



**Sarvaank**

Law Decoded for *Entrepreneurs*

# **SEBI: Revised Regulatory Framework for Angel Funds**

## KEY INSIGHTS



# FUND-RAISING & INVESTOR QUALIFICATIONS



## ONLY ACCREDITED INVESTORS

In terms of Regulation 19D(1), Angel Funds shall raise funds only from Accredited Investors by way of issue of units. Angel Funds granted registration after this circular shall on-board and offer investment opportunities to Accredited Investors only. Angel Funds registered on or before the date of this circular must implement the Accredited-only mandate on or before 8 September 2026 and may not offer investment opportunities to more than 200 non-Accredited Investors until that date. Existing investors may continue to hold investments made as per PPM/fund documents

## VERIFICATION OBLIGATION

Managers must ensure that, at the time of accepting contribution for investment in an investee company, the investor providing the contribution qualifies as an Accredited Investor, either by holding a valid accreditation certificate or by meeting the criteria for deemed Accredited Investor under Regulation 2(1)(ab).





# FIRST CLOSE / TIMING REQUIREMENTS

## TIMELINE FOR DECLARATION

First close must be declared within 12 (twelve) months from SEBI's communication of taking the PPM on record.

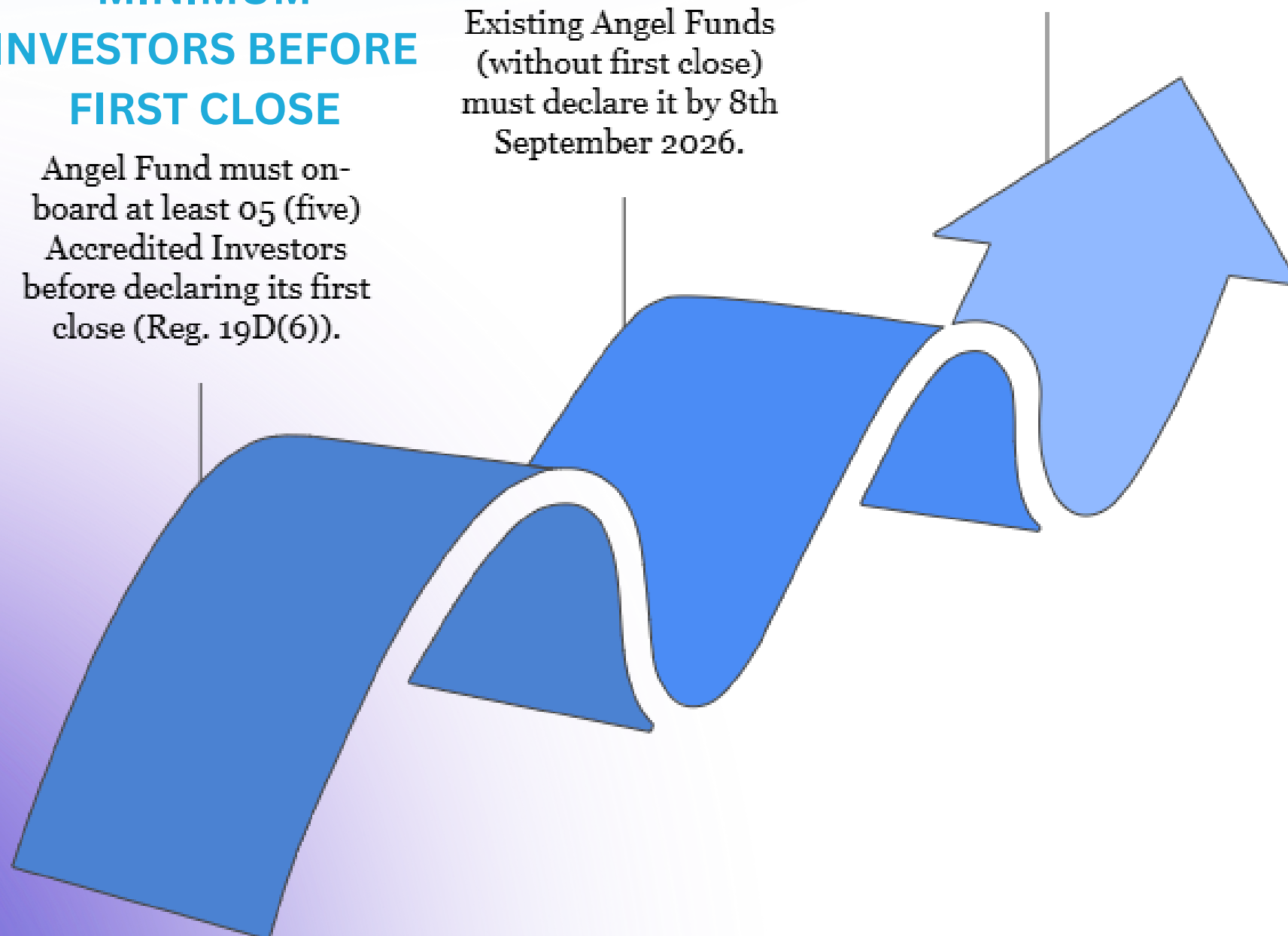
Existing Angel Funds (without first close) must declare it by 8th September 2026.

