

Startups Will Soon Find it Easier to Raise Foreign Venture

RBI will also simplify process for outward remittances & allow innovative instruments

OUR BUREAU

Mumbai: The Reserve Bank of India (RBI) will ease regulations to allow startups to raise foreign venture capital through innovative instruments as it seeks to lighten regulations supporting the growth of entrepreneurship in India.

Besides making access to foreign capital easier, the RBI will also simplify the process for outward remittances and allow innovative instruments like convertible notes, the central bank said in a press release after an announcement in its monetary policy review on Tuesday.

"We want to simplify the process. If a startup wants money, it can take it in different forms, complicated contracts," RBI governor Raghuram Rajan said in a post-policy press conference.

"The broad point is that we are supporting the startup process by making it easier to raise money often from abroad but also simplifying compliance with regulation

Bootstrapping Made Easy

RBI's measures are in line with the government's Start-up India initiative on startups

In case of transfer of ownership of a startup enterprise RBI is considering enabling an escrow arrangement or indemnity arrangement up to a period of 18 months

including putting a lot of forms online so that they really don't have to go from pillar to post," Rajan added. RBI's measures are

RBI will also clarify issuing of shares as sweat equity by start-ups

RBI will also discontinue physical forms from February 8

All investment and financial transactions will be reported on the electronic platform



in line with the government's Start-up India initiative which envisages making the ecosystem conducive for growth of startups.

In case of transfer of ownership of a startup enterprise, the RBI is considering enabling an escrow or indemnity arrangement up to a period of 18 months.

RBI will also clarify issuing of shares as sweat equity by startups and collection of payments by startups on behalf of their subsidiaries abroad. "This is a welcome move broadly what we had suggested to the RBI," said Nasscom vice chairman CP Gurnani. "Startups should be able to receive foreign capital through various instruments on par with what happens in places like California. Free flow of capital is crucial for ease of doing business but there is still a lot of work to be

done for the ecosystem."

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"These measures will create an enabling framework for receiving foreign venture capital, differing contractual structures embedded in investment instruments, deferring receipt of considerations for transfer of ownership, facilities for escrow arrangements and simplification of documentation and reporting procedures," the RBI said in its monetary policy statement.

The new measures will help startups receive foreign venture capital

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and enable transfer of shares from foreign venture capital investors to other residents or non-residents, the RBI said. "The regulations will probably carve out specific categories of money flows for startups," said Anand Desai, managing partner at law firm DSK Legal. "This is unlikely to allow large amounts coming in and going out of the country. It could also include a timeframe for exits."

The RBI will issue notifications with regard to the Foreign Exchange Management Act (FEMA) and is also considering permitting startups to access rupee loans under the external commercial borrowings framework with easier regulations for eligible lenders.

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