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AngelList seeks a way out of Indian regulatory maze

By [Mugdha Variyar](#), ET Bureau | Aug 10, 2016, 04.02 AM IST

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BENGALURU: American online venture capital platform [AngelList](#), which is bringing its Syndicates platform to India, is figuring how to navigate through the country's regulatory framework that throws up a few key challenges for the kind of investments it facilitates.

The main hurdles are a lack of options for creating limited liability partnerships, or LLPs, for the sole purpose of investments and a lack of clarity on pooled investment vehicles, preferred investment routes for AngelList.

How AngelList's Syndicates platform works is that it creates VC funds for single investments in startups under a lead investor responsible for bringing in other institutional or individual backers for that deal.



"We are exploring the regulatory area more than anything. There are many regulatory roadblocks right now," said AngelList founder Naval Ravikant (in picture).

Looking for a Policy

\$355 million - Deals AngelList has facilitated so far from more than 200 syndicate leads

In January, a Sebi-constituted panel, headed by Infosys cofounder NR Narayana Murthy, made several recommendations for AIFs, including on pooled investments

If the regulatory issues are streamlined, AIFs can attract large capital flows to potentially reach a size of as much 2% of the GDP

Sebi-constituted panel

"We are exploring the regulatory area more than anything. There are many regulatory roadblocks right now," said AngelList founder [Naval Ravikant](#), adding that Delhi-based angel investor Utsav Somani will advise the firm on regulatory matters.

"Currently, one way we can do a syndicate investment in the country is through the angel-fund route. However, we are looking at the [LLP route](#), which at present does not allow companies to be formed only for the sake of investments," said Somani.

Corporate lawyers also pointed to obscurities when it comes to regulations for syndicate investments. "The main challenges syndicated investments face is the dilemma of creating a domestic investment vehicle or pooling capital abroad," said Sharad Moudgal, partner at law firm Khaitan & Co.

"Domestic investment vehicles will be regulated under (capital market regulator) [Sebi](#)'s regulations for alternative investment funds (AIF), such as capitalisation requirements that entail a minimum investment of Rs 1 crore by each investor and investment restrictions. Domiciling the fund abroad will entail that the investments are subject to (FDI) laws," Moudgal said.

"There needs to be some clarity on the provisions and regulations for syndicated investments."

Corporate lawyer [Vaibhav Parikh](#), a partner at Nishith Desai Associates, said VC investments can be made through AIFs under provisions provided by the Sebi. An individual can invest a minimum of Rs 1 crore in an AIF and an angel fund a minimum of Rs 25 lakh.

The angel route has a lock-in of three years. In January, a Sebi-constituted panel called Alternative Investment Policy Advisory Committee made several recommendations for AIFs, including on pooled investments.

"We discussed the need to smoothen regulations for AIFs and to promote inflow of capital, both domestic and foreign. One of the aims is to make sure foreign capital does not have to come through Mauritius but can flow in directly," said IAN founder Saurabh Srivastava, who was also on the committee.