

SECURITIES AND EXCHANGE BOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996

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SECURITIES AND EXCHANGE BOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) the Securities and Exchange Board of India hereby, makes the following regulations.

CHAPTER 1 PRELIMINARY

1. Short title and commencement :-

- (1) These regulations may be called the Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996.
- (2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions :-

In these regulations, unless the context otherwise requires,-

- (a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992) ;

¹"associate company", means a company in which a director or trustee or sponsor or settler of the venture capital fund or asset management company holds either individually or collectively,

equity shares in excess of 15% of the paid-up equity share capital of venture capital undertaking."

(b) 'certificate" means a certificate of registration granted by the Board under regulation 7 ;

(c) "company" means a company incorporated under Companies Act, 1956 ;

(d) "economic offence" means an offence to which Economic Offences (Limitation of Prosecutions) Act, 1974, applies for the time being ;

(e) "enquiry officer" means an enquiry officer appointed by the Board under regulation 33 :

²(ee) "equity linked instruments" includes instruments convertible into equity shares or share warrants, preference shares, debentures compulsorily ³[or optionally convertible into equity."

(f) "Form" means any of the forms set out in the First Schedule ;

(g)⁴

⁵(h) "inspecting or investigating officer" means an inspecting or investigation officer appointed by the Board under Regulation 25."

²(hh) "investible funds" means corpus of the fund net of expenditure for administration and management of the fund."

(i) "Schedule" means a schedule annexed to these regulations ;

⁷(j) "negative list" means a list of items specified in Third Schedule."

(k) "trust" means a trust established under Trusts Act, 1882 ;⁸["or under an Act of Parliament or State Legislation"]

⁹(l) "unit" means beneficial interest of the investors in the scheme or fund floated by trust or any other securities issued by a company including a body corporate."

¹⁰(m) "venture capital fund" means a fund established in the form of a trust or a company including a body corporate and registered under these regulations which

(i) has a dedicated pool of capital,

(ii) raised in a manner specified in the regulations, and

(iii) **11**in accordance with the regulations."

2 "(n) "venture capital undertaking" means a domestic company

(i) whose shares are not listed on a recognised stock exchange in India;

(ii) which is engaged in the business for providing services, production or manufacture of article or things or does not include such activities or sectors which are specified in the negative list by the Board with the approval of the Central Government by notification in the Officer Gazette in this behalf."

1. Substituted for "sub clause aa of regulation 2 for ""(aa) "associate" in relation to venture capital fund means a person, (i) who, directly or indirectly, by himself, or in combination with relatives, exercises control over the venture capital fund; or (ii) in respect of whom the venture capital fund, directly or indirectly, by itself, or in combination with other persons, exercises control; or (iii) whose director is also director, of the venture capital fund." by the Securities and Exchange Board of India (Venture Capital Funds) (Second Amendment) Regulations, 2000

2. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

3. In clause (ee), after the word; "compulsorily", the word, "or optionally", shall be inserted, by the "Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2004."

4. Omitted for "(g) "Government of India Guidelines" means the guidelines dated September 20,1995, issued by the Government of India for Overseas Venture Capital Investments in India as amended,from time to time ;" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

5. Substituted for "(h) "inspecting officer" means an inspecting officer appointed by the Board under regula- tions 25;" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

7. Substituted for "(j) "sick industrial Company" has the same meaning as is assigned to it in clause (o) of sub- section (1) of section (3) of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986);" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

8. " SECURITIES AND EXCHANGE BOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996" Dt.17.11.99 Published in [Noti. No. F. No. SEBI/LE/20248/99,S.O. 1118(E) dt. 17.11.99- Gaz. of India, Exty., Pt. II-Sec. 3(ii). No. 683,dt. 17.11.99, p. 2.]

9. Substituted for "(l) 'units' means the interest of the investors in a scheme of a venture capital fund set up as a trust, which consist of each unit representing one undivided share in the assets of the scheme;" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

10. Substituted for "(m) 'venture capital fund' means a fund established in the form of a company or trust which raises monies through loans, donations, issue of securities or units as the case may be, and makes or proposes to make investments in accordance with these regulations." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

11. In clause (m), in sub-clause (iii), the words, "in venture capital undertaking" shall be omitted, by the "Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2004."

