Review of regulatory framework for Angel Funds under AIF Regulations to rationalise their fund raising and enhance ease of doing business

1. Objective:

This Board Memorandum proposes to streamline the regulatory framework for Angel Funds, an asset class that plays a pivotal role in channelizing capital of Angel Investors to start-ups, with respect to their fundraising processes, investment conditions, operational aspects and governance. This Board Memorandum proposes that Angel Funds shall offer securities of investee companies only to Accredited Investors, whose risk appetite credentials are verified by an independent agency recognised by SEBI. Further, to ensure that offering of investment opportunities by Angel Funds to Accredited Investors is in consonance with the provisions of Companies Act, it is proposed to recognise Accredited Investors as Qualified Institutional Buyers ('QIBs') under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ('ICDR Regulations'), for the limited purpose of investment in Angel Funds.

These proposals are envisaged to enhance ease of doing business for Angel Funds and improve funding for start-ups through the Angel Funds, with necessary safeguards in place.

2. Background and need for review of Angel Fund framework:

2.1. The regulatory framework for Angel Funds was introduced in 2013 under SEBI (Alternative Investment Funds) Regulations, 2012 ('AIF Regulations'). In line with the Union Budget Announcement for FY 2013 – 2014, the regulatory framework prescribed requirements for Angel Investor pools to be recognised as Category I AIF – Venture Capital Funds. This was to incentivise Angel investments and to provide relaxation to companies receiving such investments from the provisions of Section 56(2)(vii) of the Income Tax Act, 1961 (also referred as 'Angel Tax'). The Angel Tax regime treated investments received by unlisted companies exceeding their fair market value as "income from other sources" and levied tax on the same at applicable rate.

2.2. As on March 31, 2025, there are 103 Angel Funds registered with SEBI, having made cumulative investments of around INR 4,439 Crore. There has been

consistent growth in the Angel Fund industry over the past 5 years, with a compounded annual growth rate (CAGR) of 61% in investments (Details of Angel Funds registered with SEBI and cumulative investments made in the past 5 years are given at Part I of Annexure A).

2.3. Though Angel Funds are regulated under AIF Regulations, Angel Funds are distinct from a typical AIF in various key aspects as enumerated at Part II of Annexure A. Angel Funds are required to raise capital from Angel Investors who meet specified eligibility criteria, and invest only in start-ups that meet the criteria as specified by Department of Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, Government of India. A crucial and distinct feature of Angel Funds is that, before making any investment, the manager of Angel Fund is required to obtain approval from Angel Investor for the said investment, that is, investment is based on deal-by-deal approval. In a sense, Angel Fund is not a blind-pool product like an AIF, but more akin to an investment under Portfolio Management Service wherein investor opts for each investment opportunity before execution, though contrary to investment through PMS route, the investments here are made and held in the name of Angel Fund.

2.4. In the recent past, SEBI has received requests from AIF industry association and Angel Funds seeking a review of various regulatory provisions with respect to Angel Funds to provide operational and investment flexibility. Further, due to a lack of explicit clarity in the current regulatory framework, various inconsistencies have been observed by SEBI in the operational practices of Angel Funds, such as calculating commitment period, closing for fund raising, and offering of investment opportunities. Such lack of clarity has led to frequent requests from Angel Funds seeking clarifications and informal guidance.

2.5. On the other hand, certain requirements such as template for PPM, audit of compliance with PPM terms, and reporting of valuation to performance benchmarking agencies, etc., were not initially made applicable to Angel Funds when these requirements were introduced for AIFs, giving due cognizance to the unique nature of Angel Funds.

2.6. Considering the above, a Working Group (hereinafter referred as 'WG'), consisting primarily of Angel Fund managers, along with an academician and legal practitioner, was set up to provide recommendations for a comprehensive review of the regulatory framework for Angel Funds.

3. Consultation with stakeholders:

3.1. The WG, while submitting its recommendations, also highlighted the existence of two types of Angel Fund structures in the AIF industry as under –

3.1.1. One type of investment vehicle that structurally resembles a VCF in terms of a defined corpus size, defined life of fund and so on, more like close ended Angel Funds (referred as 'traditional Angel Funds'); and,

3.1.2. Other type of investment vehicles are the angel networks that do not have a defined life or corpus size most of the time. Investors join when they feel the need to invest and leave the network when they do not wish to be part of network any longer (referred as 'platform Angel Funds').

The WG noted that the existence of these two distinct types of Angel Funds poses certain challenges in terms of linking any milestone to a measure like corpus or putting finite timelines linked to the life of the fund and that its recommendations have to be viewed in the light of these distinctions.

3.2. On further examination, it was observed that these platform Angel Funds were showing investment opportunities for investment in unlisted companies to a large number of investors through web-based platforms without adequate verification of their eligibility to meet the criteria for an 'Angel Investor'. Further, the current regulatory framework for Angel Funds does not specify factors that enable functioning of platform Angel Funds, thus bringing in complexities in implementation and monitoring of prudential norms of the extant framework.

3.3. While the recommendations of the WG and the highlighted issues were being examined, pursuant to Union Budget announcement for FY 2024-25, Clause 23 of the Finance Bill, 2024 proposed abolishment of Angel Tax for all classes of investors, to bolster the start-up ecosystem, which subsequently became effective from April 01, 2025. Therefore, the fundamental need and merits in

continuing to regulate Angel Funds warranted a relook, considering that providing exemption for Angel investments from Angel Tax was a primary objective behind introducing Angel Funds framework, as stated in para 2.1 above.

3.4. Considering the above, an agenda was presented to the Alternative Investment Policy Advisory Committee (AIPAC) of SEBI to seek their views on whether Angel Funds should continue to be regulated by SEBI. The agenda also included proposals to streamline the extant framework for Angel Funds, if continuance of the Angel Funds as a regulated structure is the way forward.

3.5. Taking into account the recommendations of the AIPAC, SEBI issued the following two consultation papers relating to this agenda –

3.5.1. Consultation paper dated November 13, 2024, on the review of regulatory framework for Angel Funds, as given at Annexure B. 21 stakeholders have provided their views on the proposals made in the consultation paper (hereinafter referred as 'commenters').

3.5.2. Consultation paper dated February 21, 2025 on expanding definition of QIB under SEBI (ICDR) Regulations, 2018, to include Accredited Investors for the limited purpose of investments in Angel Funds, as given at Annexure C. This was issued in continuation to the aforesaid consultation paper and based on preliminary discussion around this proposal in SEBI Board meeting held on December 18, 2024. 9 stakeholders have provided their views on the proposals made in the consultation paper.

A summary of comments received from public on the aforesaid consultation papers and our views on the same are given at Annexure D.

3.6. The specific issues and proposals in this regard, along with views of AIPAC and stakeholders, have been discussed in detail in the following sections.

4. Need for existence of Angel Funds as a regulated structure:

4.1. Due to the abolishment of Angel Tax, the fundamental need for regulating Angel Investor pools required to be relooked at. With the removal of Angel Tax,

Angel Investors may be incentivised to make direct investment in start-ups based on their own due diligence, which is expected to boost the entrepreneurial spirit and support innovation, and such investments will not be subject to Angel Tax incidence for the investee company. On the other hand, regulating Angel Investor pools subjects them and their investments to regulatory constraints and related compliance costs associated with regulatory framework for AIFs.

4.2. However, there are certain other benefits, apart from the aforesaid tax incentive, in having Angel Fund as a regulated structure. Angel Funds provide Angel Investors an opportunity to avail expertise of experienced, professional fund managers in accessing and managing investments in start-ups, while retaining investors' discretion to invest only in start-ups of their liking. Further, the investment is made and managed in the name of Angel Fund, offering ease of operation for start-ups and Angel Investors, thus providing a conducive environment for start-up ecosystem.

4.3. Considering the need to weigh both the perspectives, views of AIPAC were sought on the need to continue with regulating the Angel Fund framework. AIPAC recognized Angel Funds' importance in professionally managing Angel Investors' capital and their critical role in funding start-ups and, therefore, recommended maintaining Angel Funds as a regulated structure. AIPAC also highlighted that, besides AIFs, there may not be any other legitimate avenues for pooling funds to invest in start-ups on a deal-by-deal basis.

4.4. Further, views were sought from public on whether the Angel Funds should continue to be regulated. All the comments received in this regard have strongly advocated for continuing with Angel Funds as a SEBI regulated fund stating the following reasons—

4.4.1. Angel funds provide benefits like professional management, diversification and governance mechanisms for investors protection;

4.4.2. Comfort to investors due to monitoring and supervision of the regulator;

4.4.3. Reduced transaction complexities for start-ups, by dealing with Angel Fund rather than multiple Angel Investors;

4.4.4. Absence of legitimate avenues to pool funds to invest in start-ups; and,

4.4.5. Greater scope for fund raising and institutional participation due to enhanced trust.

4.5. The recommendations of AIPAC and public in this context warrants consideration. It is understood from the submissions of the stakeholders and the industry that there is lack of clarity on whether there are any legitimate avenues for pooling money to invest as per stated investment strategy. In terms of AIF Regulations, AIF is defined as a privately pooled investment vehicle that collects funds from investors, for investing it in accordance with a defined investment policy for the benefit of its investors. The definition specifically excludes certain type of regulated funds and pooled structures. Further, Regulation 3 of AIF Regulations states that no entity or person shall act as an AIF unless it has obtained a certificate of registration from SEBI. Thus, any pooling vehicle set up to pool money from investors to invest in accordance with a defined investment objective, and does not fall under the exemptions specified under definition of AIF, has to be registered as an AIF and the same would apply to Angel Investor pools also.

4.6. Considering the recommendations of AIPAC and comments of stakeholders on the consultation paper, it is viewed appropriate that SEBI may continue to regulate Angel Investor pools as Angel Funds. However, since it is not a typical AIF and has its own set of features that do not fit into sub-category of Category I AIF - VCFs, it may be appropriate to bring Angel Funds as a direct sub-category under Category I AIFs, instead of it being a sub-category of Category I AIFs – VCFs.

4.7. Further, it is strongly viewed that, if SEBI should continue to regulate Angel Funds, it is imperative to address the regulatory gaps in the extant regulatory framework, especially with respect to Angel Funds offering unlisted securities to large number of investors without verifying their risk appetite. Accordingly, the proposals to modify the regulatory framework for Angel Funds are discussed below.

5. Eligibility criteria for investment in Angel Funds:

5.1. Angel investor is defined in the AIF Regulations as any person who proposes to invest in an Angel Fund and satisfies one of the following conditions:

- Individual investor with net tangible assets of at least INR 2 Cr. excluding value of his principal residence and who (a) has early-stage investment experience; or, (b) has experience as a serial entrepreneur; or, (c) is a senior management professional with at least 10 years of experience.
- Body corporate with net worth at least INR 10 Cr.
- AIF registered under the AIF Regulations or VCF under the erstwhile VCF Regulations.

5.2. To incentivise participation from various pools of capital, the WG has recommended expanding the scope of Angel Investors to include HUFs, trusts, accredited investors, etc., reducing net-worth criteria for body corporates, and, considering professional qualification as an alternative eligibility criterion for individual Angel Investor.

5.3. Since investments in start-ups are highly risky and investor consent is required for each investment, Angel Investors must have the necessary risk appetite and be well-informed about the risks involved. However, during SEBI inspections of Angel Funds, it was observed that the managers often rely on self-declarations and social media profiles of the investors to verify their eligibility as an Angel Investor. Such lack of proper verification of their eligibility and risk appetite, has led to Angel Funds on-boarding a large number of investors.

5.4. Further, in terms of extant framework, no investment of Angel Fund shall have more than 200 investors. However, there is no cap on the total number of investors that can be on-boarded to an Angel Fund and offered an investment opportunity. Platform Angel Funds, as discussed above, have long tenures and use web-based platforms to show investment opportunities to large numbers of investors. Thus, these funds may invite to subscribe/offer securities of unlisted companies to more than 200 investors, though limiting contributions to 200 investors.

5.5. Section 42(2) of Companies Act, 2013 specifies that an offer or invitation to subscribe securities under private placement shall not be made by a company to persons more than 200 in the aggregate in a financial year, excluding Qualified Institutional Buyers (QIBs), or to employees of the company under a scheme of employees stock option (the limit was 49 investors under Companies Act, 1956). Further, Section 42 (7) provides that a company making private placement of securities shall not release any public advertisements or utilise any media, marketing or distribution channels or agents to inform the public at large about such an issue.

5.6. When the Angel Fund framework was introduced in 2013, the number of investors in a scheme was also capped at 49 to ensure that investment in a company is not akin to a public offering. This limit was later raised to 200 investors in Angel Fund framework, in line with changes in the Companies Act. It is pertinent to note that the 200-investor limit in the Companies Act is applicable on offer or invitation to subscribe unlisted securities, thereby restricting the allotment of securities to less than 200 investors.

5.7. Thus, offering investment opportunities by Angel Funds to a large number of investors, while restricting contributions from 200 investors, raises concerns that this could be seen as a circumvention of public issue norms by investee companies, undermining the intent of the Angel Fund regulations behind limiting allotment in an investment to less than 200 investors. **This sub-section has been excised for reasons of confidentiality.**

5.8. To ensure that Angel Funds only on-board investors with the necessary risk appetite after proper verification, it is proposed to allow only Accredited Investors ('AIs'), certified under extant SEBI accreditation framework, to invest in Angel Funds. Investors who meet commensurate net-worth criteria specified by SEBI, are accredited by a third-party accreditation agency after verification. Such investors may avail exemption from minimum investment amount or concessions from specific regulatory requirements applicable to investment products. A comparison of extant eligibility criteria for Angel Investors and AIs is given at Part III of Annexure A.

5.9. It is expected that the eligibility criteria for AIs would allay concerns regarding investors without necessary risk appetite being offered and making investments in start-ups through Angel Funds.

5.10. AIPAC noted that this proposal aims to strengthen the regulatory framework for Angel Funds, ensuring that they attract investors with the appropriate risk appetite. After discussions, AIPAC recommended these proposals along with a suggestion to simplify the accreditation process. Further AIPAC recommended a glide path for existing Angel Funds for aligning their fund raising and investor on-boarding process, so as to not affect their ongoing investment activities. AIPAC recommended providing a time-period of 1 year to existing Angel Funds for the transition to the AI regime.

5.11. Further, a total of 6 out of 21 commenters have welcomed this change proposed in the first consultation paper, as this would ensure that the investors possess the requisite risk tolerance to participate in high risk investments and help shield less-experienced investors from exposure to such illiquid assets. Some of these commenters have also recommended simplifying the accreditation framework for effective implementation of this proposal.

5.12. However, 15 out of 21 commenters, predominantly managers of Angel Funds have expressed strong opposition for this proposal, stating that limiting Angel Funds to only AIs would reduce the pool of angel investors drastically and exclude a variety of competent investors. Further, these commenters have recommended retaining the existing criteria or reducing it, to encourage more investors in start-up space, with or without third party verification.

5.13. The comments of stakeholders, especially managers of Angel Funds, have largely been around increasing the investor base for Angel Funds, even to the extent of allowing retail participation. While the need for encouraging investors in start-up space is recognized, it may be seen that the commenters have not acknowledged the concerns relating to Angel Funds on-boarding investors without the necessary risk appetite for investments in start-ups.

5.14. Further, the suggestion to allow retail participation in Angel Funds squarely contradicts the regulatory intent of channelizing capital of investors with high-

risk appetite to riskier, illiquid investments, i.e., start-ups. With the same intent, a ticket size of INR 1 Crore has been prescribed in other categories of AIFs to exclude retail participation. The specific eligibility criteria prescribed for Angel Investors in terms of net worth and experience, as stated at para 5.1 above, is even more stringent than the entry barrier for investment in AIFs, where net-worth or income of the investor are not looked at, considering the targeted riskier investment avenue for Angel Funds Thus, AIFs, including Angel Funds, are investment vehicles meant for sophisticated investors and not for retail participation.

5.15. Commenters have also highlighted that since Angel Investors are allowed to invest directly in start-ups without any threshold, there may not be a need to prescribe an eligibility criterion for investors in Angel Funds. While direct investment in start-ups can be made by any investor(s), such investment would then be a buyer beware transaction wherein one invests in an unregulated environment at his/ her own risk, without recourse to a regulator. Thus, comparison of investment in a company directly to investment through a regulated structure is not appropriate. Further, even in such case, the private placement norms under Companies Act intends to restrict the company reaching out to public at large without complying with public issue norms.

