

Fund of Funds for Startups (FFS) – Frequently Asked Questions (FAQ)

1. What is the definition of Startups as per Gazette notification dated May 23, 2017 ?

An entity shall be considered as a Startup:

- a) if it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India; and
- b) up to seven years from the date of its incorporation/ registration; however, in the case of Startups in the biotechnology sector, the period shall be up to ten years from the date of its incorporation/ registration; and
- c) if its turnover for any of the financial years since incorporation/ registration has not exceeded Rupees 25 crores; and
- d) if it is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Provided that any such entity formed by splitting up or reconstruction of a business already in existence shall not be considered a 'Startup'.

2. Does SIDBI charge any processing fee for evaluating the proposals under FFS programme?

No.

3. Is there any sector or state specific focus under FFS?

No. FFS is sector agnostic. There is no state focus under the programme.

4. Are Angel Funds, Impact Investment Funds, etc eligible under FFS ?

Yes. All AIFs registered under SEBI AIF Regulations, 2012 (Category I and II) are eligible under FFS.

5. Is registration of the Fund with SEBI necessary before approaching SIDBI ?

Yes.

6. When is the condition “The AIFs supported by FFS shall invest at least twice the amount of contribution received from FFS in Startups qualifying as per the Gazette Notification G.S.R.180 (E) dated February 17, 2016” to be fulfilled?

The condition is to be fulfilled at the end of the commitment period of the Fund. However, status of the compliance of the condition is to be submitted to SIDBI at the time of each drawdown and on a periodical basis.

7. Does SIDBI or Government of India have a say on the investment decisions of the AIF?

SIDBI or Government of India does not have any say in the investment decisions of the AIF. The Investment Committee of each Fund shall take a call on its investments, as per Private Placement Memorandum and other Fund documents. The Investment Committee (IC) shall comprise of professionals and be broad based to the satisfaction of SIDBI.

8. Do start-ups covered under FFS need to be registered with Government of India?

No. It is up to the startup entrepreneurs to get registered with Government of India for tax benefits or other concessions, if any.

9. What is the term of AIF covered under FFS?

As per existing SEBI AIF guidelines, the term of the Fund is determined from Final Closing of the Fund. Generally, the term of the AIF shall be 8-10 years from the date of Final Closing. In any case, it should not extend beyond 12 years from the date of Final Closing of the Fund.

10. Can AIFs covered under the programme invest in foreign entities?

The Fund shall invest generally in entities based in India. In case of companies based abroad, the Fund shall invest only as per SEBI / RBI guidelines in this regard. It may be noted that entities based abroad will not be counted for the eligibility criterion of investment of twice the contribution out of FFS in startups.

11. Can AIFs make warehoused investments prior to the First Closing?

Yes. The Investment Manager can make warehoused investments prior to the First Closing, which can subsequently be acquired by the Fund at the cost of acquisition. However, no holding cost shall be charged to the Fund for such acquisition.

12. What are the general covenants of AIFs covered under FFS programme?

All AIFs supported under FFS programme will maintain high standards of corporate governance and investor reporting to ensure complete transparency and timely information to all its investors, by maintaining proper books of accounts, documents and records with respect to the Fund to give a true and accurate account of the investments, expenses, earnings, profits, etc.

The Fund shall appoint / change Statutory Auditors and Internal Auditors acceptable to SIDBI, who would inter-alia, make periodic disclosures as may be required by SIDBI. The AIFs are also required to comply with the various directives of SEBI, RBI, etc and also comply with the provisions of Prevention of Money Laundering Act and KYC guidelines of RBI.
