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Only Accredited Investors can invest in Angel Funds, but are Angel Funds AI-Only Funds?

The Securities and Exchange Board of India (**SEBI**) introduced significant changes to the angel fund framework vide amendments to the SEBI (Alternative Investment Funds) Regulations, 2012 (**SEBI AIF Regulations**) that took effect from September 9, 2025. Among the most notable amendments were (i) the requirement that angel funds raise capital exclusively from Accredited Investors **(AI)**, (ii) the removal of the limit on the number of investors permitted to invest in an angel fund and (iii) the stipulation that angel funds can no longer launch 'schemes'.

Vide the SEBI (Alternative Investment Funds) (Third Amendment) Regulations, 2025 (**2025 Amendment**), SEBI introduced Accredited Investors - only funds (**AI-Only Scheme/ AI-Only Fund**) in the SEBI AIF Regulations with effect from November 19, 2025. As per Regulation 2(1) (ac) of the SEBI AIF Regulations, an AI-Only Fund is defined to be "a scheme in which every investor, other than the manager, sponsor or their employees/directors, is an Accredited Investor". An Explanation to this definition states that an AI-Only Fund shall include Large Value Funds for Accredited Investors (**AI-LVFs**).

REGULATORY PERKS FOR AI-ONLY FUNDS

The following regulations in the SEBI AIF Regulations either do not apply to AI-Only Funds or apply with a different threshold:

- Regulations 12(2), (3) and (3A) of the SEBI AIF Regulations require an AIF to file the private placement memorandum (**PPM**) of its Regular Schemes through a merchant banker minimum 10 working days before launching the scheme and incorporate comments received from SEBI (if any) during this 10-day period before circulating it to the investors. AI-Only Schemes, however, can file their PPM directly with SEBI with a signed undertaking by the CEO and the investment manager of the fund and launch the scheme immediately upon filing;
- Regulation 13(5) of the SEBI AIF Regulations permits AI-Only Schemes to extend their tenure up to five (5) years subject to two-thirds investor consent. For all other schemes, the maximum permitted extension is two (2) years;
- AI-Only Schemes are exempt from the requirement under Regulation 20(22) of the SEBI AIF Regulations of maintaining pari-passu rights among investors, subject to adequate disclosure in the PPM and obtaining a written waiver from each investor to this effect, at the time of onboarding the investor;
- The requirement that at least one member of the key investment team has to hold an NISM certification does not apply to AI-Only Funds;
- AIF schemes cannot have more than 1,000 investors, but no such cap applies to AI-Only Schemes; and
- Regulation 20(24) mandates that the investment manager of an AI-Only Fund shall discharge the responsibilities cast on the Fund's trustee by the AIF Regulations. For other AIFs, even if the trustee delegates its responsibilities and obligations (including the responsibilities cast on the Fund's trustee by the AIF Regulations) to the Fund's investment manager through a contract, SEBI may still hold the trustee responsible for any breach of the AIF Regulations by the Fund.

ARE ANGEL FUNDS AI-ONLY FUNDS?

Regulation 19A (1) of the AIF Regulations defines an "angel fund" to mean a sub-category of Category I- AIF that raises funds from AIs. Logically, since with effect from September 9, 2025, angel funds can raise funds only from AIs, an angel fund would de-facto fall under the definition of an AI-Only Fund given in Regulation 2(1) (ac) of the AIF Regulations. However, from a plain reading of the AIF Regulations and various circulars issued by SEBI, it is unclear if SEBI intends angel funds to be treated as one of the sub-categories of AI-Only Fund.

- Regulation 19B of the SEBI AIF Regulations provides that the general provisions of the AIF Regulations apply to Angel Funds unless specifically excluded. At the same time, the relaxations introduced for AI-Only Schemes have been incorporated into the general regulatory framework without expressly clarifying whether they extend to Angel Funds.