5.16. Further, considering that the extant net-worth thresholds set in 2013 have not been revised thereafter and the significant growth in economic parameters, it is essential that the existing criteria is reviewed to allow entry to only investors with commensurate risk appetite. Note that market indices have grown more than 300% in the last 12 years; if the same is taken into account, the 12-year projection of angel investor net-worth criteria set in 2013 nearly reflects the current eligibility criteria for AIs. The other economic parameters such as per capita net national income and gross domestic product of the country also indicate the need of an upward revision in the net-worth criteria of the Angel Investors. The changes in these key economic indicators over the past 11 years have been enumerated in Part IV of Annexure A.

5.17. Commenters have highlighted the difficulties in accreditation process and limited number of AIs as the main obstacle in this proposal. As on May 29,

2025, there are 649 AIs with valid accreditation certificates (Part V of Annexure A**)**. While this may be considered a low count, it should be seen in context with the fact that the accreditation framework was operationalised only in November 2021 and that this number does not include deemed AIs such as Government related investors, QIBs, etc.

5.18. The reason behind the low AI count needs to be seen in the backdrop of minimal features/ flexibilities in extant AI regulatory framework, thus reducing the attractiveness of AI status for high risk investors. Largely, sophisticated investors who have necessary net-worth to obtain accreditation are comfortable enough to invest more than INR 1 crore in an AIF, rather than obtain accreditation to avail exemption from the ticket size. Considering that the proposed mandate would necessitate investors to obtain accreditation to invest in Angel Funds, the existing number of AIs should not be considered as a constraint for implementing the same.

5.19. As regards suggestion of AIPAC and commenters to streamline the accreditation process, the same has been reviewed and simplified in December 2023 to, inter-alia, reduce the documents for submission, increase validity of accreditation, and allow easier access of investors' KYC. SEBI has further taken note of this suggestion to revisit the accreditation framework for further simplification and is in discussions with the relevant stakeholders towards this purpose. Note that SEBI is actively considering certain proposals for easing the accreditation process and giving it greater regulatory impetus. The following have also been discussed in AIPAC in this context:

(a) To leverage KYC Registration Agency (KRA) ecosystem for expansion of Accredited Agencies (AA) and for bringing operational efficiency; and,

(b) To facilitate seamless on-boarding of Accredited Investors (AI) based on first level due diligence by manager of an AIF.

5.20. It is expected that, with the proposed mandate and the aforesaid steps taken for simplification of accreditation framework, the number of AIs will increase and consequently, the accreditation cost will come down significantly. It is expected that these proposals for simplifying accreditation will be

operationalised within the glide path of 1 year being considered to be provided to Angel Funds for transition to AI regime, and thus reducing the frictions in implementation of this proposal.

5.21. Regardless of the rationale for the AI proposal given above, if the industry desires that Angel Investor pools should continue as a SEBI regulated structure, it is the regulator's responsibility to address the concerns that presently exist in the framework and place necessary safeguards for effective monitoring and supervision. The growth of start-up ecosystem should be propelled by sustained capital formation. Considering the fact that AIFs is a product that is largely meant for sophisticated investors, we are exploring a possible long-term roadmap to be in place to move to a 'only AI' regime even for the AIF industry as a whole. In this backdrop, the proposed move to AI only regime for Angel Funds may be seen as a step in this direction.

5.22. It is important to note that, the framework/flexibilities proposed in the forthcoming sections are largely envisaged based on strength and regulatory comfort of allowing only AIs to invest in Angel Funds. Extending these flexibilities to Angel Funds without mandating an 'only AI' regime for Angel Funds may not be prudent.

5.23. It is further viewed that there may be no need to cap the total number of accredited investors who may be on-boarded to an Angel Fund and offered an investment opportunity, since the financial capabilities of these investors who are verified by an independent agency to assess if they have the necessary risk appetite. This is envisaged to facilitate scaling up of the industry and enhance capital flow to start-ups, while having sufficient guardrails in place.

6. Alignment with provisions of Companies Act with respect to private placement:

6.1. While the aforesaid proposal at para 5.23 is meant to facilitate fundraising by Angel Funds, not capping number of investors at fund level implies that investment in a start-up may be shown by Angel Funds to a large number of investors, exceeding 200. While investee companies are bound by the provisions of Companies Act and it does not apply to the units issued by Angel

Funds, there may be a dissonance in spirit with Section 42(2) of Companies Act that caps invitation to subscribe/offer of securities under private placement to 200 investors, excluding QIBs.

6.2. However, limiting the number of investors to 200 for offering investments, could adversely affect the much-needed capital that is channelized by Angel Funds to start-ups. Therefore, it may not be desirable to align the cap on number of investors for offering securities of start-ups in Angel Fund framework with that of Companies Act provision.

6.3. In this context, it is understood that QIBs (defined in ICDR Regulations as given in Part VI of Annexure A**)** are excluded from the aforesaid limit of 200 investors under private placement in Companies Act, largely based on the following principles:

6.3.1. The cap of 200 investors in private placement ensures that such offerings remain non-public by targeting a select group of investors. QIBs, being institutional investors rather than “general public”, do not dilute the private nature of such placements.

6.3.2. QIBs being institutional investors with substantial resources, expertise, and risk assessment capabilities, are seen as those who have an ability to independently evaluate the merits and risks of a private placement without needing the level of regulatory protection required for retail or less experienced investors.

6.3.3. Excluding QIBs from the 200-investor cap allows issuers to access, even on a private placement basis, the broader institutional capital for raising significant funds efficiently without any artificial constraints while maintaining the private offering's intent.

6.4. Thus, it is inferred that the exclusion of QIBs from the 200-investor cap is intended to facilitate efficient capital raising without compromising on investor protection, recognizing the expertise of QIBs while maintaining the private nature of such placements. Considering this regulatory intent, a parallel can be drawn between QIBs and AIs, since AIs, on account of their financial strength, are perceived to be aware of the inherent risks in illiquid early stage

investment and carry out necessary due-diligence before making an investment.

6.5. Thus, there is a case for recognising ‘Accredited Investors’ as ‘QIBs’ for the limited purpose of offering investment opportunities and allotment of investments by Angel Funds under AIF Regulations, to meet the regulatory objectives in a non-disruptive manner. This would also be beneficial for the start-up ecosystem, as it would facilitate Angel Funds to scale up by raising capital for start-ups in a regulated environment from a large number of AIs.

6.6. **This para has been excised for reasons of confidentiality.**

6.7. This proposal is specifically with reference to investment in unlisted companies through the Angel Funds route, with no impact on the definition of QIBs in the context of public markets. It is acknowledged that all AIs may not be “institutional” investors and hence, such AIs may not have strong governance mechanisms that QIBs (as per extant definition) are perceived to have in place. Considering the same, for the purposes of public markets where QIBs have a key role to play in price discovery for the larger public, it may not be appropriate to allow AIs to participate in public market as QIBs.

6.8. Further, there is no cap in the Companies Act with respect to number of QIBs who can be allotted securities in a private placement. In line with the same and considering the proposal to include AIs as QIBs for the purpose of Angel Funds, the existing investor limit of 200 for investment by Angel Fund in an investee company may be removed. This would facilitate channelization of capital to a start-up through Angel Funds, as Angel Funds can accept contribution from more number of investors for investment in an investee company.

6.9. While AIPAC recommended both the aforesaid proposals, commenters on the consultation paper dated February 21, 2025 (the second consultation paper specifically for these proposals at para 6.5 and 6.8 above) have again expressed disagreement with the proposal to mandate AIs to invest in Angel Funds, which was not a proposal included in this consultation paper. Many of the commenters, especially managers of Angel Funds, have yet again

suggested retail participation to be allowed in Angel Funds. The rationale for not accepting the same and mandating only AIs in Angel Funds is discussed at para 5.14 to 5.20 above. Hence, these comments may not be taken into consideration.

6.10. Also, taking into account the inputs of WG, AIPAC and favourable comments received from commenters, it is proposed to allow Key Management Personnel ("KMP") of Angel Fund and its manager (such as members of key investment team, employees involved in decision making, members of senior management team) to invest in Angel Funds, without any minimum investment requirement. Even if these KMPs do not qualify as AIs, it is felt that this flexibility to invest in Angel Funds may be provided, since it enhances skin in the game from the key personnel of manager. Considering that employees of a company are excluded from the limit of 200 investors for private placement under the Companies Act, in line with the same, there may not be a need to cap the number of KMPs, who can contribute towards an investment of the Angel Fund.

7. Conditions for fund raising by Angel Funds:

7.1. Minimum investment amount and commitment period: In terms of Regulation 19D(3) of AIF Regulations, Angel funds shall accept, up to a maximum period of 5 years, an investment of not less than INR 25 lakh from an angel investor. The WG suggested providing clarity on whether the 5-year period is calculated for each investor or at fund level.

7.2. While the regulatory intent here is to limit the period of receiving capital from an angel investor, there may be various genuine reasons for an investor's commitment not being fully drawn down within the 5-year period, such as limited investment opportunities, mismatched investment interests, etc. Thus, there may be cases where minimum investment of INR 25 Lakh is not drawn down from an Angel Investor within the 5-year period. Additionally, an investor may be interested in future investment opportunities beyond the 5-year period. Hence, having a time limit for accepting capital from an Angel Investor may hinder the fund raising and operational flexibility of Angel Funds and Angel Investors and may be removed.

7.3. In case of a typical AIF, the minimum investment amount of INR 1 Crore per investor is not applicable for investment by Accredited Investors. Given the proposal to allow only AIs to invest in Angel Funds, the aforesaid minimum investment amount of INR 25 Lakh in Angel Funds may be removed.

7.4. Minimum corpus requirement: Angel Funds are required to have a minimum corpus of INR 5 crore, wherein corpus is defined as the total funds committed by investors to the fund. However, in case of Angel Funds, as explained earlier, investment is made in investee companies after obtaining consent of investor for such investment. Thus, the investor is not obligated to provide capital for each investment opportunity initiated by the manager. This negates the concept of having a commitment to invest in Angel Fund, and consequently, calculating Angel Fund's corpus based on investor commitment becomes irrelevant.

7.5. However, in place of minimum corpus requirement, to ensure sufficient investor interest prior to making any investments, Angel Funds may be required to on-board at least a minimum number of AIs before conducting its first close. AIPAC recommended a threshold of 5 AIs to be on-boarded for conducting first close.

7.6. Since the concept of “corpus” becomes irrelevant under the proposed framework, other limits in extant regulatory framework calculated on corpus (such as the permissible limit for overseas investment or the continuing interest of sponsors/managers) may instead be linked to total investments made by the Angel Fund.

7.7. AIPAC recommended these proposals, stating that they aim to simplify and align the regulatory framework. Also, with the shift towards an ‘only AI’ regime for AIFs, these proposals will facilitate in making the regulatory framework operationally efficient.

7.8. Some commenters have suggested retaining the aforesaid existing provisions, since they are not in support of an ‘only AI’ regime for Angel Funds. However, many commenters have expressed agreement with these proposals, as it provides operational clarity and flexibility. Considering the same, these

flexibilities to provide clarity and enhance ease of doing business for Angel Funds, proposed on the strength of proposal for AI only regime, may be retained.

8. Expanding the investment avenue for Angel Funds:

8.1. Angel Funds are mandated to invest only in start-ups as defined by DPIIT, which meet certain specified conditions. The WG proposed allowing Angel Funds to invest up to 25% of their investable funds in unlisted companies other than start-ups, as well as in units of other Angel Funds or Category I AIFs. WG also recommended allowing follow-on investments in portfolio companies that no longer remain start-ups.

8.2. The regulatory intent behind Angel Funds is to channelize investments into genuine start-ups. Allowing investments in other unlisted companies (that are not start-ups) could dilute this intent. Further, Angel Funds invest on a deal-by-deal basis, with specific investor approval for each investment, so that the investors evaluate the investment opportunity in each investee company independently. Permitting them to invest in units of other Angel Funds or AIFs would not be in line with this and could potentially obstruct transparency.

8.3. However, the suggestion to allow Angel Funds to make follow-on investments/exercise pre-emptive rights in existing investee companies that are not start-ups to protect and preserve the value of their initial investments, merits consideration. Thus, it is proposed to allow Angel Funds to make follow-on investments in their portfolio companies that are no longer start-ups, but subject to the condition that follow on investment is allowed only to the extent the Angel Fund's stake in the investee company is not diluted. This safeguard is intended to preserve the regulatory intent of Angel Funds while facilitating existing investors to protect their investments.

8.4. AIPAC recommended the proposal noting that it seeks to maintain the integrity of Angel Funds while providing flexibility for follow-on investments. Commenters have welcomed allowing follow-on investment in existing investee companies that are no longer start-ups. However, they have also suggested not restricting such investments to maintain the existing

shareholding pattern among investors who already participated in previous rounds and removal of upper limit of INR 10 Crore for such investments.

8.5. However, as already stated above, this relaxation is proposed to enable existing investors who had invested initially in the investee company to exercise their pre-emptive rights and the safeguards placed are intended to ensure that the regulatory intent of Angel Funds is not diluted. Therefore, further relaxation in the safeguards for follow-on investment may not be considered. However, any investor amongst the existing investors may be allowed to make additional contribution to the extent the investment opportunity is turned down by another existing investor.

9. Investment conditions for Angel Funds:

9.1. Lower and upper cap for investment: As per Regulation 19F(2) of AIF Regulations, investment by an Angel Fund in a start-up shall not be less than INR 25 lakh and shall not exceed INR 10 Crore. To reflect the growth of the angel ecosystem, WG has recommended increasing the range for size of investment, i.e., lowering the minimum investment threshold to INR 10 Lakh and increasing the maximum investment threshold to INR 25 Crore per company.

9.2. Before the recent abolishment of the Angel Tax provisions, the eligibility for start-ups to qualify for the exemption was that paid-up share capital and share premium amount of start-up shall be less than INR 25 Crore (raised from INR 10 Crore, in 2019). Considering the same, evolving market dynamics and since these limits were last reviewed 5 years back, the suggestion of WG merits consideration. Accordingly, it is proposed that the investment by Angel Fund in an investee company may not be less than INR 10 Lakh and not exceeding INR 25 Crore.

9.3. Diversification norms: Regulation 19F(5) of AIF Regulations currently mandates that not more than 25% of the total investments under all schemes of an Angel Fund can be made in a single company, provided that the compliance to this regulation shall be ensured by the Angel Fund at the end of its tenure. Adhering to this requirement at the end of the fund's tenure neither

adequately mitigates investment concentration risks during its tenure, nor appears to be feasible for Angel Funds and verifiable by the regulator.

9.4. Further, since investor's consent is needed prior to making an investment, diversification at Angel Fund level does not translate to diversification of portfolio for a particular investor. With the regulatory comfort of allowing an 'only AI' regime for Angel Funds, it is proposed to remove the diversification norm at Angel Fund level.

9.5. Measures to avoid misuse of Angel Fund structure: To prevent Angel Funds from becoming vehicles facilitating single investor in making investment in a single investee company, it is proposed that each investment made by an Angel Fund must have contributions from at least three AIs (excluding the manager/ sponsor). This requirement ensures broader participation in each investment of Angel Fund and maintaining pooling at investment level.

Further, to ensure transparency to investors about concentration of investments of Angel Fund, when an Angel Fund proposes to invest in an existing investee company or a group company or related party of an existing investee company, necessary disclosure to investors in this regard may be mandated while obtaining their consent.

9.6. Lock in period for investment: Currently, investment by an Angel Fund shall be locked in for a period of one year. The WG recommended removing the lock-in period, provided that any exits from the investment are not made via sale to the promoters or their affiliates. While other categories of AIFs do not have such a lock-in requirement, this was introduced for Angel Funds to ensure that start-ups receive long-term capital, and to prevent any premature exit destabilizing the start-up. However, in the case of a secondary sale (i.e., sale to a third party), there is no burden on start-ups to provide exit to Angel Funds. At the same time, complete removal of lock-in could undermine the stability of management of the investee company.

9.7. To balance the need for flexibility in securing favourable exits with maintaining stability of investment received by start-up, it is proposed to reduce the lock-in period to 6 months for investment made by Angel Fund which it exits by way

of sale to a third party, i.e., other than buyback from the start-up or sale to its promoters/affiliates.

9.8. AIPAC recommended the aforesaid proposals noting that they aim to provide investment flexibility to Angel Funds. Views of commenters in this regard have also been favourable. However, to provide further flexibility to Angel Funds to ensure that the investments are not stalled due to inadequate number of AIs consenting to an investment, it may be mandated that minimum 2 AIs shall contribute to an investment, instead of 3 as proposed in the consultation paper. This also ensures that the regulatory intent of the product remaining a pooling vehicle at the investment level is met.