## NON-COMPLIANCE CONSEQUENCE

If the timeline is not met, the Angel Fund must refile the Private Placement Memorandum (PPM) with SEBI and pay the applicable fee.

## MINIMUM INVESTORS BEFORE FIRST CLOSE

Angel Fund must on-board at least 05 (five) Accredited Investors before declaring its first close (Reg. 19D(6)).





## Angel Fund Guidelines



### No Schemes

Angel Funds cannot launch schemes for soliciting funds or making investments.

Investments must be made directly by the Angel Fund (not through schemes).

### Direct Investments



### Regulatory Applicability

Provisions of AIF Regulations that apply to schemes will instead apply at the fund level for Angel Funds, unless otherwise stated.

Angel Funds are no longer required to file a term sheet with SEBI before making an investment.

### No SEBI Filing Requirement



### Record-keeping

Angel Funds must maintain records of term sheets for each investment, including the list of participating investors and their respective contributions.





# FOLLOW-ON INVESTMENTS AND CAPS

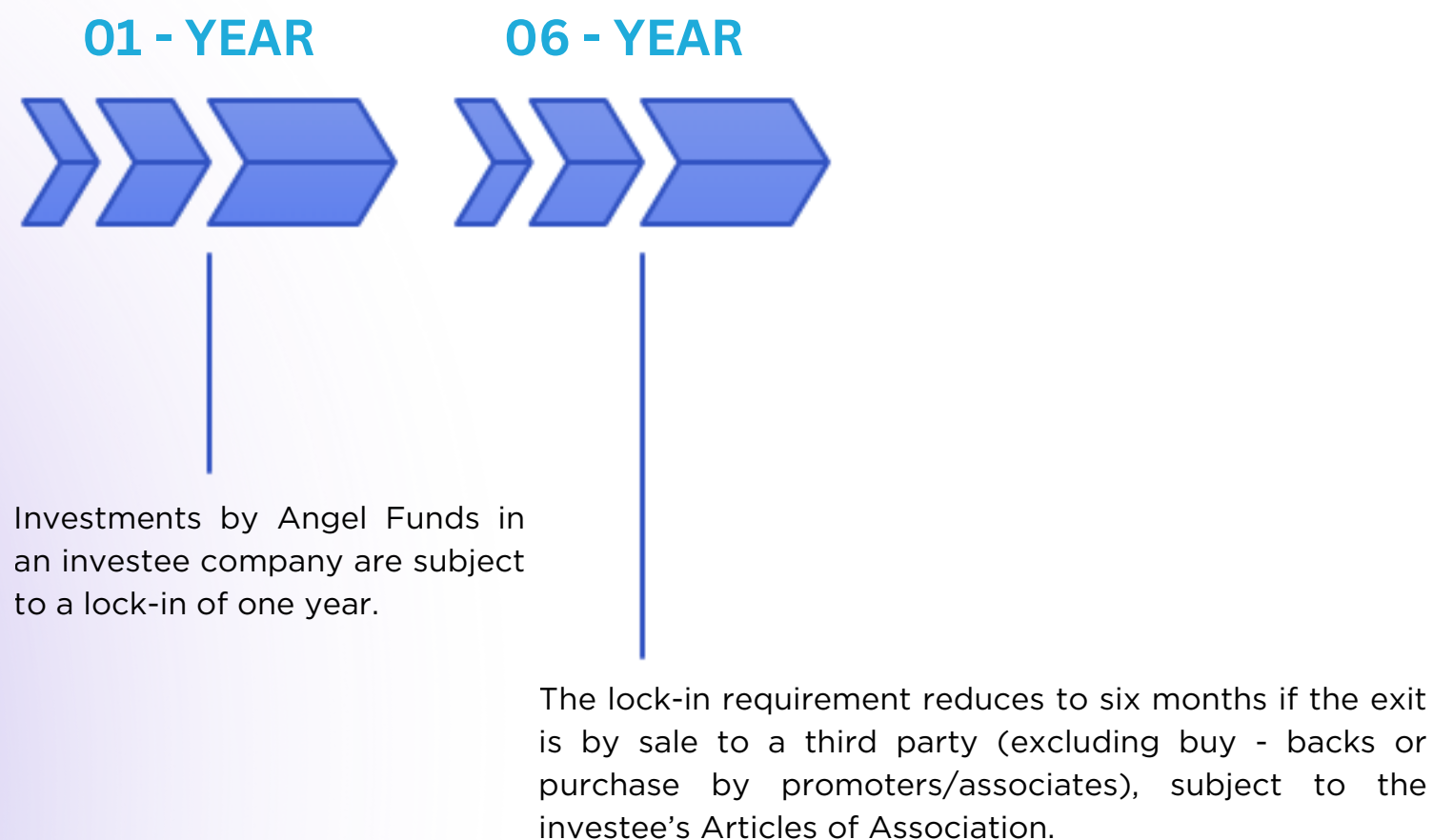
