

AN OVERVIEW OF CROWDFUNDING IN INDIA



INTRODUCTION

Crowdfunding refers to the practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the Internet. The objective for raising such funds could be projects such as films, music, business ventures, or public interest causes. Small financial contributions from a number of persons cumulatively may fulfill the fund requirements of the Investee who otherwise lacked access to such funds.

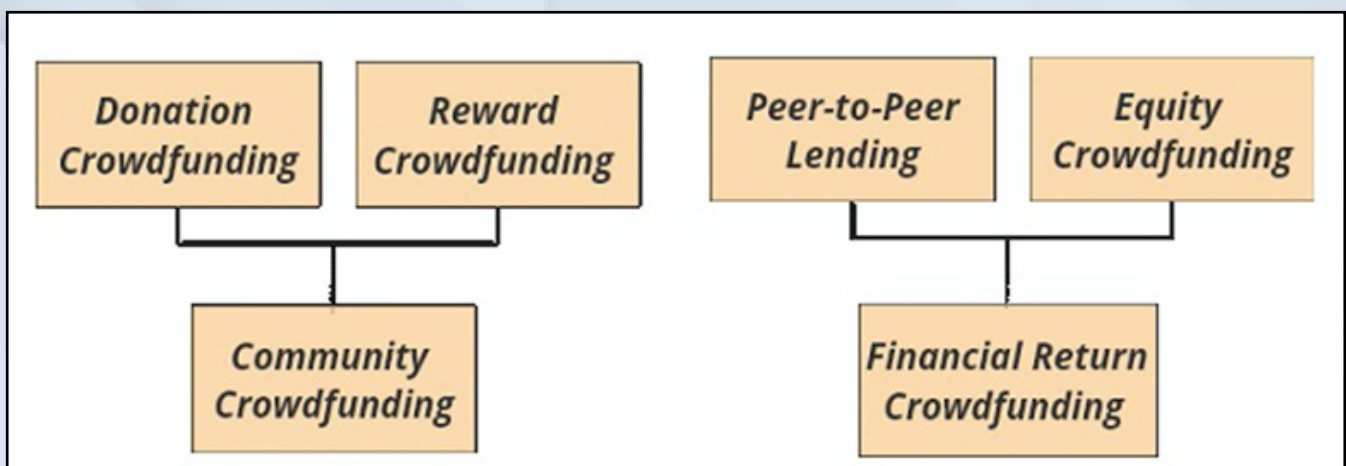
The Consultation Paper on Crowdfunding in India issued by RBI defines Crowdfunding as “Solicitation of funds from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause.

Crowdfunding is predicted to be one of the biggest financial changes in history. Commentators are of the opinion that it would revolutionize the way money is exchanged in India. If regulated appropriately, crowdfunding can provide an excellent funding alternative for early-stage startups and ventures.

TYPES OF CROWDFUNDING

Crowdfunding can be divided into four categories:

Donation Crowdfunding, Reward Crowdfunding, Peer-to-Peer Lending, and Equity Crowdfunding.



DONATION CROWDFUNDING

Donation crowdfunding denotes solicitation of funds for social, artistic, philanthropic, or another purpose, and not in exchange for anything of tangible value. Donation-based crowdfunding can also be used in an effort to raise funds for charitable causes.

REWARD CROWDFUNDING

Reward Crowding refers to one wherein the investor receives some existing or future tangible product in return for the investment.

PEER- TO-PEER LENDING

In Peer-to-Peer lending, an online platform matches lenders/investors with borrowers/is-suers in order to provide unsecured loans, and the interest rate is set by the platform. Some Peer-to-Peer platforms arrange loans between individuals, while other platforms pool funds which are then lent to small and medium-sized businesses.

EQUITY CROWDFUNDING

Equity crowdfunding refers to one in which the investors gets equity shares of the company in return for the investment.

PEOPLE INVOLVED

THE CROWDFUNDING MODEL



There are three types of people involved in crowdfunding:-

1. The Entities that Intends to raise money through this platform.
2. The Investor who support the idea.
3. The platform which brings together the fundraiser and the Investor.

INDIAN SCENARIO

Presently, raising funds in India by a Company is governed by the provisions of Companies Act, 2013, Securities Exchange Board of India Act 1992, Securities Contracts (Regulation) Act, 1956, Depositories Act, 1996.