However, to ensure that investors of the same group are taking advantage of this flexibility to circumvent provisions of other applicable financial sector regulations, it may be clarified that the framework for carrying out specific due-diligence of investors and investments of AIFs with narrow investor base, as specified vide SEBI circular dated October 08, 2024 and the accompanying implementation standards, may be suitably made applicable to Angel Funds.

10. Obtaining investor consent, offering and allocation of investments by Angel Funds

10.1. Investor Consent for each investment - The WG recommended dispensing with the requirement for explicit investor approval before each investment, stating that an angel investor's initial election to invest in an Angel Fund should be considered as approval for any subsequent investments made by the fund, as requiring further approvals is repetitive and may delay decision-making.

10.2. The existing regulatory framework allows angel investors to have discretion in participating in specific investment opportunities. The manager of the Angel Fund obtains an undertaking from each investor to confirm their participation in particular investments. This is meant to protect the investor's interests and ensures the agreed participation in that particular investment.

10.3. While many comments received on the consultation paper have suggested retaining this requirement, few commenters have suggested allowing non-

discretionary investment through Angel Funds or bringing in the flexibility of deemed approval.

10.4. Despite the WG's recommendation, we may accept the views of majority commenters, since the requirement for investor consent before each investment is an integral and distinguishing feature of the Angel Fund structure, setting it apart from other categories of AIFs. The eligibility criteria for Angel Funds and the operational norms for Angel Funds are designed based on this aspect. AIs who do not wish to be involved in individual investment decisions can always opt to invest in other AIFs, such as Category I AIF – VCFs that usually have early stage company focussed investment strategies. Therefore, the requirement for investor approval remains an essential feature of Angel Funds and needs to be retained.

10.5. Offering and allocation - There is a lack of clarity in extant framework and inconsistency in practices in Angel Fund industry regarding the manner of offering an investment opportunity for approval/ consent and allocating an identified investment opportunity among consenting investors. Typically, each investor may choose to invest different investment amounts, which may not be an exact fit for the size of investment opportunity. The WG suggested allowing Angel Funds to selectively offer and allocate investments to a subset of their investors as identified and specified in their PPM.

10.6. Allowing discretion to the manager in offering investment opportunities could lead to preferential treatment for certain investors that could be unfair to other investors, resulting in non pari-passu rights among investors. Therefore, it is critical that investment opportunities are offered to all investors of the Angel Fund. This would also ensure that Angel Funds operate in a transparent manner.

10.7. While offering is to be made to all investors, flexibility in the manner of allocation is necessary, as investors may opt to contribute different amounts and thus, there may not be a single methodology which may be made applicable to all Angel Funds having different investor profiles. Thus, Angel Funds may disclose in the PPM, methodology of their choice for allocation of investment, and follow the same consistently. Also, going forward, if only AIs

are allowed to invest in Angel Funds as proposed, it is expected that such investors have necessary resources to assess implications of the terms offered to them. Thus the proposal is aligned with the overall approach suggested in this memorandum.

10.8. AIPAC noted that this proposal aims to ensure fairness and transparency in the offering and allocation of investment opportunities while also giving Angel Funds the flexibility in managing the varying investment sizes of different investors. AIPAC recommended the proposal and also emphasized that the methodology disclosed in the PPM should not provide unilateral discretion to managers in manner of allocation of investments to investors.

10.9. Pro-rata rights of investors: AIFs are required to maintain rights of investors in an investment, including distribution of proceeds, pro-rata to their commitment to the scheme. The said requirement is not applicable to Angel Funds, considering that each investor may have varying amount of contribution in each investment of the Angel Fund. Considering the proposal to remove minimum commitment requirement for investors in Angel Funds, the rights of investors may be maintained pro-rata to their contribution in each investment, including distribution.

10.10. Many commenters have recommended the proposals for offering and allocation of investments and pro-rata rights of investors in investments. However, some commenters have stated that Angel Funds should have the flexibility to offer investments selectively to investors, at the behest of the investors' interest and the investee company.

10.11. Offering of investment opportunity to select investors as per the manager's discretion brings a lot of customisation on this aspect, which may lead to conflict of interest issues and prejudicial treatment of investors. It is essential that all investors of the Angel Fund get a fair chance to peruse and invest in the investment opportunities of the fund.

11. Sponsor's/manager's continuing interest in Angel Funds:

11.1. Regulation 19G(2) of AIF Regulations requires the manager and/or sponsor of an Angel Fund to maintain a continuing interest of at least 2.5% of corpus, or

INR 50 lakh, whichever is lesser. However, due to the deal-by-deal structure of Angel Funds, there is a lack of clarity on how this continuing interest should be maintained across individual investments.

11.2. The regulatory intent behind the skin-in-the-game requirement is to align the interests of the manager/sponsor with those of the investors. To achieve this more effectively, the sponsor/manager should maintain a minimum continuing interest in each investment, rather than at the fund level, to ensure alignment of interests in every individual deal. Accordingly, it is proposed that sponsor/manager of Angel Fund may maintain minimum continuing interest of 0.5% of the investment amount or INR 1,00,000 whichever is higher, in each investment of Angel Fund.

11.3. While AIPAC recommended the proposal to strengthen the accountability and alignment of interests between the Angel Fund managers/ sponsors, some members of the AIPAC also noted that this requirement could become burdensome for sponsors/ managers as the Angel Funds scale up. On similar lines, most commenters have agreed with the need for sponsor/manager maintaining continuing interest in each investment of the fund. They have suggested reducing the proposed threshold, as it may become difficult for the manager/sponsor to maintain this interest, once their operations are scaled up and more investee companies are added to their portfolios.

11.4. However, it is important that there is alignment in the interest of manager/sponsor with that of investors to avoid conflict of interest. Also, with the scaling up of the business, it is expected that the ability of managers to provide skin in the game should also increase. Considering this and taking into account suggestions received from commenters, it is proposed that the continuing interest to be maintained in an investment may be revised to 0.5% of the investment size or INR 50,000, whichever is higher.

12. Concept of schemes in Angel Funds:

12.1. Regulation 19E(1) of AIF Regulations requires Angel Funds to file a term sheet with SEBI containing material information about the scheme before launching it. The term sheet format requires details about each investment including

those of investee company and investors who are contributing to the investment. Considering the same, a scheme launched indeed refers to an investment made by the Angel Fund, whereas, in case of other AIFs, a scheme represents a blind pool having multiple investments and have separate PPM filed with SEBI. The reference to 'scheme' in Angel Fund framework creates ambiguity in the industry and thus, requires rationalisation. Accordingly, it is proposed that any reference to the word 'scheme' in Angel Fund framework may be either removed or suitably modified to reflect an 'investment' or 'fund', as the case may be.

12.2. Angel Funds currently file term sheets for each investment only for informational purposes (not for seeking approval) and other categories of AIFs do not need to file any term sheet with SEBI for each investment. Given the same and since necessary information collected by way of the term sheet may be captured through periodic reporting to SEBI and retrieved through depositories systems', it is proposed to remove the requirement of filing a term sheet by Angel Funds. Both AIPAC and commenters have supported this proposal, as it brings clarity and reduces compliance burden on Angel Funds. However, Angel Funds may be mandated to maintain records of term sheets for each investment, including the list of investors who participate in that investment and their contribution.

13. Disclosure and governance requirements for Angel Funds:

13.1. Filing of PPM and PPM Audit: As per inputs received from the WG, the existing template PPM for Category I AIFs may be made applicable to Angel Funds, standardising the disclosures in alignment with the regulatory framework specific to Angel Funds. Angel Funds may also be required to file their PPMs with SEBI through a Merchant Banker, as in case of other AIFs. This is intended to standardise disclosures to investors and to streamline approvals by SEBI.

13.2. Additionally, to strengthen disclosure, Angel Funds with total investments over INR 100 crore may be subject to audit for compliance with PPM terms, while smaller Angel Funds may be exempted from this requirement. If the mandate

is implemented, 6 out of 94 Angel Funds would be required to carry out audit for compliance with PPM terms, presently.

13.3. Timeline for declaration of First Close: Currently, Angel Funds are not subject to the 12 month timeline for conducting first-close applicable to other AIFs, allowing their PPMs to remain valid indefinitely without any fund raising or investment activity, which may not be in the best interest of prospective investors. It is proposed to streamline this, by requiring Angel Funds to conduct first close within 12 months, or else they will need to refile the PPM with SEBI before on-boarding investors.

13.4. Performance Benchmarking for Angel Funds: Based on recommendation of the WG, Angel Funds may also be brought under the mandate for performance benchmarking, to bring transparency to investors in assessing the performance of the Angel Fund sub-category. Upon discussion with performance benchmarking agencies, it is understood that performance benchmarking of Angel Fund at fund level can be carried out in the same manner as it is carried out for schemes of other categories of AIFs and that there are no operational challenges.

13.5. AIPAC recommended these proposals that aim to improve investor protection and transparency, ensuring that they align with requirements for other categories of AIFs while addressing the unique nature of Angel Funds.

13.6. While most commenters have recommended prescribing template PPM and mandating PPM audit for AIFs with investments more than INR 100 Crore, there are reservations for mandating merchant banker for filing of PPM with SEBI, as it entails an increased cost of compliance, particularly for smaller Angel Fund managers. However, considering the significant flexibility being proposed in operations and investments of the Angel Funds, it is crucial that there is a third party verification and due-diligence of the disclosures made in the PPM before it is filed with SEBI. This is expected to result in better quality of PPMs, disclosures and speedier approvals.

13.7. Mixed views have been received from the stakeholders on the need for performance benchmarking of Angel Funds. While few have supported this as

it promotes transparency and accountability, others have expressed concerns that the 'deal by deal' nature of an Angel Fund makes benchmarking not a true representation, as each portfolio will differ and it could in fact mislead prospective investors.

13.8. It is recognised that not all investments offered by the Angel Fund manager may be consented by the investors, and hence, investor consent is a factor in performance of the Angel Fund. However, manager is still responsible for deal sourcing, structuring the investment, managing the portfolio, and devising the exit from the investments. Therefore, it is crucial that investors are aware about the performance of the investments made by Angel Fund and have a benchmark to compare the performance.

13.9. However, to address concerns raised by commenters, when the benchmark is published by performance benchmarking agencies and the same is disclosed in the PPM or fund documents, a disclaimer can be made to the effect that investments of Angel Funds are made after obtaining specific approval from Angel Investors for each investment.

14. Review of applicability of AIF regulations to Angel Funds

14.1. In line with the proposed framework for Angel Funds, the applicability of regulations in other Chapters of AIF Regulations to Angel Funds may also be reviewed and suitably modified.

14.2. The reference to other Acts or Regulations in Angel Funds, which have since been modified or repealed, may suitably be updated.

15. Dealing with past instances of Angel Funds offering investment opportunity to large number of investors –

15.1. While reviewing the Angel Fund framework, it was understood that there may be past instances where Angel Funds have offered investment opportunities in unlisted securities to more than 200 Angel Investors to seek their consent for a specific investment. While this board memorandum contains proposals to address this dissonance in spirit with Companies Act provision for private placement (at para 6 above), a view also needs to be taken on dealing with

such cases where Angel funds have reached out to more than 200 investors in the past.

15.2. In this regard, it may be noted that AIF Regulations do not specify any limit on the number of investors to whom such offers may be made by Angel Funds. In terms of AIF Regulations, investments by Angel Funds are required to be made only after obtaining investor consent, and the total number of investors contributing to a specific investment is limited to 200. Accordingly, Angel Funds offering investment opportunities to more than 200 Angel Investors for seeking their consent cannot be considered as violation of AIF Regulations. Thus, no enforcement proceedings cannot be initiated by SEBI in this regard.

15.3. With respect to companies offering/allotting unlisted securities to more than 200 persons, SEBI has taken action against such companies in the past for deemed public issue, upon receipt of specific investor complaints. However, offering of investment opportunity by Angel Funds to Angel Investors may not be strictly equated to offering of securities by a company to investors directly or through distributors, and consequently not seen as facilitating deemed public issue, for the following reasons:

15.3.1. Angel Funds make such offer only to 'Angel Investors' who meet specific criteria as prescribed in Angel Fund framework, and not to the general public.

15.3.2. It is the Angel Fund, and not its investors, that holds the securities issued by the investee company. Investors of Angel Fund only hold units issued by the Angel Fund for such investment.

15.3.3. The investee company deals only with its shareholder, i.e., the Angel Fund, and not with the investors of the Angel Fund.

15.3.4. Angel Funds, by virtue of being a category of AIF, have been included in the definition of QIB. It is pertinent to note that QIBs are excluded from 200 limit for private placement under Section 42(2) of Companies Act.

15.4. It is also noted that, the Angel Fund framework was designed with regulatory flexibilities to support the flow of risk capital to start-ups defined by DPIIT, which

is a desirable policy outcome. Taking into account these aforesaid rationale, it is viewed that SEBI may not take any action against those Angel Funds which have reached out to more than 200 investors for seeking consent for an investment opportunity.

16. Proposed framework for Angel Funds

16.1. Taking into account SEBI's discussions with AIPAC and the AIF industry, comments received from public and internal deliberations, the following is proposed (categorised based on various aspects of the Angel Funds' operations) –

16.1.1. Fund raising -

(a) Angel Funds may continue being regulated by SEBI within the framework of SEBI (AIF) Regulations, 2012, albeit, as a direct sub-category of Category I AIFs.

(b) Angel Funds shall raise funds only from Accredited Investors, without the requirement of a minimum investment amount.

(c) The definition of QIB in ICDR Regulations may be expanded to include Accredited Investors for the limited purpose of offering of investment opportunity and allotment of investments by Angel Funds.

(d) Key Management Personnel of the Angel Fund and its manager may also invest in Angel Fund without the requirement of a minimum investment amount.

(e) The requirement of minimum corpus and maximum commitment period for Angel Funds may be removed and instead Angel Funds may be mandated to start investing only after on-boarding minimum 5 Accredited Investors.

16.1.2. Investment flexibilities -

(f) The requirement for Angel Funds to file term sheet with SEBI for each investment may be removed. Angel Funds may be mandated to maintain records of term sheets for each investment, including the list of investors who participate in that investment and their contribution to the investment.

(g) The minimum and maximum threshold for investment by an Angel Fund in any investee company may be revised to INR 10 lakh and INR 25 crore respectively.

(h) Angel Funds may be allowed to make follow-on investment in its existing portfolio investee company (which is no longer a start-up), subject to the following conditions:

- Contribution to be accepted only from the investors who had contributed in the existing investment in the portfolio investee company when it was a start-up, to the extent that the post-issue beneficial interest of the Angel Fund in the investee company does not exceed that prior to the follow-on investment.
- Follow-on investment shall not be in breach of any permissible investment limit in an investee company.

(i) The extant diversification requirement to invest not more than 25% of all its investments in one investee company may be removed for Angel Funds.

(j) The lock in period for investment by Angel Fund in a start-up may be reduced to 6 months in case that Angel Fund sells the investment to a third party, other than the promoters of the company or their affiliates.

16.1.3. Obligations -

(k) Angel Funds may be mandated to file their PPM with SEBI in a prescribed format through a merchant banker.

(l) Angel Funds may be mandated to conduct first close within 12 months from the date of its PPM being taken on record by SEBI, failing which it shall be required to refile the PPM with SEBI, by paying the requisite fee.

(m) Each investment of an Angel Fund in an investee company shall have contribution from at least two Accredited Investors.

(n) The manager or sponsor shall have a continuing interest in each investment of the Angel Fund of not less than half percent of the amount invested or fifty thousand rupees, whichever is higher, and such interest shall not be through the waiver of management fees.

(o) The manager of the Angel Fund shall disclose and offer each investment opportunity to all the angel investors of the Angel Fund.

(p) For allocating the investment amongst consenting investors, the manager shall disclose and adhere to a defined methodology in PPM of the Angel Fund, without any discretion to manager to decide allocation on case-to-case basis.

(q) The investors of an Angel Fund shall have rights in an investment of the Angel Fund and in the distribution of proceeds of the investment, pro-rata to their contribution to such investment, except to the extent any carried interest is shared with manager/sponsor of the Angel Fund or the employees of the manager.

(r) In case an Angel Fund is proposing to make investment in an existing investee company or a related party of an existing investee company, then the same shall also be disclosed to investors at the time of obtaining their consent.

(s) Template for PPM of Angel Funds shall be prescribed by suitably modifying the existing template PPM for Category I AIFs.

(t) PPM Audit requirement shall be mandated for Angel Funds having total investments more than INR 100 crore.