## FOLLOW-ON CONDITIONS

Follow-on investments in investee companies (including those that are no longer start-ups) are allowed subject to conditions: (i) post-issue shareholding of the Angel Fund must not exceed its pre-issue shareholding percentage, and (ii) the total investment by an Angel Fund in a single investee, including follow-ons, shall not exceed INR 25 crore.

## PRO-RATA REQUIREMENT

Contribution for follow-on investments shall be accepted only from investors who had contributed to the existing investment and pro-rata to their contribution in the existing investment. If an investor declines to participate to the extent of its pro-rata rights, the declined portion may be offered to remaining participating investors.

# LOCK-IN / EXIT RULES

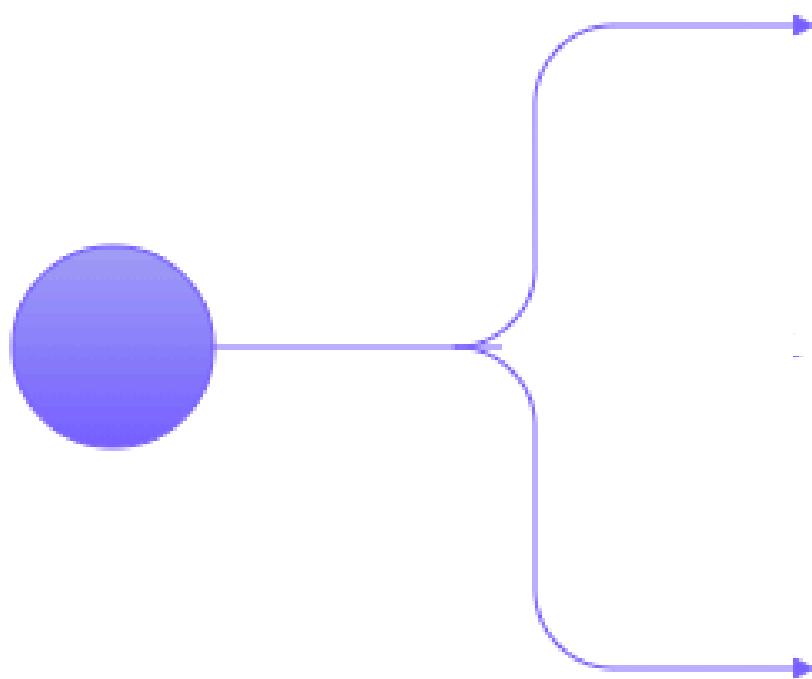




# OVERSEAS INVESTMENTS

Angel Funds may invest in securities of companies incorporated outside India subject to RBI / SEBI conditions. For overseas investment purposes, the 25% limit (per para 7.1.3 of the AIF Master Circular dated 7 May 2024) shall be calculated based on the total investments (at cost) held by the Angel Fund as on the date of the application to SEBI for overseas investment. All other Chapter 7 modalities remain applicable.