CHAPTER 2

REGISTRATION OF VENTURE CAPITAL FUNDS

3. Applications for grant of certificate :-

(1) Any company or trust ¹"or a body corporate" proposing to carry on any activity as a venture capital fund on or after the commencement of these regulations shall make an application to the Board for grant of a certificate.

(2) Any company or trust ¹"or a body corporate", who on the date of commencement of these regulations is carrying any activity as a venture capital fund without a certificate shall make an application to the Board for grant of a certificate within a period of three months from the date of such commencement: Provided that the Board, in special cases, may extend the said period upto a maximum of six months from the date of such commencement.

(3) An application for grant of certificate under sub-regulation (1) or sub-regulation (2) shall be made to the Board in Form A and shall be accompanied by a non-refundable application fee as specified in Part A of the Second Schedule to be paid in the manner specified in Part B thereof.

(4) Any company or trust ¹ "or a body corporate" referred to in sub-regulation (2) who fails to make an application for grant of a certificate within the period specified therein shall cease to carry on any activity as a venture capital fund.

(5) The Board may in the interest of the investors issue directions with regard to the transfer of records, documents or securities or

disposal of investments relating to its activities as a venture capital fund.

(6) The Board may in order to protect the interests of investors appoint any person to take charge of records, documents, securities and for this purpose also determine the terms and conditions of such an appointment.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

4. Eligibility criteria :-

For the purpose of the grant of a certificate by the Board the applicant shall have to fulfil in particular the following conditions, namely :-

(a) If the application is made by a company :-

(i) memorandum of association as has its main objective, the carrying on of the activity of a venture capital fund ;

(ii) it is prohibited by its memorandum and articles of association from making an invitation to the public to subscribe to its securities ;

(iii) its director or principal officer or employee is not involved in any litigation connected with the securities market which may have an adverse bearing on the business of the applicant :

(iv) its director, principal officer or employee has not at any time been convicted of any offence involving moral turpitude or any economic offence.

¹(v) it is a fit and proper person.

(b) if the application is made by a trust-

(i) the instrument of trust is in the form of a deed and has been duly registered under the provisions of the Registration Act, 1908 (16 of 1908) :

(ii) the main object of the trust is to carry on the activity of a venture capital fund :

(iii) the directors of its trustee company, if any or any trustee is not involved in any litigation connected with the securities market which may have an adverse bearing on the business of the applicant ,

(iv) the directors of its trustee company, if any, or a trustee has not at any time, been convicted of any offence involving moral turpitude or of any economic offence :

²(v) the applicant is a fit and proper person.

³(c) if the application is made by a body corporate

(i) it is set up or established under the laws of the Central or State Legislature.

(ii) the applicant is permitted to carry on the activities of a venture capital fund.

(iii) the applicant is a fit and proper person.

(iv) the directors or the trustees, as the case may be, of such body corporate have not been convicted of any offence involving moral turpitude or of any economic offence.

(v) The directors or the trustees, as the case may be, of such body corporate, if any, is not involved in any litigation connected with the securities market which may have an adverse bearing on the business of the applicant.]

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(d) ⁵"the applicant" has not been refused a certificate by the Board or its certificate has ⁶ "not" been suspended under regulation 30 or cancelled under regulation 31.

1. Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996" Dt.5thJanuary, 1998 Published in Securities and Exchange Board of India, Noti.No. S.O. 19(E), dated January 5, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 5th January, 1998, p. 12, No. 9 [F. No. SEBI/LE/2304/98] [L]

2. Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996" Dt.5thJanuary, 1998 Published in Securities and Exchange Board of India, Noti.No. S.O. 19(E), dated January 5, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 5th January, 1998, p. 12, No. 9 [F. No. SEBI/LE/2304/98] [L]

3. Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996" Dt.17.11.99 Published in [Noti. No. F. No. SEBI/LE/20248/99,S.O. 1118(E) dt. 17.11.99-Gaz. of India, Exty., Pt. II-Sec. 3(ii). No. 683,dt. 17.11.99, p. 2.]

4. sub-clause(c) of Regulation 4 renumbered as sub-clause(d) of

Regulation 4 by " SECURITIES AND EXCHANGE BOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996" Dt.17.11.99 Published in [Noti. No. F. No. SEBI/LE/20248/99,S.O. 1118(E) dt. 17.11.99-Gaz. of India, Exty., Pt. II-Sec. 3(ii). No. 683,dt. 17.11.99, p. 2.]