(u) Angel Funds shall report necessary information including investment wise valuation and cash flow data to the benchmarking agencies, in a timely manner, for the purposes of performance benchmarking. In the PPM, as well as in any marketing or promotional or other material, where past performance of the Angel Fund is mentioned, the performance versus benchmark report provided by the benchmarking agencies for such fund shall also be provided.

16.1.4. Clarity in the extant framework -

(v) Any reference to the word ‘scheme’ in the Angel Fund framework may either be removed or suitably modified to reflect an investment or the fund, as the case may be.

(w) All the existing conditions calculated on corpus/ investable funds of Angel Fund may instead be linked to the total amount contributed by

all the angel investors in the investments of the Angel Funds subject to their consent/ approval.

(x) SEBI circular dated October 08, 2024 on 'Specific due-diligence for investors and investments of AIFs' and the accompanying standards may be made applicable to Angel Funds suitably.

16.2. The AIF Regulations may be suitably amended to specify or enable specifying the proposals as given at paras 16.1.(a), (b), (d) to (r), (v) and (w) above. The specific conditions or exemptions for proposals at para 16.1.(e), (f), (h),(j),(k),(l),(p),(q),(v), (w) and proposals at para 16.1 (s), (t), (u) and (x) may be specified by way of issuance of circular.

16.3. The SEBI ICDR Regulations may be suitably amended to specify proposal as given at para 16.1(c) above.

16.4. AIF Regulations may be suitably amended to enable specifying the applicability of the above proposals as under, by way of issuance of circular:

16.4.1. For new Angel Funds, all the conditions proposed shall be made applicable from the date of notification of amendment to AIF Regulations in this regard.

16.4.2. For existing Angel Funds – 1 year time period shall be provided as glide path. Post the 1-year period, Angel Funds shall ensure that investments are made only out of capital contributed by Accredited Investors (those having valid accreditation certificate or those deemed as Accredited Investors). During the aforesaid 1-year period, Angel Funds, having non AIs, shall ensure that the investment opportunity is not offered to more than 200 non-AI investors. All other mandates shall be made applicable from the date of notification of amendment to AIF Regulations in this regard.

17. Proposal to the Board -

17.1. The Board may consider and approve the proposals at para 16 above to suitably amend AIF Regulations.

17.2. The draft amendment to AIF Regulations and ICDR Regulations and the draft notifications for the proposed amendment are placed at Annexure E, Annexure F and Annexure G respectively.

17.3. The Board is requested to consider and approve the proposals as in the Memorandum and authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

Encls:

1. Annexure A (06 pages) – Information and data pertaining to Angel Funds and Accredited Investors.
2. Annexure B (01 page) – SEBI consultation paper on proposal with respect to review of regulatory framework for Angel Funds.
3. Annexure C (01 page) – SEBI consultation paper on proposal with respect to expanding definition of QIB to include AI for the purpose of investment in Angel Funds.
4. Annexure D (52 pages) - Brief summary of public comments received and SEBI's views on the same.
5. Annexure E (01 page) - Proposed draft amendment to SEBI (Alternative Investment Funds) Regulations, 2012 and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
6. Annexure F (01 page) - Draft notification for amendment to SEBI (Alternative Investment Funds) Regulations, 2012.
7. Annexure G (01 page) - Draft notification for amendment to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Annexure A

Information and data pertaining to Angel Funds and Accredited Investors

(as referred in the Board Memorandum)

Part I – Details of increase in Angel Funds registered with SEBI and their investments made in the past 5 years

Year	**No. of registered Angel Funds**	**Commitments raised (in INR Cr)**	**Investments made (in INR Cr)**
As on March 31, 2020	15	489	351
As on March 31, 2021	22	910	577
As on March 31, 2022	39	3,480	1,727
As on March 31, 2023	64	5,663	3,166
As on March 31, 2024	82	7,053	3,343
As on March 31, 2025	103	10,138	4,439

Part II – Key differences between Angel Funds and other categories of AIFs

Particulars	***AIFs***	***Angel Funds***
Investors	- No eligibility criteria, other than investors being from country which is (i) FATF compliant and (ii) a signatory to IOSCO MMoU or bilateral MoU with SEBI. - Minimum investment amount of INR 1 Crore	- Specific eligibility criteria in terms of net-worth requirement and experience, to ensure that only investors who have prior experience/ adequate awareness of such investments and who have sufficient capital invest in such funds. - Minimum investment amount of INR 25 Lakhs
Investment avenue	There is no restriction on investment based on the stage/life cycle of the company for Category I and II AIFs.	To invest only in Start-ups as defined by DPIIT, except start-ups which are:

Particulars	***AIFs***	***Angel Funds***
	However, Category I AIF – Venture Capital Funds and Category II AIFs are required to invest above a specified threshold in unlisted securities.	- promoted/ sponsored by/ related to an industrial group whose group turnover exceeds INR 300 crore or - companies with family connection with any of the angel investors investing in the company.
Decision making/ Pooling	Investment decisions are taken by manager or investment committee set up by the manager and investments are made out of the pool of funds raised from each investor of the AIF, proportionate to their commitment to invest.	Manager to identify investment opportunity and invest money drawn down only from such investors who give approval for the said investment. Thus, angel investors may or may not participate in a given investment opportunity, as per their discretion.
Structuring of schemes	Each investor has pro-rata rights in each investment of the scheme's portfolio.	As stated above, each investor may not have contribution/rights in each investment of the scheme, thus each investment of Angel Fund may have a different set of investors. (It is clarified that, in AIF Regulations, each investment made by an Angel Fund is referred to as a scheme of the Angel Fund).
Maximum no. of investors	A scheme of an AIF cannot have more than 1000 investors. Since investments are made by drawing down contribution from these investors, no separate limit is specified at investment level.	No limit on the number of investors on-boarded to the Angel Fund, however, maximum no. of investors who can invest in a particular investment opportunity is limited to 200 to ensure that investment in an

Particulars	AIFs	Angel Funds
		investee company is not akin to a public issue.

Part III – Comparison of eligibility criteria of Angel Investors versus Accredited Investors

Particulars	Angel Investors	Accredited Investors
Types of investors	Individual investor, body corporate, AIF/VCF	Individuals, HUFs, Trusts, Sole Proprietorships, Partnership Firms, Body Corporates
Eligibility criteria	(i) Individual investor having net tangible assets of at least INR 2 crores (excluding value of his principal residence) and experience - • in early-stage investment; or, • as a serial entrepreneur; or, • of at least 10 years as a senior management professional. (ii) Body corporate with net worth at least INR 10 crores. (iii) AIF registered under the AIF Regulations or VCF under the VCF Regulations, no net-worth requirement prescribed.	(i) Individuals, HUFs, Family Trusts and Sole Proprietorships, which meet the criteria as under: • Annual Income ≥ INR 2 Crore; or • Net Worth ≥ INR 7.5 Crore, out of which at least INR 3.75 Crore is in the form of financial assets; or • Annual Income ≥ INR 1 Crore + Net Worth ≥ INR 5 Crore, out of which at least INR 2.5 Crore is in the form of financial assets. (ii) Partnership Firms in which each partner independently meets the criteria for accreditation. (iii) Trusts (other than family trusts) and Body Corporates with net worth greater than or equal to INR 50 Crore.

Particulars	Angel Investors	Accredited Investors
Verification of eligibility criteria	Responsibility cast on sponsor to ensure Angel Investors meet the aforesaid criteria.	The prospective AI shall make an application to the Accreditation Agency in the manner specified by the Accreditation Agency. The Accreditation agencies shall grant accreditation solely based on the KYC and the financial information of the applicant. Each Accreditation Certificate shall have a unique accreditation number, name of the Accreditation Agency, PAN of the Applicant, validity of accreditation (start date and end date).

Part IV – Changes in key economic indicators over the past 11 years

Parameter	*Value in FY13-14*	*Value in FY24-25*	*% increase over the last 10 years*	*Present value of INR 2 crore in 2013, taken the % increase in last 10 years (in INR Cr)[1]*	*Present value of INR 10 crore in 2013, taken the % increase in last 10 years (in INR Cr)[2]*
Nifty 50	6012 (As on Sep 16, 2013)	24,750 (As on May 31, 2025)	312%	8.23	41.17

[1] *Net worth requirement for individual to be angel investor is INR 2 crore, excluding primary residence*

[2] *Net worth requirement for body corporate to be angel investor is INR 10 crore*

Parameter	*Value in FY13-14*	*Value in FY24-25*	*% increase over the last 10 years*	*Present value of INR 2 crore in 2013, taken the % increase in last 10 years (in INR Cr)[1]*	*Present value of INR 10 crore in 2013, taken the % increase in last 10 years (in INR Cr)[2]*
Per capita net national income (at current prices, INR Crore)	79118	200162 (1st Advance estimates)	153%	5.06	25.30
GDP (at current price, in INR Lakh Crore)	112	324 (1st Advance estimates)	189%	5.77	28.85

(Source – NSE website, Economic Survey FY24-25)

Part V – Data on Accredited Investors (AIs) as on May 29, 2025

Category of AI	*No. of AI with valid accreditation*
Body Corporate	122
Family Trust	34
HUF	3
Individual	405
Joint	45
LLP	15
Partnership Firm	23
Trust	2
Total no. of AIs	**649**

Part VI - Definition of QIB under SEBI ICDR Regulations, 2018

In terms of Regulation 2(1)(ss) of ICDR Regulations, "qualified institutional buyer" means:

(i) a mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with the Board;

(ii) foreign portfolio investor other than individuals, corporate bodies and family offices;

(iii) a public financial institution;

(iv) a scheduled commercial bank;

(v) a multilateral and bilateral development financial institution;

(vi) a state industrial development corporation;

(vii) an insurance company registered with the Insurance Regulatory and Development Authority of India;

(viii) a provident fund with minimum corpus of twenty-five crore rupees;

(ix) a pension fund with minimum corpus of twenty-five crore rupees registered with the Pension Fund Regulatory and Development Authority established under subsection (1) of section 3 of the Pension Fund Regulatory and Development Authority Act, 2013;

(x) National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;

(xi) insurance funds set up and managed by army, navy or air force of the Union of India;

(xii) insurance funds set up and managed by the Department of Posts, India; and

(xiii) systemically important non-banking financial companies.

The consultation paper is available at the following link:

https://www.sebi.gov.in/reports-and-statistics/reports/nov-2024/consultation-paper-on-review-of-regulatory-framework-for-angel-funds-in-aif-regulations_88449.html

The consultation paper is available at the following link:

https://www.sebi.gov.in/reports-and-statistics/reports/feb-2025/consultation-paper-on-expanding-definition-of-qualified-institutional-buyers-under-sebi-icdr-regulations-2018-to-include-accredited-investors-for-the-limited-purpose-of-investments-in-angel-funds_92102.html

Part A – With respect to consultation paper dated November 13, 2024 on review of regulatory framework for Angel Funds in AIF Regulations

Proposal-wise analysis of comments received on this consultation paper -

Prop No.	Proposal Description	No. of people		Total
		Agreed[3]	Disagreed[4]	
1	Should investments by Angel Investor pools through Angel Funds continue to be regulated by SEBI under AIF Regulations?	17	1	18
2	To replace the existing eligibility criteria for Angel Investors with allowing only Accredited Investors (AIs) to be on-boarded as investors to Angel Funds.	6	15	21
3	The number of investors who can contribute for investment in a particular investee company of an Angel Fund shall not exceed 200 during a Financial Year, excluding investors who are Qualified Institutional Buyers.	15	1	16
4	To allow employees and directors of Angel Fund and its manager to invest in Angel Fund with minimum investment amount of INR 5 lakh.	14	1	15
5	To remove Regulation 19(D)(3) of AIF Regulations specifying minimum investment amount and commitment period for angel investors	11	3	14
6	To replace the requirement of minimum corpus of the Angel Fund of INR 5 Crore with requirement that Angel Fund shall start investing only after on-boarding minimum 5 AIs.	8	6	14
7	All the existing conditions linked to corpus/investable funds of Angel Fund may instead be linked to the total amount contributed by all the angel investors in the	11	3	14

[3] (Strongly Agree + Agree + Partially Agree)

[4] (Strongly Disagree + Disagree)

Prop No.	Proposal Description	No. of people		Total
		Agreed[3]	Disagreed[4]	
	investments of the Angel Funds subject to their consent/approval.			
8	Investment by an Angel Fund in any start-up shall not be less than INR 10 Lakhs and shall not exceed INR 25 Crore.	14	0	14
9	To remove 25% diversification limit for Angel Funds specified in Regulation 19F(5) of AIF Regulations.	13	0	13
10	Each investment of an Angel Fund shall have contribution from minimum 3 AIs (other than contribution from manager/sponsor towards maintaining continuing interest).	11	4	15
11	In case an Angel Fund is proposing to make investment in a group company/related party of an existing investee company, then the same shall also be disclosed to the investors at the time of obtaining consent from the investors.	13	0	13
12	Angel Funds may be allowed to make follow-on investment in its existing portfolio investee company (which is no longer a start-up), subject to the following conditions: - Contribution to be accepted only from the investors who had contributed in existing investment in the portfolio investee company when it was a start-up, to the extent that post-issue beneficial interest of Angel Fund in the investee company does not exceed that prior to follow-on investment. Follow-on investment shall not be in breach of the maximum permissible investment limit in an investee company	16	1	17
13	The lock in requirement for investment by Angel Fund in a start-up to be reduced to 6 months in case that Angel Fund sells the investment to a third party	14	0	14
14	Each investment opportunity shall be offered to all the investors; and allocation of contribution in an	14	4	18

Prop No.	Proposal Description	No. of people		Total
		Agreed[3]	Disagreed[4]	
	investment among consenting investors shall be in the manner as explicitly disclosed in the PPM. A clear methodology for allocation of investment among consenting investors shall be disclosed in the PPM. Such methodology shall be objective and not provide the manager a blanket/plain discretion or discretion to decide the allocation on a case to case basis.			
15	The investors of an Angel Fund shall have rights in an investment and in distribution of proceeds of such investment, pro-rata to their contribution to the said investment.	13	4	17
16	Sponsor/manager of Angel Fund to maintain minimum continuing interest of 0.5% of the investment amount or INR 1,00,000 whichever is higher, in each investment of Angel Fund.	9	5	14
17	Regulation 19(E)(1) for filing term sheet may be deleted from AIF Regulations and consequently, any reference to the word scheme may be either removed or suitably modified to reflect an investment, as the case may be.	14	0	14
18	Requirement of taking investor consent before making an investment to be retained.	13	1	14
19	To prescribe template PPM for Angel Funds by suitably modify the existing template PPM for Category I AIFs and to mandate requirement of merchant banker of filing of PPMs of Angel Funds with SEBI.	11	4	15
20	To mandate PPM Audit requirement for Angel Funds having total investments more than INR 100 crore	10	2	12
21	Angel Funds shall conduct their first close, by on-boarding minimum 5 AIs, within 12 months from the	8	4	12

Prop No.	Proposal Description	No. of people		Total
		Agreed[3]	Disagreed[4]	
	date of SEBI communication for taking their PPM on record.			
22	Performance benchmarking for Angel Funds	8	8	16
23	To retain the prohibition on listing of units of Angel Funds.	11	0	11
24	Applicability of framework as elaborated at proposal 24 below	9	7	16

For each proposal in the consultation paper, a summary of proposal wise comments and our views are given as under –

Proposal 1:

Should investments by Angel Investor pools through Angel Funds continue to be regulated by SEBI under AIF Regulations?

S. No	Comments received	SEBI's views
1.	Angel Funds provide essential benefits like professional management, diversification, and governance, making them indispensable.	The rationale for continuing to regulate Angel Investor pools through Angel Funds merits consideration.
2.	<u>Access to professional expertise:</u> Direct investments can be chaotic for start-ups, whereas pooled investments streamline processes. There is a need for professional managers in the ecosystem—both to manage Angel Investors" capital, and to expand the capital available to startups. Not every angel investor will have the time, bandwidth, or ability to conduct due diligence and invest directly in startups.	
3.	<u>Streamlined operations:</u> Investments are made and managed under the name of the Angel Fund, simplifying operations for both startups and angel investors while strengthening the startup ecosystem.	

