



Be an Angel, Fund a UK Company

**CROWD FOR ANGELS, THE  
FUTURE FUND AND THE  
INNOVATIVE FINANCE ISA**

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# The Future Fund

Amongst the range of business support measures announced by the government in the past few months is the Future Fund. Delivered by the British Business Bank (like the Coronavirus Business interruption Loan Scheme – CBILS - programme), the Future Fund has been designed to ensure high-growth companies across the UK receive the investment they need to continue during the crisis. Unlike CBILS, the programme is focusing on the provision of convertible loans, thus offering companies a flexible method of financing, while giving investors the potential of equity upside in the long-term.

The Future Fund will initially be a £500 million scheme, with half of this amount committed by the government and the remainder required to be raised from other investors. In effect, the government is matching, pound for pound, any money raised from external investors. The fund will provide UK-based companies with loans between £125,000 and £5 million, with the loans automatically converting into equity in the company at its next qualifying funding round or at the end of the loan if not repaid.

The loans will have a three year term and a minimum interest rate of 8% per annum, with this accruing until the loan converts – i.e. investors will not be paid cash interest payments over the term of the loan. The loan cannot be repaid early by the company other than with the agreement of all of the investors. Also, loans will convert at a minimum 20% discount to the relevant share price on the conversion date.

To be eligible, a business must be a private UK registered company that has previously raised at least £250,000 in equity investment from third party investors in the last five years. Investors must also meet certain criteria to invest in the loan, including being an investment professional, high net worth investor or sophisticated investor.

The Future Fund will initially be open until the end of September 2020 and its scale will be kept under review. There are a few restrictions on how companies can use the funds, with the repayment of borrowings not allowed, nor the payment of dividends, bonuses or advisory fees.

You can find out more here <https://www.uk-futurefund.co.uk/s/>

# Future Fund Convertible Notes

A Convertible Note is a type of investment made initially by loan (note) that can convert, or must, later convert, in whole or in part, into shares of the company.

While initially having loan like characteristics, they have imbedded terms which mean that amounts due (capital and/or interest) can be converted into shares in the borrowing company at some point in the future. To incentivise investors, the loans typically convert at a discount to the share price at the conversion date. Redemption of the Note is normally at maturity at nominal value or at a premium.

## Key Terms

The key terms of the Future Fund Convertible Notes are:

<b>Term:</b>	3 YEARS
<b>Interest:</b>	8% PA (NON-COMPOUNDING, PAYABLE AT MATURITY OR CONVERTED)
<b>Conversion:</b>	BASED ON VALUATION AT DATE OF CONVERSION
<b>Conversion Discount:</b>	20%
<b>Security:</b>	UNSECURED
<b>Redemption Premium:</b>	100% IF REPAID AND NOT CONVERTED



# For Companies

Companies theoretically have two choices. They can either convert or repay the Notes as shown in the two examples below.

## Example of a Note conversion

This is best illustrated by a simple example:

Will's Widgets raises £1 million via a three year convertible loan at a simple interest rate of 8% per annum. At the end of the three years £1.24 million is owed to investors. Instead of paying the amount due in cash, instead the loan is converted into shares in the company. The company's share price is now deemed to be £2 per share, with the note converting at a 20% discount.

The number of shares to be issued are calculated as follows:

Amount due: **£1,240,000**

Conversion price:  $£2.00 \times 0.80 =$  a conversion price of **£1.60**

Number of shares to be issued:  $£1,240,000 / £1.60 =$  **775,000 shares**

Note: The number of shares to be issued increases the lower the conversion price and conversely the number reduces if the conversion price is greater. For example, if the conversion price was £1.50 the number of shares to be issued would be 826,667. If the price was £1.80 then only 688,889 shares would be issued. The cost to the company can be viewed in terms of dilution.

Say that Will's Widgets had a share price of £1.00 when it decided to raise the funds. If the company had tried to raise funds via equity at that time it would have to issue 1 million shares. In three years' time, over which time the company has put the funds to use and seen its share price double, only 775,000 shares have to be issued as per the convertible loan terms.

So the conversion terms are fairly favourable for a company that sees a doubling of its share price over the three years. This is a simple illustration and there may well be other factors such as cost of money, tax and terms within the loan conversion documents.