5. Substituted for "the company or trust" by the Securities and Exchange Board of India (Venture Capital Funds)(Amendment) Regulations, 2000

6. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Second Amendment) Regulations, 2000

5. Furnishing of information, clarification :-

The Board may require the applicant to furnish such further information as it may consider necessary.

6. Consideration of application :-

An application which is not complete in all respects shall be rejected by the Board : Provided that, before rejecting any such application, the applicant shall be given an opportunity to remove, within thirty days of the date of receipt of communication, the objections indicated by the Board. Provided further that the Board may, on being satisfied that it is necessary to extend the period specified in the first proviso, extend such period by such further time not exceeding ninety days.

7. Procedure for grant of certificate :-

(1) If the Board is satisfied that the applicant is eligible for the grant of certificate, it shall send an intimation to the applicant.

(2) On receipt of intimation, the applicant shall pay to the Board, the registration fee specified in Part A of the Second Schedule in the manner specified in Part B thereof.

(3) The Board shall on receipt of the registration fee grant a certificate of registration in Form B.

8. Conditions of certificate :-

The certificate granted under regulation 7 shall be inter alia, subject to the following conditions, namely:-

(a) the venture capital fund shall abide by the provisions of the Act, ¹ and these regulations ;

(b) the venture capital fund shall not carry on any other activity other than that of a venture capital fund:

(c) the venture capital fund shall forthwith inform the Board in

writing if any information or particulars previously submitted to the Board are found to be false or misleading in any material particular or if there is any change in the information already submitted.

1. Omitted for "the Government of India Guidelines" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

9. Procedure where certificate is not granted :-

(1) After considering an application made under regulation 3, if the Board is of the opinion that a certificate should not be granted, it may reject the application after giving the applicant a reasonable opportunity of being heard.

(2) The decision of the Board to reject the application shall be communicated to the applicant within thirty days.

10. Effect of refusal to grant certificate :-

(1) Any applicant whose application has been rejected under regulation 9 shall not carry on any activity as a venture capital fund.

(2) Any company or trust ¹ "or a body corporate" referred to in sub-regulation (2) of regulation 3, whose application for grant of certificate has been rejected under regulation 9 by the Board shall, on and from the date of the receipt of the communication under sub-regulation (2) of regulation 9, cease to carry on any activity as a venture capital fund.

(3) The Board may in the interest of the investors issue directions with regard to the transfer of records, documents or securities or disposal of investments relating to its activities as a venture capital fund.

(4) The Board may in order to protect the interests of the investors appoint any person to take charge of records, documents, securities and for this purpose also determine the terms and conditions of such an appointment.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

CHAPTER 3

INVESTMENT CONDITIONS AND RESTRICTIONS

11. Minimum Investment in a venture capital fund :-

(1) A venture capital fund may raise monies from any investor whether Indian, foreign or non-resident Indian. ¹"by way of issue of units"

(2) No venture capital fund set up as a company or any scheme of a venture capital fund set up as a trust shall accept any investment from any investor which is less than five lakh rupees: Provided that nothing contained in sub-regulation (2) shall apply to investors who are,-

(a) employees or the principal officer or directors of the venture capital fund, or directors of the trustee company or trustees where the venture capital fund has been established as a trust; or

²"(b) the employees of the fund manager or asset management company."

(c)³

¹ "(3) Each scheme launched or fund set up by a venture capital fund shall have firm commitment from the investors for contribution of an amount of atleast Rupees five crores before the start of operations by the venture capital fund."

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

2. Substituted for "(b) non-resident Indians; or" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

3. Omitted for "(c) persons or institutions of foreign origin." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

12. Investment conditions and restrictions :-

¹All investment made or to be made by a venture capital fund shall be subject to the following conditions, namely:

(a) venture capital fund shall disclose the investment strategy at the time of applica- tion for registration;

(b) venture capital fund shall not invest more than 25% corpus of the fund in one venture capital undertaking;

(c) shall not invest in the associated companies; and

(d) venture capital fund shall make investment ²a s enumerated below:

(i) at least 66.67% of the investible funds shall be invested in unlisted equity shares or equity linked instruments of venture capital undertaking.