In India Equity Crowdfunding is Illegal. To issue equity shares in India, companies need to comply with the provisions of The Companies Act, 2013.

The Companies Act, 2013 Provides detailed provisions and rules regarding the issue of Equity shares through public and private placement. Private placement of Equity shares is governed by section 42 of The Companies Act, 2013.

In order to regulate Crowdfunding in India it is important that the following conditions are established:

- The investors that are allowed to invest through the crowdfunding platforms.
- The types of entities that are allowed to raise funds through this channel and the disclosure requirements.
- The types of entities that are allowed to set up internet - based Crowdfunding Platforms to enable online solicitation from such investors, and the different associated aspects.

WHO CAN BE THE INVESTOR ?

In the Indian scenario, considering the necessity to provide alternative funding sources to Start-ups and at the same time to ensure that retail investors are not made to bear the risks of Start-up ventures, it is proposed to permit only Accredited Investors to participate in crowdfunding.

ACCREDITED INVESTORS

- Qualified Institutional Investor.
 - Companies with a minimum net worth of Rs.20 crore.
 - High net worth individuals with a minimum net worth of Rs 2 Crore (excluding the value of the primary residence or any loan secured on such property).
 - Eligible Retail Investors (ERIs):
1. Who receive investment advice from an Investment Adviser, or
 2. Who avail services of a Portfolio manager, or
 3. Who have passed an Appropriateness Test (may be conducted by an institution accredited by NISM or the crowdfunding platforms), and
 4. Who have a minimum annual gross income of Rs. 10 Lacs,
 5. Who have filed an Income Tax return for at least last 3 financial years,

6. Who certify that they will not invest more than Rs.60,000 in an issue through a crowdfunding platform,
7. Who certify that they will not invest more than 10% of their net worth through crowdfunding. (Net worth excludes the value of the primary residence or any loan secured on such property).

Thus those retail investors who have knowledge, experience or have access to investment advice and have resources to cope with the losses on their investments.

IS CROWDFUNDING LEGAL IN INDIA ?

Equity Crowdfunding is illegal in India, Donation-based, and reward crowdfunding is Legal.

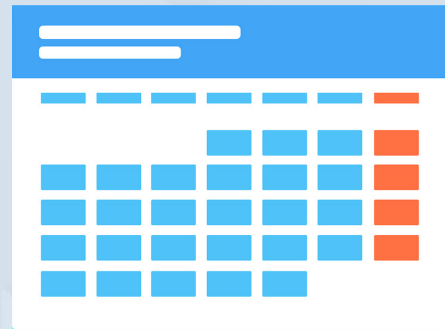
The Securities And Exchange Board of India has Issued laws On digital equity crowdfunding in India as “unauthorized, unregulated and illegal”

In 2016 SEBI pronounced over half-a-dozen digital equity crowdfunding platforms (ECP), including prominent ones like Grex, LetsVenture, TermSheet, Equity Crest, and Tracxn, as unauthorized, unregulated and illegal. SEBI more specifically has also asked Grex Alternative Investments Market (Grex), a two-year-old crowd-funding platform, to stop “onboarding” new investors or taking up fundraising mandates from startups, it is reliably learned.

According to SEBI, Electronic platforms facilitating fundraising on digital platforms are neither authorized nor recognized under any law governing the securities market. Such platforms, which are open to all investors registered with the platform, amount to a contravention Securities Contract Act and the Companies Act.

Pure Donation-Based Crowdfunding (where issuers directly seek a donation from the grantors), Reward-Based Crowdfunding (where issuers directly offer rewards like movie tickets, new computer game, download of a book, etc.) and Peer-to-Peer lending do not fall within the regulatory purview of SEBI, as they do not generally involve issuances of securities for financial return, and may require authorization from other regulators. For example, Peer-to-Peer lending may fall under the purview of RBI.

COMPLIANCE CALENDER OCTOBER 2021



GST	
GSTR 3B SEP 2021(Turnover in the previous financial year more than Five Crores)	20-10-2021
GSTR 3B SEP 2021 (Others)	22-10-2021
GSTR 1 SEP (Turnover more than Rs. 1.5 Crores)	11-10-2021
Income Tax	
Deposit of TDS	07-10-2021
ESI	
Payment for the month of SEP 2021	15-10-2021
PF	
Payment for the month of SEP 2021	15-10-2021
Return Filing for the month of SEP 2021	25-10-2021