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Sebi close to finalizing crowdfunding norms

As part of the crowdfunding norms, Sebi is considering allowing large rms and institutional investors to fund money via this channel

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Sebi, as part of the crowdfunding norms, also seeks relax disclosure norms so that information is shared only with investors and not the public at large. Photo: Aniruddha Chowdhury/Mint

Mumbai: Three years after first examining how it can regulate crowdfunding, the Securities and Exchange Board of India (Sebi) is closer to finalizing norms for this funding channel, said two people aware of the development.

The regulator is considering allowing large firms and institutional investors to fund money via this channel, ask such investors to take prior nod from it before getting access to such platforms, and relax disclosure norms so that information is shared only with investors and not the public at large.

That's not all. The regulator will set a floor for transactions with a minimum threshold of stake purchases and at the same time ensure no single investor (through these platforms) owns more than 25% of the investee firm, these people said.

Sebi might exempt crowdfunding activities from the private placement norms of the Companies Act as well, which require a private company to compulsorily make a public offer and list the securities on a recognized stock exchange if the number of investors is 200 or more in a year.

"The idea is to help genuine, high-growth-potential entrepreneurial activities with a wider access to fund-raising and not only a select set of angel investors, who may be providing finance to such companies but also often dictate the terms of their businesses and restrict the entry of other potential large investors in the funding plan for growth," said one of the two people cited earlier.

An email sent to Sebi about the planned norms went unanswered. Sebi's deliberations are all the more important because a platform it mooted for start-ups to raise money and list has also not taken off as it required public disclosures, with which the start-ups were not comfortable. Hence, they continued to get funding from their known group of angel investors or through online platforms.

However, while current crowdfunding platforms mostly solicit investments digitally through websites, the number of investors may often cross 200 inadvertently.

That contravenes current regulations, which caps them at 200 in case of a private placement.

In August last year, Sebi had questioned the legitimacy of equity crowdfunding platforms serving start-ups in an investor-caution note. It had said these digital platforms are "neither authorized nor recognized under any law governing the securities market".

"I appreciate Sebi asking various intermediaries to reaffirm that they are playing by the rules of law, especially the private placements laws, and are taking concrete steps toward more forward looking regulations like crowdfunding/funding platforms," said Surojit Nandy, co-founder of GREX, a private market platform.

Earlier this month, the regulator formed a committee on Financial and Regulatory Technologies (CFRT) and crowdfunding is one of the key areas that it is looking to cover with the help of the committee's recommendations.

According to the people cited earlier, Sebi may also ask companies to secure an approval from all shareholders for any material corporate decision. Such a decision will also be required to be disclosed to Sebi mandatorily.

The existing crowdfunding platforms can continue to operate and once Sebi norms are in place, the disclosures with regards to the company's business the profile of investors, and the shareholding pattern will be minimal, while the access to the crowdfunding platforms may be protected by a passwor said the second person cited earlier.

According to current discussions, the detailed information regarding the companies and the investors will be available only to participants who get a Sebi approval to participate in crowdfunding through such privately-managed platforms, this person said

According to T.P. Janani, a lawyer with Nishith Desai Associates, if the proposed disclosure is to be made only to Sebi, the company and the platform, it should broadly be fine so long as strict data protection and data security is ensured.

"If the investor and investee-specific disclosures are coupled with some guidelines by Sebi for standard disclosure/caution about risks regarding private equity investments, particularly, market risks, liquidity issues, etc., it could really boost the growth of the sector in a matured fashion," said Janani.

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