# For Companies

## (Cont.)

### Example of a Note Repayment

Will's Widgets raises £1 million via a three year convertible loan at a simple interest rate of 8% per annum. At the end of the three years the amount owed is as follows:

<b>Note amount</b>	<u>£1,000,000</u>
<b>Interest @ 8% for 3 years</b>	<u>£240,000</u>
<b>Premium on Note</b>	<u>£1,000,000</u>
<b>Total payable</b>	<u>£2,240,000</u>

Given the large (and onerous) premium paid on repayment of the note, the effective annual interest rate paid is over 30%.

The above examples reviews some of the issues that companies will have to consider in making their decisions in order to determine the least expensive form of funding for their specific situations.

# For Investors

Investors may or may not have a choice as to whether they will be repaid in cash or convert. In either case, the returns are potentially large.

## How are investors taxed?

Interest will be subject to income tax. If the terms are comparable to those of listed convertibles, the interest will be taxed as interest i.e. income tax will be payable at the Investors marginal rate.

Capital gains (whether arising by a sale of the convertible loan or the equity) are subject to capital gains tax.

The taxation of the 100% premium is uncertain. If the premium is considered as interest then it would be subject to income tax, if not it would be subject to capital gains tax.

This is of considerable importance as the tax involved is significant

For an example, an investor investing £20,000 in the convertible notes would theoretically have the following liability to income tax

<b>Interest on £20,000 at 8% for three years</b>	<b><u>£4,800</u></b>
<b>Premium</b>	<b><u>£20,000</u></b>
<b>Total</b>	<b><u>£24,800</u></b>
<b>Tax @ 20%</b>	<b><u>£4,960</u></b>
<b>Tax @ 40%</b>	<b><u>£9,920</u></b>

\*Please note that tax law is subject to change and that tax treatment is subject to individual circumstances.

See below how the IFISA can shelter your income from tax.



# Innovative Finance Individual Savings Account (IFISA)

There are 4 types of Individual Savings Accounts (ISA):

- Cash ISA
- Stocks and Shares ISA
- Innovative Finance ISA
- Lifetime ISA

You do not pay tax on:

- Interest on cash in an ISA
- Income or capital gains from investments in an ISA
- If you complete a tax return, you do not need to declare any ISA interest, income or capital gains on it.

Refer: [www.gov.uk/individual-savings-accounts/how-isas-work](https://www.gov.uk/individual-savings-accounts/how-isas-work)

Crowd for Angels offers an IFISA that can potentially shelter all or most of the income or gains arising from realisation of the Notes. Refer to Appendix 2 for further details on IFISA and Convertible Notes.

Register for free: [crowdforangels.com/join](https://crowdforangels.com/join)

# About Crowd for Angels

Crowd for Angels (UK) Limited (CFA) is an established crowdfunding platform based in the City of London. The company is authorised and regulated by the Financial Conduct Authority to provide funding to companies in the form of debt and equity.

Our platform has dedicated systems and processes for convertible note pitches and we were the first crowdfunding platform in the UK to have such pitches.

CFA is authorised by HMRC as a provider of the Innovative Finance ISA.

- ✓ We can assist the company in running a campaign under the Future Fund
- ✓ We can assist you in raising funds from your crowd and from our investors
- ✓ We can act as your lead investors and apply to the Future Fund for matched funding
- ✓ We can provide individual investors with an IF-ISA to shelter potential tax

For more information on convertible loans and how Crowd for Angels can help raise finance for your business visit [crowdforangels.com/convertible-loans](https://crowdforangels.com/convertible-loans)

Alternatively, call us on **0207 437 2413** or email our CEO Andrew Adcock at [andrew@crowdforangels.com](mailto:andrew@crowdforangels.com)

\*Please note that tax law is subject to change and that tax treatment is subject to individual circumstances.



# APPENDIX 1

## Key FAQs for investors

Here are what we consider to be the key points for investors interested in the Future Fund scheme. For the full list visit [www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/future-fund/faqs-for-investors/](http://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/future-fund/faqs-for-investors/)

### **Who can apply for the Future Fund?**

This is an investor-led scheme which means the Lead Investor applies on behalf of itself, the Investee Company and the Other Investors and provides information about the Investee Company and the Other Investors. Initial stages of the Application will be made by the Lead Investor, with the Investee Company subsequently providing and verifying information during the later stages of the Application. Information about the Lead Investor and the Other Investors is used by the portal to conduct certain checks on them, to compile execution versions of the legal documentation and to send those execution versions out to the Lead Investor and the Other Investors.

