

Raising of Funds – Private Funding

Lesson 11

KEY CONCEPTS

- Alternative Investment Funds ■ Angel Fund ■ Angel Investor ■ Seed Financing ■ Venture Capital ■ Private Equity ■ Placement Memorandum ■ Social Impact Fund ■ Corporate Debt Market Development Fund ■ Migrated Venture Capital Fund

Learning Objectives

To understand:

- Meaning of Alternative Investment Fund (AIF) and its Categories
- Regulatory prescriptions on Registration of AIFs, Placement Memorandum, Schemes, Tenure and Listing of AIFs
- Investment Strategy and Conditions for AIFs
- Angel Fund and investment by Angel Fund
- The concept of Special Situation Fund
- Meaning of Seed Funding, Private Equity and Venture Capital
- Foreign Venture Capital Investors (FVCI) and Investment Conditions
- Process and Documentation required for listing and trading of Alternative Investment Fund on Stock Exchange
- Registration as a Migrated Venture Capital Fund

Lesson Outline

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REGULATORY FRAMEWORK

- SEBI (Alternative Investment Funds) Regulations, 2012
- Securities and Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000
- Master Circular for Alternative Investment Funds (AIFs)
- Companies Act, 2013

INTRODUCTION

Indian entrepreneurs need private equity and debt products to meet the capital needs of their growth, restructuring, turn around or start-up plans. The main providers of this form of capital are private equity and venture capital funds which are channelled through Alternative Investment Funds (AIFs). Given that such capital is in short supply in India, a favourable policy and regulatory environment is essential. AIFs in India are regulated by the Securities and Exchange Board of India (SEBI). Other government agencies which play an important role are the Ministry of Finance and sector regulators in the pension and insurance areas as well as the Reserve Bank of India.

BACKGROUND

SEBI had earlier framed the SEBI (Venture Capital Funds) Regulations, 1996 (“VCF Regulations”) to encourage investments into start-ups and mid-size companies. Since the introduction of the VCF Regulations, it was observed by SEBI that the venture capital route was being used by several other categories of funds such as private equity funds, real estate funds etc. Further, since registration as a Venture Capital Fund (“VCF”) was not mandatory under the VCF Regulations, not all private equity or other categories of funds were registering with the SEBI.

While these funds did not enjoy certain exemptions that were available to VCFs, they were not subjected to any investment restrictions. SEBI noted the need for comprehensive regulations to deal with investments that are sourced from diverse parts of the private pool of capital. Accordingly, SEBI notified the Alternative Investment Fund (AIF) Regulations to govern unregulated entities and create a level playing ground for existing venture capital investors.

The Securities and Exchange Board of India (“SEBI”) has notified the SEBI (Alternative Investment Funds) Regulations, 2012 (‘AIF Regulations’) on 21 May, 2012 - a comprehensive regulatory framework for regulating private pools of capital or Alternative Investment Funds, thus bringing various funds investing in Indian securities under a unified regulatory umbrella.

The AIF Regulations aim to regulate funds involved in the pooling or raising of private capital from Institutional Investors or High Networth Investors (“HNI”) with a view to invest such funds in accordance with a defined investment policy for benefit of the investors and the manager of such fund, irrespective of their legal domicile. These regulations provide that an entity, seeking to pool and manage such private pool of capital for investing in securities or acting as an Alternative Investment Fund (“AIF”), should be registered with the SEBI under these regulations.

What is an Alternate Investment Fund (“AIF”)?

Alternative Investment Fund or AIF means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.

Question: Is an AIF permitted to make an invitation to the public to subscribe to its securities?

Answer: No. AIFs are privately pooled investment vehicles. AIFs shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called. As an eligibility criterion for registration as an AIF, the applicant is required to be prohibited by its memorandum and articles of association/ trust deed/ partnership deed from making an invitation or solicitation to the public to subscribe to its securities.

SEBI (ALTERNATIVE INVESTMENT FUNDS) REGULATIONS, 2012

Important Definitions

“Accreditation Agency” means a subsidiary of a recognized stock exchange or a subsidiary of a depository or any other entity as may be specified by the SEBI from time to time.

Explanation: For the purpose of this clause, the SEBI may recognize an accreditation agency subject to such conditions as may be specified.

“Accredited Investor” means any person who is granted a certificate of accreditation by an accreditation agency who,

- (i) in case of an individual, Hindu Undivided Family, family trust or sole proprietorship has:
 - a. annual income of at least two crore rupees; or
 - b. net worth of at least seven crore fifty lakh rupees, out of which not less than three crores seventy-five lakh rupees is in the form of financial assets; or
 - c. annual income of at least one crore rupees and minimum net worth of five crore rupees, out of which not less than two crore fifty lakh rupees is in the form of financial assets.
- (ii) in case of a body corporate, has net worth of at least fifty crore rupees;
- (iii) in case of a trust other than family trust, has net worth of at least fifty crore rupees;
- (iv) in case of a partnership firm set up under the Indian Partnership Act, 1932, each partner independently meets the eligibility criteria for accreditation.

However, Central Government and the State Governments, developmental agencies set up under the aegis of the Central Government or the State Governments, funds set up by the Central Government or the State Governments, qualified institutional buyers as defined under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, Category I foreign portfolio investors, sovereign wealth funds and multilateral agencies and any other entity as may be specified by the SEBI from time to time, shall deemed to be an accredited investor and may not be required to obtain a certificate of accreditation.

“Alternative Investment Fund” means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which-

- (i) is 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; and
- (ii) is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of the SEBI to regulate fund management activities.

However, the following shall not be considered as Alternative Investment Fund for the purpose of these regulations-

- (i) family trusts set up for the benefit of ‘relatives’ as defined under Companies Act, 2013;

- (ii) ESOP Trusts set up under the SEBI (Share Based Employee Benefits) Regulations or as permitted under Companies Act, 2013;
- (iii) employee welfare trusts or gratuity trusts set up for the benefit of employees;
- (iv) holding companies' as defined under sub-section 46 of section 2 of Companies Act, 2013;
- (v) other special purpose vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework;
- (vi) funds managed by securitisation company or reconstruction company which is registered with the Reserve Bank of India under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002; and
- (vii) any such pool of funds which is directly regulated by any other regulator in India.

“Debt Fund” means an Alternative Investment Fund which invests primarily in debt or debt securities of listed or unlisted investee companies or in securitized debt instruments as per stated objectives of the Fund.

“Corpus” means the total amount of funds committed by investors to the Alternative Investment Fund by way of a written contract or any such document as on a particular date.

“Hedge Fund” means an Alternative Investment Fund which employs diverse or complex trading strategies and invests and trades in securities having diverse risks or complex products including listed and unlisted derivatives.

“Infrastructure Fund” means an Alternative Investment Fund which invests primarily in unlisted securities or partnership interest or listed debt or securitized debt instruments of investee companies or special purpose vehicles engaged in or formed for the purpose of operating, developing or holding infrastructure projects. “Infrastructure” shall be as defined by the Government of India from time to time.

“Inevitable Funds” means corpus of the Scheme of Alternative Investment Fund net of expenditure for administration and management of the fund estimated for the tenure of the funds.

Explanation.– For the purpose of this clause, the expression “tenure” means the duration of scheme from the date of first close till last date of the term as specified in the fund documents.

“Large Value Fund for Accredited Investors” means an Alternative Investment Fund or scheme of an Alternative Investment Fund in which each investor (other than the Manager, Sponsor, employees or directors of the Alternative Investment Fund or employees or directors of the Manager) is an accredited investor and invests not less than seventy crore rupees.

“Private Equity Fund” means an Alternative Investment Fund which invests primarily in equity or equity linked instruments or partnership interests of investee companies according to the stated objective of the fund.

“SME” means Small and Medium Enterprise and shall have the same meaning as assigned to it under the Micro, Small and Medium Enterprises Development Act, 2006 as amended from time to time.

“SME Fund” means an Alternative Investment Fund which invests primarily in unlisted securities of investee companies which are SMEs or securities of those SMEs which are listed or proposed to be listed on a SME exchange or SME segment of an exchange.

“Social Enterprise” shall have the same meaning as assigned to it in clause (h) of regulation 292A of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

In terms of regulation 292A(h) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, “Social Enterprise” means either a Not for Profit Organization or a For Profit Social Enterprise that meets the eligibility criteria specified in Chapter X-A.

“**Social Impact Fund**” means an Alternative Investment Fund which invests primarily in securities, units or partnership interest of social ventures or securities of social enterprises and which satisfies the social performance norms laid down by the fund.

“**Social Stock Exchange**” shall have the same meaning as assigned to it in clause (i) of regulation 292A of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

In terms of regulation 292A(i) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 “Social Stock Exchange” means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not for Profit Organizations in accordance with provisions of these regulations.

“**Social Units**” means units issued by a social impact fund or schemes of a social impact fund to investors who have agreed to receive only social returns or benefits and no financial returns against their contribution.

“**Social Venture**” means a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes–

- (i) public charitable trusts registered with Charity Commissioner;
- (ii) societies registered for charitable purposes or for promotion of science, literature, or fine arts;
- (iii) company registered under Section 8 of the Companies Act, 2013;
- (iv) micro finance institutions.

“**Sponsor**” means any person or persons who set up the Alternative Investment Fund and includes promoter in case of a company and designated partner in case of a limited liability partnership.

“**Startup**” means a private limited company or a limited liability partnership which fulfills the criteria for startup as specified by the Department of Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India, vide notification no. G.S.R. 127(E) dated February 19, 2019 or such other policy of the Central Government issued in this regard from time to time.

“**Venture Capital Fund**” means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and shall include an angel fund as defined under Chapter III-A and Migrated Venture Capital Fund as defined under Chapter III-D of the SEBI (AIF) Regulations, 2012.

