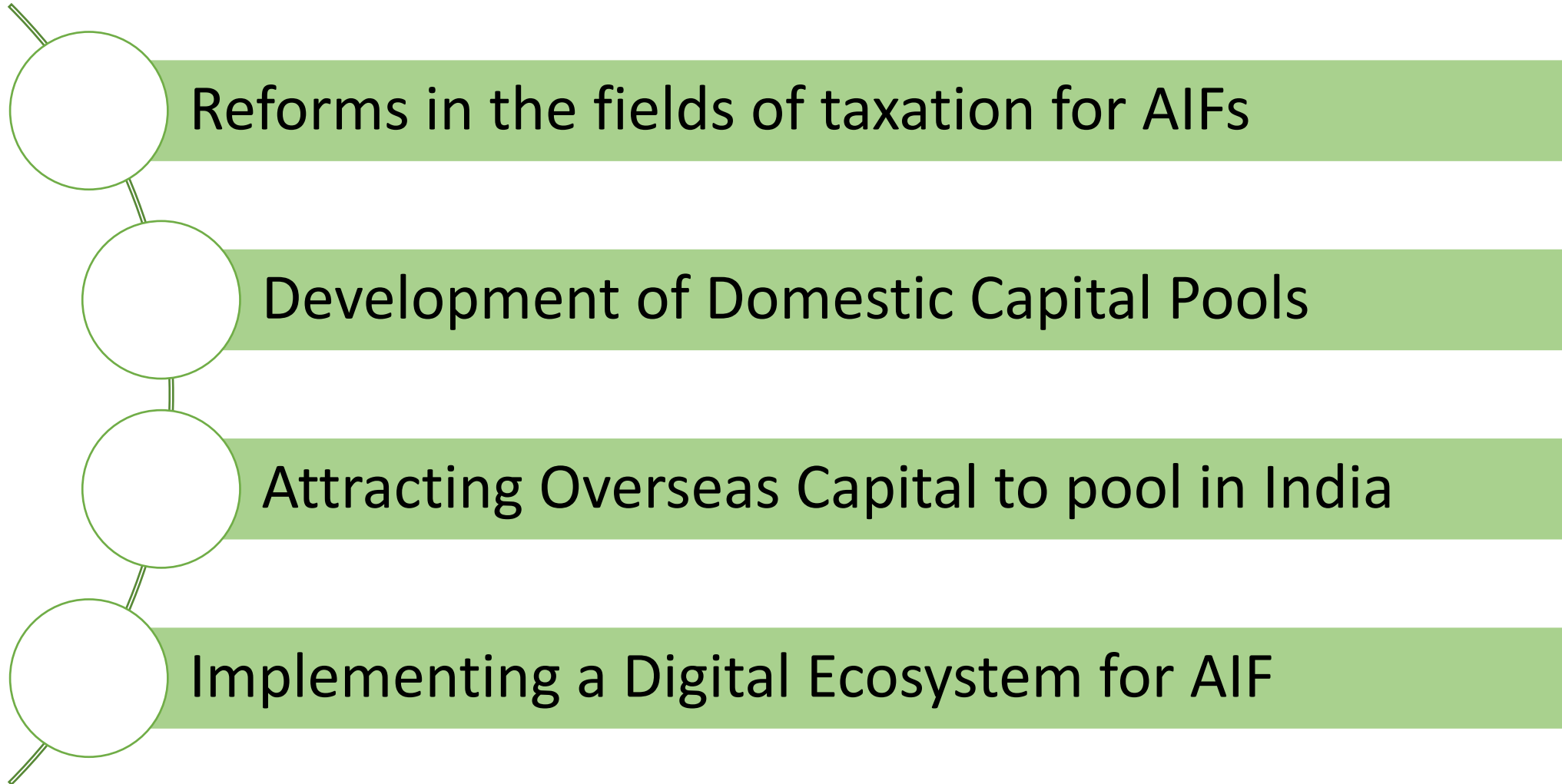




**IVCA's Pre-Budget 2018-19 Representation & AIPAC 3rd Report
Presentation to Ministry of Finance: Nov -Dec 2017**

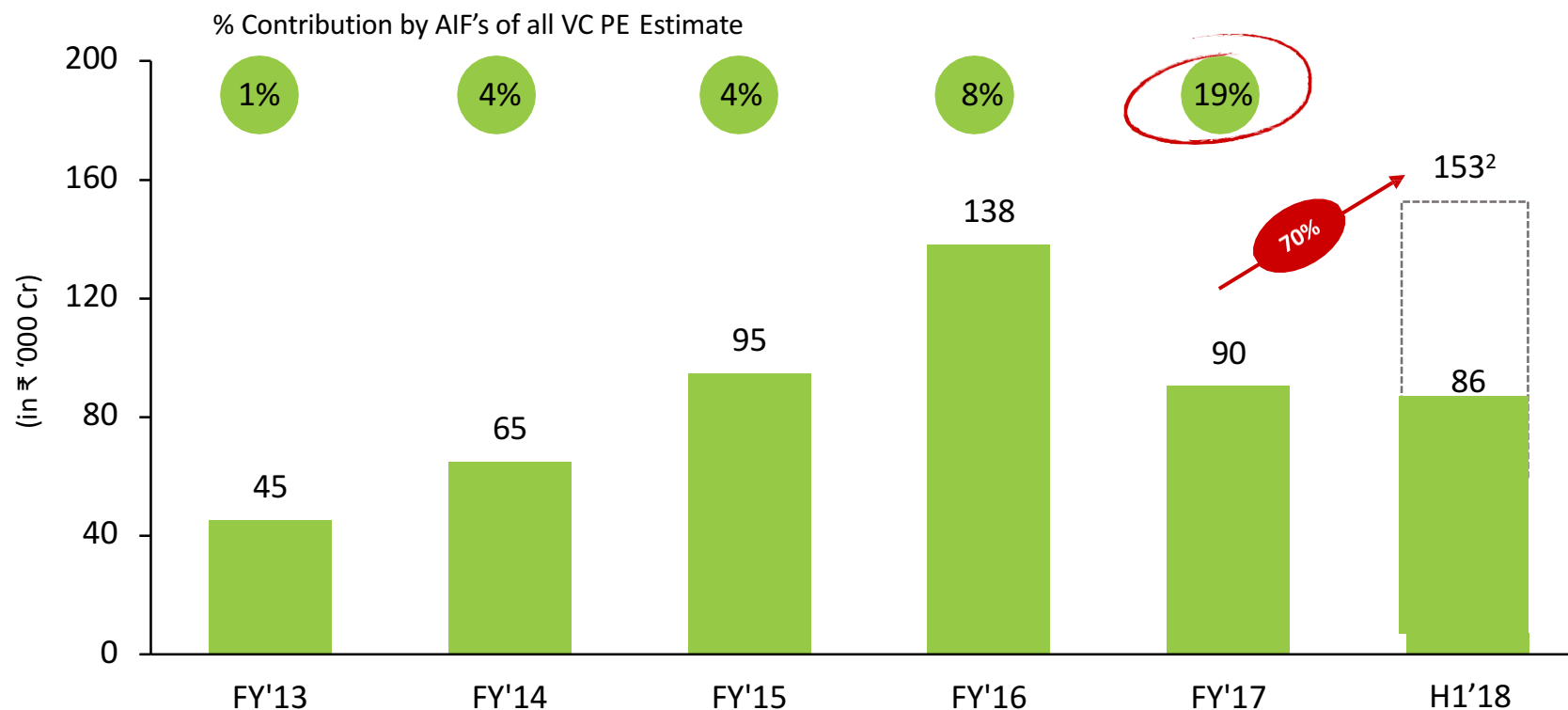
Revisiting the objectives of AIPAC



AIPAC I and II has brought about 27 changes in regulation and spurge investments to ₹3.8 Lakh Crores in last 3 years

Total VC/ PE investments of ₹1.5 Lakh Crore in FY'18 (70% over last year)

Annual PE/VC investment in India (in ₹ '000 Cr)



