Relaxation in Angel Investment Rules

Why in news?

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- **To give a fillip to start-up funding,** the Securities and Exchange Board of India (SEBI) has relaxed its rules for investment by angel funds, allowing them to invest in up to five-year old entities.
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- Besides, the lock-in requirement has been reduced from three years to one year for angel funds and their minimum investment threshold has been slashed from Rs.50 lakh to Rs.25 lakh.
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What is ‘Alternative Investment Funds’?

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- **Anything alternate to traditional form of investments** (such as stocks, bonds etc.,) gets categorized as alternative investments.
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- Alternative Investments Funds come under the SEBI (Alternative Investment Fund) Regulations 2012.
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Who is an 'Angel Investor'?

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- **Angel fund, a sub-category of AIF,** encourages entrepreneurship in the country by financing small start-ups at a stage where such firms find it difficult to obtain capital from traditional sources of finance such as banks.
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- An angel investor is **an affluent individual who provides capital for a business start-up,** usually in exchange for ownership equity or convertible debt.

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- The capital angel investors provide may be a one-time investment to help the business propel and carry the company through its difficult early stages. Essentially, **angel investors are the opposite of venture capitalists.**
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- Example of a successful Angel Investor – **Mike Markkula** is an American entrepreneur who was an angel investor and second CEO of Apple Computer, Inc., providing early critical funding and managerial support.
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What's in the latest SEBI circular?

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- The regulator has made **amendment to SEBI (AIF) Regulations, 2012,** following which the definition of start-up for angel funds investments will be similar to one of Department of Industrial Policy & Promotion (DIPP), as given in their start-up policy.
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- Accordingly, angel funds can invest in start-ups incorporated within five years, which was earlier three years.
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- **To diversify risks,** SEBI has also allowed angel funds to make overseas investments, up to 25% of their investible corpus, in line with other AIFs.
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- There are many start-ups that require a smaller amount of validating proposition. So, bringing down the limit to Rs.25 lakh from Rs.50 lakh will help such companies raise funds at the initial stage of idea generations.
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- Also, the minimum tenure of angel funds' investments in start-ups has also been lowered from three years to one year. And the upper limit for the number of angel investors in a scheme has been increased from 49 to 200.
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Why this amendment is much needed?

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- In order to further develop the alternative investment industry and the start-up ecosystem in India, SEBI, in March 2015 constituted a committee of experts called **Alternative Investment Policy Advisory Committee** under

the chairmanship of N.R.Narayana Murthy.
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- Considering the recommendations in the report, the SEBI board, in November, had approved amendments to AIF regulations with respect to angel funds.
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- The amendments are part of SEBI's larger efforts to **encourage young entrepreneurship in the country,** and provide founders with access to private and eventually public funds.
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