“**Venture Capital Undertaking**” means a domestic company which is not listed on a recognised stock exchange at the time of making investments.

Question: In which legal forms can an AIF be set up?

Answer: An AIF under the SEBI (Alternative Investment Funds) Regulations, 2012 can be established or incorporated in the form of a trust or a company or a limited liability partnership or a body corporate. Most of the AIFs registered with SEBI are in trust form.

Categories of AIFs

AIF shall seek registration in one of the categories mentioned in the AIF Regulations. There are three categories of Alternative Investments Funds and they are :

- (i) **Category I Alternative Investment Fund** are those which invest in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include venture capital funds, SME Funds, social impact funds, infrastructure funds, special situation funds and such other Alternative Investment Funds as may be specified.

Alternative Investment Funds which are generally perceived to have a positive spillover effect on the economy and for which SEBI or Government of India or other regulators in India might consider providing incentives or concessions shall be included and such funds which are formed as trusts or companies shall be construed as venture capital company or venture capital fund as specified under sub-section (23FB) of Section 10 of the Income Tax Act, 1961.

- (ii) **Category II Alternative Investment Fund** are those which does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in the AIF Regulations. Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator shall be included under this category.

- (iii) **Category III Alternative Investment Fund** which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator shall be included in this category.

- (iv) **Specified Alternative Investment Fund under Regulation 19 of SEBI AIF Regulations.**

Regulations 19 prescribed that SEBI may lay down framework for AIFs other than the funds falling in the categories specified in SEBI AIF Regulations

Registration of AIFs

All AIFs are required to be mandatorily registered under any of the three categories as mentioned above with SEBI. Entity or person shall not act as an Alternative Investment Fund unless it has obtained a certificate of registration from the SEBI. Any entity who fails to make an application for grant of a certificate within the period specified therein shall cease to carry on any activity as an Alternative Investment Fund.

The AIF Regulations permit AIF to launch multiple schemes under one AIF subject to filing of the placement memorandum with SEBI and the Certificate of Registration shall be valid until the AIF is wound up or the certificate is cancelled by SEBI. An AIF which has been granted registration under a particular category cannot change its category subsequent to registration, except with the approval of SEBI.

Question: Can an AIF change its category pursuant to registration?

Answer: Yes. As per Circular No. CIR/IMD/DF/12/2013 dated 07th August, 2013, only AIFs who have not made any investments under the category in which they were registered earlier shall be allowed to make application for change in category.

Online Filing System for Alternative Investment Funds

In a constant endeavor to facilitate ease of operations in terms of applying for registration, reporting and

various compliances under 'AIF Regulations', SEBI has introduced an online system for filings related to (AIF). The online system can be used for application for registration, reporting and filing in terms of the provisions of AIF Regulations and circulars issued thereunder.

All applicants desirous of seeking registration as an AIF are now required to submit their applications online only, through SEBI Intermediary Portal at <https://siportal.sebi.gov.in>.

Furthermore, all SEBI registered AIFs are now required to file their compliance reports and submit applications for any request under the provisions of AIF Regulations and circulars issued thereunder, through the online system only.

Investment Strategy

All AIFs must state its investment strategy, investment purpose and its investment methodology in its placement memorandum to the investors. In case the AIF decides to alter the fund strategy, it shall be made only with the consent of atleast 2/3rd of the unit holders by value of their investment in the AIF.

Investment in AIFs

The AIF, in all categories, may raise funds from any investor whether Indian, foreign or non-resident Indians only by way of issue of units.

A social impact fund or schemes of social impact fund may also issue social units. The AIF shall issue units in dematerialised form subject to the conditions specified by the SEBI from time to time.

- Each scheme of the AIF shall have corpus of atleast twenty crore rupees and the AIF shall not accept from an investor, an investment of value less than one crore rupees.
- In case the investors are employees or directors of the AIF Fund or employees or directors of the Manager, the minimum value of investment shall be twenty five lakh rupees. However, this clause shall no apply to an accredited investor.
- The Manager or Sponsor shall have a continuing interest in the AIF Fund of not less than two and half percent of the corpus or five crore rupees, whichever is lower, in the form of investment in the Alternative Investment Fund and such interest shall not be through the waiver of management fees. However, In the case of Category III AIF, the continuing interest shall be not less than five percent of the corpus or ten crore rupees, whichever is lower.
- The Manager or Sponsor shall disclose their investment in the Alternative Investment Fund to the investors of the Alternative Investment Fund.
- No scheme of the Alternative Investment Fund shall have more than 1000 investors. Provided that the provisions of the Companies Act, 2013 shall apply to the Alternative Investment Fund, if it is formed as a company.
- The AIF shall collect funds only by way of private placement.

- A social impact fund or schemes of a social impact fund may also issue social units. Social impact fund shall have a corpus of at least five crore rupees and in case of a social impact fund which invests only in securities of not for profit organizations registered or listed on a social stock exchange, the minimum value of investment by an individual investor shall be two lakh rupees.

In case the corpus of an open-ended scheme falls below rupees twenty crores:

- The AIF shall intimate to SEBI within 2 days of receiving request for redemption from the client.
- The AIF shall take necessary action to bring back the scheme size to twenty crores within 3 months from the date of such breach.
- In case the AIF fails to bring back the corpus within the prescribed period, it shall redeem entire units of all investors and wind up the scheme.
- In case of repeated violations by the AIF, SEBI may take action against the AIF, as may be appropriate.

Foreign investment in Alternative Investment Funds (AIFs)

In terms of Regulation 10(a) of SEBI (Alternative Investment Funds) Regulations, 2012, AIFs may raise funds from any investor whether Indian, foreign or non-resident Indians, by way of issue of units. At the time of on-boarding investors, the manager of an AIF shall ensure the following:

- Foreign investor of the AIF is a resident of the country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding or a signatory to the bilateral Memorandum of Understanding with SEBI.

For the purpose of the aforesaid clause, "Bilateral Memorandum of Understanding with SEBI" shall mean a bilateral Memorandum of Understanding between SEBI and any authority outside India that provides for information sharing arrangement as specified under clause (ib) of sub-section (2) of Section 11 of the SEBI Act, 1992.

The investor, or its underlying investors contributing 25% or more in the corpus of the investor or identified on the basis of control, is not the person(s) mentioned in the Sanctions List notified from time to time by the United Nations Security Council and is not a resident in the country identified in the public statement of Financial Action Task Force as

- a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
- a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

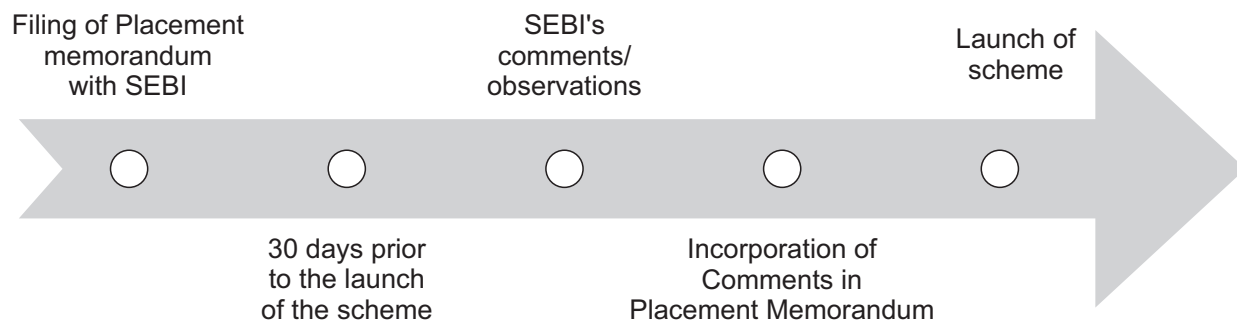
Placement Memorandum

AIF shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called. This document shall contain all material information about the AIF and the Manager, background of key investment team of the Manager, targeted investors, fees and all other expenses proposed to be charged, tenure of the Alternative Investment Fund or scheme, conditions or limits on redemption, investment strategy, risk management tools and parameters employed, key service providers, terms of reference of the committee constituted for approving the decisions of the Alternative Investment Fund,

conflict of interest and procedures to identify and address them, disciplinary history, the terms and conditions on which the Manager offers investment services, its affiliations with other intermediaries, manner of winding up of the AIF or the scheme and such other information as may be necessary for the investor to take an informed decision on whether to invest in the Alternative Investment Fund.

Schemes

The AIF Fund may launch schemes after filing of its placement memorandum with SEBI. Placement memorandum shall be filed with SEBI through a merchant banker atleast 30 days prior to the launch of the scheme along with the prescribed fees. The SEBI may communicate its comments, if any, to the merchant banker prior to launch of the scheme and the merchant banker shall ensure that the comments are incorporated in the placement memorandum prior to launch of the scheme. However, these requirements shall not apply to large value fund for accredited investors.



Question: Can an AIF launch schemes?

Ans: Yes. An AIF may launch schemes subject to filing of placement memorandum with SEBI. Further, it may be noted that prior to launch of scheme, an AIF is required to pay Rs. 1 lakh as scheme fees to SEBI while filing the placement memorandum. Such fee shall be paid atleast 30 days prior to launch of scheme. However, payment of scheme fees shall not apply in case of launch of first scheme by the AIF other than angel fund.

Modalities for filing of placement memorandum through a Merchant Banker

AIFs shall launch scheme subject to filing of placement memorandum with SEBI through a SEBI registered Merchant Banker. In this context, the following is specified:

- The Merchant Banker shall independently exercise due diligence of all the disclosures in the placement memorandum, satisfy itself with respect to veracity and adequacy of the disclosures and provide a due diligence certificate in the prescribed format.
- While filing draft placement memorandum at the time of registration or prior to launch of new scheme on the SEBI intermediary portal, the due diligence certificate provided by the Merchant Banker shall also be submitted, along with other necessary documents.
- The details of the Merchant Banker shall be disclosed in the placement memorandum.
- The Merchant Banker appointed for filing of placement memorandum shall not be an associate of the AIF, its sponsor, manager or trustee.

