



## **CIRCULAR**

F. No. 645/IFSCA/Angel Schemes/2022-23

July 01, 2022

To,

**All Fund Management Entities (FMEs) in International Financial Services Centres (IFSCs)**

Dear Sir / Madam,

### **Sub: Angel Funds under IFSCA (Fund Management) Regulations, 2022**

In exercise of the powers conferred by Section 12 and 13 of the International Financial Services Centres Authority Act, 2019, read with Regulations 18, 144 and 146 of the IFSCA (Fund Management) Regulations, 2022, and in recognition of the crucial role played by angel investors in nurturing entrepreneurship by providing the much-needed early-stage financing to start-ups, the International Financial Services Centres Authority (Authority) hereby specifies the following framework for Angel Funds, specifically attuned to the requirements of early-stage investing.

#### **Definitions**

For the purpose of this Circular, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them, and their cognate expressions and variations shall be construed accordingly:

1. “angel fund” or “angel scheme” means a sub-category of venture capital scheme as specified under Part A of Chapter III under IFSCA (Fund Management) Regulations, 2022, that raises funds from angel investors and invests in accordance with the provisions of this Circular.

2. “angel investor” means an investor including a Venture Capital Scheme or Restricted Scheme set up in an IFSC and similar regulated scheme or fund set up in India or foreign jurisdiction, and invests in an angel fund in accordance with the provisions of this Circular.
3. “early-stage venture capital undertaking” means an incorporated entity which:
  - i. is incorporated not more than 10 (ten) years before the date of investment,
  - ii. does not have annual turnover in excess of USD 20,000,000 since its incorporation,
  - iii. is working towards innovation, development or improvement of products, processes or services, and
  - iv. is not promoted or sponsored by or related to an industrial group with a group turnover more than USD 50,000,000 .

*Explanation I* – “industrial group” shall mean and include a group of body corporates with a common founder or founded by any of his immediate relative (i.e. spouse, parent, brother, sister or child of the founder or of the spouse), parent company and its subsidiaries, a group of body corporates in which the same person / group of persons exercise control, and a group of body corporates comprised of associates / subsidiaries / holding companies.

*Explanation II* – “group turnover” shall mean combined total revenue of the industrial group.

### **Applicability**

4. This circular shall apply to Angel Schemes launched by the Fund Management Entities (FMEs) authorised or registered under IFSCA (Fund Management) Regulations, 2022 (the “Fund Management Regulations”).
5. All other relevant provisions of the Fund Management Regulations including the circulars or guidelines, if any, issued thereunder and applicable to the Venture Capital Schemes, unless specified otherwise, shall apply to angel schemes and their FMEs.

### **Permissible Investments**

6. Angel schemes shall make investments in early-stage venture capital undertakings or other regulated angel schemes or angel funds set up in IFSC, India or foreign jurisdiction.
7. Angel schemes shall not make any investment in the associates of FME or in any early-stage venture capital undertaking which is connected to angel investors who are investing in such undertaking.

*Explanation I* – An early-stage venture capital undertaking shall be considered to be “connected” with angel investors in case of following circumstances:

- (a) Where angel investor is an individual,
  - i. Any entity founded by such an individual or his relative, or
  - ii. Any entity in which such individual or his relative is a director, partner, trustee, or holds an equivalent position, or
  - iii. Any entity in which such individual or his relative has control, or shares or voting rights which entitles them to fifteen (15) percent or more of the shares or voting rights or an equivalent right in the entity.
  
- (b) Where angel investor is a body corporate,
  - i. Any entity which is part of the same industrial group or under the same management as the angel investor, or
  - ii. Any entity in which such body corporate or its directors or partners have control or shares or voting rights which entitles them to fifteen (15) percent or more of the shares or voting rights or an equivalent right in the entity.

*Explanation II* – “relative” means a person as defined under Companies Act, 2013 or rules issued thereunder.