Provided that if the venture capital fund seeks to avail of benefits under the relevant provisions of the Income Tax Act applicable to a venture capital fund, it shall be required to disinvest from such investments within a period of one year from the date on which the shares of the venture capital undertaking are listed in a recognised Stock Exchange.

(ii) Not more than 33.33% of the investible funds may be invested by way of:

(a) subscription to initial public offer of a venture capital undertaking whose shares are proposed to be listed³;

(b) debt or debt instrument of a venture capital undertaking in which the venture capital fund has already made an investment by way of equity."

[⁴(c) preferential allotment of equity shares of a listed company subject to lock in period of one year.]

(d) the equity shares or equity linked instruments of a financially weak company or a sick industrial company whose shares are listed.

Explanation. 1For the purpose of these regulations, a "financially weak company" means a company, which has at the end of the previous financial year accumulated losses, which has resulted in erosion of more than 50% but less than 100% of its networth as at the beginning of the previous financial year.

(e) Special Purpose Vehicles which are created by a venture capital fund for the purpose of facilitating or promoting investment in accordance with these Regulations.

Explanation. The investment conditions and restrictions stipulated in clause (d) of Regulation 12 shall be achieved by the venture capital fund by the end of its life cycle."

[⁵ "(e) venture capital fund shall disclose the duration of life cycle of the fund."]

1. Substituted for regulation 12 for "12. Restrictions on Investment by a venture capital fund All investments made or to be made by a venture capital fund shall be subject to the following restrictions:

(a) the venture capital fund shall not invest in the equity shares of any company or institution providing financial services; (b) at least 80 per cent of funds raised by a venture capital fund shall be invested in :- (i) the equity shares or equity related securities issued by a company whose securities are not listed on any recognised stock exchange: Provided that a venture capital fund may invest in equity shares or equity related securities of a company whose securities are to be listed or are listed where the venture capital fund has made these investments through private placements prior to the listing of the securities. (ii) the equity shares or equity related securities of a financially weak company or a sick industrial company, whose securities may or may not be listed on any recognised stock-exchange. Explanation : For the purposes of this regulation, a "financially weak company" means a company, which has at the end of the previous financial year accumulated losses, which has resulted in erosion of more than 50% but less than 100% of its networth as at the beginning of the previous financial year. (iii) providing financial assistance in any other manner to companies in whose equity shares the venture capital fund has invested under sub-clause (i) or sub-clause (ii), as the case may be. Explanation .-For the purposes of this regulation, "funds raised" means the actual monies raised from investors for subscribing to the securities of the venture capital fund and includes monies raised from the author of the trust in case the venture capital fund has been established as a trust but shall not include the paid up capita] of the trustee company, if any." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

2. The words, "in the venture capital undertaking", shall be omitted, by the "Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2004."

3. In clause (a), the words Subject to lock-in period of one year shall be omitted, by the "Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2004."

4. In clause (b), the (c), (d), (e) shall be inserted, by the "Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2004."

5. In clause (d), the (e) shall be inserted, by the "Securities and Exchange Board of India (Venture Capital Funds)(Amendment) Regulations, 2004."

13. Prohibition on listing :-

¹ No venture capital fund shall be entitled to get its units listed on any recognised stock exchange till the expiry of three years from the date of the issuance of units by the venture capital fund.

1. Substituted for regulation 3 for "No venture capital fund shall be entitled to get its securities or units, as the case may be, listed on any recognised stock exchange till the expiry of three years from the date of the issuance of securities or units, as the case may be,

by the venture capital fund." by the Securities and Exchange Board of India (Venture Capital Funds) (Second Amendment) Regulations, 2000

CHAPTER 4

GENERAL OBLIGATIONS AND RESPONSIBILITIES

14. Prohibition on inviting subscription from the public :-

No venture capital fund shall issue any document or advertisement inviting offers from the public for the subscription or purchase of any of its ¹ units.

1. Omitted for "securities or" by the Securities and Exchange Board of India (Venture Capital Funds) (Second Amendment) Regulations, 2000

15. Private placement :-

A venture capital fund may receive monies for investment in the venture capital fund ¹"only" through private placement of its ² units.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

2. Omitted for "securities or" by the Securities and Exchange Board of India (Venture Capital Funds) (Second Amendment) Regulations, 2000

16. Placement memorandum or subscription agreement :-

¹ (1) The venture capital fund shall (a) issue a placement memorandum which shall contain details of the terms and conditions subject to which monies are proposed to be raised from investors; or (b) enter into contribution or subscription agreement with the investors which shall specify the terms and conditions subject to which monies are proposed to be raised. (2) The Venture Capital Fund shall file with the Board for information, the copy of the placement memorandum or the copy of the contribution or subscription agreement entered with the investors along with a report of money actually collected from the investor."

