



Evolution and Reform of SEBI's Angel Fund Framework

A. Brief Background of Angel Fund

Prior to the introduction of SEBI's Angel Fund framework, angel investing in India operated in a largely informal and unregulated environment. Investments were typically made through direct equity infusions or pooled structures such as trusts and LLPs, often lacking standardized governance protocols, formal documentation, and regulatory oversight. This raised significant concerns around transparency, compliance, and investor protection.

To address these challenges, SEBI introduced the Angel Fund sub-category under Category I Alternative Investment Funds- Venture Capital Funds ("AIFs") pursuant to the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 ("SEBI AIF Regulations"). The objective was to institutionalize early-stage investing by enhancing transparency, establishing defined eligibility criteria, enabling professionally managed pooled investment vehicles, and aligning India's startup funding ecosystem with global standards.

Investor interest in Angel Funds has grown steadily, with cumulative capital commitments reaching approximately ₹9,713 crores and nearly ₹4,783 crores deployed as of June 30, 2025¹. The Angel Fund industry has experienced significant growth over the past five years, with a compound annual growth rate (CAGR) of 106% in investments.

Despite this progress, operational gaps² and ambiguities in investor eligibility persisted under the existing regulatory framework. While the Angel Fund structure prescribed a minimum net worth criterion for investors, enforcement mechanisms were limited, resulting in inconsistent adherence. Additionally, restrictive investment caps curtailed the ability of Angel Funds to provide meaningful financial support to startups.

In light of these issues, SEBI released a consultation paper on November 13, 2024³, inviting public feedback on proposed amendments to the Angel Fund provisions under the AIF Regulations. The key objectives included:

- i. Rationalizing the fundraising process
- ii. Enhancing disclosure and governance standards
- iii. Improving operational clarity and investment flexibility

Following stakeholder consultations and internal committee recommendations, SEBI amended SEBI AIF Regulations vide notification dated September 09, 2025⁴ read with circular dated September 10, 2025⁵ ("Amendment Regulations"), revising the regulatory framework for Angel Funds. The updated norms aim to:

- i. Restrict participation to investors with appropriate risk appetite and the ability to assess investment proposals.
- ii. Facilitate ease of doing business through operational streamlining.
- iii. Relax investment caps to enable more robust support for startup ventures.

A summary of the changes introduced by the Amendment Regulations is provided below, along with our analysis.

¹ <https://www.sebi.gov.in/statistics/1392982252002.html>

² Operational gaps such as commitment periods, closing procedures, and offering of investment opportunities etc.

³ SEBI Consultation Paper dated November 13, 2024 - https://www.sebi.gov.in/reports-and-statistics/reports/nov-2024/consultation-paper-on-review-of-regulatory-framework-for-angel-funds-in-aif-regulations_88449.html

⁴ SEBI Notification dated September 09, 2025 - [SEBI | Securities and Exchange Board of India \(Alternative Investment Funds\) \(Second Amendment\) Regulations, 2025](https://www.sebi.gov.in/legal/notifications/sep-2025/second-amendment-regulations-2025)

⁵ SEBI Circular dated September 10, 2025 - https://www.sebi.gov.in/legal/circulars/sep-2025/revised-regulatory-framework-for-angel-funds-under-aif-regulations_96553.html



B. Changes to Angel Fund Framework

1. Eligible investors of Angel Fund

To ensure that Angel Fund is only on-board investors with the necessary risk appetite, SEBI has permitted only accredited investors to invest in the Angel Fund.

In addition to accredited investors, key managerial personnel⁶ of the Angel Fund / Investment Manager can also participate in the Angel Fund.

i. New Angel Fund (refers to angel fund granted registration by SEBI post issuance of Circular)

New Angel Fund shall on-board and offer investment opportunities to only Accredited Investors.

ii. Existing Angel Fund (refers to angel fund registered with SEBI on or before issuance of Circular)

- a. Not offer investment opportunity to more than two hundred non-Accredited Investors during on or before September 08, 2026
- b. Not accept contribution for investment in an investee company from non-Accredited Investors, post September 08, 2026
- c. Existing investors of Existing Angel Funds to continue to hold their investments already made in the Angel Fund.