S. No	Comments received	SEBI's views
4.	Comfort to investors: Regulation of Angel Funds ensures proper oversight, investor protection, and adherence to legal and financial standards, fostering a transparent and well-governed investment ecosystem. By this, there is a greater chance of institutional participation which will be crucial for the continued growth of the sector.	
5.	Certain regulatory constraints for routing pooled investments other than through an angel fund: Apart from Angel Funds, pooled investments in startups may be structured through entities such as companies incorporated under the Companies Act, 2013, limited liability partnerships (LLPs) registered under the Limited Liability Partnership Act, 2008, or trusts established under the Indian Trusts Act, 1882, which structures may entail certain legal-regulatory implications/risks: (a) Presently, the Registrar of Companies (RoC), does not permit the usage of word/term "investment" in the object clause at the time of incorporation of a company or LLP. (b) An LLP/Company/trust structured for managing pooled investments will trigger the requirement of being registered as an AIF with SEBI. (c) An unregulated LLP/Company/trust structured for pooled investments with an expectation of making profit and managed by a manager/designated partner/director will need to be registered with SEBI as Collective Investment Scheme (CIS). (d) A company, LLP, or trust functioning as an unregulated pooling vehicle for investment	There is lack of clarity in the Industry on whether investors can pool money together in an unregulated structure, for investing in a start-up. In terms of AIF Regulations, AIF is defined as a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors. The definition specifically exempts certain type of regulated funds and pooled structures. Further, Regulation 3 of AIF Regulations states that no entity or person shall act as an AIF unless it has obtained a certificate of registration from SEBI. Thus, if any pooling vehicle is set up to pool money from investors

S. No	Comments received	SEBI's views
	purposes may potentially be deemed to be engaged in non-banking financial services (NBFC) activities. (e) Under the prevailing Foreign Exchange Management (Non-debt Instruments) Rules, 2019, foreign investment in the aforementioned unregistered pooling vehicles may be restricted or subject to limitations.	to invest in accordance with a defined investment objective, and does not fall under the specified exemptions for AIFs, then such vehicle has to be registered as an AIF and the same would be applicable for Angel Investor pools. Therefore, the comment may be taken into consideration while finalising the view on this proposal.
6.	Given the unique nature of Angel Funds, there may be a case for exploring an alternate regulatory approach that allows greater flexibility while maintaining accountability. SEBI may consider exempting Angel Funds from certain AIF-specific regulatory requirements while establishing tailored guidelines or a separate regulatory framework focused on investor consent mechanisms, grievance redressal, and procedural clarity.	The proposed framework is envisaged to provide operational and investment flexibility to Angel Funds, on the strength of the proposal to allow only AIs to invest in Angel Funds and enhancing the governance mechanisms.

Proposal 2:

To replace the existing eligibility criteria for Angel Investors with allowing only AIs to be on-boarded as investors to Angel Funds.

S. No	Comments received	SEBI's views
1.	The current eligibility criteria provided under Regulation 19(A)(2) of the AIF Regulations stipulates robust safeguards to ensure that prospective investors possess the necessary sophistication and risk appetite to understand the	It is observed that Angel Fund managers often rely on self-declarations and social media profiles of the investors to verify their eligibility as an Angel Investor. This has led to Angel Funds on-boarding a large number of investors, without

S. No	Comments received	SEBI's views
	complexities and risks associated with the investment product.	adequate verification of their eligibility and risk appetite. Hence, it is appropriate that the extant eligibility criteria are revised to ensure that only investors with commensurate net-worth criteria are allowed to invest in Angel Funds, after proper verification by a third party.
2.	- This will substantially limit the number of investors capable of accessing the market through angel funds. It will also have a cascading effect on the ecosystem since it will substantially reduce the amount of funds available for deployment in start-ups. - Any unexpected amendment to Regulation 19(A)(2) that excludes existing investors – who have previously met all requisite criteria – and hinders their ability to participate in future investments could undermine their confidence in reforms intended to protect their interests. - The proposed change is not in line with the move to encourage more investors to become part of the startup ecosystem. Moreover the criteria of accreditation coupled with the process will deter lot of prospective Angel Investors to pursue this new age asset class.	The proposal to allow only AIs in Angel Funds is essential to ensure that only investors with commensurate risk appetite invest in Angel Funds, understanding the risk associated with investing in start-ups. Thus, the objective of this proposal is to encourage informed and risk appropriate participation of investors in this highly risky asset class, rather than blanket exposure to all investors. Considering the regulatory gaps in the extant framework and the growth of the Angel Funds in the recent past, the time is opportune to bring in warranted mandate. It is expected to streamline the Angel Fund framework, and enhance trust of stakeholders in this framework in long run, which in turn would improve capital inflow to this asset class.
3.	<u>Limitations of AIs Framework:</u>	The extant net-worth thresholds for Angel Investors were set in 2013 and requires

S. No	Comments received	SEBI's views
	(a) Stringent eligibility criteria: The extant framework for AIs sets stringent eligibility criteria, including substantially high net worth requirements, which can pose significant challenges for Angel Funds in onboarding investors. The high net-worth requirements may create entry barriers for prospective investors, making Angel Funds inaccessible and thus impacting their growth.	revision in line with growth of economic indicators in India since then over more than a decade now. Market indices have grown more than 300% in the last 11 years and if the same is taken into account, as may be seen from part IV of Annexure A of this Board Memorandum. The current eligibility criteria for AIs nearly reflects the 11-year projection of angel investor net-worth criteria set in 2012.
	(b) Lengthy process: Presently, only 3 Accreditation Agencies are authorized to issue Accreditation Certifications and the application process involves prolonged and complicated procedures, potentially adding on to costs and delaying the timely on-boarding of investors. (c) A seem less and efficient certification process is essential to ensure that eligible individuals can readily obtain AI status and fully capitalize on the available opportunities.	Taking into account the feedback and inputs received from stakeholders, vide SEBI circular December 18, 2023, the process and documentation for accreditation have been simplified. It may be noted that majority of the total 649 AIs, have received accreditation post this circular. SEBI, in consultation with industry participants and stakeholders, is also working on reducing any other complexities or friction in the accreditation process, including the following - - To leverage KRA ecosystem for expansion of Accredited Agencies (AA) and for bringing operational efficiency; and, - To facilitate seamless on-boarding of AI based on first level due diligence by manager of an AIF.

S. No	Comments received	SEBI's views
	(d) Validity and renewal processes: The accreditation certificate is valid up to a maximum period of 3 (three) years and the renewal charges are a significant recurring expense for the investors.	As the number of AIs increases, it is expected that the accreditation cost will come down significantly. Further, unlike in a typical AIF, investors in Angel Funds would require valid Accreditation Certificate at the time of each investment since there is no requirement of minimum commitment and investors to evaluate each investment opportunity offered by the manager and invest. This would entail these investors to keep their certificate valid at all times, which will also result in increased business for Accreditation Agencies and thereby reduction in cost.
	(e) Loss of Accreditation Status: Under the proposal to allow only AIs to participate in Angel Funds, if an investor's accreditation certificate expires and they are unable to renew it, they would no longer qualify to invest in Angel Funds as per applicable laws. In such cases, the Angel Fund would be compelled to provide an exit to such an investor. Given that Angel Fund investments are typically illiquid, this could create significant operational challenges in managing cash flow and facilitating such exits.	The understanding given in this suggestion may not be correct. No exit is required from the investments made by the investors in Angel Funds, if the validity of accreditation certificate expires.
4.	This will push investors to invest directly with larger amounts, low diligence, little peer review and hence little or no risk	AIFs, including Angel Funds, are investment vehicles meant for

S. No	Comments received	SEBI's views
	mitigation. This may kill an asset class which is just starting to emerge and, as a first stop for start-ups, is the most critical element of the funding ecosystem. Youngsters today who are just over 18 years of age turn entrepreneurs and start their own start-ups often with support from their family and friends several of whom are their own age. This creates a dichotomy as those that may not qualify under the definition of an AI may start a start-up and even invest in them outside of an Angel Fund yet they cannot participate in an Angel Fund.	sophisticated investors and not for retail participation. Any investor can make direct investment in start-ups, however, the same would always be a buyer beware transaction, wherein one invests in an unregulated environment at his/her own risk. However, when the funds are raised in a regulated environment, it is imperative that necessary safeguards are in place to exclude investors who do not have commensurate risk appetite. Therefore, the concern highlighted in the comment, does not seem appropriate.
5.	This approach offers greater protection by ensuring that only financially sophisticated individuals or entities with the net worth and risk tolerance to handle high-risk investments, like start-ups, participate. It helps shield less-experienced investors from exposure to risky, illiquid assets. This would likely restrict the pool of angel investors, but would ensure that those participating have the financial stability to absorb potential losses from startup investments.	Comments are in support of the proposal and hence, may be accepted.
6.	There is a need to balance the risk appetite of angel investors in India, and at the same time, it should be ensured that willing investors are being able to	Various operational and investment flexibilities have been proposed, on the strength of allowing only AIs to invest in Angel Funds.

S. No	Comments received	SEBI's views
	fund innovation without being restricted due to unreasonable, onerous regulatory standards. The proposed change is reasonable, and this will help strike a balance between protecting investors and encouraging innovation.	
7.	Grandfathering: To honour commitments and maintain market stability, unfunded commitments and investments of existing investors should be grandfathered. Without this measure, Angel Funds may also risk missing valuable opportunities for follow-on investments in successfully scaled companies.	Investments of existing investors are proposed to be continued with. Existing investors may provide contribution for investment by Angel Fund during the period of glide path of 1 year and thereafter, continue to invest upon obtaining accreditation. However, since concept of commitment itself is not relevant in case of Angel Funds, grandfathering existing unfunded commitments may not be considered.
8.	Dynamic net worth criteria: The net worth thresholds should increase based on investment amounts. For example, an investor looking to invest ₹25 lakh would need to demonstrate a net worth of ₹2 crore, whereas an investor aiming to invest ₹1 crore would need to demonstrate a net worth of ₹8 crore.	Since an investor is not obligated to provide capital for each investment offered by Angel Fund, the concept of commitment is not relevant for Angel Funds and hence, the proposed condition negates the intended purpose of bringing Accreditation regime.
9.	Since net worth by itself is an incomplete measure of financial sophistication, any revised accreditation criteria should be broadened to include factors like investment and industry experience, education, and knowledge assessments (such as tests administered by NISM).	Since the accreditation framework is at a nascent stage of its growth, it is viewed that, at this juncture, the existing framework for accreditation may be continued with. However, the suggestion to include experience and/or qualification as an eligibility criterion for accreditation may be

S. No	Comments received	SEBI's views
		taken up in future, depending on the experience gained from the implementation of current framework.

Proposal 3:

The number of investors who can contribute for investment in a particular investee company of an Angel Fund shall not exceed 200 during a Financial Year, excluding investors who are Qualified Institutional Buyers.

Comments received & SEBI's views
This proposal was subsequently revised in the consultation paper dated February 21, 2025 to remove the maximum limit on number of investors participating in an investment opportunity. Comments at proposal 2 in part B of this annexure may please be seen (page no. 88 to 92)

Proposal 4:

To allow employees and directors of Angel Fund and its manager to invest in Angel Fund with minimum investment amount of INR 5 lakh.

S. No	Comments received	SEBI's views
1.	Allowing employees and directors to invest aligns their interests with those of external investors, fostering a culture of commitment and accountability.	Comments are in support of the proposal and hence, may be accepted.
2.	By investing in their own fund, employees and directors demonstrate confidence in the fund's strategy and potential, which could enhance trust and attract more external investors particularly in a high risk asset class like start-up.	
3.	The amount should be a 5 lakhs commitment which can be drawn down for multiple investments.	After internal deliberations on examination of the public comments, it has been proposed to allow KMPs of manager and sponsors to invest,
4.	The minimum investment amount for employees and directors of Angel Funds	

S. No	Comments received	SEBI's views
	should not be changed from the current limit of INR 25 lakhs, since a higher threshold would help limit the number of smaller, less impactful investments, ensuring that the fund remains manageable and efficient, and reduces any administrative cost associated with managing numerous smaller contributions. By enhancing the minimum investment limit, we can ensure that only more committed investors with greater financial capacity, are involved.	without any minimum commitment amount. The concerns highlighted by the commenter are addressed by proposal of mandatory investment by manager/sponsor in each investment. This is only a flexibility being extended to Angel Funds to allow their KMPs to invest in the fund managed by them. The manager of Angel Fund still has discretion in allowing such KMPs to invest in the Angel Fund.

Proposal 5:

To remove Regulation 19(D)(3) of AIF Regulations specifying minimum investment amount and commitment period for angel investors.

S. No	Comments received	SEBI's views
1.	Removal of this regulation would encourage greater participation and inclusivity, which will benefit both investors and the start-up ecosystem	Comments are in support of the proposal and hence, may be accepted.
2.	Removing it would provide Angel Funds with greater flexibility to attract smaller investments, fostering inclusivity and potentially increasing capital available for start-ups. It would also allow Angel Funds to better tailor their structures to meet the needs of both investors and start-ups.	
3.	Since this proposal is based on allowing only AIs in Angel Funds, the existing provision of investors having to invest a minimum of Rs. 25 lakhs over a maximum period of 5 years, may be retained. while allowing non AIs to invest in Angel Funds.	Since it is proposed that only AIs may be allowed to invest in Angel Funds, this comment may not be considered.

Proposal 6:

To replace the requirement of minimum corpus of the Angel Fund of INR 5 Crore with requirement that Angel Fund shall start investing only after on-boarding minimum 5 AIs.

S. No	Comments received	SEBI's views
1.	Replacing the minimum corpus requirement with a focus on on-boarding AIs simplifies operations and ensures fund sustainability. A minimum corpus requirement is less relevant when fund sustainability can be ensured through committed investors.	Comments are in support of the proposal and hence, may be accepted.
2.	Removing the INR 5 crore corpus requirement for Angel Funds would reduce barriers to entry and encourage more investment in early-stage ventures.	
3.	Revision of the threshold of on-boarding minimum 5 AIs to 1 AI (other than contribution from manager/sponsor of the Angel Fund towards maintaining continuing interest), as even a single investor along with the investment manager/sponsor (towards their continuing interest requirement) would still ensure alignment with the principle of it being a pooling vehicle and will ease the requirements for the investment managers to initiate investments at the earliest.	The intent of this proposal is to ensure that the Angel Fund has enough investor interest and achieves certain scale before commencing operations.
4.	- Considering the suggestion to not limit fund participation only to AIs where angel funds are open to both AI and Non AIs, the fund should have a minimum monetary corpus to ensure that the fund is capable of meaningful portfolio diversification. - It is difficult for investors in an Angel Fund i.e Angels to meet the criteria as specified in the definition of AIs and hence, existing provision may be retained. - Allowing Non AIs by introducing a threshold for non-AIs would protect them from excessive risk while allowing broader participation in Angel Funds.	Since it is proposed that only AIs may be allowed to invest in Angel Funds, this comment may not be considered.

Proposal 7:

All the existing conditions linked to corpus/investable funds of Angel Fund may instead be linked to the total amount contributed by all the angel investors in the investments of the Angel Funds subject to their consent/approval.

S. No.	Comments received	SEBI's views
1.	The flexibility to manage funds based on contributions rather than corpus aligns Angel Funds with global practices.	Comments are in support of the proposal and hence, may be accepted.
2.	Linking conditions to the total amount contributed by the angel investors subject to their consent is a logical approach as it aligns fund management practices with investor contribution ensuring flexibility and fairness while maintaining transparency.	
3.	The current regulations sufficiently addresses the issue and therefore, the existing provision may be retained.	As stated in Board Memorandum, since investor is not obligated to provide capital for each investment of Angel Fund, the concept of 'commitment' and calculating 'corpus' on investors' commitment is not relevant in Angel Funds. Therefore, there is inconsistency in interpretation of extant Regulations and hence, the same is to be reviewed. Hence, the comment may not be considered.

Proposal 8:

Investment by an Angel Fund in any start-up shall not be less than INR 10 Lakhs and shall not exceed INR 25 Crore.

S. No	Comments received	SEBI's views
1.	The proposal to set a minimum investment of INR 10 lakhs and a maximum of INR 25 crore provides a balanced framework for Angel Funds	Comments are in support of the proposal and hence, may be accepted.

