

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 *100% subsidiary of a foreign entity*, 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, 2022* clarify that the flipping culture has been acknowledged by the Reserve Bank of India (RBI).
- **Reasons for flipping**
 - Taxation benefits
 - Ease of setting up in places like Singapore, the US
 - 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**
 - 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 *strong global connect* 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 *GIFT City, India's first IFSC*, 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 *5th largest economy by GDP* and is expected to become the 3rd 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
 - 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. [Times of India | Indian startups are looking at Reverse Flipping](#)
3. [IFSCA- About IFSCA](#)