Tenure

- Category I & II AIF**
- Minimum tenure of 3 years
 - Close ended fund*
 - The tenure of close ended fund may be extended for a further period of 2 years only with the approval of two-third of the unit holders by value of their investment.
 - Large value funds for accredited investors may be permitted to extend its tenure upto 5 years subject to the approval of two-thirds of the unit holders by value of their investment in the large value fund for a accredited investors.

- Category III AIF**
- Either open ended or close ended fund*
 - The tenure of close ended fund may be extended for a further period of 2 years only with the approval of two-third of the unit holders by value of their investment.
 - Large value funds for accredited investors may be permitted to extend its tenure upto 5 years subject to the approval of two-thirds of the unit holders by value of their investment in the large value fund for a accredited investors.

In the absence of consent of unitholders or upon expiry of the extended tenure, the AIF or the scheme of the AIF shall be wound up.

* The manner of calculating the tenure of close ended scheme of an AIF, including the manner of modification of the tenure may be specified by SEBI from time to time.

Listing

Units of close ended Alternative Investment Fund may be listed on stock exchange subject to a minimum tradable lot of one crore rupees. Listing of Alternative Investment Fund units shall be permitted only after final close of the fund or scheme.

General Investment Conditions

Investments by all categories of Alternative Investment Funds shall be subject to the following conditions:-

- (a) Alternative Investment Fund may invest in securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and the SEBI from time to time;

In this regard, SEBI stated that AIFs may invest in equity and equity linked instruments only of offshore venture capital undertakings, subject to overall limit of USD 1500 million (combined limit for AIFs and Venture Capital Funds registered under the SEBI).

- (b) The terms of Co-investment in an investee company by a Manager or Sponsor or co-investor, shall not be more favourable than the terms of investment of the Alternative Investment Fund. However, the terms of exit from the Co-investment in an investee company including the timing of exit shall be identical to the terms applicable to that of exit of the Alternative Investment Fund.
- (c) Category I and II Alternative Investment Funds shall invest not more than twenty five percent of the investable funds in an Investee Company directly or through investment in the units of other Alternative Investment Funds.

However, large value funds for accredited investors of Category I and II may invest upto 50% of investable funds in an investee company directly or through investment in the units of other AIFs.

- (d) Category III Alternative Investment Funds shall invest not more than ten per cent of the investable funds in an Investee Company, directly or through investment in units of other Alternative Investment Funds and the large value funds for accredited investors of Category III Alternative Investment Funds may invest up to twenty per cent of the investable funds in an Investee Company, directly or through investment in units of other Alternative Investment Funds.

However, for investment in listed equity of an Investee Company, Category III Alternative Investment Funds may calculate the investment limit of ten per cent of either the investable funds or the net asset value of the scheme and large value funds for accredited investors of Category III Alternative Investment Funds may calculate the investment limit of twenty per cent of either the investable funds or the net asset value of the scheme, subject to the conditions specified by the SEBI from time to time.

- (e) Alternative Investment Funds which are authorised under the fund documents to invest in units of Alternative Investment Funds shall not offer their units for subscription to other Alternative Investment Funds.
- (f) Alternative Investment Fund shall not invest except with the approval of seventy five percent of investors by value of their investment in the Alternative Investment Fund in -
- i. associates;
 - ii. units of Alternative Investment Funds managed or sponsored by its Manager, Sponsor or associates of its Manager or Sponsor.
- (g) Except with the approval of seventy five percent of the investors by value of their investment in the scheme of Alternative Investment Fund and subject to the conditions specified by the Board, a scheme of an Alternative Investment Fund shall not buy or sell investments, from or to –
- (a) associates; or
 - (b) schemes of Alternative Investment Funds managed or sponsored by its Manager, Sponsor or associates of its Manager or Sponsor; or
 - (c) an investor who has committed to invest at least fifty percent of the corpus of the scheme of Alternative Investment Fund.

While obtaining approval of the investors, the investor specified under sub-clause (c) who has committed to invest at least fifty percent of the corpus of the scheme of Alternative Investment Fund and is buying or selling the investment, from or to, the Alternative Investment Fund, shall be excluded from the voting process.

- (h) Un-invested portion of the investable funds and divestment proceeds pending distribution to investors may be invested in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, Triparty Repo Dealing and Settlement, Commercial Papers, Certificates of Deposits, etc. till the deployment of funds as per the investment objective or the distribution of the funds to investors as per the terms of the fund documents, as applicable.
- (i) Alternative Investment Fund may act as Nominated Investor, as specified in the SEBI (Issue of Capital and Disclosure Requirements) Regulations. Nominated investor means a qualified institutional buyer or private equity fund, who enters into an agreement with the merchant banker to subscribe to the issue in case of under-subscription or to receive or deliver the specified securities in the market-making process in case of SME IPOs.

- (j) Investment by Category I and Category II Alternative Investment Funds in the shares of entities listed on institutional trading platform after the commencement of SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2015 shall be deemed to be investment in unlisted securities for the purpose of the AIF Regulations.
- (k) Alternative Investment Funds shall hold their investments in dematerialised form, subject to such conditions as may be specified by the SEBI from time to time. However, this shall not apply to:
 - (a) investments by Alternative Investment Funds in such type of instruments which are not eligible for dematerialisation,
 - (b) investments held by a liquidation scheme of the Alternative Investment Funds that are not available in the dematerialised form, and
 - (c) such other investments by Alternative Investment Funds and such other schemes of Alternative Investment Funds as may be specified by the Board from time to time.

Guidelines for Overseas Investment by Alternative Investment Funds (AIFs) / Venture Capital Funds (VCFs)

In terms of Regulation 15(1)(a) of SEBI (Alternative Investment Funds) Regulations, 2012, AIFs/VCFs may invest in securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and SEBI from time to time. In this regard, the following is specified –

1. AIFs may invest in equity and equity linked instruments only of off-shore venture capital undertakings, subject to overall limit of USD 1500 million (combined limit for AIFs and Venture Capital Funds registered under the erstwhile Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996).
2. For the purpose of such investment, it is clarified that “Offshore Venture Capital Undertakings” means a foreign company whose shares are not listed on any of the recognized stock exchange in India or abroad.
3. Such investments shall not exceed 25% of the investable funds of the scheme of the AIF.
4. AIFs shall invest in an overseas investee company, which is incorporated in a country whose securities market regulator is a signatory to the International Organization of Securities Commission’s Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to the bilateral Memorandum of Understanding with SEBI.
5. AIFs shall not invest in an overseas investee company, which is incorporated in a country identified in the public statement of Financial Action Task Force (FATF) as:
 - i. a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - ii. a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with FATF to address the deficiencies.
6. These investments would be subject to Foreign Exchange Management (Overseas Investment) Regulations, 2022, including amendments thereof and related directions issued by RBI from time to time.
7. AIFs shall not invest in Joint venture/Wholly Owned Subsidiary while making overseas investments.
8. AIFs shall adhere to FEMA, 1999, its Rules, Regulations and Directions issued by the Government/ RBI from time to time.

9. AIFs shall comply with all requirements under RBI guidelines on opening of branches/subsidiaries/Joint Venture /undertaking investment abroad by NBFCs, where more than 50% of the funds of the AIF has been contributed by a single NBFC.
10. AIFs shall transfer/sell the investment in overseas investee company only to the entities eligible to make overseas investments, as per the extant guidelines issued under the FEMA, 1999.

Conditions for Category I AIFs

The following investment conditions shall apply to all Category I Alternative Investment Funds:-

- (a) Category I Alternative Investment Fund shall invest in investee companies, venture capital undertakings, special purpose vehicles, limited liability partnerships, in units of other Category I Alternative Investment Funds of the same sub category or in units of Category II Alternative Investment Funds as specified in AIF regulation.
- (b) Category I Alternative Investment Funds may engage in hedging, including credit default swaps in terms of the conditions as may be specified by SEBI from time to time.
- (c) Category I Alternative Investment Funds shall not borrow funds directly or indirectly or engage in any leverage for the purpose of making investments or otherwise, except for borrowing funds to meet temporary funding requirements and day-to-day operational requirements for not more than thirty days, on not more than four occasions in a year and not more than ten percent of the investable funds and subject to such conditions as may be specified by the SEBI from time to time.

However, Category I Alternative Investment Funds may create encumbrance on equity of investee company, which is in the business of development, operation or management of projects in any of the infrastructure sub-sectors listed in the Harmonised Master List of Infrastructure issued by the Central Government, only for the purpose of borrowing by such investee company and subject to such conditions as may be specified by the SEBI from time to time.

In case the AIF is a **Venture Capital Fund**, the following additional conditions shall apply :-

- (a) At least seventy-five percent of the investable funds shall be invested in unlisted equity shares or equity linked instruments of a venture capital undertaking or in companies listed or proposed to be listed on a SME exchange or SME segment of an exchange. However, the investment conditions shall be achieved by the fund by the end of its life cycle.
- (b) Such funds may enter into an agreement with merchant banker to subscribe to the unsubscribed portion of the issue or to receive or deliver securities in the process of market making under Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 and the provisions of clause (a) of sub-regulation shall not apply in case of acquisition or sale of securities pursuant to such subscription or market making.
- (c) Such funds shall be exempt from sub-regulations (1) and (2) of regulation 3 and sub-regulation (1) of regulation 4 of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 in respect of investment in companies listed on the SME exchange or SME segment of an exchange pursuant to due diligence of such companies subject to the following conditions:
 - (i) the fund shall disclose any trading in securities pursuant to such due-diligence, within two trading days of such trading, to the stock exchanges where the investee company is listed;
 - (ii) such investment shall be locked in for a period of one year from the date of investment.