S. No	Comments received	SEBI's views
	to cater to start-ups at different stages of growth.	
2.	A lower limit of INR 10 lakhs ensures accessibility for smaller investors while retaining meaningful contribution levels. The upper limit of INR 25 crore aligns Angel Funds with the funding requirements of scaling start-ups, addressing a critical funding gap in India.	
3.	The minimum investment limit to be maintained at INR 25 lakhs; Investment by an Angel Fund in any start-up shall not be less than INR 40 Lakhs, except in cases of follow-on investments or instances involving flips/ restructuring/ schemes of arrangement.	Considering the need to allow Angel Funds to make investments in start-ups at smaller ticket size, and that the WG and industry associations have suggested to decrease the minimum investment amount to provide flexibility in investment mandate, this flexibility is being proposed. We are of the view that it shall also benefit start-ups in need of capital in smaller quantum.
4.	When a start-up is succeeding Angel Funds would like the ability to continue supporting them in their journey and this may well go over the suggested limit of INR 25 Crores.	To ensure that the investments are made in genuine start-ups in need of capital and to avoid concentration of investment at fund level, it is necessary to have an upper limit for investment in start-ups. Successful start-ups may have the ability to raise capital from other avenues also.
5.	The minimum investment should be exempted when the AIF receives shares of subsidiary or affiliates of the investee company on goodwill basis or restructuring or shutting down of the investee company. Exceptions should be	AIFs receiving shares of a company as part of the corporate action, having value less than INR 10 lakh are out of control of the AIF / Manager. Hence, minimum

S. No	Comments received	SEBI's views
	carved out for specific scenarios such as such as follow-on investments, flips, restructuring, or schemes of arrangement. However, it is imperative to establish clear, detailed guidelines for terms like "flip" and "restructuring" to eliminate ambiguities and maintain consistency in application.	investment is not to be applicable in such cases where AIF / Manager has no control.

Proposal 9:

To remove 25% diversification limit for Angel Funds specified in Regulation 19F(5) of AIF Regulations.

S. No	Comments received	SEBI's views
1.	Diversification limits are counterproductive for Angel Funds, given their deal-by-deal investment structure. Transparency measures (e.g., reporting concentration to investors) could address concerns about excessive exposure to single ventures.	Comments are in support of the proposal and hence, may be accepted. With respect to transparency measure suggested, it may be noted that, all AIFs, including Angel Funds are required to disclose details of management of concentration risk at the fund level to all investors as part of their annual reports.
2.	The investor consent ensures that each investment is aligned with the individual preferences and risk profiles of the investors, making a blanket diversification rule redundant.	

Proposal 10:

Each investment of an Angel Fund shall have contribution from minimum 3 AIs (other than contribution from manager/sponsor of the Angel Fund towards maintaining continuing interest).

S. No	Comments received	SEBI's views
1.	The proposal effectively addresses the concern of preventing angel funds from being utilized as vehicles for single investors.	

S. No	Comments received	SEBI's views
2.	Introducing an additional threshold for the minimum number of portfolio companies would mitigate the risk of investment concentration in a single entity. The diversity of investor backing can signal to the market that multiple high-net-worth individuals or entities believe in the company's potential, making it easier for these start-ups to raise funds and attract further investors.	Comments are in support of the proposal and hence, may be accepted.
3.	This ensures diversified support for each investment, promoting better governance and reducing reliance on a single investor.	
4.	In the case where a deal is circulated to all investors but only one investor wishes to subscribe it should be allowed.	Since it is proposed to allow flexibility to decide manner of allocation, there is a scope for structuring single investor – target investment through Angel Fund, even if interest is received from one or more investors. Further this proposal ensures pooling of funds at investment level, which the industry has stated as a reason for need of Angel Funds.
5.	Proposal is agreeable, subject to retention of current definition of 'Angel Investors'. Non AIs to be allowed by providing a particular fixed cap amount to their investment	Conditions suggested may not be accepted as it is proposed to allow only AIs to invest in Angel Funds
6.	To further ensure that angel funds do not evolve into single investment structures we request introducing an additional threshold for the minimum number of portfolio companies in which the pool funds must be invested.	With respect to diversification at fund level, comments at proposal 11 given below may be seen.

Proposal 11:

In case an Angel Fund is proposing to make investment in a group company/related party of an existing investee company, then the same shall also be disclosed to the investors at the time of obtaining consent from the investors.

S. No	Comments received	SEBI's views
1.	This proposal promotes transparency and safeguards investor interests by ensuring they are aware of any potential conflicts of interest. Given that Angel Funds require consent for each investment, it is crucial to disclose relationships that could affect the decision-making process.	Comments are in support of the proposal and hence, may be accepted. Further, while the consultation paper had proposed such disclosure only for investment in group company of an existing investee company, it may be prudent to make this disclosure applicable to additional investment in existing investee company itself, by extension of the rationale given by the commenters.
2.	This aligns with the AIF Regulations' objective of protecting investors through comprehensive disclosures, ensuring that investors make informed decisions when approving investments.	
3.	Providing full disclosure to the investors before investing in related-party companies aligns with best practices in corporate governance and regulatory frameworks.	
4.	Such conflicts policies are already in place for many funds but including this transaction in the private placement memorandum under conflict of interest section would formalize the disclosure process.	

Proposal 12:

Angel Funds may be allowed to make follow-on investment in its existing portfolio investee company (which is no longer a start-up), subject to the following conditions:

- *Contribution to be accepted only from the investors who had contributed in the existing investment in the portfolio investee company when it was a start-up, to the extent that the post-issue beneficial interest of the Angel Fund in the investee company does not exceed that prior to the follow-on investment.*
- *Follow-on investment shall not be in breach of the maximum permissible investment limit in an investee company.*

S. No	Comments received	SEBI's views
1.	Follow-on investments are essential to preserving the value of initial investments, especially as start-ups grow beyond the early stage.	
2.	Often, Angel Funds are unable to participate in follow-on investments because the target company no longer qualifies as a start-up under the prescribed criteria. This proposal would address that issue, enabling Angel Funds to actively participate in follow-on funding rounds subject to maximum limits permissible under Regulations.	Comments are in support of the proposal and hence, may be accepted.
3.	Allowing new investors to participate in such follow-on rounds could bring fresh perspectives, networks, and strategic value to such portfolio companies as well.	Angel Funds, as an asset class, is promoted with the aim to channelize funds to start-ups. It is the basic premise that the funds are raised by Angel Funds to invest only in start-ups. Allowing Angel Funds to invest in other than start-ups or in investee companies that are no longer start-ups, would dilute the same. Hence, the comment may not be accepted. Nonetheless, an exception to the above has been proposed to incentivize such investors who had invested in a start-up that no longer remains a start-up.
4.	Restricting contributions to original investors ensures alignment, but opening limited participation to other investors could enhance funding opportunities without undermining investor interests.	
5.	Imposing such investment limits including maintaining the original beneficial interest post-issue and adhering to the maximum investment limit of INR 25,00,00,000, would restrict the Angel Fund's ability to fully capitalize on the profits from early identification of a successful investee entity. These investment limits could further constrain the funding needs of the investee companies, potentially hindering their growth and development.	
6.	Typically, angel funds will enjoy a mop up through their pre-emptive rights. Exercise of	

S. No	Comments received	SEBI's views
	such mop up may push them beyond their earlier percentage of holdings. Ideally these rights should also be enforceable after the entity seizes to be a start-up.	
7.	SEBI may consider allowing a flexibility to offer follow-on investments to other investors in the Angel Fund if the original participating investors elect not to participate in these opportunities.	Since the proposal is intended to allow investors who had participated in earlier rounds of investment in start-ups to get benefit of pre-emptive rights in the particular investee company. Nonetheless, any investor amongst the existing investors may be allowed to make additional contribution to the extent the investment opportunity is turned down by another existing investor.
8.	Angel Investors have different strategies for early or growth stage investments and such decisions should be left to the investors discretion. The underlying objective being to support start-ups that are succeeding.	The regulatory intent behind Angel Funds is to provide growth capital to genuine start-ups at nascent stage. There is still no restriction on Angel Funds investing in follow on rounds of their investee companies which are still start-ups.
9.	Angel funds should be allowed to invest in other AIFs giving the end investors a flexibility to choose AIFs that match their investment preferences. This approach enables investors to build a diversified portfolio instead of individually evaluating early-stage start-up deals which often come with limited information and require in-depth industry knowledge and uncertain exit opportunities.	Angel Funds invest on a deal-by-deal basis, with specific investor approval for each investment, so that the investors evaluate the investment opportunity in each investee company independently. Permitting them to invest in units of other Angel Funds or AIFs would not be in line with this and layering

S. No	Comments received	SEBI's views
		through such structures could potentially obstruct transparency.
10.	It is crucial that there should be no minimum investment amount for these follow-on investments, or a fixed minimum amount should be set as of now it is not mentioned or clearly stated that whether any minimum amount can be invested.	It has not been proposed to specify any minimum amount for follow-on investment.

Proposal 13:

The lock in requirement for investment by Angel Fund in a start-up to be reduced to 6 months in case that Angel Fund sells the investment to a third party.

S. No	Comments received	SEBI's views
1.	Shortening the lock-in period enhances liquidity for investors, making Angel Funds more attractive while preserving start-up stability. Allowing quicker exits through third-party sales (excluding promoters) will encourage more participation in Angel Funds.	Comments are in support of the proposal and hence, may be accepted.
2.	A six-month lock-in ensures balance, enabling Angel Funds to attract and retain investors without destabilizing the investee companies.	
3.	The current requirement to file a term sheet before launching a scheme creates ambiguity, as the term 'scheme' in Angel Funds is interpreted differently from its use in other AIFs.	
4.	Lock-in requirement to be removed altogether for investments made by Angel Funds in start-ups. Start-ups, especially at the pre-Series or early stage, carry high risks and may fail within a few	Angel investments are meant to provide long term growth capital to start-ups. Nonetheless, flexibility has been proposed to reduce the lock-in requirement from one year to six

S. No	Comments received	SEBI's views
	months—sometimes even 2-3 months after investment. If a lock-in period is imposed, investors may find themselves unable to exit or transfer their investments, even if the start-up is not performing well	months on selling investment to third party buyer. Removing the said lock-in requirement completely may not be appropriate, as it may be misused to make short-term profits.

Proposal 14:

Each investment opportunity shall be offered to all the investors; and allocation of contribution in an investment among consenting investors shall be in the manner as explicitly disclosed in the PPM. A clear methodology for allocation of investment among consenting investors shall be disclosed in the PPM. Such methodology shall be objective and not provide the manager a blanket/plain discretion or discretion to decide the allocation on a case to case basis.

S. No	Comments received	SEBI's views
1.	All investors should be given the offer to subscribe and be treated fairly with regards to that.	Comments are in support of the proposal and hence, may be accepted.
2.	Offering every investment opportunity to all investors ensures inclusivity and provides equal access to potential gains, fostering a collaborative investment environment within the Angel Fund.	
3.	Requiring an objective methodology for allocation, as outlined in the PPM, prevents arbitrary decisions by the manager and mitigates potential conflicts of interest. The absence of "blanket discretion" or case-by-case allocation discretion ensures a standardized and equitable process, fostering investor confidence in the fund's governance.	
4.	Investment opportunity to be offered and allocated as per the PPM, clearly stating that in the event of over subscription the fund manager shall retain the right to determine allocation.	Maintenance of pari-passu rights of investors of AIFs including that of Angel Funds has recently been mandated by SEBI. The

S. No	Comments received	SEBI's views
	Certain Angel Funds in the market operate under a model, where owing to the nature of investments and commercial considerations (e.g., minimum ticket size or thresholds), only a select group of investors may be offered/allocated participation in these opportunities. Accordingly, stakeholders request for a flexibility in determining a specific set of investors for particular investments within the Angel Fund. The investment manager may, in its discretion on a deal by deal basis, determine the differentia, on the basis of which investors will be categorized into various buckets and the criteria of deals which will be offered/allocated to the selected investors.	objective of the said mandate is that all the investors in the AIF are provided with equal rights, for being investor of the AIF. The comment is not in line with the aforesaid principle, hence, may not be accepted.
5.	Founders routinely seek out angel funds for the following reasons: 1. Access to persons with specific expertise that their start up requires. 2. Ability to maintain an uncluttered and manageable cap table and also have the benefit of hygiene processes set up by such funds with regards to information sharing and governance checks. Any attempt to offer or disclose all information to a diverse and often unrelated section of people will result in diluting their confidentiality expectations and exposing the start up to unnecessary information sharing with a far wider audience. This will be unacceptable to Founders and larger VCs as it will effectively have the potential to hurt the start up.	Investee companies in need of investors with specific expertise or Investee companies, who have confidentiality concerns in informing their details to all the investors of the Angel funds, always have option to approach the investors directly, if investee companies intending to raise capital from selective investors.
6.	This change will defeat both the key ingredients of an angel fund from a start-up perspective. This will not allow the founder the freedom to raise from persons who have more than the financial capital	

S. No	Comments received	SEBI's views
	to offer and secondly it will effectively put the founder in a place where he / she will have to compromise on integrity of their critical business information by publicising the same to more people than necessary or relevant to them.	
7.	Under the revised proposal while only AIs will be permitted to invest in Angel Fund offering investment opportunities at various different times throughout the financial year on a case to case basis will provide investors with more flexibility. This approach allows the fund to meet the minimum subscription requirements as prescribed by the investee company without relying on the willingness of other investors. Without this flexibility there is a risk that the opportunity could be lost due to the inability to meet the minimum threshold prescribed by the investee company.	If investment opportunity is offered to all the investors, rather than to selective investors, it gives higher chances of raising funds for an investment, hence, it is not appropriate to say that the investment opportunity may be lost.
8.	Offering every investment opportunity to all investors within an Angel Fund not only conflicts with Proposal 3 and the principles of pooling funds under a private placement framework but also becomes unmanageable when dealing with a large base exceeding 200 investors.	It has been proposed that the Angel Funds offering investment opportunities to only AIs without any restriction on number of investors, to address the concerns related to investors without commensurate risk appetite being exposed to riskier investment in start-ups through Angel Funds. This is the regulatory intent of Section 42(2) of Companies Act, which limits investee companies to raise capital from not more than 200 investors.

Proposal 15:

The investors of an Angel Fund shall have rights in an investment and in distribution of proceeds of such investment, pro-rata to their contribution to the said investment.

S. No	Comments received	SEBI's views
1.	Pro-rata rights ensure that investors are rewarded proportionately for their contributions, fostering trust and fairness in Angel Fund operations.	Comments are in support of the proposal and hence, may be accepted.
2.	This provision prevents disputes over distribution and ensures that all investors benefit proportionately. In India, where Angel Funds often include diverse investors, pro-rata distribution formalizes equity and protects minority interests.	
3.	Allocating individual rights to each investor would undermine the very essence of an angel fund, which functions as a collective investment vehicle. By dispersing rights individually, the purpose of the fund—to provide unified, strategic support to start-ups—would be compromised. It would introduce complexities in management, hinder timely decision-making, and dilute the collective value that angel funds offer.	The understanding of the commenters of the proposal is incorrect. The proposal does not intend to disturb the rights that the Angel Fund collectively has in the investment companies. It is only intended to ensure that, any rights associated with the investment, including distribution of proceeds from such investment, should be pro-rata to the contribution made by an investor in the investment.
4.	SEBI has recently prescribed that the investors of a scheme of an AIF shall have rights, pro-rata to their commitment to the scheme, in each investment of the scheme and in the distribution of proceeds of such investment, except as may be specified by the SEBI from time to time. SEBI has explicitly excluded the applicability of the	Considering that the said amendment prescribed that the investors of a scheme of an AIF shall have rights, pro-rata to their commitment to the scheme and that commitment from the investors of Angel Funds cannot be certain owing to deal-by-deal structure, it was decided to examine

S. No	Comments received	SEBI's views
	aforementioned provisions in respect of Angel Funds. By virtue of the SEBI Amendment Notification, it may be understood that owing to the structure of Angel Funds, pro-rata rights of the investors in each investment of the scheme and in the distribution of proceeds of such investment, may be treated differently from other categories of AIFs. In view of the same, the stakeholders request for disregarding this proposal for Angel Funds.	the basis to which pro-rata requirement should be linked to, in place of commitment. In this parallel, it has been proposed that the pro-rata requirement in Angel Funds is made applicable at investment level, i.e. the interest of investor in an investment is to be maintained pro-rata to the contribution in the investment.
5.	SEBI should provide clarity on how pro-rata rights will apply in cases of partial exits or dividend distributions.	Proceeds from partial exits and dividend are to be distributed pro-rata to their investment, in line with the proposal.
6.	Angel Funds be allowed to incentivise the identified key contributors (strong industry reputations or are experts in their fields) who help secure allocations in competitive investment rounds, benefiting a broader set of investors – through carried interest, a widely recognized mechanism for aligning economic incentives with investment outcomes. While these individuals invest alongside other contributors, pro rata distributions may not fully reflect the unique value they add. Furthermore, these key contributors collaborate with Angel Fund managers on only select investments where they can provide additional credibility or a nuanced perspective.	It has been proposed to provide exemption from pro-rata requirement for sharing carried interest with the manager/ sponsor only. In case Angel Funds intend to share carried interest with specific investors, the same can be done out of the share received by the manager/sponsor and direct.

S. No	Comments received	SEBI's views
7.	Distribution should be as per the PPM and Contribution Agreement. Angel Funds, for the benefit of investee companies have different economics for investors/ professionals adding strategic value to the companies including participation in carried interest. This is disclosed to all investors.	