1. Substituted for regulation 16 for "16. Placement memorandum (1) The venture capital fund established as a trust shall, before issuing any units file with the Board a placement memorandum which shall give details of the terms subject to which monies are proposed to be raised from investors. (2) A venture capital fund established as a company shall, before making an offer inviting any subscription to its securities, file with the Board a placement memorandum which shall give details of the terms subject to which monies are proposed to be raised from the investors." by the

17. Contents of placement memorandum :-

(1) The placement ¹"or the subscription agreement with investors" memorandum referred to in sub-regulation (1) of regulation 16 shall contain the following, namely :-

(a) details of the trustees or trustee company ¹"and the directors or chief executives" of the venture capital fund;

³"(b) (i) the proposed corpus of the fund and the minimum amount to be raised for the fund to be operational. (ii) the minimum amount to be raised for each scheme and the provision for refund of monies to investors in the event of non-receipt of minimum amount."

⁴"(c) details of entitlements on the securities including units of venture capital fund for which subscription is being sought."

(d) tax implications that are likely to apply to investors;

(e) manner of subscription to the units ⁵"or securities of the Venture Capital Fund";

(f) the period of maturity, if any, of the ⁶"fund";

(g) the manner, if any, in which the ⁵"fund shall" to be wound up:

(h) the manner in which the benefits accruing to investors in the units of the trust are to be distributed;

⁸"(i) details of the fund manager or asset management company if any, and the fees to be paid to such manager."

¹"(j) The details about performance of the fund, if any, managed by the Fund Manager.

¹(k) investment strategy of the fund.;

¹(l) any other information specified by the Board."

(2) ¹²

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

3. Substituted for "(b) details of entitlement on the units of the trust for which subscription is being sought;" by the Securities and

Exchange Board of India (Venture Capital Funds)(Amendment) Regulations, 2000

4. Substituted for "(c) details of investments that are proposed to be made;" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

5. Substituted for "of the trust" by the Securities and Exchange Board of India (Venture Capital Funds)(Amendment) Regulations, 2000

6. Substituted for "Scheme" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

8. Substituted for "(i) details of the asset management company, if any, and of fees to be paid to such a company." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

12. Omitted for "(2) The placement memorandum referred to in sub-regulation (2) of regulation 16 shall contain the following, namely :- (a) details of the securities that are being offered; (b) details of investments that are proposed to be made; (c) details of directors of the company; (d) tax implications that are likely to apply to investors; (e) the manner of subscription to the securities that are to be issued: (f) the manner in which the benefits accruing to investors in the securities are to be distributed, and (g) details of the asset management company, if any, and of fees to be paid to such a company." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

18. Circulation of placement memorandum :-

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1. Omitted for regulation 18 "The placement memorandum referred to in regulation 16 may be issued for private circulation only after the expiry of twenty one days of its submission to the Board: Provided that if, within twenty one days of submission of the placement memorandum, the Board communicates any amendments to the placement memorandum, the venture capital fund shall carry out such amendments in the placement memorandum before such memorandum is circulated to the investors." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

19. Changes In the placement memorandum to be Intimated to the Board :-

1

1. Omitted for regulation 19 "Amendments or changes to any placement memorandum already filed with the Board can be made only if,- (a) a copy of the placement memorandum indicating the changes is filed with the Board; and (b) within twenty one days of such filing, the Board has not communicated any objections or observations on the said amendments or changes." by the Securities and Exchange Board of India (Venture Capital Funds)

(Amendment) Regulations, 2000

20. Maintenance of books and records :-

(1) Every venture capital fund shall maintain for a period of "Eight" years books of account, records and documents which shall give a true and fair picture of the state of affairs of the venture capital fund.

(2) Every venture capital fund shall intimate the Board, in writing, the place where the books, records and documents referred to in sub-regulation (1) are being maintained.