In case the fund is an **SME Fund**, the following additional conditions shall apply:

- (a) At least seventy five percent of the investable funds shall be invested in unlisted securities or partnership interest of venture capital undertakings or investee companies which are SMEs or in companies listed or proposed to be listed on SME exchange or SME segment of an exchange or in units of Category II Alternative Investment Funds which invest primarily in such venture capital undertakings or investee companies.
- (b) Such funds may enter into an agreement with merchant banker to subscribe to the unsubscribed portion of the issue or to receive or deliver securities in the process of market making under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- (c) Such funds shall be exempt from sub-regulations (1) and (2) of regulation 3 and sub-regulation (1) of regulation 4 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 in respect of investment in companies listed on the SME exchange or SME segment of an exchange pursuant to due diligence of such companies subject to the following conditions:
 - (i) the fund shall disclose any trading in securities pursuant to such due-diligence, within two trading days of such trading, to the stock exchanges where the investee company is listed;
 - (ii) such investment shall be locked in for a period of one year from the date of investment.

In case the fund is a **Social Impact Fund**, the following additional conditions shall apply :

- (a) At least seventy-five percent of the investable funds shall be invested in unlisted securities or partnership interest of social ventures or in units of social ventures or in securities of social enterprises. However, an existing social impact fund may invest the remaining investable funds in securities of not for profit organizations registered or listed on a social stock exchange with the prior consent of atleast 75% of the investors by value of their investment.
- (b) Such funds may accept grants, provided that such utilization of such grants shall be restricted to investing in unlisted securities or partnership interest of social ventures as mentioned point (a).
However, the amount of grant that may be accepted by the fund from any person shall not be less than ten lakh rupees. Provided further that the minimum amount of grant shall not apply to accredited investors. Further, no profits or gains shall accrue to the provider of such grants.
- (c) A social impact fund or schemes of a social impact fund launched exclusively for a not for profit organization registered or listed on a social stock exchange, shall be permitted to deploy or invest hundred percent of the investable funds in the securities of not for profit organizations registered or listed on a social stock exchange.
- (d) Such funds may give grants to social ventures or social enterprises, provided that appropriate disclosure is made in the placement memorandum.

In case the fund is an **Infrastructure Fund**, the following additional conditions shall apply:

- (a) At least seventy five percent of the investable funds shall be invested in unlisted securities or units or partnership interest of venture capital undertaking or investee companies or special purpose vehicles, which are engaged in or formed for the purpose of operating, developing or holding infrastructure projects or in units of Category II Alternative Investment Funds which invest primarily in such venture capital undertakings or investee companies or special purpose vehicles.
- (b) Notwithstanding the above, such funds may also invest in listed securitized debt instruments or listed debt securities of investee companies or special purpose vehicles, which are engaged in or formed for the purpose of operating, developing or holding infrastructure projects.

Conditions for Category II AIFs

The following investment conditions shall apply to Category II Alternative Investment Funds:-

- (a) Category II AIFs shall invest in investee companies or in the units of Category I or other Category II Alternative Investment Funds as may be disclosed in the placement memorandum.

Category II AIFs shall invest primarily in unlisted companies directly or through investment in units of other Alternative Investment Funds.

- (b) Category II Alternative Investment Funds may not borrow funds directly or indirectly and shall not engage in leverage except for meeting temporary funding requirements for not more than thirty days, not more than four occasions in a year and not more than ten percent of the investable funds.

However, Category II Alternative Investment Funds may create encumbrance on equity of investee company, which is in the business of development, operation or management of projects in any of the infrastructure sub-sectors listed in the Harmonised Master List of Infrastructure issued by the Central Government, only for the purpose of borrowing by such investee company and subject to such conditions as may be specified by the SEBI from time to time

- (c) Notwithstanding this restriction, a Category II Alternative Investment Fund may engage in hedging, subject to guidelines as specified by SEBI from time to time.
- (d) Category II Alternative Investment Funds may buy or sell credit default swaps in terms of the conditions as may be specified by the SEBI from time to time.
- (e) Category II Alternative Investment Funds may enter into an agreement with merchant banker to subscribe to the unsubscribed portion of the issue or to receive or deliver securities in the process of market making under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- (f) Category II Alternative Investment Funds shall be exempt from sub-regulations (1) and (2) of regulation 3 and sub-regulation (1) of regulation 4 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 in respect of investment in companies listed on SME Exchange or SME segment of an exchange pursuant to due diligence of such companies subject to the following conditions:
- (i) the fund shall disclose any trading in securities pursuant to such due diligence, within two trading days of such trading, to the stock exchanges where the investee company is listed;
 - (ii) such investment shall be locked in for a period of one year from the date of investment.

Conditions for Category III AIFs

The following investment conditions shall apply to Category III Alternative Investment Funds:-

- (a) Category III Alternative Investment Funds may
- invest in securities of listed or unlisted investee companies or derivatives, units of other Alternative Investment Funds or complex or structured products;
 - deal in goods received in delivery against physical settlement of commodity derivatives.
 - buy or sell credit default swaps in terms of conditions as may be specified by SEBI from time to time.
- (b) Category III Alternative Investment Funds may engage in leverage or borrow, subject to consent from the investors in the fund and subject to a maximum limit, as may be specified by SEBI.

However, such funds shall disclose information regarding the overall level of leverage employed, the level of leverage arising from borrowing of cash, the level of leverage arising from position held in derivatives or in any complex product and the main source of leverage in their fund to the investors and to SEBI periodically, as may be specified by SEBI.

- (c) Category III Alternative Investment Funds shall be regulated through issuance of directions regarding areas such as operational standards, conduct of business rules, prudential requirements, restrictions on redemption and conflict of interest as may be specified by SEBI.

ANGEL FUNDS

As per AIF Regulations , Angel Fund means a sub-category of Venture Capital Fund under Category I Alternative Investment Fund that raises funds from angel investors and invests in accordance with the provisions of Chapter III-A of the AIF Regulations.

Angel Investor

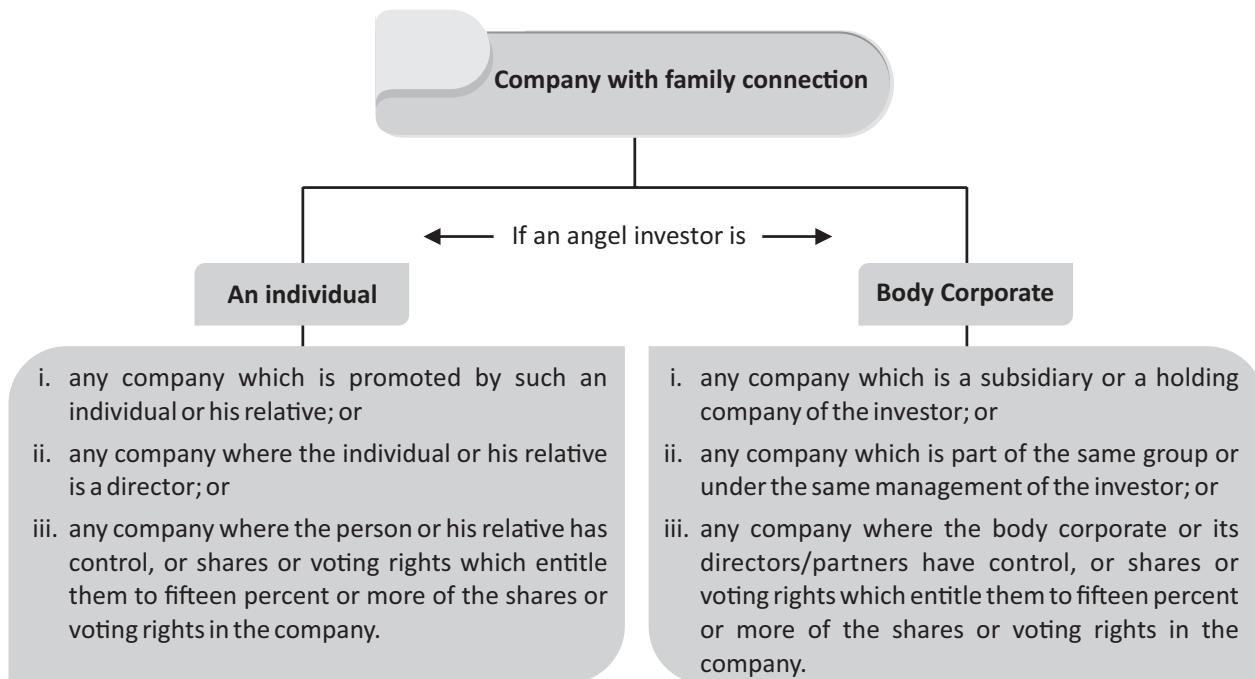
Here, ‘Angel Investor’ means any person who proposes to invest in an angel fund and satisfies one of the following conditions, namely,

- (a) an individual investor who has net tangible assets of at least two crore rupees excluding value of his principal residence, and who:
 - has early stage investment experience, or
 - has experience as a serial entrepreneur, or
 - is a senior management professional with at least ten years of experience.

Early stage investment experience shall mean prior experience in investing in start-up or emerging or early-stage ventures and ‘serial entrepreneur’ shall mean a person who has promoted or co-promoted more than one start-up venture.

- (b) a body corporate with a net worth of at least ten crore rupees; or
- (c) an Alternative Investment Fund registered under SEBI AIF Regulations or a Venture Capital Fund registered under the SEBI (Venture Capital Funds) Regulations, 1996.