### **Investment Approval & Methodology**

- 8. The FME of an angel scheme shall, prior to making an investment in terms of Clauses 6 and 7, obtain an express consent from every angel investor who desires to contribute to that investment. Accordingly, the FME of an angel scheme shall structure each investment as a close-ended segregated portfolio by issuing separate classes of units to the consenting angel investors under each segregated portfolio, on a private placement basis.
  
- 9. The FME shall ensure that the assets and liabilities of each segregated portfolio are ring-fenced from other segregated portfolios under an angel scheme.

### **Filing of Placement Memorandum and subsequent filings**

- 10. The FME shall launch angel schemes by filing a placement memorandum with the Authority along with the fees as specified in this Circular. The filing of placement memorandum for an angel scheme shall be under a green channel as specified for Venture Capital Schemes under Regulation 19 (2) of the Fund Management Regulations.

11. For investments made in early-stage venture capital undertaking, the FME shall intimate the same to the Authority in the format as specified in **Annexure I** of this Circular, within 10 (ten) working days from the date of each investment.
12. For investments made in other regulated angel schemes or angel funds set up in IFSC, India or foreign jurisdiction, the FME shall intimate the same to the Authority in the format as specified in **Annexure II** of this circular within 10 (ten) working days from the date of each investment.
13. FME shall ensure that material changes, if any, in the information provided to the Authority earlier is immediately informed to the Authority.

#### **Number of Angel Investors**

14. The number of angel investors in each segregated portfolio under an angel scheme shall not exceed 200 (two hundred).

#### **Investment Restrictions**

15. An angel scheme shall not accept a commitment of an amount less than USD 40,000 from each angel investor, which shall be invested across segregated portfolio(s) within a period of 5 years.

*Provided* that the minimum commitment shall not be applicable in case the angel investor is an accredited investor.

16. Each investment made in an early-stage venture capital undertaking by an angel scheme shall not exceed USD 1,500,000.
17. Each investment by an angel fund shall be locked in for a period of at least 1 (one) year from the date of investment.

#### **Minimum Corpus**

18. An angel scheme shall have a corpus of at least USD 1,000,000, reckoned collectively under all the segregated portfolios created thereunder by the FME.

#### **Contribution by FME**

19. The FME managing an angel scheme shall ensure a contribution of at least 2.5% of the investment size or USD 20,000, whichever is less, in each segregated portfolio. However, in terms of Regulation 28(4) of the Fund Management Regulations, the FME shall be exempted from this contribution in following cases:

- i. if at least two-thirds (2/3rd) of the angel investors in that segregated portfolio are accredited investors,
- ii. if at least two-thirds (2/3rd) of the angel investors in that segregated portfolio by value permit waiver of such contribution, or
- iii. if the investment made under the segregated portfolio is in another regulated angel scheme or angel fund set up in IFSC, India or foreign jurisdiction which has similar such requirement.

20. The said contribution shall be made by the FME or its associate and maintained on ongoing basis. The said contribution, if brought in by FME, shall be included for the purpose of net-worth requirement of the FME as specified under the Fund Management Regulations.

### **Leverage**

21. Angel schemes shall not undertake leverage in any of the segregated portfolio created thereunder.

### **Participation in subsequent investment rounds**

22. An angel fund that has invested in an early-stage venture capital undertaking may invest in excess of USD 1,500,000 during the subsequent rounds of fund raising by the said undertaking, subject to the following:

- i. The said undertaking continues to satisfy the definition of early-stage venture capital undertaking as specified in clause 3 above, except for the requirement of annual turnover in sub-clause (ii);
- ii. The Angel fund shall give the opportunity to participate in subsequent rounds to only those angel investors who have participated in previous investment rounds for the said undertaking;
- iii. The contribution by an angel investor in the subsequent round should be limited to the extent that the post-issue beneficial interest in the given early-stage venture capital undertaking remains the same as his pre-issue beneficial interest therein;
- iv. The FME shall ensure that the overall exposure of the angel fund in an early-stage venture capital undertaking, including investments made in subsequent rounds, does not exceed 50% of the total investments made by the angel fund under all the segregated portfolios or USD 30,000,000, whichever is lower; and
- v. The FME shall comply with all other conditions as applicable to a segregated portfolio, such as consent from the angel investor, filings with the Authority, lock-in period, FME contribution, etc.

