#DecodeYourTermsheet

Reserved Matters

Reading a Termsheet for the first time (or even if it's not the first time) can be stressful. It is filled with legal jargon and clauses that founders may not fully understand. At times, we have seen funding fall through due to differences in terms, and not commercials.

#DecodeYourTermsheet is our series to make it easy for founders to understand standard terms and negotiations with VCs. The more you understand the termsheet, the easier it will be to close funding faster and manage the process more smoothly and cost effectively.

In each post, we will take one section of the termsheet and dive deep into it.

Here, let's talk about Reserved Matters

What are Reserved Matters?

Reserved Matters simply refer to certain actions or matters that require prior consent of the investors before a decision is taken over the same.

There are three important categories of Reserved Matters:

Strategic & Corporate

Investment Protection

Business Operations

Here's how Reserved Matters appears in your Termsheet

Notwithstanding anything contained in this Agreement, no action shall be taken by the Company or its subsidiary (whether in any Shareholders' meeting, any meeting of the Board or committees / sub-committees, through any resolution by circulation or otherwise, or by any director or officer or employee of the Company or its subsidiary on behalf of the Company or its subsidiary) in respect of any of the matters set out in **SCHEDULE: RESERVED MATTERS hereof ("Reserved Matters")**, unless a prior written approval of such matter is given by the Major Investor. For clarity, the Reserved Matters shall be applicable mutatis mutandis in respect of all subsidiaries of the Company and their respective capital structure and business activities, which shall require a prior written approval of such matter given by the Major Investor before any action can be taken by or on behalf of any subsidiary. The Company shall, and the Founders shall cause incorporation of such Reserved Matters in the charter documents of such subsidiaries.

Strategic & Corporate Matters

- Incorporation of any subsidiary of the company or any other corporate restructuring;
- Any merger, acquisition, change in control or consolidation of the company;
- Change in the legal status of the company;
- Any decision to enter into any joint ventures, partnerships, collaborations or consortiums with any person;
- Alteration or changes to the rights, restrictions, preferences, price, conversion ratio or privileges of any securities of the company.

Kalaari Perspective

- Strategic & Corporate Matters have mostly been standardized over the years. There is rarely room to negotiate and investors will want a say in these decisions.
- You should, however, negotiate a **majority based investor approval construct** so that no individual investor will have disproportionate control over critical decisions.

Investment Protection Matters

- Any action that authorizes, creates or issues securities & additional issue of any class or series of stock;
- Buy back or redemption of securities of the company or any reduction of share capital or any increase, decrease, alteration or modification of the authorised or issued share capital;
- The liquidation, dissolution, sale, license or transfer of substantial assets of the company;
- Any transfer or encumbrance of securities by a founder;
- Any decision to make a public offer or list the securities of the company on any stock exchange.

Kalaari Perspective

- Investment protection rights are usually a standard list of reserved matters that offer investors protection in the case of a liquidation event.
- Since investors are typically minority shareholders in your company and may own ~10-15% of your startup at the early stage, there are certain checks and balances that are put to make sure the capital provided is used as per the stated mandate. These matters are also standardized and there is not much room to negotiate.

Business Operations Matters

- Approval of annual budget at the beginning of the Financial Year, including modification of such budget;
- Incurrence of aggregate expenses (capital and operating) in excess of a certain percentage over amounts set out in the business plan;
- Any changes in business objectives, commencement of any new line of business, or change of scope of the business of company, or closure of an existing line of business;
- Appointment, dismissal or alteration of the terms of employment of key employees, including increase in the total compensation to key employees.

Kalaari Perspective

- There is more flexibility when it comes to negotiating on business operational matters
- Provide a 10-15% permissible deviation from your annual operating plan and milestones. Approvals on matters such as key employee hiring, compensation, expenses, etc. can and should be reviewed depending on the stage of your company.

For more insights, subscribe to our **#DecodeYourTermsheet** series.

About Kalaari Capital

Kalaari Capital is an early-stage, technology-focused venture capital firm based in Bengaluru, India. Since 2006, Kalaari has empowered visionary entrepreneurs building unique solutions that reshape the way Indians live, work, consume and transact.

The firm's ethos is to partner early with founders and work with them to navigate the inevitable challenges of fostering ideas into successful businesses. At its core, Kalaari believes in building long-term relationships based on trust, transparency, authenticity, and respect.

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