Company with family connection



Applicability

The provisions of Chapter III A of the AIF Regulations, 2012 shall apply to angel funds and schemes launched by such angel funds and the other provisions of the AIF Regulations, except clauses (a), (b), (c), (d) and (f) of regulation 10, regulation 12, regulation 14, clauses (a), (c) and (e) of sub-regulation (1) of regulation 15, clause (b) of sub-regulation (1) of regulation 16 and sub-regulation (2) of regulation 16, sub-regulation (21) of regulation 20 of the AIF Regulations, and the guidelines and circulars issued under the AIF Regulations unless specifically excluded, shall apply to angel funds and schemes launched by such angel funds, their sponsors and managers and angel investors.

Registration

An applicant may apply for registration as an angel fund in accordance with the registration requirements as specified and an Alternative Investment Fund already registered under the AIF, which has not made any investments, may apply for conversion of its category into an angel fund.

Investment in an Angel Fund

Angel funds shall only raise funds by way of issue of units to angel investors. An angel fund shall have a corpus of at least five crore rupees. Angel funds shall accept, up to a maximum period of five years, an investment of not less than twenty five lakh rupees from an angel investor and such funds shall be raised through private placement by issue of information memorandum or placement memorandum, by whatever name called. However, the provisions of the Companies Act, 2013 shall apply to the Angel Fund, if it is formed as a company.

Schemes

The angel fund may launch schemes subject to filing of a term sheet with SEBI, containing material information regarding the scheme, in the format and time period as may be specified by SEBI.

No scheme of the angel fund shall have more than 200 angel investors.

However, the provisions of the Companies Act, 2013 shall apply to the Angel Fund, if it is formed as a company.

Investment by Angel Funds

(1) Angel funds shall invest in startups which

- a. are not promoted or sponsored by or related to an industrial group whose group turnover exceeds Rs. 300 crore.

For the purpose of this clause, “industrial group” shall include a group of body corporates with the same promoter(s)/promoter group, a 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. For the purpose of this clause, “group turnover” shall mean combined total revenue of the industrial group.

- b. are not companies with family connection with any of the angel investors who are investing in the company.
- (2) Investment by an angel fund in any venture capital undertaking shall not be less than twenty five lakh rupees and shall not exceed Rs. 10 crore rupees.
- (3) Investment by an angel fund in the venture capital undertaking shall be locked-in for a period of one year.

- (4) Angel Funds shall not invest in associates.
- (5) Angel funds shall not invest more than twenty-five per cent of the total investments under all its schemes in one venture capital undertaking, the compliance of which shall be ensured by the angel fund at the end of its tenure.
- (6) An angel fund may also invest in the securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and SEBI from time to time.

Listing

Units of Angel Funds shall not be listed on any recognized stock exchange.

Obligations of Sponsors and Managers of Angel Fund

The manager or sponsor shall have a continuing interest in the angel fund of not less than two and half percent of the corpus or fifty lakh rupees, whichever is lesser, and such interest shall not be through the waiver of management fees.

The manager of the angel fund shall obtain an undertaking from every angel investor proposing to make investment in a venture capital undertaking, confirming his approval for such an investment, prior to making such an investment.

SPECIAL SITUATION FUNDS

“Special situation fund” means a Category 1 Alternative Investment Fund that invests in special situation assets in accordance with its investment objectives and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016.

Special situation asset includes,-

- (a) stressed loan available for acquisition in terms of Clause 58 of Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 as amended from time to time or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 or in terms of any other policy of the Reserve Bank of India or Government of India issued in this regard from time to time;
- (b) security receipts issued by an Asset Reconstruction Company registered with the Reserve Bank of India;
- (c) securities of investee companies,
 - (i) whose stressed loans are available for acquisition in terms of Clause 58 of the Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 as amended from time to time or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 or in terms of any other policy of the Reserve Bank of India or Government of India issued in this regard from time to time;
 - (ii) against whose borrowings, security receipts have been issued by an Asset Reconstruction Company registered with the Reserve Bank of India;
 - (iii) whose borrowings are subject to corporate insolvency resolution process under Chapter II of the Insolvency and Bankruptcy Code, 2016;
 - (iv) who have disclosed all the defaults relating to the payment of interest/ repayment of principal

amount on loans from banks / financial institutions/ Systemically Important Non-Deposit taking Non-Banking Financial Companies/ Deposit taking Non-Banking Financial Companies and /or listed or unlisted debt securities in terms of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 and such payment default is continuing for a period of at least ninety calendar days after the occurrence of such default.

(d) Any other asset as may be specified by the SEBI from time to time.

Applicability

Chapter III –B of AIF Regulations pertaining to Special Situation Fund shall apply to special situation funds and schemes launched by such special situation funds.

All other provisions of these regulations, except clauses (b) and (c) of regulation 10, clauses (a), (c) and (e) of sub-regulation (1) of regulation 15, clause (a) of sub-regulation (1) of regulation 16 and the guidelines and circulars issued under these regulations, unless the context otherwise requires or is repugnant to the provisions of this Chapter, shall apply to the special situation funds, the schemes of special situation funds and their sponsors and managers.

Registration

An applicant may apply for registration as a special situation fund in accordance with the provisions of Chapter II of these Regulations.

Investment in special situation funds

Each scheme of a special situation fund shall have a corpus as may be specified by the SEBI. The special situation fund shall accept from an investor, an investment of such value as may be specified by the SEBI.

The special situation fund shall not accept investments from any other Alternative Investment Fund other than a special situation fund.

Investment by special situation funds

Special situation funds shall invest only in special situation assets and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016. However, the special situation fund shall not invest in,

- its associates; or
- the units of any other Alternative Investment Fund other than the units of a special situation fund; or
- units of special situation funds managed or sponsored by its manager, sponsor or associates of its manager or sponsor.

SEBI, vide its circular has specified the following with respect to special situation fund:

- Each scheme of SSF shall have a corpus of at least one hundred crore rupees.
- SSF shall accept an investment of value not less than ten crore rupees from an investor. In case of an accredited investor, the SSF shall accept an investment of value not less than five crore rupees. Further, in case of investors who are employees or directors of the SSF or employees or directors of the manager of the SSF, the minimum value of investment shall be twenty-five lakh rupees.

- SSF intending to act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016 shall ensure compliance with the eligibility requirement provided thereunder.

CORPORATE DEBT MARKET DEVELOPMENT FUND (CDMDF)

Meaning: Corporate Debt Market Development Fund” means an Alternative Investment Fund set up and making investments in terms of Chapter III-C of these regulations. CDMDF falls under Category I AIF in terms of Regulations 3(4)(a) of AIF Regulations.

Registration: The Corporate Debt Market Development Fund shall apply for registration as an Alternative Investment Fund and constituted in the form of a Trust and the instrument of Trust shall be in the form of a deed duly registered under the provisions of the Indian Registration Act, 1908.

Filing of placement memorandum: The placement memorandum of the Corporate Debt Market Development Fund shall be filed with SEBI and SEBI may communicate its comments, if any, to the Manager prior to the launch of the fund and the Manager shall incorporate the comments in the placement memorandum prior to the launch of the fund.

Tenure: The Corporate Debt Market Development Fund shall be a close ended fund, with a tenure of fifteen years from the date of its first closing. However, the tenure may be extended with the prior approval of the SEBI.

Winding up: The Corporate Debt Market Development Fund shall be wound up with the prior approval of the SEBI.

Investment in the Corporate Debt Market Development Fund

The units of the Corporate Debt Market Development Fund shall be offered to the Asset Management Companies as defined under the SEBI (Mutual Funds) Regulations, 1996 and the specified debt-oriented schemes of mutual funds.

The Manager or Sponsor shall have a continuing interest in the Corporate Debt Market Development Fund of not less than five crore rupees in the form of investment in the fund but such continuing interest shall not be through the waiver of management fees.

Investment conditions for the Corporate Debt Market Development Fund

1. During periods of market dislocation, the Corporate Debt Market Development Fund shall purchase corporate debt securities from the specified debt-oriented schemes of mutual funds which meet the following eligibility criteria:
 - (a) corporate debt securities shall be listed and have an investment grade rating;
 - (b) the residual maturity of such securities shall not exceed five years on the date of purchase;
 - (c) securities where there is no material possibility of default or adverse credit news or views.
2. The Corporate Debt Market Development Fund shall purchase corporate debt securities in proportion to the contribution made in it at a mutual fund level and in accordance with detailed guidelines as may be approved by the SEBI.
3. The Corporate Debt Market Development Fund shall hold eligible securities, till maturity or sell the same in the secondary market upon reversal of market dislocation, in the manner as specified by the SEBI from time to time.

4. Other than market dislocation period, the Corporate Debt Market Development Fund shall invest in liquid and low-risk debt instruments and undertake any other activity related to corporate debt market, as may be specified by the SEBI from time to time.
5. The Corporate Debt Market Development Fund shall buy corporate debt securities at fair price adjusted for liquidity risk, interest rate risk and credit risk but not at distress prices.
6. The sharing of loss by the sellers of corporate debt securities to the Corporate Debt Market Development Fund during periods of market dislocation may be higher than their pro rata holding in the Alternative Investment Fund vis-à-vis other unit holders.
7. The Corporate Debt Market Development Fund shall not invest in the securities of companies incorporated outside India.
8. Investment by the Corporate Debt Market Development Fund in any one investee company shall not exceed five percent of its fund capital at the time of investment. However, the combined investment in the corporate debt securities of an issuer group as specified under the SEBI (Mutual Funds) Regulations, 1996 shall not exceed seven and half percent of its fund capital at the time of investment.
9. The Corporate Debt Market Development Fund may borrow funds up to ten times its corpus, subject to such conditions as may be specified by the Board in consultation with the Government of India.
10. The valuation procedure and methodology for valuing assets of the Corporate Debt Market Development Fund shall be governed by the norms applicable to Mutual Fund schemes under the SEBI (Mutual Funds) Regulations, 1996.
11. In-specie distribution of assets of the Corporate Debt Market Development Fund may be made to the unit holders, only at the time of winding up subject to the consent of seventy-five percent of the unit holders by value of their investment in such fund.
12. Any material alteration to the investment strategy of the Corporate Debt Market Development Fund shall be with the prior approval of the SEBI.