Proposal 16:

Sponsor/manager of Angel Fund to maintain minimum continuing interest of 0.5% of the investment amount or INR 1,00,000 whichever is higher, in each investment of Angel Fund.

S. No	Comments received	SEBI's views
1.	The proposed minimum of 0.5% or INR 1,00,000 ensures that even small investments have a meaningful level of participation from the manager or the Sponsor. It motivates the manager to carefully select investments, as they would have "skin in the game," and would likely adopt a more long-term view of investments if their own capital is tied up in them.	Comments are in support of the proposal and hence, may be accepted.
2.	It should be implemented at overall corpus level instead of each investment by investment.	Implementing the continuing interest at corpus level may not be considered due to the following concerns – - The concept of corpus itself is irrelevant in an Angel Fund; - It does not necessitate manager's skin in the game in all investments; - Once the lower threshold of continuing interest at corpus level is met in initial investments of the Angel Fund, the manager is not

S. No	Comments received	SEBI's views
		mandated to any skin in the game in any of the future investments of the fund, leading to inherent conflict of interest issues.
3.	The concept of 'skin-in-the-game' does not apply here as the Sponsor/ Manager does not take investment decisions. Its role is only that of a co-ordinator. It presents investment opportunities to the angel investors who make individual decisions on where and how much they would like to invest.	By merely acting as a co-ordinator, the construct/entity should not be eligible to be a fund manager under AIF Regulations. Manager is responsible for deal sourcing, offering and allocation of investment opportunities, portfolio management, exit from investment etc. Therefore, continuing interest of manager in each investment is essential.
4.	<u>Monetary burden of the proposed continuing interest requirement:</u> If the sponsor lacks sufficient liquidity, it may restrict the investments that the Angel Fund can make. Further, the sponsor/manager may not be able to scale their operations owing to the increased monetary obligations towards Angel Funds and their own cap table issues.	As the Angel Funds scale up in their size, it is essential that the manager/sponsor also has necessary financial ability and infrastructure to manage these risky, illiquid investments. Thus, with the scaling up of the business, it is expected that the ability of managers to provide skin in the game should also increase.
5.	<u>Various comments on the proposed threshold:</u> - The threshold (0.5% or ₹1 lakh) might be too low to ensure meaningful alignment in larger investments. - SEBI could consider increasing the percentage or introducing a sliding scale for larger funds, ensuring proportional commitment.	Taking all the suggestions into account, the proposed thresholds for continuing Interest has been revised to 0.5% of the investment or INR 50, 000/- whichever is higher.

S. No	Comments received	SEBI's views
	- There should be no minimum limit prescribed. - It should be 0.25 % or INR 100000 whichever is higher in order to encourage small but qualified sponsors/managers to remain relevant in angel fund ecosystem. - The requirement to be revised to lower of 0.5% of the investment amount or INR 1,00,000, to make it more facilitative to make investments. SEBI may further consider increasing the upper limits to INR 1,50,000 or INR 2,00,000, if required. - The requirement may be lower of 0.5 % of investment amount or INR 50000 in each investment of angel fund - capped at INR 50000 to avoid potential cashflow issues.	
6.	SEBI may consider clarifying that the minimum continuing interest shall apply only to new investments made by the existing Angel Funds and earlier investments to be grandfathered. Additionally, it may be clarified that the minimum continuing interest requirement will not apply to future rounds of investment by the Angel Fund in the same investee entity, once the 'lower of' limit is reached.	All the proposals related to investment conditions are to be applicable from the date of notification of amendment.

Proposal 17:

Regulation 19(E)(1) for filing term sheet may be deleted from AIF Regulations and consequently, any reference to the word scheme may be either removed or suitably modified to reflect an investment, as the case may be.

S. No	Comments received	SEBI's views
1.	Simplifying compliance by removing the term sheet filing requirement fosters operational efficiency without compromising transparency. Periodic reporting would still ensure adequate oversight, striking a balance between regulatory compliance and ease of operations.	Comments are in support of the proposal and hence, may be accepted.
2.	Angel Funds would benefit from reduced regulatory overheads, enabling quicker deal execution and more agile responses to market opportunities.	
3.	The current requirement to file a term sheet before launching a scheme creates ambiguity, as the term 'scheme' in Angel Funds is interpreted differently from its use in other AIFs.	
4.	The construct of schemes which are available to other forms of AIF will not be taken away from angel funds. Schemes are a critical part of the operation of an angel fund.	The proposal is to merely to align the terminologies used for Angel Funds with that of other AIFs. Thus, clarity is proposed to be brought in Angel Fund framework, to specify whether the norms are applicable at fund level or investment level, instead of reference to a scheme. The operational aspects with respect to making multiple investments, having different set of investors are still at the discretion of the manager.

Proposal 18:

Requirement of taking investor consent before making an investment to be retained.

S. No	Comments received	SEBI's views
1.	Investor consent ensures that Angel Funds remain flexible and transparent, allowing participants to exercise control over their investments. Retaining this requirement protects investor autonomy and aligns Angel Funds with their intended purpose as deal-by-deal investment vehicles.	Comments are in support of the proposal and hence, may be accepted.
2.	If the investment right is taken away from the Angel Investor, then the Angel Fund will be like any other AIFs.	
3.	This requirement reflects the unique, hands-on approach of Angel Funds, where each investment is considered with careful due diligence and often involves close collaboration with investors.	
4.	SEBI could streamline the consent process through standardized digital platforms to avoid delays while retaining investor empowerment	Angel Funds may explore leveraging e-voting systems in depositories, to streamline the process of taking investor consent.
5.	- Investor must be provided with a right to a discretionary or non-discretionary investment through the Angel Fund. - Suggest consent being taken upfront on joining the AIF or a blanket approval or deemed consent if the investor don't reply after certain period are considered as methods of taking consent.	The manager of the Angel Fund obtaining an undertaking from each investor to confirm their participation in particular investment, is meant to protect the investor's interests and ensures the agreed participation in that particular investment. The requirement for investor consent before each investment is an integral and distinguishing feature of the Angel Fund

S. No	Comments received	SEBI's views
	- Even though there are AIFs that provide non-discretionary investment options to investors they may not invest in very early stage Companies. Hence Angel Funds offer a different risk reward profile and this should not be confused with the discretion to invest or not. - In addition institutional participation including Government Agencies such as SIDBI etc. will not participate in an Angel Fund unless `they have the right to waive the requirement of giving investor consent before every investment.	structure, setting it apart from other categories of AIFs. The eligibility criteria for Angel Funds and the operational norms for Angel Funds are designed based on this aspect. Investors who do not wish to be involved in individual investment decisions can always opt to invest in other AIFs, such as Category I AIF – VCFs that usually have early stage companies focussed investment strategies. Further, deemed approval is not in line with the intent of Angel Fund and takes away agency of investor to peruse the investment opportunity and then decide whether to invest or not.

Proposal 19:

To prescribe template PPM for Angel Funds by suitably modify the existing template PPM for Category I AIFs and to mandate requirement of merchant banker of filing of PPMs of Angel Funds with SEBI.

S. No	Comments received	SEBI's views
1.	Recommendation of prescribing a template PPM tailored for Angel Funds and mandating merchant banker for filing PPMs with SEBI will enhance standardization, transparency, and regulatory compliance in fund documentation.	Comments are in support of the proposal and hence, may be accepted.
2.	SEBI should ensure that the template accommodates the unique nature of Angel Funds (e.g., deal-by-deal structures) and does not impose unnecessary complexity. A tiered approach, where smaller funds have simplified	The template PPM proposed to be prescribed will take into account regulatory intent to ensure that there are adequate disclosures. Adopting the template PPM itself does not

S. No	Comments received	SEBI's views
	PPM requirements, could also reduce compliance burdens.	have any associated cost as such. A tiered approach for template may not be prudent.
3.	An angel fund specific template however we request this at a fund level and not at scheme level. Each scheme should have a short form scheme document.	The template PPM for Angel Funds is to be at fund level. The requirement for filing of term sheet for launch of scheme is proposed to be removed.
4.	SEBI may further consider clarifying that the PPM template will not be applicable to existing Angel Funds. It would be an onerous task to refile the PPM with a Merchant banker for existing funds who have already gotten approval.	The requirement will be applicable prospectively. Angel Funds that apply for registration after date of notification of this requirement would be mandated to file PPM through a merchant banker. However, in terms of SEBI circular dated Apr 29, 2024, existing Angel Funds that have carried out material changes in the PPM as mentioned therein, would be required to file the updated PPM with SEBI through a merchant banker.
5.	- SEBI could allow for self-certification of PPM filings, subject to the standard PPM guidelines, with the flexibility to engage professionals on a case-by-case basis when necessary. Moreover, Angel Funds often raise smaller amounts of capital and involve a limited number of investors, which may not justify the additional regulatory burden of a merchant banker. - Introducing this requirement could disproportionately affect the smaller and more nimble Angel Funds, potentially reducing their ability to raise capital efficiently	Considering the significant flexibilities being proposed in operations and investments of the Angel Funds, it is crucial that there is a third party verification and due-diligence of the disclosures made in the PPM before it is filed with SEBI. This is expected to result in better quality of PPMs, disclosures and speedier approvals. Note that, based on regulatory experience, mandate of Merchant Banker in case of AIFs, has significantly aided to speedier

S. No	Comments received	SEBI's views
	and hindering the overall development of the angel investing ecosystem in India.	approvals and bring down the pendency at SEBI.

Proposal 20:

To mandate PPM Audit requirement for Angel Funds having total investments more than INR 100 crore.

S. No	Comments received	SEBI's views
1.	PPM audits for larger Angel Funds improve transparency and protect investor interests, ensuring consistency with global best practices. By targeting funds exceeding ₹100 crore, SEBI can balance regulatory oversight with operational flexibility for smaller funds, fostering a healthy start-up investment ecosystem while ensuring larger funds maintain high standards of accountability.	Comments are in support of the proposal and hence, may be accepted.
2.	By introducing this audit, investors will have additional assurance that the fund's operations are in line with its stated objectives, reducing the risk of discrepancies or misrepresentation. As Angel Funds grow and accumulate larger assets under management, it is important to maintain regulatory standards that safeguard investor interests.	
3.	Conducting an audit of the PPM adds significant costs to the fund's	The said concern has already been taken into consideration and accordingly, this requirement is proposed only for Angel

S. No	Comments received	SEBI's views
	compliance obligations and prolongs the operational timelines	Funds with total investments exceeding INR 100 Crore.
4.	The total investment size needs to be more than INR 250 crores to ensure that smaller funds are not burdened with disproportionate compliance costs.	Currently, less than 10 out of 94 Angel Funds have investments more than INR 100 Crore. Thus, the proposed threshold will exclude 80% of Angel Funds that are smaller in size.
5.	PPM audits are exhaustive and require significant time and resources. Conducting them annually may create operational burdens specially for funds with active investment cycle. A reduced frequency would ease compliance cost particularly for smaller fund managers without diluting regulatory intent.	The proposal is intended to ensure that there is a third party check for compliance of Angel Funds with the terms of PPM, who are managing a considerable size of investments. Therefore, it may not be prudent to reduce the frequency for the same, as it is meant to be an ongoing verification. Also, the timeline has been proposed in line with the requirement for other AIFs

Proposal 21:

Angel Funds shall conduct their first close, by on-boarding minimum 5 AIs, within 12 months from the date of SEBI communication for taking their PPM on record.

S. No	Comments received	SEBI's views
1.	Mandating a first-close timeline ensures that Angel Funds remain operationally viable and accountable. Globally, such timelines are common to ensure efficient fund deployment.	Comments are in support of the proposal and hence, may be accepted.
2.	The 12-month timeline is a reasonable period for Angel Funds to secure investors and demonstrate a commitment to fund's viability. This time frame strikes a balance between providing Angel Funds with flexibility to raise capital while still	

S. No	Comments received	SEBI's views
	encouraging them to build a solid base of committed investors early on.	
3.	For smaller or niche funds, a one-year timeline may be too restrictive. SEBI could consider exceptions for smaller funds or provide mechanisms to extend the timeline based on specific justifications.	Generally, Angel Funds apply for SEBI registration after scouting the interest of investors. Nonetheless, if an Angel Fund is unable to on-board 5 AIs within the 12-month period, they can re-launch the fund by refiling the PPM with SEBI.
4.	The proposal is acceptable subject to the provision being about Angel Investor and not AIs.	Comments may not be accepted, as it is proposed to allow only AIs to invest in Angel Funds.

Proposal 22:

Angel Funds shall report necessary information including investment wise valuation and cash flow data to the benchmarking agencies, in a timely manner, for the purposes of performance benchmarking. In the PPM, as well as in any marketing or promotional or other material, where past performance of the Angel Fund is mentioned, the performance versus benchmark report provided by the benchmarking agencies for such fund shall also be provided.

S. No	Comments received	SEBI's views
1.	By requiring funds to submit detailed investment data and cash flow information, it ensures that benchmarking agencies can accurately assess and compare the performance of Angel Funds. This will help investors make informed decisions based on reliable, objective metrics, fostering a more competitive and transparent market environment.	Comments are in support of the proposal and hence, may be accepted.
2.	Including performance versus benchmark reports in the PPM and promotional materials ensures that investors are provided with a clear and objective assessment of the fund's	

S. No	Comments received	SEBI's views
	past performance, fostering trust and informed decision-making.	
3.	Angel Fund investments are made into very early stage Companies with low or no information available. Hence it will be difficult to collate the data.	Angel Funds are already required to collect information from investee companies for various purposes, including valuation. Hence, the understanding of the commenter in incorrect. The suggestion may not be accepted.
4.	- Reporting of investment-wise valuation and cash flow data to performance benchmarking agencies will impose significant compliance costs, administrative burdens and extend operational timelines. - Angel Funds operate on wafer-thin budgets and this compliance is extremely onerous and increases the cost for running Angel Funds. These costs would be transferred to investors, posing a challenge to increasing the pool of investors which is critical for the industry.	Angel Funds are already mandated to carry out valuation of their portfolio in specified manner, at least once every six months. The proposal mandates only reporting the valuation to performance benchmarking agency. Further, the performance vs benchmark report is to be obtained and disclosed to prospective investors only if the past performance is mentioned in the PPM of the fund or marketing material.
5.	Most investments made by Angel Funds are high-risk, early-stage investments in start-ups, often in pre-revenue or nascent stages of development. As such, benchmarking returns against traditional asset classes or established private market benchmarks is not feasible. The high-risk nature of these investments, combined with the unique characteristics of early-stage businesses, deal by deal IRR means that standard benchmarks are unlikely to accurately reflect the performance of Angel Funds.	Considering the diverse investment strategies and investment avenues that can be deployed by a category / sub-category of AIF, flexibility has already been provided to develop additional performance benchmarks, based on certain objectively verifiable parameters. Considering the unique nature of Angel Funds, performance of the Angel Fund Industry will be published specifically.

S. No	Comments received	SEBI's views
	Before mandating any return benchmarking requirement for Angel Funds, an appropriate and tailored benchmark specific to the early-stage investment landscape be developed.	
6.	Angel Funds should remain exempt from the performance benchmarking requirements. Angel Funds operate within a unique regulatory framework that supports deal-by-deal investing, setting them apart from other categories of AIFs. Angel Investors, equipped with the necessary financial knowledge and risk appetite, make informed decisions by selecting deals that align with their individual preferences and risk profiles. Unlike index investing, Angel Funds are structured for targeted, deal-specific investments.	All investments offered by the Angel Fund manager may not be consented by the investors, and hence, investor consent is a factor in performance of the Angel Fund. However, manager is still responsible for deal sourcing, structuring the investment, managing the portfolio, and devising the exit from the investments. Therefore, it is crucial that investors are aware about the performance of the investments made by Angel Fund and have a benchmark to compare the performance. When the benchmark is published by performance benchmarking agencies and the same is disclosed in the PPM or fund documents, a disclaimer can be made to the effect that investments of Angel Funds are made after obtaining specific approval from Angel Investors for each investment.
7.	Drawdown notices issued only to those investors who consented to the proposal. This results in different portfolios among investors, with individual investor portfolios may be differing from the Fund's overall portfolio. As a result, performance may vary both between investors and between individual investors and the Fund as a whole. Given these fundamental differences, many of the investors may not co-relate performance of the Angel Fund with their portfolio as they might not have entire portfolio of the Fund.	

Proposal 23:

To retain the prohibition on listing of units of Angel Funds.