## allocation methodology



### PPM DISCLOSURE

Under Regulation 19G(4), the manager shall disclose a defined methodology in the PPM for allocating investment among angel investors who provide approval. The manager must strictly adhere to the disclosed methodology.

### NO CASE-BY-CASE DISCRETION

The allocation methodology disclosed in the PPM shall not provide any case-by-case allocation discretion to the manager. Existing Angel Funds must disclose such methodology in their PPMs, and allocation of investments made post 15 October 2025 shall follow the disclosed methodology.





# INVESTOR RIGHTS DISTRIBUTION

Investors shall have rights in an investment of the Angel Fund and in distribution of proceeds pro-rata to their contribution to that investment, except where returns/profits on investments are shared by an investor with the manager/sponsor or employees/directors/partners of the manager (e.g., carried interest) under a contribution agreement. In such cases, the pro-rata distribution requirement does not apply to the extent of that sharing.

## RE-CATEGORISATION, AUDITS & REPORTING

- All existing Angel Funds shall be considered registered as Category I AIF — Angel Funds, rather than as a sub-category under Category I AIF — Venture Capital Funds.
- PPM compliance audit threshold: Annual audit of compliance with PPM terms (para 2.4 of the AIF Master Circular) shall apply to Angel Funds that have made total investments (at cost) exceeding INR 100 crore; para 2.4.4 of the AIF Master Circular is modified to this extent.
- Benchmarking / reporting: Angel Funds shall report investment-wise valuation and cash-flow data to benchmarking agencies for performance benchmarking per Chapter 16 of the AIF Master Circular. Where past performance is mentioned in PPM/marketing materials, the fund must provide the performance vs benchmark report provided by benchmarking agencies. Para 16.6 of the AIF Master Circular is deleted accordingly. These requirements apply from FY 2025-26 onwards.