Disclosures

The portfolio of the Corporate Debt Market Development Fund shall be disclosed to the unitholders on a fortnightly basis. The Net Asset Value of the Corporate Debt Market Development Fund shall be disclosed to the unitholders on a daily basis.

Governance Mechanism for the Corporate Debt Market Development Fund

- The Corporate Debt Market Development Fund shall appoint a trustee company.
- The Board of directors of trustee company and the Manager of the Corporate Debt Market Development Fund shall be appointed with the prior approval of the SEBI.
- The roles and responsibilities of the trustee company shall be similar to the roles and responsibilities assigned to trustees under the SEBI (Mutual Funds) Regulations, 1996.
- The trustee company of the Corporate Debt Market Development Fund shall not engage in any activity other than acting as a trustee of the Corporate Debt Market Development Fund, except with the prior written consent of the SEBI.
- Two-thirds of the members of the board of directors of the trustee company shall be independent directors and shall not be associated with the Sponsor or the Manager in any manner whatsoever.

- No person shall initially or any time thereafter be appointed as a director of the trustee company of the Corporate Debt Market Development Fund without the prior approval of the Board.
- An audit committee of the trustee company shall be constituted to review compliance with the provisions of placement memorandum as required under these regulations along with other responsibilities as may be specified by the Board from time to time.
- The manager of the Corporate Debt Market Development Fund shall appoint a Governance Committee.
- The Governance Committee shall comprise corporate bond market experts including academicians, fund managers or Chief Investment Officers, risk management professionals and independent market experts.
- The Governance Committee, jointly with the board of the Manager and trustee company, shall approve the policies of the Corporate Debt Market Development Fund.
- The Governance Committee shall supervise the activities of the Corporate Debt Market Development Fund, especially relating to management of conflict of interest, if any.
- The Governance Committee shall have oversight on management of asset liability mismatches during times of market dislocation.

Listing

The units of the Corporate Debt Market Development Fund shall not be listed on any recognised stock exchange.

MIGRATED VENTURE CAPITAL FUND

In terms of the SEBI AIF Regulations, migrated venture capital fund means a fund that was previously registered as a venture capital fund under the SEBI (Venture Capital Funds) Regulations, 1996 and subsequently registered under these regulations as a sub-category of Venture Capital Fund under Category I - Alternative Investment Fund in accordance with the provisions of Chapter III-D.

Procedure for grant of Certificate

An application for seeking registration as a migrated venture capital fund shall be made to SEBI in the manner specified by SEBI. The certificate of registration as a Category I Alternative Investment Fund – Venture Capital Fund (Migrated Venture Capital Fund) shall be granted by SEBI, if it is satisfied that the applicant fulfills all the requirements as specified in Chapter III-D under these regulations.

Eligibility Criteria

For the purpose of the grant of certificate under this Chapter, the Board shall consider the following eligibility conditions, namely, —

- (a) the applicant has a certificate of registration as a Venture Capital Fund under Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996;
- (b) the applicant is a fit and proper person;
- (c) the applicant has furnished the required information as specified by the Board from time to time;
- (d) the applicant has no pending investor complaint with regard to non-receipt of funds or securities for any of its schemes whose assets are not liquidated in terms of regulation 24(2) of the SEBI (Venture Capital Funds) Regulations 1996, on the date of application under Chapter III-D;

- (e) no scheme launched by the applicant has investment from an investor which is less than five lakh rupees. Provided that nothing contained in clause (e) shall apply to investors who are employees or the principal officer or directors of the venture capital fund or directors of the trustee company or trustees where the venture capital fund has been established as a trust or the employees of the manager or asset management company of the migrated venture capital fund;
- (f) each scheme launched by the applicant has a firm commitment from the investors for contribution of an amount not below rupees five crores before the start of operations by the applicant.

Prohibition on inviting subscription from the public

Migrated venture capital fund shall not issue a document or an advertisement inviting offers from the public for the subscription or purchase of any of its units.

Private placement

A migrated venture capital fund may receive monies for investment in the migrated venture capital fund only through private placement of its units.

Schemes

A migrated venture capital fund shall not launch any new scheme.

Tenure

The tenure of a migrated venture capital fund shall be calculated in the manner as may be specified by SEBI. Extension of the tenure of a migrated venture capital fund may be permitted up to two years subject to the approval of two-thirds of the unit holders by value of their investment in the migrated venture capital fund.

Listing

Migrated venture capital fund shall not be entitled to get its units listed on any recognised stock exchange till the expiry of three years from the date of the issuance of units by the migrated venture capital fund.

Placement memorandum or subscription agreement

The migrated venture capital fund shall—

- (a) issue a placement memorandum which shall contain details of the terms and conditions subject to which monies are proposed to be raised from investors; or
- (b) enter into a contribution or subscription agreement with the investors which shall specify the terms and conditions subject to which monies are proposed to be raised.

The migrated venture capital fund shall file with SEBI for information, the copy of the placement memorandum or the copy of the contribution or subscription agreement entered into with the investors along with a report of money actually collected from the investor.

Investment by migrated venture capital fund

Investments by migrated venture capital fund shall be subject to the following conditions:—

- (a) the migrated venture capital fund shall not invest more than 25% corpus of the fund in a single venture capital undertaking;
- (b) the migrated venture capital fund may invest in the securities of companies incorporated outside India

subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and the Board from time to time;

- (c) The migrated venture capital fund shall not invest in the associated companies; and
- (d) the migrated venture capital fund shall invest as enumerated below:
 - (i) at least 66.67% of the investable funds shall be invested in unlisted equity shares or equity linked instruments of venture capital undertaking;
 - (ii) not more than 33.33% of the investable funds may be invested by way of:
 - (a) subscription to the initial public offer of a venture capital undertaking whose shares are proposed to be listed;
 - (b) investment in the debt or debt instrument of a venture capital undertaking in which the venture capital fund has already made an investment by way of equity;
 - (c) preferential allotment of equity shares of a listed company subject to a lock in period of one year;
 - (d) investment in the equity shares or equity linked instruments of a financially weak company or a sick industrial company whose shares are listed;
 - (e) investment in the Special Purpose Vehicles that are created by a venture capital fund for the purpose of facilitating or promoting investment in accordance with these regulations.

The migrated venture capital fund may enter into an agreement with the merchant banker to subscribe to the unsubscribed portion of the issue or to receive or deliver securities in the process of market making under Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 and the provisions of sub-regulation (1) shall not apply in case of acquisition or sale of securities pursuant to such subscription or market making. SEBI may specify additional requirements or criteria for investments by the migrated venture capital funds.

SEBI may also specify additional requirements or criteria for investments by the migrated venture capital funds.

GENERAL OBLIGATIONS AND RESPONSIBILITIES AND TRANSPARENCY

Grievance Redressal Mechanism

The Manager shall redress investor grievances promptly but not later than twenty-one calendar days from the date of receipt of the grievance and in such manner as may be specified by the SEBI.

SEBI may also recognize a body corporate for handling and monitoring the process of grievance redressal within such time and in such manner as may be specified.

Dispute Resolution

All claims, differences or disputes between investors and the Alternative Investment Fund or the Manager arising out of or in relation to the activities of the Alternative Investment Fund or the Manager in the securities market shall be submitted to a dispute resolution mechanism that includes mediation and/or conciliation and/or arbitration, in accordance with the procedure specified by the SEBI.

If the Alternative Investment Fund has been established as a trust, then no loss or damage or expenses incurred by the Manager or officers of the Manager, including those in relation to resolution of claims or disputes of investors, shall be met out of the trust property.

Reporting of investment activities by AIFs

In accordance with the AIF Regulations, SEBI may at any time call upon the Alternative Investment Fund to file such reports, as the SEBI may desire, with respect to the activities carried on by the Alternative Investment Fund. In this regard, the following reporting requirement is specified:

- All AIFs shall submit report on their activity as an AIF to SEBI on quarterly basis within 15 calendar days from the end of each quarter in the reporting format hosted by AIF Industry Associations.
- AIFs shall submit these reports online through SEBI intermediary Portal.

Term Sheet - Angel Funds

Angel funds may launch schemes subject to filing of a Term Sheet in the format as specified.

Such Term Sheet shall contain material information regarding the scheme and shall be filed with the SEBI within 10 days of launching the scheme.

Question: How can the investors redress their complaints against AIFs?

Answer: SEBI has a web based centralized grievance redress system called SEBI Complaint Redress System (SCORES) at <http://scores.gov.in> where investors can lodge their complaints against AIFs.

Further, in terms of the AIF Regulations, for dispute resolution, the AIF by itself or through the Manager or Sponsor, is required to lay down procedure for resolution of disputes between the investors, AIF, Manager or Sponsor through arbitration or any such mechanism as mutually decided between the investors and the AIF.

Compliance Test Report (CTR)

- a. At end of financial year, the manager of an AIF shall prepare a compliance test report on compliance with AIF Regulations and circulars issued thereunder in the specified format.
- b. In case the AIF is a trust, the CTR shall be submitted to the trustee and sponsor within 30 days from the end of the financial year. In case of other AIFs, the CTR shall be submitted to the sponsor within 30 days from the end of the financial year.
- c. In case of any observations/comments on the CTR, the trustee/sponsor shall intimate the same to the manager within 30 days from the receipt of the CTR. Within 15 days from the date of receipt of such observations/comments, the manager shall make necessary changes in the CTR, as may be required, and submit its reply to the trustee/sponsor.
- d. In case any violation of AIF Regulations or circulars issued thereunder is observed by the trustee/sponsor, the same shall be intimated to SEBI as soon as possible.

