/start-up, if the Fund is receiving any shares in another venture capital undertaking/start-up due to reasons such as restructuring and no new transaction of fresh investment is being made, then the requirement of minimum INR 25 Lakhs investment may not be applicable.

Response to Query III:

- 3.5. As per para 15.3 of the Master Circular dated July 31, 2023 for Alternative Investment Funds:

- *Angel funds may launch schemes subject to filing of a Term Sheet in the format as specified in Annexure 15.*
- *Such Term Sheet shall contain material information regarding the scheme.*
- *Such Term Sheet shall be filed with the Board within ten days of launching the scheme.*

3.6. As per part C of Annexure 15 of the Master Circular dated July 31, 2023, Angel Funds are required to submit details of only material changes in the term sheet, in the following format:

Provisions in the PPM / last Term sheet	Material change	Rationale for change	Date of intimation to SEBI / date of approval from SEBI

3.7. Considering that changes in term sheet are pursuant to change in terms of investment, Angel Funds are required to submit the (revised) term sheet and material changes in the same, if any, as soon as the said change has happened and in any case, before making any investment pursuant to the revised terms of investment.

Response to Query IV:

3.8. As per paragraph 8(iv) of the Informal Guidance Scheme, SEBI may not respond to requests where the applicable legal provisions are not cited by the applicant. Since the applicable legal provisions are not cited and the AIF Regulations do not have any reference to the concept of 'sub-schemes', no response has been provided for Query IV.

4. The above position is specific and based on the information / representation in your letter under reference. Different facts or conditions might entail a different interpretation. This letter does not express decision of the Board on the queries referred in your letter.
5. You may note that the above views are expressed only with respect to the clarification sought in your letter under reference with respect to the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 and do not affect the requirements or applicability of any provisions of law, including the Securities and Exchange Board of India Act, 1992, and the rules, regulations, guidelines or circulars framed thereunder that are administered by the Securities and Exchange Board of India; or of the laws administered by any other authority.

Yours faithfully,

Sanjay Singh Bhati