SEBI restricted Angel Fund participation to Accredited Investors after supervisory reviews revealed that investment managers were relying on self-declarations and publicly available social media profiles to assess investor eligibility. Additionally, the net worth thresholds prescribed under the earlier framework were inadequate for gauging investors' true risk-bearing capacity, resulting in the onboarding of individuals who may not possess the requisite understanding or tolerance for the high-risk nature of angel fund investments.

2. Removal of Minimum Capital Commitment

The minimum capital commitment requirement is no longer applicable to Angel Funds.

Under the earlier framework, angel investors were required to commit at least ₹25 lakhs; however, with the transition to raising funds exclusively from Accredited Investors who are permitted to participate in AIFs without any prescribed minimum commitment this threshold has been removed.

3. Removal of Minimum Corpus Requirement

The minimum corpus requirement of ₹5 crores, as prescribed under the earlier Angel Fund framework, has been withdrawn.

This change reflects SEBI's shift to permitting investments exclusively from Accredited Investors, for whom no minimum capital commitment is mandated under the AIF regulations.

4. Announcement of First Close

⁶ As per para 13.1.2 of SEBI Master Circular dated May 07, 2025, 'key management personnel' shall mean: (i) members of key investment team of the Manager, as disclosed in the PPM of the fund; (ii) employees who are involved in decision making on behalf of the AIF, including but not limited to, members of senior management team at the level of Managing Director, Chief Executive Officer, Chief Investment Officer, Whole Time Directors, or such equivalent role or position; (iii) any other person whom the AIF (through the Trustee, Board of Directors or Designated Partners, as the case may be) or Manager may declare as key management personnel.



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The Angel Fund shall announce first close within period of 12 months from date of SEBI communication for taking PPM of the Angel Fund on record subject to onboarding of at least 5 Accredited Investors.

Failure to announced first close within timeline, the Angel Fund shall refile the PPM with SEBI along with prescribed fees of INR 100,000 along with GST.

Existing Angel Fund

Existing Angel Funds which have not yet declared first close, shall do so on or before September 08, 2026.

5. Removal of Launching Investment Scheme and Filling of Term Sheet with SEBI

Under the revised framework, the Angel Fund is not required to launch scheme for making an investment in investee company. The investment shall be made by the Angel Fund directly at the fund level.

Accordingly, the requirement of filing term sheet with SEBI for launching scheme and making investment has been discontinued with. However, Angel Funds shall maintain records of term sheets for each investment, including the list of investors who participate in that investment and their contribution to the investment.

6. Investment by Angel Funds

i. Revision of investment limit

Investment made by an Angel Fund in any investee company shall not be less than INR 10 lakhs and shall not exceed INR 25 crores.

This change is to reflect the growth of the angel ecosystem and the increasing interest in angel investments as an asset class.

ii. Lock-in Period

Angel Fund investments in an investee company are subject to a 1-year lock-in.

This reduces to 6 months if the exit is via third-party sale (excluding buy-back or promoter/associate purchase), subject to the investee company's Articles of Association.

The lock-in period serves to discourage early exits that may disrupt the start-up's stability. In secondary sales to third parties, the start-up's capital remains intact. This proposal balances exit flexibility with the need for sustained capital support to start-ups.

iii. Restriction on Investments

a. **Investment in Associates** – The Angel Fund shall not invest in Associates⁷.

b. **Capital Contribution from Related Party** - Angel funds shall not accept contribution for investment in an investee company, from those angel investors who are a related party to such investee company.

⁷ "Associate" means a company or a limited liability partnership or a body corporate in which a director or trustee or partner or Sponsor or Manager of the Alternative Investment Fund or a director or partner of the Manager or Sponsor holds, either individually or collectively, more than fifteen percent of its paid-up equity share capital or partnership interest.



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- c. **Investments in start-ups with group turnover not exceeding INR 300 crores** - Angel funds shall invest only in startups⁸, which are not promoted/sponsored by or related to a corporate group whose group turnover exceeds INR 300 crores.

iv. **Follow-on investments in existing investee companies no longer classified as start-ups**

Angel Funds may make follow-on investments in their existing investee companies which are no longer start-ups, subject to the following conditions:

- a. **Preserving Pre-Issue Ownership in Follow-On Investments** - Follow-on investment allowed to the extent the post-issue shareholding percentage of the Angel Fund in the investee company does not exceed the pre-issue shareholding percentage.
- b. **Maintain Investment Cap for Angel Funds in Investee Companies** - The total investment in an investee company by an Angel Fund, including follow-on investments, shall not exceed INR 25 Cr.
- c. **Follow-On Investment Rights for Existing Investors** - Angel Funds may accept follow-on contributions only from existing investors, in proportion to their prior investment. Unused pro-rata rights may be offered to other participating investors who had contributed to the existing investment.

v. **Minimum Investor Requirement for Angel Fund Investments**

Each investment of an angel fund in an investee company shall have contribution from at least two accredited investors.

vi. **Investment in investee companies incorporated outside India**

The AIFs are allowed to make an investment in investee companies incorporated outside India not exceeding 25% of the investable funds of the scheme of the AIF.

In respect of Angel Fund, the 25% limit shall be calculated based on the total investments (at cost) held by the Angel Fund as on date of the application to SEBI for overseas investment.

7. **Investment Manager / Sponsor's continuing interest**

The investment manager or sponsor shall have a continuing interest in each investment of the Angel Fund of not less than 0.50% percent of the amount invested or INR 50,000, whichever is higher.

Previously, managers/sponsors of Angel Funds had to maintain a continuing interest at the fund level of 2.5% of the corpus or INR 50 lakh, whichever is lesser. Due to the deal-by-deal structure, clarity was lacking on applying this across individual investments. The amendment ensures their interest in each deal, reinforcing "skin-in-the-game."

8. **Investor's Participation in each investment of Angel Fund**

a. **Prior approval of investors**

The investment manager shall accept contribution from an angel investor for investing in an investee company only after obtaining approval from the angel investor for such investment.

b. **Disclosure of investment opportunities to all investors**

⁸ "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.



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The investment manager shall disclose and offer each investment opportunity to all the angel investors of the angel fund

c. Disclosed methodology of allocation of investment opportunities in the placement memorandum

The investment manager shall disclose a clear method in the angel fund's placement memorandum for allocating investments among angel investors who approve the deal.

The methodology for allocation disclosed in the placement memorandum shall not provide any discretion to investment manager for allocation of investment on case-to-case basis.

9. Investor's right pro-rata to contribution

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

10. Regulatory compliances applicable from financial year 2025-2026

i. Annual audit compliance

The requirement of carrying out annual audit of compliance with terms of placement memorandum shall be applicable to Angel Funds that have made total investments (at cost) exceeding INR 100 crore.

ii. Performance benchmarking

Angel Funds shall report necessary information including investment wise valuation and cash flow data to the benchmarking agencies, for the purposes of performance benchmarking and update the same in the placement memorandum.

11. Revision to category of Existing Angel Fund

All existing Angel Funds shall be considered to be registered as Category I AIF – Angel Funds, instead of being a sub-category under Category I AIF – Venture Capital Funds.

12. Specific due diligence of investors and investments of Angel Fund

The threshold of due diligence requirements provided under SEBI circular dated October 08, 2024, with respect to:

- (i) Investors availing benefits designated for QIBs through AIFs,
- (ii) Investors availing benefits designated for Qualified Buyers (QBs) through AIFs,
- (iii) RBI regulated lenders/entities ever-greening their stressed loans/assets through AIFs, and
- (iv) Investment from countries sharing land border with India through AIFs

Shall be calculated at each investment level, based on contribution of investors to a particular investment.

C. Analysis of Revised Framework

SEBI's revised Angel Fund framework marks a strategic pivot toward a more streamlined, investor-aware regime by mandating Accredited Investor participation, removing corpus and commitment thresholds, and simplifying fund operations through a direct investment model. These reforms reflect the maturation of India's startup ecosystem and aim to foster structural agility while reinforcing governance through calibrated lock-in periods, performance benchmarking, and restrictions on related party transactions.



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While transitional clarity is often a critical determinant of regulatory efficacy, SEBI has proactively addressed this by confirming that all existing Angel Funds will be reclassified under the newly designated Category I AIF – Angel Fund sub-category. Notably, the revised framework also introduces heightened operational compliance requirements including stricter timelines for first close and enhanced investor transparency obligations. Investment managers are now required to disclose all investment opportunities to all investors and clearly communicate the methodology for allocating investments among those who have provided their consent, thereby strengthening fairness and accountability in fund operations.

For any queries in relation to this alert, please feel free to reach out.