

## Sebi taking a fresh look at crowdfunding norms

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Sebi has been looking at crowdfunding for almost three years now, but been unable to get a fix on them without hurting the fund raising ability of start-ups. Photo: Hindustan Times

**Mumbai:** The Securities and Exchange Board of India (Sebi) is taking a fresh look at setting up a regulatory framework for crowdfunding, said two people aware of the development.

Sebi's proposals include introducing a minimum net worth criteria for investors to be eligible to invest in start-ups through such platforms, capping individual investments, and standardising disclosure requirements for start-ups raising the money, the two said on condition of anonymity.

"All the money invested through online companies goes to the unlisted space and it can be very risky. If the number of public investors crosses 200, the online entity is supposed to follow public issue norms," said one of the two.

In recent years, the number of websites and digital platforms soliciting investments with promises of high returns has increased. GREX, LetsVenture, Termsheet, Equity Crest and Tracxn are some of the popular names in this space.

Companies wishing to raise money from the public may be required to make compulsory basic disclosures about the start-ups in which

the money is invested such as the risks involved, the total amount raised and the investment terms, said the first person.

"Having norms for better disclosures is a good idea and I feel investors should know the basics of the business," said T.P. Janani, a member at law firm Nishith Desai Associates. "In terms of stipulating a minimum net worth for investors, Sebi should be careful because these start-ups are often very small businesses with innovative models and since they do not get funding either from the regulated banking channel or from venture capital, they seek funding through online platforms and other equity crowdfunding channels in which many are low-income investors," she said. "A ceiling on investments may also hinder flows into start-up activities if it is prescribed as an absolute number, especially because the nature of the businesses may vary."

Sebi has been looking at crowdfunding for almost three years now, but been unable to get a fix on them without hurting the fund raising ability of start-ups. In June 2014, it put out a discussion paper, which proposed limiting the number of investors and prohibiting companies from publicizing their efforts through ads on media channels. This discussion paper didn't go down well with the industry. A year later, the regulator was considering easing these provisions (which had been framed in line with the new Companies Act). It started discussions with the ministry of corporate affairs, but the norms didn't get crystallized.

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

"Now, Sebi thinks of bringing in at least some additional disclosure norms so that all investors are fully aware of the risks," said the second person.

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An email sent to Sebi about the planned norms went unanswered.

In its latest plan too, Sebi may retain some of the 2014 proposals, said the second person. These include, allowing only start-ups less than four years old to use crowdfunding platforms, capping fund raising at Rs10 crore a year and prohibiting start-ups from using multiple crowdfunding platforms.

Surojit Nandy, co-founder, GREX, said his company had suggested a “regulated alternative funding platforms/portal” where crowdfunding transactions can be supervised and will not involve an extensive legislative overhaul to start with.