

Shareholder Agreement Risk Checklist

Comprehensive Legal & Commercial Review Framework

Top 25 Clauses Every SHA Must Contain · FEMA Compliance Checklist · Investor Negotiation Checklist
· Exit Rights Review Framework · Common Drafting Mistakes

Startups

Investors

Governance

Compliance

1. Introduction

A Shareholders' Agreement (SHA) is one of the most important legal documents governing relationships between founders, investors, and shareholders. It defines ownership rights, governance frameworks, investor protections, exit pathways, and dispute resolution mechanisms. Weakly drafted SHAs often lead to founder disputes, litigation, dilution conflicts, governance paralysis, and failed exits.

Risk Focus: 1. Introduction

2. Purpose of an SHA

The SHA establishes: • Ownership rights and obligations • Governance structures • Investor protections • Exit rights • Transfer restrictions • Commercial alignment between stakeholders

Risk Focus: 2. Purpose of an SHA

3. Top 25 Clauses Every SHA Must Contain

Key clauses include: • Share Capital Structure • Founder Lock-In • Vesting & Reverse Vesting • Reserved Matters • Board Composition Rights • Information Rights • Anti-Dilution Protection • Pre-Emptive Rights • ROFR / ROFO • Tag-Along & Drag-Along Rights • Liquidation Preference • ESOP Framework • Deadlock Resolution • Dispute Resolution • Amendment Procedures

Risk Focus: 3. Top 25 Clauses Every SHA Must Contain

4. FEMA Compliance Checklist

Critical compliance requirements: • Sectoral cap verification • Pricing guideline compliance • FC-GPR filing • FC-TRS reporting • ODI/FDI structure review • Convertible instrument compliance • Downstream investment review

Risk Focus: 4. FEMA Compliance Checklist

5. Investor Negotiation Checklist

Negotiation review areas: • Liquidation preference fairness • Investor veto scope • Board control rights • Anti-dilution structures • Founder protections • Future fundraising flexibility • Exit alignment

Risk Focus: 5. Investor Negotiation Checklist

6. Exit Rights Review Framework

Exit mechanisms should address: • IPO rights • Strategic acquisitions • Secondary share sales • Buyback rights • Liquidation waterfall structures

Risk Focus: 6. Exit Rights Review Framework

7. Common Drafting Mistakes

Common errors include: • Ambiguous definitions • AoA conflicts • Overly broad veto rights • Weak IP assignment language • Poor dispute resolution drafting • Excessive anti-dilution protections • Boilerplate copy-paste clauses

Risk Focus: 7. Common Drafting Mistakes

8. Red Flag Indicators

Founder red flags: • Excessive investor control • Participating liquidation preference without cap • Unlimited veto rights
Investor red flags: • Weak governance rights • No information rights • Undefined dilution protection • No exit mechanism

Risk Focus: 8. Red Flag Indicators

9. SHA Review Workflow

Recommended workflow: 1. Commercial alignment review 2. Legal due diligence 3. Financial modeling 4. AoA consistency review 5. Scenario stress testing 6. Final negotiation matrix

Risk Focus: 9. SHA Review Workflow

10. Conclusion

A strong SHA balances investor protection with founder autonomy while ensuring governance discipline and regulatory compliance. Properly drafted SHAs reduce disputes, improve fundraising readiness, and create long-term strategic alignment.

Risk Focus: 10. Conclusion

SHA Risk Assessment Matrix

Risk Area	Severity	Impact
Governance Deadlock	High	Operational paralysis
Improper FEMA Compliance	High	Regulatory penalties
Weak Exit Rights	Medium	Investor illiquidity
Missing Vesting Clauses	High	Dead equity issues
Weak IP Assignment	High	Acquisition failure risk

Prepared as a professional startup governance and investor due diligence reference document.