### **Does the Lead Investor have to commit the largest matched investment?**

No, however, the Lead Investor must invest at least £12,500. There is no limit to the number of companies in which you can invest, whether as Lead Investor or otherwise.

### **What should I do if I am unsure about my eligibility status or whether to invest in the Future Fund?**

It is each Investor's responsibility to ensure that you are eligible to make a Loan and to ensure you are comfortable making such a Loan. If in doubt, you should seek independent legal advice and/or seek advice from a financial adviser who is authorised under the Financial Services and Markets Act 2000.

### **Why are Other Investors (i.e. investors other than Future Fund and the Lead Investor) limited to 147?**

The number of Other Investors should not exceed 147 to avoid Investee Companies having to produce a prospectus. The Prospectus Regulation includes an exemption whereby a prospectus is not required if an offer is made to fewer than 150 investors. Limiting the number of Other Investors to 147 and adding the Lead Investor and the Future Fund ensures the total number of investors in any Investee Company are fewer than 150.

# APPENDIX 1

## Key FAQs for investors (cont.)

### **Will entering into the CLA affect the SEIS or EIS compatibility of investments made prior to the CLA?**

HM Treasury and HMRC are responsible for all decisions on tax reliefs, including on SEIS and EIS.

The government has confirmed that such previous investments will not be affected where the convertible loan converts into shares. Where the convertible loan note redeems, we have been alerted that the government intends to make changes to the rules to clarify that this is compatible with such previous investments.

### **Do AIM quoted companies qualify, as under tax guidance they are unlisted and unquoted?**

No. AIM quoted companies will not qualify, nor will companies with shares admitted to trading on any other similar market, stock exchange or listing venue.

### **Does the Government expect to make a return?**

The Future Fund will operate on a fully commercial basis, on the same terms as third-party investors.

### **Will angel investors who have invested in start-ups qualify?**

Yes, subject to meeting the eligibility criteria for the Future Fund.

### **Are any terms of the CLA negotiable?**

The form of the CLA is a fixed, standard form document. However, certain terms of the CLA, including the interest rate, conversion discount, headroom amount and valuation cap are negotiable between the Investors (other than the Future Fund) and the Investee Company in advance of Application. However, the interest and discount rates cannot be lower than 8% and 20% respectively. If no headroom amount or valuation cap is agreed, they will default to zero and void, respectively.

### **Can an Investee Company repay the Loans if it chooses?**

The Investee Company cannot choose to repay its Loan. The Loans will either convert into shares or be repayable in certain circumstances, such as: specific exit events; maturity of the Loan; or on an event of default by the Investee Company.

# APPENDIX 2

## **The rules applicable to an IF-ISA for convertible notes**

Eligible crowdfunding debentures must:

- I. be transferable securities in accordance with section 102A(3) of FISMA 2000
- II. create indebtedness
- III. be facilitated by a person with Financial Conduct Authority (FCA) permissions to arrange deals in investments
- IV. be made through an electronic system operated by that person in the EEA

The ISA investor must be treated as the client of the person operating the crowdfunding platform, or a person acting on behalf of the platform. This arrangement offers the investor FCA regulatory protections and recourse to the Financial Ombudsman

The platform (or the person acting on their behalf) must receive payments, make payments and exercise (or facilitate the exercise of) rights under or in respect of the debentures

Qualifying debentures must be invested in within an innovative finance ISA and using cash subscriptions held by the ISA manager. They must be entered into for genuine commercial terms and not as part of a scheme or arrangement, the main or one of the main purposes of which is the avoidance of tax.

Within the meaning given in section 170 of ITA 2007, the investor must not be connected with the issuer of the debenture. The investment must not be connected to any other investment held outside the ISA wrapper.



# APPENDIX 3

## CONVERTIBLE LOAN AGREEMENT

DATED

2020

### BY AND BETWEEN:

- (1) **[COMPANY NAME]** (company number **[number]**) whose registered office is at **[address]** (the "Company");<sup>1</sup>
- (2) **UK FF NOMINEES LIMITED** (company number 12591650) whose registered office is at Level 37, 25 Canada Square, London E14 5LQ (the "Future Fund"); and
- (3) **THE PERSONS** whose names and addresses are set out in the table at paragraph 1 of the agreed terms below (together the "Other Lenders" and each an "Other Lender").

### INTRODUCTION:

The Lenders have agreed to make available to the Company unsecured convertible loans on the terms set out in this convertible loan agreement, including the terms and conditions set out in schedule 1.