Maintenance of Records

The Manager or Sponsor shall be required to maintain following records describing :-

- (a) the assets under the scheme/fund;
- (b) valuation policies and practices;
- (c) investment strategies;
- (d) particulars of investors and their contribution;
- (e) rationale for investments made.

The records shall be maintained for a period of five years after the winding up of the fund.

OPERATIONAL AND PRUDENTIAL NORMS FOR ALTERNATIVE INVESTMENT FUNDS (AIFs)

Risk Management and Compliance: All Category III AIFs which employ leverage shall have a comprehensive risk management framework supported by an independent risk management function and have a strong and independent compliance function, appropriate to the size, complexity and risk profile of the fund. Also Category III AIFs are required to maintain appropriate records of the trades/transactions performed and such information should be available to SEBI, whenever sought and provide full disclosure and transparency about conflicts of interest and how they manage them from time to time to investors in accordance with the AIF Regulations. Such conflicts shall be disclosed to the investors in the placement memorandum and by separate correspondences as and when such conflicts may arise. Such information shall also be disclosed to SEBI as and when required by SEBI.

Redemption norms: These norms shall apply to open ended Category III AIFs for all their existing and new schemes. The Manager of such AIFs shall ensure adequate and sufficient degree of liquidity of the scheme/fund in order to allow it, in general, to meet redemption obligations and other liabilities. The Manager shall establish, implement and maintain an appropriate liquidity management policy and process to ensure that the liquidity of the various underlying assets is consistent with the overall liquidity profile of the fund/scheme while making any investment.

Prudential requirements: All Category III AIFs which undertake leverage, whether through investment in derivatives or by borrowing or by any other means shall comply with the prudential requirements.

For the purpose of arriving at leverage undertaken by an AIF, leverage shall be calculated as the ratio of the exposure to the Net Asset Value of the AIF. Leverage shall be calculated as under:

$$\text{Leverage} = \frac{\text{Total exposure \{Longs+Shorts (after offsetting as permitted)\}}}{\text{Net Asset Value (NAV)}}$$

The leverage of a Category III AIF shall not exceed 2 times of the NAV of the fund. i.e. If an AIF's NAV is Rs. 100 crore, its exposure (Longs+shorts) after offsetting positions as permitted shall not exceed Rs. 200 crore.

SEED FUNDING

Seed funding, taken from the word “seed” is the capital needed to start/expand your business. It often comes from the company founders' personal assets, from friends and family or other investors. The amount of money is usually relatively small because the business is still in the idea or conceptual stage.

This type of funding is often obtained in exchange for an equity stake in the enterprise, although with less formal contractual overhead than standard equity financing.

Lenders often view seed capital as a risky investment by the promoters of a new venture, which represents a meaningful and tangible commitment on their part to making the business a success.

This would be a type of Venture Capital Funding and hence covered under the provisions of Angel Funding in the AIF Regulations.

PRIVATE EQUITY

Private equity is a type of equity (finance) and one of the asset classes that are not publicly traded on a stock exchange. Private equity is essentially a way to invest in some assets that is not publicly traded, or to invest in a

publicly traded asset with the intention of taking it private. Unlike stocks, mutual funds, and bonds, private equity funds usually invest in more illiquid assets, i.e. companies. By purchasing companies, the firms gain access to those assets and revenue sources of the company, which can lead to very high returns on investments. Another feature of private equity transactions is their extensive use of debt in the form of high-yield bonds. By using debt to finance acquisitions, private equity firms can substantially increase their financial returns.

Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, make acquisitions, or to strengthen a balance sheet. The major of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time.

Private equity investments often demand long holding periods to allow for a turnaround of a distressed company or a liquidity event such as IPO or sale to a public company. Generally, the private equity fund raise money from investors like Angel investors, Institutions with diversified investment portfolio like – pension funds, insurance companies, banks, funds of funds etc.

Types of Private Equity

Private equity investments can be divided into the following categories:

Leveraged Buyout (LBO): This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

Venture Capital: It is a broad sub-category of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.

Growth Capital: This refers to equity investments, mostly minority investments, in the companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business.

VENTURE CAPITAL

Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years.

A venture capital company is a group of investors who pool investments focused within certain parameters. The participants in venture capital firms can be institutional investors like pension funds, insurance companies, foundations, corporations or individuals.

Venture Capital is generally equity investments made by venture capital funds, at an early stage in privately held companies, having potential to provide a high rate of return on their investments. It is a resource for supporting innovation, knowledge based ideas and technology and human capital intensive enterprises.

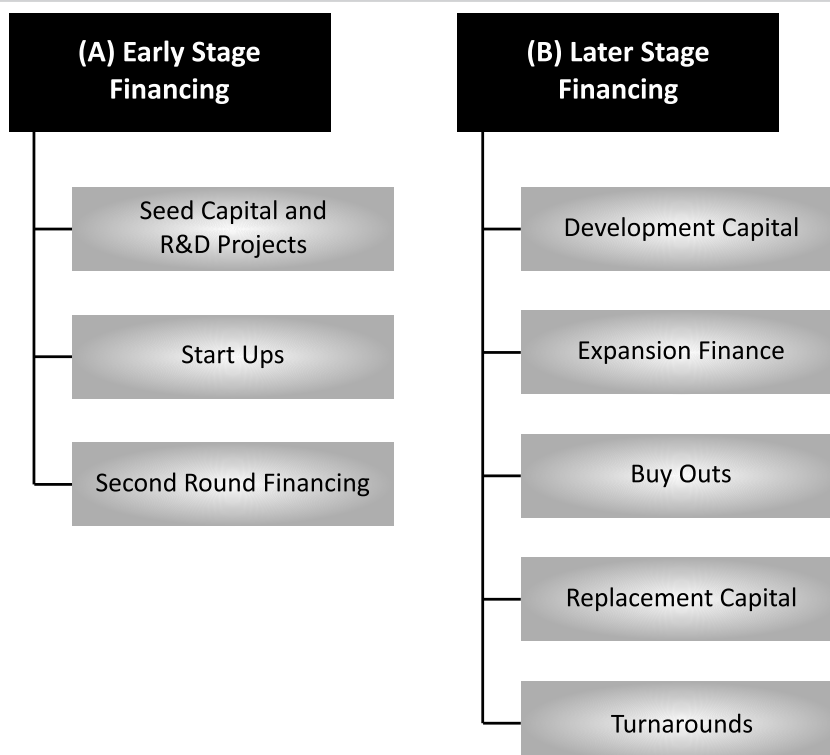
Unlike banks, which seek their return through interest payments, venture firms seek for capital appreciation. Generally, venture capital firms look for a return of five to ten times the original investment.

Areas of Investment

Different venture groups prefer different types of investments. Some specialize in seed capital and early expansion while others focus on exit financing. Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of many venture firms and receiving the most financing. Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.

In India, software sector has been attracting a lot of venture finance. Besides media, health and pharmaceuticals, agri-business and retailing are the other areas that are favored by a lot of venture companies.

Stages of Investment Financing



Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability. Venture capital firms usually recognise the following two main stages when the investment could be made in a venture namely:

A. Early Stage Financing

- I. **Seed Capital and R&D Projects:** Venture capitalists are more often interested in providing seed finance i. e. making provision of very small amounts for finance needed to turn into a business. Research and Development activities are required to be undertaken before a product is to be launched. External finance is often required by the entrepreneur during the development of the product. The financial risk increases progressively as the research phase moves into the development phase, where a sample of the product is tested before it is finally commercialised venture capitalists/firms/funds are always ready to undertake risks and make investments in such R & D projects promising higher returns in future.
- II. **Start Ups:** The most risky aspect of venture capital is the launch of a new business after the Research and Development activities are over. At this stage, the entrepreneur and his products or services are still

not tried and rested in the market forces. The finance required usually falls short of his own resources. Start-ups may include new industries/businesses set up by the experienced persons in the area in which they have knowledge, specialization and proficiency. Others may result from the research bodies or large corporations, where a venture capitalist joins with an industrially experienced or corporate partner.

- III. Second Round Financing:** It refers to the stage when product has already been launched in the market but has not earned enough profits to attract new investors. Additional funds are needed at this stage to meet the growing needs of business. Venture Capital Institutions (VCIs) provide larger funds at this stage than at other early stage financing in the form of debt. The time scale of investment is usually three to seven years.

B. Later Stage Financing

Those established businesses which require additional financial support but cannot raise capital through public issue approach venture capital funds for financing expansion, buyouts and turnarounds or for development capital. This is known as later stage financing. It includes the following:

- I. Development Capital:** It refers to the financing of an enterprise which has overcome the highly risky stage and have recorded profits but cannot go public, thus needs financial support. Funds are needed for the purchase of new equipment/plant, expansion of marketing and distributing facilities, launching of product into new regions and so on. The time scale of investment is usually one to three years and falls in medium risk category.
- II. Expansion Finance:** Venture capitalists perceive low risk in ventures requiring finance for expansion purposes either by growth implying bigger factory, large warehouse, new factories, new products or new markets or through purchase of existing businesses. The time frame of investment is usually from one to three years. It represents the last round of financing before a planned exit.
- III. Buy Outs:** It refers to the transfer of management control by creating a separate business by separating it from their existing owners. It may be of two types.
- i. Management Buyouts (MBOs):** In Management Buyouts (MBOs) venture capital institutions provide funds to enable the current operating management/investors to acquire an existing product line/ business. They represent an important part of the activity of VCIs.
 - ii. Management Buy-ins (MBIs):** Management Buy-ins are funds provided to enable an outside group of manager(s) to buy an existing company. It involves three parties: a management team, a target company and an investor (i.e. Venture Capital Institution). MBIs are more risky than MBOs and hence are less popular because it is difficult for new management to assess the actual potential of the target company. Usually, MBIs are able to target the weaker or under-performing companies.
- IV. Replacement Capital:** VCIs another aspect of financing is to provide funds for the purchase of existing shares of owners. This may be due to a variety of reasons including personal need of finance, conflict in the family, or need for association of a well-known name. The time scale of investment is one to three years and involve low risk.
- V. Turnarounds:** Such form of venture capital financing involves medium to high risk on a time scale of three to five years. It involves buying the control of a sick company which requires specialised skills in finance. It may require rescheduling of company's all the borrowings, change in management or even a change in ownership.