Note: No filter on deal size has been applied to the overall figures

1. Till H1'F18

2. FY'18 estimate based on run rate deal value, excluding mega deals like Flipkart & Paytm infusions

Source: VCC Edge

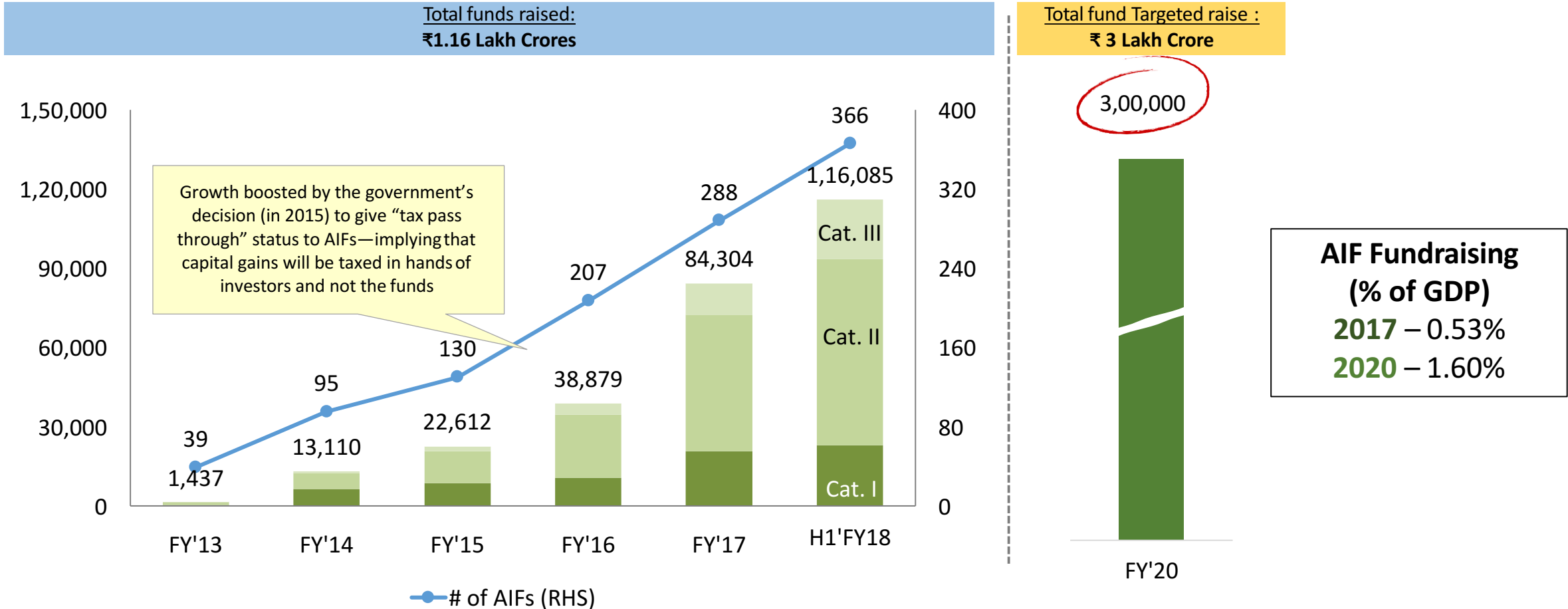
- Contribution of AIF Investments has been raising, with **AIFs** contributing to **19% of VC/PE Investments**
- Investment by **AIFs** increased by **55% in FY17**

FY2016
PE/VC Deals (% of GDP)
 India – 0.93%
 China – 0.75%

Strong Growth un Investments with over \$140 bn from VC / PE Capital since 2005

Potential for AIF pools to increase to ₹3 Lakh Crores by FY20

Cumulative Annual funds raised by AIFs in India



**Number of AIF's have doubled in last 2 years;
 Comingling of "₹" & "\$" working; Currently 16% "\$" investments in AIFs: growing rapidly**

Recommendations* of AIPAC III

Make AIF the primary structure for VC/PE investment in India of Rupee and Foreign funds

Making AIF Reach Full Potential

Restore pass-through status for losses at Fund level in AIF Cat I & II

Allow management expenses to be capitalized as cost of improvement

Attract Foreign Pools: GST is Key

Exempt GST applicability on fees collected from on shore foreign pools

Certainty on non-applicability of GST on profit sharing arrangements

Encourage Development of Domestic Pools

Continue good work done by DIPP / SIDBI through Fund of Funds for Start-ups

Permit larger charitable and religious trusts to invest in AIFs

Permit EPFO to invest in AIFs, in-line with PFRDA

Permit Social Venture Funds to Receive CSR Flows

Taxation Framework for AIF III: Fastest Growing

Pooling in AIF has grown 250% in FY'17

Plays critical role in enhancing public market efficiency & price discovery

Certainty in taxation, can spur growth even further to ₹1 Lakh Crores

Will increase the ease of Investing and boost VC/PE activity to ₹3 Lakh Crores p.a, with 50% from AIFs.