21. Power to call for Information :-

(1) The Board may at any time call for any information from a venture capital fund with respect to any matter relating to its activity as a venture capital fund.

(2) Where any information is called for under sub-regulation (1) it shall be furnished ¹ "within the time specified by the Board".

1. Substituted for "to the Board within fifteen days" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

22. Submission of reports to the Board :-

The Board may at any time call upon the venture capital fund to file such reports as the Board may desire with regard to the activities carried on by the venture capital fund.

23. Winding up :-

(1) A scheme of a venture capital fund set up as a trust shall be wound up,

(a) when the period of the scheme, if any, mentioned in the placement memorandum is over,

(b) if it is the opinion of the trustees or the trustee company, as the case may be, that the scheme shall be wound up in the interests of investors in the units;

(c) if seventy five per cent of the investors in the scheme pass a resolution at a meeting of unitholders that the scheme be wound up; or

(d) if the Board so directs in the interests of investors.

(2) A venture capital fund set up as a company shall be wound up in accordance with the provisions of the Companies Act, 1956 (I of 1956).

¹"(2-A) a venture capital fund set up as a body corporate shall be wound up in accordance with the provisions of the statute under which it is constituted."

² "(3) The trustees or trustee company of the venture capital fund set-up as a trust or the Board of Directors in the case of the venture capital fund is set up as a company (including body corporate) shall intimate the Board and investors of the circumstances leading to the winding up of the Fund or Scheme under sub-regulation (1)."

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

2. Substituted for "(3) The trustees or trustee company of the venture capital fund set up as a trust shall intimate the Board and investors of the circumstances leading to the winding up of the scheme under sub-regulation (1)" by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

24. Effect of winding up :-

(1) On and from the date of intimation under sub-regulation (3) of regulation 23, no further investments shall be made on behalf of the scheme so wound up.

(2) Within three months from the date of intimation under sub-regulation (3) of regulation 23, the assets of the scheme shall be liquidated, and the proceeds accruing to investors in the scheme distributed to them after satisfying all liabilities.

[¹ "(3) Notwithstanding anything contained in sub-regulation (2) and subject to the conditions, if any, contained in the placement memorandum or contribution agreement or subscription agreement, as the case may be, in-specie distribution of assets of the scheme, shall be made by the Venture capital fund at any time, including on winding up of the scheme, as per the preference of investors, after obtaining approval of at least 75% of the investors of the scheme."
]

1. After sub-regulation (2), the sub-regulation (3), shall be inserted, by the "Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2004."

25. Boards right to Inspect or Investigate :-

(1) The Board may ¹ "suo-moto or upon receipt of information or complaint." appoint one or more persons as inspecting or investigating officer to undertake inspection or investigation of the books of accounts, records and documents relating to a venture capital fund for any of the following reasons, namely :-

(a) to ensure that the books of account, records and documents are being maintained by the venture capital fund in the manner specified in these regulations;

(b) to inspect or investigate into complaints received from investors, clients or any other person, on any matter having a bearing on the activities of the venture capital fund;

(c) to ascertain whether the provisions of the Act and these regulations are being complied with by the venture capital fund; and

(d) to inspect or investigate suo motu into the affairs of a venture capital fund, in the interest of the securities market or in the interest of investors.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

26. Notice before inspection or Investigation :-

(1) Before ordering an inspection or investigation under regulation 25, the Board shall give not less than ten days notice to the venture capital fund.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may by an order in writing direct that the inspection or investigation of the affairs of the venture capital fund be taken up without such notice.

(3) During the course of an inspection or investigation, the venture capital fund against whom the inspection or investigation is being carried out shall be bound to discharge its obligations as provided in regulation 27.