**Fee for Angel Fund**

23. The FME shall pay a fee of USD 3,000 at the time of filing of placement memorandum of angel scheme with the Authority.
24. The FME shall pay a fee of USD 500 at the time of filing an intimation with the Authority under clauses 11 and 12 of this circular.

A copy of this circular is available on the website of International Financial Services Centres Authority at [www.ifsc.gov.in](http://www.ifsc.gov.in).

Yours faithfully

Sd/-

**Pavan Shah**

**Deputy General Manager**

Division of Investment Funds – I and New Products & Services

Capital Markets Department

Email: [pavan.shah@ifsc.gov.in](mailto:pavan.shah@ifsc.gov.in)

Tel: +91-79-61809844

Encl.: As above

## ANNEXURE I

### Format of intimation for investment in an early-stage venture capital undertaking

S. No.	Parameter	Details
1.	Name of Fund Management Entity (FME)	
2.	Registration Number of FME	
3.	Name of Angel Scheme	
4.	Number of segregated portfolios created so far under the Angel Scheme (including the instant filing)	
5.	Name of early-stage venture capital undertaking (VCU)	
6.	Is this the first or a subsequent investment in the VCU	
7.	Details of the VCU (description of its business, products / services offered, industry, etc.)	
8.	Details of the person having controlling ownership interest and Key Managerial Personnel of VCU	
9.	Details of valuation of VCU	
10.	Present investment size and cumulative investment, if any, in the VCU (in USD and as a % of post issue capital)	
11.	Overall exposure in the VCU as a % of total investments under all the segregated portfolios of Angel Scheme	
12.	No. of investors participated in this investment	
13.	Type(s), number(s) and price(s) of securities issued (equity shares / debentures / convertible securities / any other)	
14.	Conversion price and terms, in case of convertible securities	
15.	Details of lock-in for investment	
16.	Co-investment, if any, and details thereof	
17.	Details regarding FME's contribution in the instant investment	
18.	Proposed distribution of proceeds from the instant investment	
19.	Any other material information	

I hereby declare that the information furnished above is true, complete and correct to the best of my knowledge and belief. Further, it is declared that all the applicable provisions of IFSCA (Fund Management) Regulations, 2022 and circulars or guidelines issued thereunder have been duly complied with.

**Place:** **Signature of Principal Officer / Compliance Officer**

**Date:** **Name of Principal Officer / Compliance Officer**

## ANNEXURE II

Format of intimation for investment in regulated angel schemes or angel funds set up in IFSC, India or foreign jurisdiction

S. No.	Parameter	Details
1.	Name of Fund Management Entity (FME)	
2.	Registration Number of FME	
3.	Name of Angel Scheme (investing scheme)	
4.	Number of segregated portfolios created so far under the investing scheme (including the instant filing)	
5.	Details of the investee scheme (Name, Jurisdiction, Fund Manager, Registration Details, etc.) and its regulator	
6.	Is this the first or a subsequent investment in the investee scheme	
7.	Present investment size and cumulative investment, if any, in investee scheme (in USD and as a % of post-issue corpus)	
8.	Overall exposure in the investee scheme as a % of total investments under all the segregated portfolios	
9.	No. of investors participated in this investment	
10.	Type(s), number(s) and price(s) of securities issued by the investee scheme (units / equity shares / convertible securities / any other)	
11.	Conversion price and terms, in case of convertible securities	
12.	Details of lock-in for investment	
13.	Co-investment, if any, and details thereof	
14.	Details regarding FME's contribution in the instant investment	
15.	Details of the proposed distribution of proceeds from the instant investment	
16.	Any other material information	

I hereby declare that the information furnished above is true, complete and correct to the best of my knowledge and belief. Further, it is declared that all the applicable provisions of IFSCA (Fund Management) Regulations, 2022 and circulars or guidelines issued thereunder have been duly complied with.

**Place:** **Signature of Principal Officer / Compliance Officer**

**Date:** **Name of Principal Officer / Compliance Officer**