Roadmap for Future Policy & Market Development

Complete New System of Taxation: Unit Based Taxation

- Implement a new taxation code, supporting unit level taxation. Through which all the taxes would be paid by way of Tax Deducted at Source ('TDS') at the Fund level
- This will also help in listing of AIFs

Accreditation of Qualified Investors Via KYC

- Current minimum threshold of ₹1 Cr is working; But a suite of emerging opportunities could require official evaluation of Investor qualification which is completely scalable, hence digital
- Ideally a system in long-term should identify and qualify the investor, rather than the investment

Innovate New Fund Structures: Listed, Permanent Capital Vehicles

- There is an increasing need for vehicles that provide capital to the mid market corporates and small businesses. Especially when bank lending to mid market corporates and small businesses has been declining with no signs of trend reversal
- This and unit bases taxation will provide way for listing for AIFs like REITs and InvITs

Digitizing: Performance Data Reporting

- Data disclosure to SEBI can be enhanced to include distributions made, in addition to the existing disclosure of commitments, contribution and investments, this can be by vintage year and fund strategy, within category

IFSC Pooling

- Set up management of funds in IFSC (currently undertaken offshore) can provide substantial contribution growth of Indian financial sector & economy
- Presence of professional skilled onshore fund managers can lead to more financial activity, spur in innovation, new trends and strategies





Annexure

Key Policy Changes since 2014 is catalysing growth in AIF

CBDT

- Introduction of tax pass-through for Category I and II AIFs
- Period of holding reduced from 3 to 2 years for long-term capital gains on transfer of unlisted shares
- Characterisation of income from transfer of listed shares and securities as 'Capital Gains'
- Characterisation of income from transfer of unlisted shares held by Category I and II AIF as 'Capital Gains'
- Tax withholding for foreign investors in AIFs at 'rates in force'
- No tax withholding for exempt domestic investors in AIFs
- Exclusion for Category I and II AIFs in the notification for exemption on long-term capital gains under section 10(38)
- Inclusion of pre-conversion period in determining holding period for convertible debentures/preference shares for computing capital gains
- Tax neutrality for conversion of preference shares
- Indirect Transfer Provisioning

SEBI

- Exempted AIF II from 1 year IPO lock-in
- Angel Fund rules made pragmatic

RBI

- Banks Permitted to invest in AIF I & II

DIPP

- Automatic route for dollar investments in AIFs
- Fund of Funds for Start-up launched

Government becoming LP in Funds

- ₹10,000 Cr fund-of-fund for Start-ups
 - Invested in 58 funds
- ₹40,000 Cr NIIF fund-of-fund for Infrastructure

Over 27 Changes in regulation since 2014 has contributed to accelerated Investments...

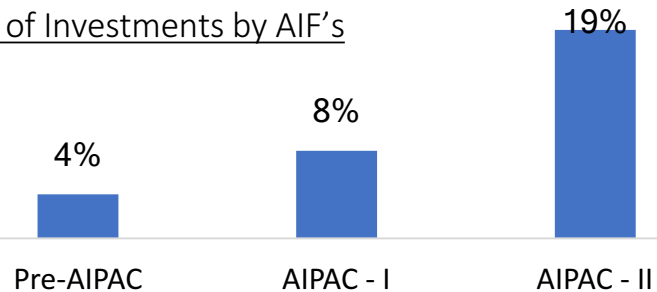
Success of AIPAC I & II; Effect of AIPAC III

The success of AIPAC is represented by the growth of register AIF's and amount Pooled

AIPAC I (31st Dec 15)

- Focussed on Tax reforms & Unified AIF; with no revenue loss to the Government
- 10 major recommendations from AIPAC 1, implemented
- **Effect:** AIF commitments for CY2016 approx. ₹ 33,000 Cr - greater than total commitments raised since inception then

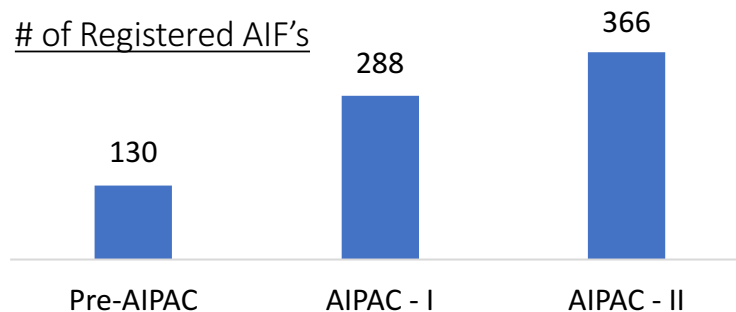
% of Investments by AIF's



AIPAC II (1st Nov 16)

- Focussed on Catalysing Capital Flows and ensuring clarity, consistency, and certainty in tax policies
- 7 major recommendations from AIPAC II, implemented many still rolling out
- **Effect:** Number of AIF's doubled to 375

of Registered AIF's



AIPAC III (29th Nov 2017)

- Focus on the remaining issues; and continue to focus on catalysing capital flows
- Focus on remaining major issues from previous AIPACS and clarify issues on GST
- **Target:** Target VC/PE Flows of ₹10 lakh Crores p.a, with ₹3 Lakh Crore pooled in AIFs

Total Commitments (₹ Cr)