27. Obligation of venture capital fund on Inspection or

investigation :-

1 (1) It shall be the duty of every officer of the Venture Capital Fund in respect of whom an inspection or investigation has been ordered under the Regulation 25 and any other associate person who is in possession of relevant information pertaining to conduct and affair of such Venture Capital Fund including fund manager or asset management company, if any, to produce to the Investigating or Inspecting Officer such books, accounts and other documents in his custody or control and furnish him with such statements and information as the said Officer may require for the purpose of the investigation or inspection. (2) It shall be the duty of every officer of the Venture Capital Fund and any other associate person who is in possession of relevant information pertaining to conduct and affairs of the Venture Capital Fund to give to the Inspecting or Investigating Officer all such assistance and shall extend all such co-operation as may be required in connection with the inspection or investigations and shall furnish such information sought by the inspecting or investigating officer in connection with the inspection or investigation. (3) The Investigating or Inspecting Officer shall, for the purposes of inspection or investigation, have power to examine on oath and record the statement of any employees, directors or person responsible for or connected with the activities of venture capital fund or any other associate person having relevant information pertaining to such Venture Capital Fund. (4) The Inspecting or Investigating Officer shall, for the purposes of inspection or investigation, have power to obtain authenticated copies of documents, books, accounts of Venture Capital Fund, from any person having control or custody of such documents, books or accounts."

1. Substituted for regulation 27 "(1) it shall be the duty of the venture capital fund whose affairs are being inspected or investigated, and of every director, officer and employee thereof, of its asset management company, if any, and of its trustees or directors or the directors of the trustee company, if any, to produce before the inspecting or investigating officer such books, securities, accounts, records and other documents in its custody or control and furnish him with such statements and information relating to the venture capital fund, as the inspecting or investigating officer may require, within such reasonable period as the inspecting officer may specify. (2) The venture capital fund shall allow the inspecting or investigating officer to have reasonable access to the premises occupied by such venture capital fund or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the

venture capital fund or such other person and also provide copies of documents or other materials which, in the opinion of the inspecting or investigating officer are relevant for the purposes of the inspection or investigation, as the case may be. (3) The inspecting or investigating officer, in the course of inspection or investigation shall be entitled to examine or to record the statements of any director, officer or employee of the venture capital fund. (4) It shall be the duty of every director, officer or employee, trustee or director of the trustee company of the venture capital fund to give to the inspecting or investigating officer all assistance in connection with the inspection or investigation, which the inspecting or investigating officer may reasonably require." by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

28. Submission of Report to the Board :-

The inspecting or investigating officer shall, as soon as possible, on completion of the inspection or investigation submit an inspection or investigation report to the Board : Provided that if directed to do so by the Board, he may submit an interim report.

29. Communication of findings etc. to the venture capital fund :-

(1) The Board shall, after consideration of the inspection or investigation report or the interim report referred to in regulation 28, communicate the findings of the inspection officer to the venture capital fund and give him an opportunity of being heard.

(2) On receipt of the reply if any, from the venture capital fund, the Board may call upon the venture capital fund to take such measures as the Board may deem fit in the interest of the securities market and for due compliance with the Revisions of the Act and these regulations.

¹ "(3) The Board may after consideration of the investigation or inspection report and after giving reasonable opportunity of hearing to the venture capital fund or its trustees, directors issue such direction as it deems fit in the interest of securities market or the investors including directors in the nature of: (a) requiring a venture capital fund not to launch new schemes or raise money from investors for a particular period; ; (b) prohibiting the person concerned from disposing of any of the properties of the fund or scheme acquired in violation of these regulations; (c) requiring the person connected to dispose of the assets of the fund or scheme in a manner as may be specified in the directions; (d) requiring the

person concerned to refund any money or the assets to the concerned investors along with the requisite interest or otherwise, collected under the scheme; (e) prohibiting the person concerned from operating in the capital market or from accessing the capital market for a specified period."

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

CHAPTER 6

PROCEDURE FOR ACTION IN CASE OF DEFAULT

30. Suspension of certificate :-

1 "Without prejudice to issue of directions or measure under Regulation 29." the Board may suspend the certificate granted to a venture capital fund where the venture capital fund;

(a) contravenes any of the provisions of the Act or these regulations:

(b) fails to furnish any information relating to its activity as a venture capital fund as required by the Board:

(c) furnishes to the Board information which is false or misleading in any material particular;

(d) does not submit periodic returns or reports as required by the Board;

(e) does not co-operate in any enquiry, inspection or investigation conducted by the Board;

(f) fails to resolve the complaints of investors or fails to give a satisfactory reply to the Board in this behalf.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

31. Cancellation of certificate :-

The Board may cancel the certificate granted to a venture capital fund :-

(a) when the venture capital fund is guilty of fraud or has been convicted of an offence involving moral turpitude;

(b) the venture capital fund has been guilty of repeated defaults of the nature specified in regulation 30; or

Explanation : In this regulation, "fraud" has the same meaning as

is assigned to it in Section 17 of the Contract Act, 1872 :

(c) contravenes any of the provisions of the Act or these regulations.