An active “hands on” approach is required in the initial crisis period where the venture capitalists may appoint its own chairman or nominate its directors on the board.

FOREIGN VENTURE CAPITAL INVESTORS

Foreign Venture Capital Investor (FVCI) means an investor incorporated or established outside India, which proposes to make investment in venture capital fund(s) or venture capital undertakings in India and is registered under the SEBI (Foreign Venture Capital Investors) Regulations, 2000 and shall be deemed to be an intermediary in terms of the provisions of the SEBI Act.

Registration

All FVCIs, must get themselves registered with SEBI.

Investment Conditions

All investments to be made by a FVCI should be subject to the following conditions:

- (a) it should disclose to SEBI its investment strategy.
- (b) it can invest its total funds committed in one venture capital fund or alternative investment fund.
- (c) it shall make investments as enumerated below:
 - (i) at least 66.67% of the investible funds should be invested in unlisted equity shares or equity linked instruments of venture capital undertaking or investee company.
 - (ii) not more than 33.33% of the investible funds may be invested by way of:
 - (a) subscription to initial public offer of a venture capital undertaking or investee company whose shares are proposed to be listed;
 - (b) debt or debt instrument of a venture capital undertaking or investee company in which the foreign venture capital investor has already made an investment by way of equity;
 - (c) preferential allotment of equity shares of a listed company subject to lock in period of one year;
 - (d) It shall disclose the duration of life cycle of the fund;
 - (e) Special Purpose Vehicles which are created for the purpose of facilitating or promoting investment in accordance with the FVCI Regulations.

The investment conditions and restrictions stipulated, above shall be achieved by the Foreign Venture Capital Investor by the end of its life cycle.

Maintenance of books and Records

Every Foreign Venture Capital Investor is required to maintain for a period of eight years, books of accounts, records and documents which should give a true and fair picture of the state of affairs of the Foreign Venture Capital Investor. Every Foreign Venture Capital Investor should intimate to SEBI, in writing, the place where the books, records and documents are being maintained.

General Obligations

Foreign Venture Capital Investor or a global custodian acting on behalf of the foreign venture capital investor

should enter into an agreement with designated depository participant and a custodian before making any investment.

In addition to the obligation of a custodian under any other regulations, the custodian shall be responsible for -

- monitoring of investment of Foreign Venture Capital Investors in India;
- furnishing of periodic reports to SEBI;
- furnishing such information as may be called for by SEBI;
- ensuring that a FVCI does not make any new investment or sell its existing investment until renewal fee is paid; and
- any other condition, as may be specified by SEBI.

Foreign Venture Capital Investor is required to appoint a branch of a bank approved by Reserve Bank of India as designated bank for opening of foreign currency denominated accounts or special non-resident rupee account.

PROCESS AND DOCUMENTATION REQUIRED FOR LISTING AND TRADING ALTERNATIVE INVESTMENT FUND ON STOCK EXCHANGE

Process



Documentation

- A. List of documents to be submitted for seeking In-principle approval for listing units of AIF scheme
 Certified true copy of the following agreements/documents:
- Draft Information/Placement memorandum. Hard as well as soft copy
 - Investment Management Agreement. (In case of 1st Listing)
 - Certification of registration of Alternative Investment Fund issued by SEBI. (In case of 1st Listing)
 - Custodian Agreement. (In case of 1st Listing)
 - R & T Agreement. (In case of 1st Listing)
 - Trust Deed (if applicable)
 - Memorandum & Articles of Association of the issuer. (in case of 1st listing)
 - Resolution passed by trustee in case of AIF is established as trust or board of directors in case

AIF is established as Company or by partners in case AIF is established as a Limited Liability partnership at their meeting approving listing of units of close ended AIF on the BSE Ltd.

- An undertaking from the CEO/compliance officer that AIF is in compliance with SEBI (Alternative Investment Funds) Regulations, 2012 as amended and all the other applicable laws.

Note: The Stock Exchange may ask for documents other than those mentioned above.

B. List of documents to be submitted for Listing of units of AIF (Post allotment of units)

Certified true copy of the following agreements/documents:

- Letter of Application for listing of units of Scheme.
- Details of the applicant (In case of 1st Issue/Listing) and Issue Details.
- Certified True Copy of observations/comments received from SEBI on the/placement Memorandum/ Scheme Information Document (SID).
- Certified true copy of the Final Placement Memorandum/Scheme Information Document (SID) (soft copy also required).
- Unit holding pattern of Unit holders of the Scheme.

<i>Scheme Name</i>	<i>Option</i>	<i>Mode of Issue</i>	<i>ISIN</i>	<i>Symbol</i>	<i>Date of allotment</i>	<i>Number of Units</i>	<i>Face Value</i>	<i>Issue Price</i>	<i>Date of Redemption</i>
				Grand Total					
				No. of Units					

- Confirmation from the CEO/Compliance officer regarding allotment of units and the actual no. of units allotted.
- Statement of Collection details.
- Listing Agreement (In case of 1st Listing) as per SEBI LODR Regulations.
- Confirmation from CEO/Compliance officer regarding compliance with the provisions of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 including subsequent amendments thereof and SEBI circulars issued in this respect.
- Confirmation from NSDL and CDSL (ISIN activation).
- Confirmation from RTA on the final number of units to be allotted with NSDL, to be allotted with CDSL and to be issued under physical form.
- Undertaking from the RTA on the units considered under switches that they have debited the units from the respective schemes and credited the applicable units in this scheme (if applicable).
- Confirmation received from NSDL/CDSL for credit.
- Confirmation from RTA regarding dispatch of Certificates/Account statement/refund order.
- Annual listing fees plus Applicable Taxes.

Note: The Stock Exchange may ask for documents other than those mentioned above.

LESSON ROUND-UP

- SEBI had earlier framed the SEBI (Venture Capital Funds) Regulations, 1996 (“VCF Regulations”) to encourage investments into start-ups and mid-size companies.
- SEBI notified the Alternative Investment Fund (AIF) Regulations to govern unregulated entities and create a level playing ground for existing venture capital investors.
- The AIF Regulations has replaced the existing SEBI (Venture Capital Funds) Regulations, 1996 funds registered under the VCF Regulations shall continue to be regulated by the said regulations till the existing fund or scheme is wound up.
- SEBI has classified AIF into three broad categories i.e., Category I, Category II, Category III.
- All AIFs are required to be mandatorily registered under any one of the three categories as specified by SEBI.
- Alternative Investment Fund shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called.
- Listing of Alternative Investment Fund units shall be permitted only after final close of the fund or scheme.
- SEBI has notified a separate set of provisions for Angel Funds and Special Situation Funds.
- Units of angel funds shall not be listed on any recognised stock exchange.
- Seed Funding is a type of Venture Capital Funding and hence covered under the provisions of Angel Funding in the AIF Regulations.
- Private equity is essentially a way to invest in some assets that is not publicly traded, or to invest in a publicly traded asset with the intention of taking it private. Unlike stocks, mutual funds, and bonds, private equity funds usually invest in more illiquid assets, i.e. companies.
- Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years.
- Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.
- Foreign Venture Capital Investor (FVCI) means an investor incorporated or established outside India, which proposes to make investment in venture capital fund(s) or venture capital undertakings in India and is registered under the SEBI (Foreign Venture Capital Investors) Regulations, 2000.

GLOSSARY

Buyout: A sector of the private equity industry. Also, the purchase of a controlling interest of a company by an outside investor or a management team.

Corpus: It means the total amount of funds committed by investors to the Alternative Investment Fund by way of a written contract or any such document as on a particular date.

Investee Company: It means any company, special purpose vehicle or limited liability partnership or body corporate in which an AIF makes an investment.

Manager: Manager means any person or entity who is appointed by the AIF to manage its investment by whatever name called and may also be same as the sponsor of the fund.

Unit: Unit means beneficial interest of the investors the AIF or a scheme of the AIF and may be fully or partly paid up.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. What is an Alternative Investment Fund?
2. Which categories of Alternative Investment Funds (AIF) are available for the investors to make investment? Explain.
3. Explain the provisions relating to “Special Situation Fund (SSF)” in view of requirement with regard to minimum corpus funds for each scheme of SSF and minimum investment required by different types of investors of SSF.
4. What is placement memorandum? Discuss briefly the contents of placement Memorandum.
5. Explain the provisions with regard to an Angel Fund. Whether investment by Angel Funds are restricted by any specific guidelines?
6. What do you understand by private equity? Discuss about different categories of private equity.
7. Discuss the concepts “Seed funding” and “Private Equity”.
8. “Venture capital firms, finance both early and later stage investments to maintain a balance between risk and profitability.” Explain early stage financing.

LIST OF FURTHER READINGS

- FAQs on SEBI (Alternative Investment Fund) Regulations, 2012 are available at https://www.sebi.gov.in/sebi_data/attachdocs/1471519155273.pdf
- Master Circular for Alternative Investment Funds (AIFs) dated May 07, 2024