

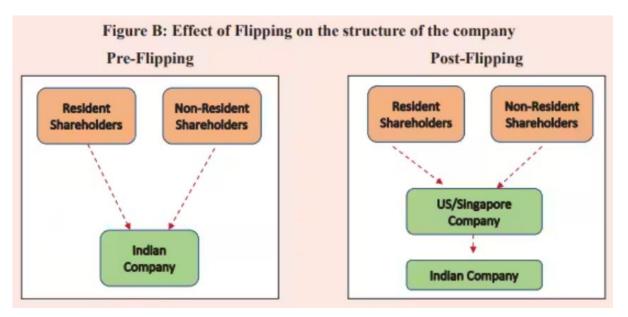
# **Reverse Flipping**

# Why in news?

Economic Survey 2023-24 acknowledged the concept of reverse flipping and this trend has been gaining attention in the recent years.

# What is reverse flipping?

- **Flipping-** The process of *transferring the entire ownership of an Indian company to an overseas entity*, accompanied by a transfer of intellectual property rights and data owned by the Indian company.
- It transforms an Indian company into a <u>100% subsidiary of a foreign entity</u>, with the founders and investors retaining the same ownership via the foreign entity, having swapped all shares.
- The *Foreign Exchange Management (Overseas Investment) Rules and Regulations,* <u>2022</u> clarify that the flipping culture has been acknowledged by the Reserve Bank of India (RBI).
- Reasons for flipping
  - $\circ\,$  Taxation benefits
  - $\circ\,$  Ease of setting up in places like Singapore, the US
  - $\circ\,$  Ease of attracting foreign capital



- **Reverse flipping** It is the trend of overseas start-ups *shifting their domicile to India* and listing on Indian stock exchanges.
- Reasons for reverse flipping to India
  - $\circ\,$  India's favourable economic policies (tax breaks, funding assistance)
  - Expanding domestic market

- Growing investor confidence in the country's start-up ecosystem
- Institutional support (International Financial Services Centres Authority (IFSCA) has constituted an expert committee to formulate a roadmap to 'Onshore the Indian innovation to GIFT IFSC')

#### International Financial Services Centre Authority (IFSCA)

• A unified authority for development and regulation of financial products, financial services and financial institutions in the International Financial Services Centre (IFSC) in India.

- Established under International Financial Services Centres Authority Act, 2019.
- **Year-** 2020
- Headquarters- GIFT City, Gandhinagar in *Gujarat*.

• **Objective-** To develop a <u>strong global connect</u> and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy

• IFSCA plans to make <u>GIFT City, India's first IFSC</u>, the preferred location for start-ups for reverse flipping.

#### How significant is the reverse flipping scenario for India?

- **Start-up hub** Reverse flipping underscores the belief in India's potential as a global start-up hub.
- **Ease of doing business** Reverse flipping is due to access to deeper pools of venture capital, favourable tax regimes, better intellectual property protection and favourable government policies.
- India's economic growth- India is the world's <u>5<sup>th</sup> largest economy by GDP</u> and is expected to become the 3<sup>rd</sup> largest economy by 2030.
- This presents a significant opportunity for overseas start-ups looking to expand into new market.
- **Skill capital** As per ILO, India has the *world's largest youth population* with 66% of the population under the age of 35 making India an attractive market for a skilled and talented workforce.
- **Effective corporate governance** The listing process on the Indian stock exchange is relatively *cost-effective* making it an attractive option for overseas start-ups with limited sources.
- **Consumerism** The overseas start-ups can tap into growing Indian consumer market as they have brand recognition and goodwill in India, a competitive advantage over Indian start-ups.
- **Expansion** Overseas start-ups can find synergies with Indian companies leading to partnerships, joint ventures, and acquisitions which help them to expand their reach in India.

### How to accelerate the reverse flipping?

The Economic Survey 2023-24 has suggested the following measures.

- Simplifying multiple layers of tax and uncertainty due to tax litigation
- Simplifying procedures for capital flows
  - $\circ$  Many countries such as US and Singapore, have easier corporate laws with

lesser restrictions on the inflow and outflow of capital

- Facilitating improved partnerships with private entities to develop best practices and state-of-the-art start-up mentorship platforms
- Exploring the incubation and funding landscape for start-ups in emerging fields like social innovation and impact investment

## References

- 1. Business Line- Decoding reverse flipping
- 2. <u>Times of India | Indian startups are looking at Reverse Flipping</u>
- 3. IFSCA- About IFSCA