32. Manner of making order of cancellation or suspension :-

No order of suspension or cancellation of certificate shall be made by the Board, except after holding an enquiry in accordance with the procedure specified in regulation 33.

33. Manner of holding enquiry before suspension or cancellation :-

(1) For the purpose of holding an enquiry under regulation 32, the Board may appoint one or more enquiry officers.

(2) The enquiry officer shall issue to the venture capital fund, at its registered office or its principal place of business, a notice setting out the grounds on which action is proposed to be taken against it and calling upon it to show cause against such action within a period of fourteen days from the date of receipt of the notice.

(3) The venture capital fund may, within fourteen days from the date of receipt of such notice, furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by it or sought by the Board from the venture capital fund.

(4) The enquiry officer shall give a reasonable opportunity of hearing to the venture capital fund to enable him to make submissions in support of its reply made under sub- regulation (3).

(5) Before the enquiry officer, the venture capital fund may appear through any person duly authorised by the venture capital fund: Provided that no lawyer or advocate shall be permitted to represent the venture capital fund at the enquiry: Provided further that where a lawyer or an advocate has been appointed by the Board as a presenting officer under sub-regulation (6), it shall be lawful for the venture capital fund to present its case through a lawyer or advocate.

(6) The enquiry officer may, if he considers it necessary, ask the Board to appoint a presenting officer to present its case.

(7) The enquiry officer shall, after taking into account all relevant facts and submissions made by the venture capital fund, submit a

report to the Board and recommend the penal action, if any, to be taken against the venture capital fund as also the grounds on which the proposed action is justified.

34. Show-cause notice and order :-

(1) On receipt of the report from the enquiry officer, the Board shall consider the same and may issue to the venture capital fund a show-cause notice as to why the penal action as proposed by the enquiry officer ¹ "or such appropriate action" should not be taken against it.

(2) The venture capital fund shall, within fourteen days of the date of the receipt of the show- cause notice, send a reply to the Board.

(3) The Board, after considering the reply, if any, of the venture capital fund, shall, as soon as possible pass such order as it deems fit.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

35. Effect of suspension and cancellation of certificate :-

(1) On and from the date of the suspension of the certificate, the venture capital fund shall cease to carry on any activity as a venture capital fund during the period of suspension, and shall be subject to such directions of the Board with regard to any records, documents or securities that may be in its custody or control, relating to its activities as venture capital fund, as the Board may specify.

(2) On and from the date of cancellation of the certificate, the venture capital fund shall, with immediate effect, cease to carry on any activity as a venture capital fund, and shall be subject to such directions of the Board with regard to the transfer of records, documents or securities that may be in its custody or control, relating to its activities as venture capital fund, as the Board may specify.

36. Publication of order of suspension or cancellation :-

The order of suspension or cancellation of certificate passed under regulation 35 may be published by the Board in two newspapers.

37. Action against intermediaries :-

¹ The Board may initiate action for suspension or cancellation of registration of an intermediary holding a certificate of registration

under Sec. 12 of the Act who fails to exercise due diligence in the performance of its functions or fails to comply with its obligations under these regulations. Provided that no such certificate of registration shall be suspended or cancelled unless the procedure specified in the regulations applicable to such intermediary is complied with.

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

38. Appeal to the Central Government :-

¹ Any person aggrieved by an order of the Board under these regulations may prefer an appeal to the Securities Appellate Tribunal in accordance with Sec. 15-T of the Act."

1. Inserted by the Securities and Exchange Board of India (Venture Capital Funds) (Amendment) Regulations, 2000

SCHEDULE 1

FIRST SCHEDULEFORM

SCHEDULE 2

FEES

PART A AMOUNT TO BE PAID AS FEES Application fee (Rs.) 25,000 Registration fee for grant of certificate (Rs.) 5,00,000 PARTB 1. The fees specified above shall be payable by bank draft in favour of "The Securities and Exchange Board of India" at Mumbai.

SCHEDULE 3

SECURITIES ANDEXCHANGE BOARD OF INDIA (VENTURE CAPITAL FUNDS) REGULATIONS, 1996

[See Regulation 2(3)] Negative List