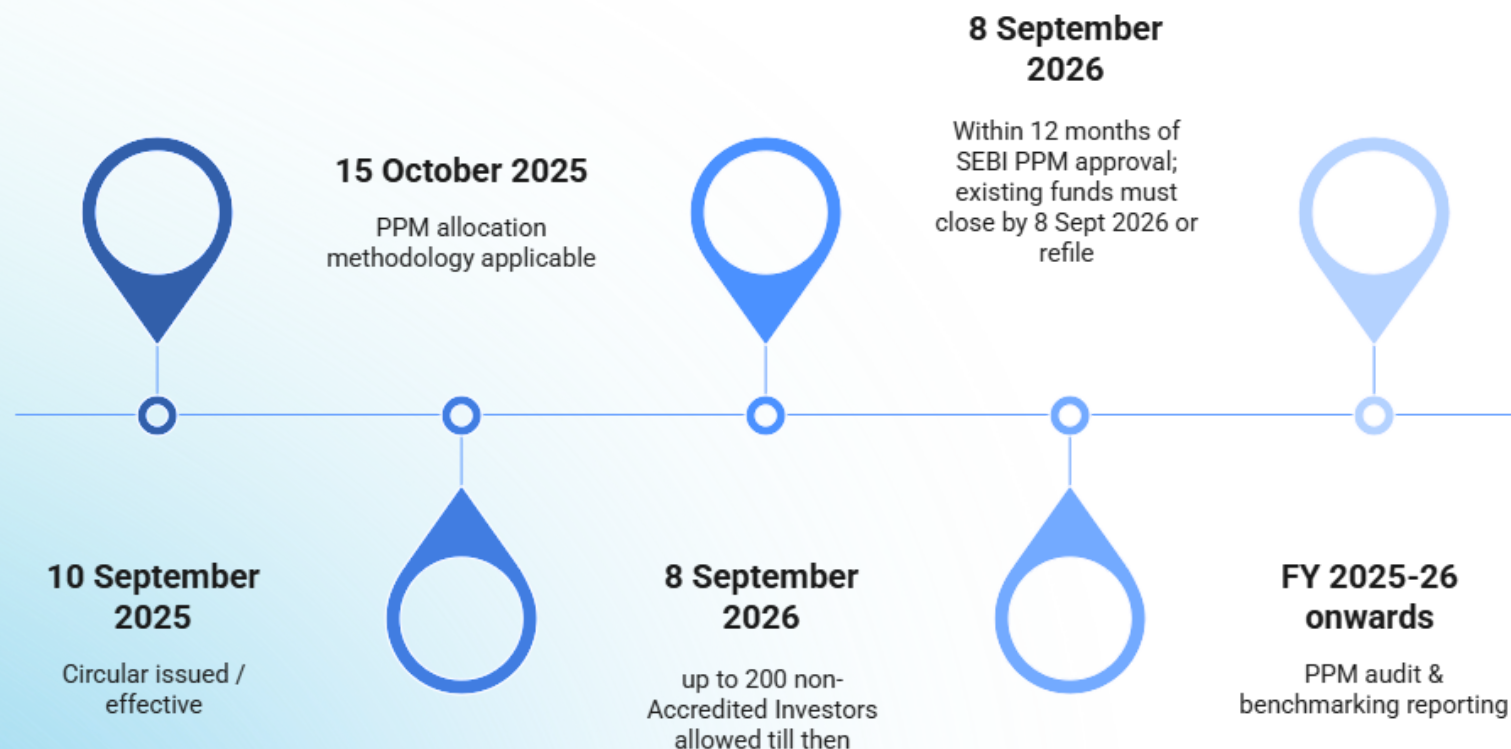
# Calculation basis & specific due diligence thresholds

Unless specified otherwise, limits/conditions previously calculated based on corpus/investable funds shall henceforth be calculated on the basis of total investments made (at cost) by the Angel Fund. With respect to the SEBI circular dated 8 October 2024 on Specific Due-Diligence of investors and investments of AIFs, thresholds specified in paras 3.2.1, 4.2.1, 5.1.1 and 8.2.1 of that circular shall be calculated at each investment level, based on contribution of investors to that particular investment (not on corpus at the fund level).

## Compliance Test Report

The trustee/sponsor shall ensure that the manager's Compliance Test Report (Chapter 15, AIF Master Circular) includes compliance with the provisions of this circular.

## Deadlines & effective dates







# Compliance Checklist

1	<b>Amend PPM</b> Reflect Accredited-only policy, set out objective allocation methodology, disclose lock-in and follow-on rules, define overseas investment calculation basis, and add benchmarking disclosure language.
2	<b>Update Subscription &amp; Onboarding</b> Update subscription agreement, KYC, and investor questionnaire to capture accreditation status/evidence; add a clause allowing manager to reject/return contributions lacking proof.
3	<b>Recordkeeping</b> Maintain digital folders per investment with term sheet, investor list, contributions, accreditation proof, allocation calculations, and any waivers/declines to pro-rata.
4	<b>Follow-on Mechanics</b> Prepare standard pro-rata offer letters, set timelines for opt-in/out, define waterfall for declined portions, and monitor cumulative exposure per investee (cap: INR 25 crore).
5	<b>Track Lock-in Periods</b> Maintain exit registry noting exit type (third-party vs buy-back/promoter purchase) to determine lock-in reduction eligibility.
6	<b>Plan First Close</b> Secure at least five Accredited Investors and declare first close within SEBI's 12-month window; prepare refiling plan if delayed.
7	<b>Conduct Audit &amp; Benchmarking</b> For portfolios near INR 100 crore (at cost), engage auditors for PPM compliance audit and implement systems for benchmarking agency reporting (from FY 2025-26).
8	<b>Ensure Compliance Test Report</b> Ensure trustee/sponsor procedures capture all above items in the Compliance Test Report.



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