### AGREED TERMS:

The terms of this Agreement are as follows. Words and expressions used in this Agreement and not defined below shall have the same meaning as is given to them in schedule 2 to this Agreement.

1. Each Lender set out below shall pay the respective Loan set out against its name in the table below to the Company's Solicitors' Bank Account and the Company hereby accepts such Loans and shall owe and promise to pay to each such Lender or its successors or assignees the principal amount of each such Loan, together with any Redemption Premium and/or any accrued but unpaid Interest as the case may be, in accordance with the terms of this Agreement:

Lender	Address and email address	Total Amount of Loan (£)
The Future Fund	Level 37, 25 Canada Square, London E14 5LQ  futurefundsupport@british-business-bank.co.uk	[•]
[•]	[•]	[•]
[•]	[•]	[•]
Total		

2. Unconditional release of its Loan to the Company's Solicitors' Bank Account shall be a good and valid discharge of the obligation of a Lender to pay such amount (as set out in paragraph 1 above) to the Company and such Lender shall not be concerned to see the application of the monies so paid.
3. No Lender is obliged to make its Loan unless the other Loans are made simultaneously.
4. During the period commencing on the date of this Agreement and ending 90 days after the date of this Agreement (the "Headroom Period"), the Company may (at the discretion of the

<sup>1</sup> **NOTE:** Company details to be inserted.

# APPENDIX 3

Board) receive up to an aggregate of the Headroom Amount in additional unsecured convertible loans of the Company from additional lenders, as reasonably determined by the Board on the same terms as set out in this Agreement, subject to the execution by the Company and each such additional lender of a Subscription Deed within the Headroom Period, upon which each such additional lender will become an Other Lender for the purposes of this Agreement. The Company shall notify the Lenders within 5 Business Days of the expiry of the Headroom Period of the aggregate amount of such additional unsecured convertible loans received by the Company, the identity of the additional lenders and the amounts of their respective Loans.

5. The **"Company's Solicitors' Bank Account"** shall mean the client account of **[insert name of Company's Solicitors]** (the **"Company's Solicitors"**) with the following details:

Account Name	[•]
Bank	[•]
Account Number	[•]
Sort Code	[•]
Reference	<<Company Name>>

6. **"Discount"** shall mean [ ] per cent. *(if no number is included, or a number lower than 20 per cent. is included, then the Discount shall be 20 per cent.)*
7. **"Interest Rate"** shall mean [ ] per cent per annum, simple interest *(if no number is included, or a number lower than 8 per cent. is included, then the Interest Rate shall be 8 per cent.)*.
8. **"Maturity Date"** means the date falling 36 months after the date of this Agreement.
9. **"Valuation Cap"** shall mean [ ] *(if no number is included, then no Valuation Cap shall apply)*.
10. **"Headroom Amount"** shall mean [ ] *(if no number is included, then the Headroom Amount shall be zero)*.

## SIGNATURE BLOCKS:

This Agreement has been executed on the date shown on the first page.<sup>2</sup>

Signed: \_\_\_\_\_  
For and on behalf of: **[COMPANY NAME]**

Signed: \_\_\_\_\_  
For and on behalf of: **UK FF NOMINEES LIMITED**

<sup>2</sup> **NOTE:** Company and other lender names to be inserted into the respective signature blocks.

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Signed: \_\_\_\_\_  
For and on behalf of: [OTHER LENDER NAME]

Signed: \_\_\_\_\_  
For and on behalf of: [OTHER LENDER NAME]





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## Risk Warning

The availability of any tax relief depends on the individual circumstances of each investor and tax law may be subject to change in the future. If you are in any doubt about the availability of any tax relief, or the tax treatment of your investment, you should obtain independent tax advice before proceeding with your investment.

Investing in small public listed or private companies involves risks, including illiquidity, lack of dividends, loss of investment and dilution, and it should be done only as part of a diversified portfolio. Investing in debt pitches through Crowd for Angels (UK) Limited involves lending to companies and therefore your capital is at risk and interest payments are not guaranteed if the borrower defaults. Crowd for Angels is targeted exclusively at investors who are sufficiently sophisticated to understand these risks and make their own investment decisions. You will only be able to invest via Crowd for Angels once you are authorised.

Please visit [crowdforangels.com/risk-warning](http://crowdforangels.com/risk-warning) the full Risk Warning.

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