- The Explanation to the definition of an AI-Only Fund given in Regulation 2(1) (ac) of the SEBI AIF Regulations does not mention angel funds, though it goes out of its way to clarify that the term AI-Only Fund shall include Large Value Funds for Accredited Investors (**AI-LVFs**). An AI-LVF is defined by Regulation 2(1) (pa) of the SEBI AIF Regulations to be an AIF in which every investor (other than the sponsor and investment manager) is not only an AI but has also invested not less than Rs. 25,00,00,000 (Rupees Twenty-Five Crore Only). SEBI could have stated that angel funds are also AI-Only Funds or that they are not AI-Only Funds, but it has not. If the definition of an AI-Only Fund did not have an Explanation stating that AI-Only Fund shall include AI-LVFs, it would have been easy to take the view that both AI-LVFs and angel funds are AI-Only Funds.

- On 14 July 2026, via the SEBI (AIF) (Second Amendment) Regulations, 2026 (**2026 Amendment**), SEBI approved the 'Green-Channel: AIF Rollout Upon Document Acknowledgement (**GARUDA**) mechanism' for processing of PPMs. Pursuant to this, on July 30, 2025, SEBI issued a circular prescribing the operational modalities for implementation of the GARUDA mechanism (**July 2025 Circular**). The July 2025 Circular introduced a new definition of 'Regular Schemes' in the SEBI Master Circular for AIF, to mean all AIF schemes other than AI-LVF, AI-Only Funds and Angel Funds. The definition of Regular Schemes could have avoided the reference to AI-LVFs and merely stated that all AIF schemes other than AI-Only Funds and Angel Funds shall be Regular Schemes, since AI-LVFs are also AI-Only Funds. However, the explicit mention of both AI-LVFs and Angel Funds alongside AI-Only Funds in the definition of Regular Schemes makes one wonder whether SEBI would be amenable to treating an angel fund as an AI-Only Fund.

- Following the 2025 Amendment, SEBI, on December 08, 2025, issued a circular prescribing the modalities for an AIF or a scheme of an AIF to qualify as an AI-Only Fund/AI-Only Scheme (**December 2025 Circular**). The December 2025 Circular is peppered with phrases that give the impression that only "schemes" can be launched as AI-Only Schemes. For example, Paragraph 1 of the December 2025 Circular states that the AIF Regulations were amended on November 19, 2025, in order to "facilitate introduction of a separate category of AIF schemes, limited exclusively to accredited investors only (AI-only schemes), and offering the scheme-specific regulatory flexibilities in terms of less compliance around investor protection." Paragraph 2 of the December 2025 Circular states that any new scheme proposed to be launched as an AI-only scheme or LVF shall have the words 'AI only fund' or 'LVF' added to the scheme name at the end, respectively. Since Regulation 19E of the AIF Regulations specifically provides that an Angel Fund shall not launch any scheme, these phrases give the impression that SEBI does not intend angel funds to be registered as AI.

  However, paragraph 3 of the December 2025 Circular states that an AIF or the scheme of an AIF that was in existence prior to November 19, 2025, may be permitted to convert to an AI-only scheme or LVF scheme. If Paragraphs 2 and 3 of the December 2025 Circular are interpreted literally, an angel fund cannot be newly set up as an AI-only scheme, but an angel fund that was in existence prior to November 19, 2025, may convert to an AI-only scheme.

  To add to the confusion, the Explanation to Regulation 19B (2) provides that all provisions of the AIF Regulations applicable to a scheme of an AIF shall apply to an angel fund at the fund level. Therefore, it is possible to interpret paragraph 2 of the December 2025 Circular in a manner that enables the launch of an angel fund, subject to compliance with the condition mentioned therein (adding the words 'AI only fund' to the scheme name at the end).

ELP Comments

Since a number of benefits and relaxations are available for AI-Only Funds, it is likely that managers and sponsors of angel funds would want angel funds to be treated as a subset of AI-Only Funds. A clear direction from SEBI regarding this is likely to be welcomed by all stakeholders in the AIF ecosystem.

Please find the December 2025 Circular here.

Please find the 2025 Amendment here.

Please find the July 2025 Circular here.

Please find the 2026 Amendment here.

We hope you have found this information useful. For any queries/clarifications, please write to us at insights@elp-in.com or write to our authors:

Vinod Joseph, Partner – Email - *vinodjoseph@elp-in.com*

Saloni Khaitan, Associate – Email - *salonikhaitan@elp-in.com*

Zaynali Badami, Associate – Email - *zaynalibadami@elp-in.com*