

Ministries reject policy relaxation for startups

Cite Possible Misuse NITI Aayog Had Initiated Consultations To Stop 'Flipping'

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New Delhi: Several ministries have rejected demands from startups for policy overhaul to stop "flipping" as they are seen to be prone to misuse.

Recently, NITI Aayog had organised a meeting of startup promoters and ministries to address concerns expressed by Info Edge (India) founder Sanjiv Bhikchandani, who had said that global investors were forcing Indian entities to "flip" or domicile their shareholding and intellectual property overseas, while providing growth capital.

Some of the issues are expected to come up for discussion later this week as well when PM Narendra Modi addresses a startup event.

Government officials told TOI that the issues raised did not address the basic complaint over flipping, which related to access to capital. Instead, a long list of policy prescription was provided, which related to taxation, Companies Act, banking and insurance, and required a complete overhaul.

For instance, the companies pointed out that valuation norms should be the same

SEEKING FASTER MERGERS

➤ Startups have demanded a faster merger process, arguing that in case of merger the two companies should not be asked to approach two benches of the National Company Law Tribunal

➤ While a fast-track mechanism for M&A is not ruled out, the government has pointed out that there is a

jurisdiction issue involved and the legal process cannot be changed

➤ Startups have suggested a major relaxation for private placement to more than

200 members, which is the current limit. Sources said there were concerns of fraud, especially there are major instances of misuse by companies



under various laws as there are a different set of rules under the Companies Act and the tax laws. Similarly, startups want a change to allow them to issue employee stock options to advisers, something that is not permitted.

"By its very definition, it has to be issued to employees," said an official.

"In tax, there were concerns of possible misuse. While the startups have a point of view equally, there is a possibility of the whole issue being hijacked by fraudsters. You need to strike a balance," said a

source, familiar with the deliberations.

On the concerns over access to capital, sources pointed out that to some extent, differential voting rights and easier listing requirements have been taken up by the ministry of corporate affairs and Sebi. But the larger question is the capital requirements for rapid growth, for which they have relied on overseas investors with deep pockets. "You can't have it both ways — you want FDI and then want to remain swadeshi," said a government source.