S. No.	Comments received	SEBI's views
1.	Listing could lead to complexities in unit fungibility, premature liquidity pressures, misalignment of investor expectations, and potential risks to the start-up ecosystem's stability since fund may end up focusing on liquidity rather than long-term value creation.	Comments are in support of the proposal and hence, may be accepted.
2.	Angel funds are designed to cater to high net-worth investor who understands the illiquid nature of early stage investments. Allowing listing could misalign the investment horizon and risk profile inherent to these funds.	

Proposal 24:

For new Angel Funds, all the conditions proposed shall be made applicable from the date of notification of amendment to AIF Regulations in this regard. For existing Angel Funds, the following is proposed-

- *1 year time period shall be provided as glide path. Post the 1 year period, Angel Funds to ensure that the investments are made only out of capital contributed by AIs (those having valid accreditation certificate or those deemed as AIs).*
- *During the aforesaid 1 year period, Angel Funds having non AIs, shall ensure that the investment opportunity is not offered to more than 200 investors. All other mandates shall be made applicable from the date of notification of amendment to AIF Regulations in this regard.*

S. No	Comments received	SEBI's views
1.	SEBI may consider clarifying that (a) post the 1-year period, the existing investors shall not be required to procure Accreditation Certification; (b) post the 1-year period, existing investors who are not AIs shall be allowed to participate in new investments of the Angel Fund; and (c) during the 1 (one) year glide path, investment opportunities can be offered to all the investors of the Angel Fund.	This comment, in essence, seeks to allow existing non AI investors in Angel Funds to continue, which is not the intention of the proposed framework. Our views at proposal 2, as given above, may please be referred.
2.	Further a grandfathering clause to protect the interests of investors who are already committed to and invested in angel funds should be built in to allow them to remain qualified to complete their 5-year	It is pertinent to note that the investments already made by existing investors have been proposed to be grandfathered.

S. No	Comments received	SEBI's views
	obligations if they so wish. This suggestion is made to ensure that the proposed amendments do not infringe upon constitutional safeguards afforded to every citizen, such as the principle of Promissory Estoppel. Under this principle, individuals who have relied on an existing law or rule are entitled to expect that the law will not be changed in a way that adversely affects their rights or interests. Any change that prevents individuals from participating based on their original commitments—specifically, the period and amount of their investment—would disrupt their financial planning and planned exposure to high-risk early-stage private equity investments. Such a change could be seen by the courts as a violation of the individuals" legitimate expectations and, by extension, a breach of their guaranteed right to equality under Article 14 of the Constitution. Furthermore, the sudden removal of previously permitted investment opportunities, which were made in good faith based on established regulations, would constitute a gross violation of both the letter and spirit of SEBI"s mandate. In light of these considerations, we urge SEBI to take these constitutional and legal principles into account when considering any amendments, to ensure that they are fair, equitable, and consistent with the rights of investors.	However, allowing investors who don't meet accreditation criteria to continue to invest through Angel Funds, is not in the interest of such investors. This concern is amplified by the fact that many Angel Funds have on-boarded investors without properly verifying the eligibility criteria. Hence, this proposal may not be accepted.
3.	A phased implementation minimizes operational disruptions for existing Angel Funds while ensuring alignment with new regulations.	Comments are in support of the proposal and hence may be accepted.
4.	The safeguard of limiting investment opportunities to no more than 200 non-AIs during the transition period	

S. No	Comments received	SEBI's views
	is a prudent measure to prevent excessive investor base expansion	
5.	Implementing all other mandates immediately promotes consistency and strengthens transparency across the ecosystem. This phased approach addresses operational realities while maintaining regulatory integrity.	
6.	Investments should be offered to all investors and there could be more than 200 investors in the fund. This 200 investor limit is not tantamount to violating the norms of the Companies act as explained in the comments for Proposal 3.	Our views at row 8 under proposal 14 may please be seen.
7.	SEBI should consider providing specific guidance on complex transitions, such as reconciling investments involving both AIs and non-AIs.	There may not be any need for providing guidance in this regard, as investments made by Angel Fund prior to the mandate will be grandfathered.

Part B – With respect to consultation paper dated February 21, 2025 on expanding definition of Qualified Institutional Buyers under SEBI (ICDR) Regulations, 2018, to include Accredited Investors for the limited purpose of investments in Angel Funds

Proposal-wise analysis of comments received on this consultation paper -

Prop No.	Proposal Description	No. of people		Total
		Agreed[5]	Disagreed[6]	
1	The definition of Qualified Institutional Buyer in ICDR Regulations may be amended to include Accredited Investor as defined in AIF Regulations, for the limited	3	5	8

[5] (Strongly Agree + Agree + Partially Agree)

[6] (Strongly Disagree + Disagree)

Prop No.	Proposal Description	No. of people		Total
		Agreed[5]	Disagreed[6]	
	purpose of offering of investment opportunities and allotment of investments by Angel Funds.			
2	The extant limit of maximum 200 investors in an investment of Angel Fund may be removed.	7	0	7

For each proposal in the consultation paper, a summary of proposal wise comments and our views are given as under –

Proposal 1:

The definition of Qualified Institutional Buyer in ICDR Regulations may be amended to include Accredited Investor as defined in AIF Regulations, for the limited purpose of offering of investment opportunities and allotment of investments by Angel Funds.

S. No	Comments received	SEBI's views
1.	Purpose seems to be increase the number of discerning and potential investors in Angel Funds. Accredited Investors having net worth restrictions etc. as defined in AIF Regulations maybe included in definition of QIBs, for the purpose of offering them investment opportunities and allotment of investments by Angel Funds.	Comment is in support of the proposal and hence may be accepted.
2.	Not in agreement with including individuals with Rs. 2 Crore to be equated with a professional institution which form bulk of the QIB. Putting the accredited investor at par with an informed or QIB investor having annual income over a prescribed limit or having intangible assets of prescribed value and still being financial illiterate is quite possible due to reasons like high prices of real estate and increased value of asset due to passage of time etc.	It is clarified that the proposal is to include AIs (not Angel Investors as per extant net worth criteria of INR 2 Cr) to be recognised as QIBs. It is clearly specified in the consultation paper that the proposal intends to recognise AIs as QIBs only for the limited purpose of investment in Angel Funds. This proposal is envisaged to bridge the gap between Angel Fund framework and Companies Act with respect to private

S. No	Comments received	SEBI's views
		placement norms, in a non- disruptive manner. Further, this proposal does not intend to equate AIs to QIBs in all aspects. It is acknowledged that not all AIs may have governance mechanisms which a QIB is expected to put in place and thus, the extant definition of QIB will remain as such for the purpose of participation in public market. The proposal to allow Accredited Investors to be treated as QIBs only for the purpose of investing in Angel Funds is a pragmatic fix to address legal and structural limitations without compromising the safeguards in place.
3.	Comments with respect to proposal to mandate only AIs to invest in Angel Funds – - To treat an Angel Investor under the extant definition as a QIB only for the limited purpose of investment through an Angel fund and for no other purpose. - While the best case scenario is covered for, where the angel investor is compensated & rewarded for the risk taken at the early stages, there are cases where smaller investors are at a disadvantage compared to other institutional investors who invest in the	These comments are not related to the proposal in the instant consultation paper under consideration and are related to the proposal 2 included in the earlier consultation paper, summary of which has been given in Part A above. <u>With respect to restricting investor base to AIs and not allowing retail participation</u> = AIFs, including Angel Funds, are investment products meant for sophisticated investors with necessary risk appetite. Even in the extant framework, the eligibility criteria for Angel Investor specifies net-worth criteria to

S. No	Comments received	SEBI's views
	later/growth round stages. In these cases, being part of an Angel Fund with a professional manager helps track and manage the investment, and also ensures fair treatment for investors who really underwrite the business risk at the get-go. - With setting up the accredited investor limit as specified in the paper the investor pool will get very restricted. A typical middle class investor who complies with current SEBI guidelines shall also be allowed to invest through any SEBI registered fund. - Abruptly changing qualifying criteria would negatively impact existing investors who previously qualified as Eligible Angel Investors. Such sudden exclusion could irreversibly damage investor confidence. A hasty transition to an Accredited Investor-only framework risks unintentionally pushing start-up investment activity outside the regulatory purview, thereby diminishing investor protection and undermining the original regulatory intent of this proposal. - - There is no publicly available data on how many capital market investors have voluntarily completed the accreditation process. This makes it	invest in Angel Fund. This is considering that Angel Funds can invest only in start-ups which are early-stage, illiquid assets, which are inherently high risk. These are unsuitable for retail or middle-class investors, particularly those whose financial buffers may not withstand such volatility. The move to require investors in Angel Funds to be Accredited Investors is driven by the need to ensure such that only investors with commensurate risk appetite are offered opportunities for investment in start-ups, after proper verification of their eligibility. Accreditation should not be seen as a barrier to accessing start-up investments through Angel Funds, but a threshold to filter out people without necessary risk appetite. Most high risk investment avenues generally have an entry threshold to ensure risk appropriate participation. Allowing uninformed, retail access to a segment as risky as Angel Funds/start-ups would affect investors interest and erode trust in this segment in the long run. Therefore, it is necessary to ensure that this segment is supported by sustained capital formation with adequate safeguards.

S. No	Comments received	SEBI's views
	challenging to accurately assess the actual number of Accredited Investors in India. - In addition, as can be seen from the current number of Accredited Investors in India it would seem that most investors even if they otherwise qualify under the definition are reluctant to get themselves certified and are therefore alienated. Based on informal surveys, even investors who qualify as Accredited Investors are reluctant to disclose their entire asset profile to merely certify eligibility for investing a relatively small portion of their net worth. - The 300% index growth from 2013 to 2024, cited in the paper as the rationale, reflects nominal rather than real growth. When adjusted for inflation and global performance of the rupee in the same period, actual investor wealth has grown far less significantly. Implementing a sudden 3.75-fold increase in net asset requirements would not only disqualify many previously Eligible Angel Investors but could also unintentionally deter more domestic investors than it attracts.	<u>With respect to comment on abruptly changing qualifying criteria –</u> As may be seen from proposal 24 in Part A above, a glide path of 1 year has been proposed for existing Angel Funds to transition to AI regime. Further, the investments already made by non AI investors through Angel Funds prior to this proposed mandate will remain unaffected. <u>With respect to reluctance for accreditation -</u> The lower number of AIs at the moment is mainly due to lack of high incentives for an investor to obtain accreditation presently. With various measures being taken by SEBI to provide regulatory impetus and ease accreditation process, it is expected that the number would increase with this proposed mandate. As regards the comment on investors' reluctance to disclose entire assets, it is seen that as on date there are 649 investors who are registered with SEBI out of which 405 are individual investors. It is pertinent to note that this net-worth information is required to be submitted to Accreditation Agencies. Accreditation Agencies are recognised as such based on prescribed eligibility criteria and SEBI norms on accreditation has explicitly cast

S. No	Comments received	SEBI's views
		responsibility on these agencies for maintaining confidentiality of investor information at all times. The suggestion on displaying number of accredited investors in the market may be taken into consideration. <u>With respect to growth in indices being the basis for revision -</u> While inflation may be one of the factors in increase of market indices over time, the same may also reflect in the net-worth/income of the investors, considering the appreciation in assets held over the years. For detailed views on the comments received on proposal to mandate AI in November 2024 consultation paper, please refer proposal 2 of part A above (page 47 to 52).

Proposal 2:

The extant limit of maximum 200 investors in an investment of Angel Fund may be removed.

S. No	Comments received	SEBI's views
1.	The purpose seems to be allow for more investors to participate in Angel start-up funding. In view of robust development of the industry and sustained capital inflow to start-ups seems to be a valid move.	Comment is in support of the proposal and may be accepted.

S. No	Comments received	SEBI's views
2.	Based on internal data from 1,200+ schemes of Angel Fund of the commenter, only three schemes have had more than one hundred investors, and the average investor count per scheme is approximately twenty-five. Thus, it is unclear how removing the 200-investor limit per scheme would meaningfully benefit Angel Funds. Restricting Angel Fund participation exclusively to Accredited Investors in pursuit of this objective may lead to unintended consequences.	Removing the investor cap for allotment is in line with the proposal to recognise AIs as QIBs, since there QIBs are exempted from investor limit of 200 for private placement as per Companies Act, both for offering and allotment of securities. While the commenter has stated only 2 of their 1200 schemes have more than 100 investors, it is not a right sample size for the Angel Fund industry as a whole. Further, the suggestion does not take into account the expected growth of the Angel Funds in future. This proposal is intended to enable broader participation from Accredited Investors, without any cap that limit flexibility to channelize capital to start-ups.
3.	The spirit of the regulations expects that even advertising to more than 200 wannabe investors is against the regulations. Similar would be the logic for partnership concerns since the worth of individual partners are considered. Since the Angel Funds seem to be advertising the event to more than 200 investors it would better to modify the regulations to allow not only approaching more than 200 investors but also allow the eligible investors to invest in such funds even if the total investor count goes above 200.	The comment is in support of the proposal and hence may be accepted.

S. No	Comments received	SEBI's views
	Having a larger base along with per person limit in terms of percentage of investment in a given fund would also deal with concentration risk.	
4.	Individuals and partnership concerns since the individual partners worth is considered cannot be treated at part with a QIB or other HNIs for the purpose of investment in Angel funds.	No specific reason or rationale has been provided for this comment. It may be noted that, under the extant accreditation framework, specific financial thresholds have been prescribed for different type of entities (depending on their legal form), and the same is verified by accreditation agency before providing accreditation. Considering that individual investors are key investor base for Angel Funds, it is necessary to recognise individual AIs as QIB for the purpose of investment in Angel Funds.
5.	We concur with the recommendation to remove the limit, but such limit should be removed without any change to the current definition of an Angel Investor. As an alternative SEBI could consider increasing the limit from 200 to 2000 given the vast changes in the investment landscape in India. A limit of 200 is too small given the dimensions of the ecosystem and the economy at large. Hence it may be appropriate to increase the limit to 2000 from the existing 200 while retaining the current definition of an Angel Investor.	Allowing Angel Funds to on-board up to 1000 or 2000 investors, would mean that Angel Funds may offer investment opportunity in start-ups to more than 200 investors, which is in dissonance with private placement provisions of Companies Act, in spirit. To ensure that the scalability and fund raising of the Angel Fund is not affected by the limit of 200 investors (for alignment with Companies Act), it is proposed to not have any limit on number of investors being offered and allotted investment opportunity by an Angel Fund, subject to these investors being Accredited Investors who have commensurate risk appetite.
6.	Angel Investors should not have to go through third-party accreditation	

S. No	Comments received	SEBI's views
	process, the current eligibility criteria for Angel Investors which is basically via self-certification should be retained. Consequently, Investors per scheme (i.e. in each investee company) should be a maximum of 200 investors. However, Angel Funds should be allowed to have up to 1000 investor-members, similar to other SEBI Cat-I funds.	
7.	Angel Funds should not be compared to private placements when distributing their units. Angel Funds distribute units only after filing a PPM and registering it with SEBI similar to a Prospectus. Therefore, we suggest establishing a different mechanism where the distribution of Angel Funds based on registered PPMs is treated differently. This could involve either excluding them from the definition of a private placement or subjecting them to a much larger limit as we have previously recommended i.e. 2000 investors.	While it is proposed to not place any limit on number of investors on-boarded to Angel Funds, it is still essential that the units of Angel Funds are issued only on a private placement basis, considering that an AIF is defined as a privately pooled vehicle. A private placement memorandum (PPM) is meant to provide necessary disclosure and transparency about fund terms to prospective investors, but it does not eliminate the requirement to remain within the private placement framework under the Companies Act. In contrast, a prospectus, used in public issues, undergoes a more rigorous vetting process, and permits public solicitation, and invites retail participation—which is explicitly barred for AIFs.
8.	Allow larger VC funds to park some of their funds with Angel Funds or early stage VC funds. This could be to the tune	This suggestion is not pertaining to the aforesaid proposal.

S. No	Comments received	SEBI's views
	of up to10 percentage of their corpus. This can remove bottle necks in VC funding decision making. Also new teams with deep industry knowledge or experience in financial domain can access funds this way before they raise their own funds.	AIFs are included in the definition of angel investors, hence, they can invest in angel funds. Further, going ahead also, AIFs shall be eligible to invest in angel funds since AIFs are deemed AIs and the amount of investment can be as per their discretion and availability of investment opportunity.

Annexure E

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012 and SEBI ((Issue of Capital and Disclosure Requirements) Regulations, 2018, shall be notified after following the due process.

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012, shall be notified after following the due process.

Amendment to SEBI ((Issue of Capital and Disclosure Requirements) Regulations, 2018, shall be notified after following the due process.