Govt framing rules for easy foreign listing of start-ups and MSMEs

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The Ministry of Corporate Affairs (MCA) is finalising the rules for the listing of unlisted companies in foreign jurisdictions, so that it becomes possible for start-ups and small and medium enterprises to raise capital abroad.

The MCA wants to keep the threshold for direct foreign listing at a level that is attractive and feasible for companies. The plan is to allow such listing in eight jurisdictions to begin with. These include the US, the UK, South Korea, Japan, France, Germany, and Canada. The eighth is the International Financial Services Centres Authority's (IFSCA's) Gujarat International Finance Tec (GIFT) City near Ahmedabad in Gujarat, which functions like a foreign territory within India's geography. The smart city is designed to compete with financial services centres like Hong Kong, Singapore, Dubai and others.

"Bringing out these rules is our top priority. Consultations have been held with the stakeholders. It will not be just for the biggest companies in the country. The smaller companies must also get a chance to go abroad and access cheaper capital," a senior government official told Business Standard.

Experts say that every start-up wanting to get listed internationally has been externalising or setting up a company in a foreign country, and this has been the practice for several years.

"It's a formalisation of an industry practice, rather than a game changer. It is an efficiency measure and will reduce costs of transaction in terms of legal fees, taxation, and other structural costs of operating in two countries," said Gaurav Kachru, founder of 5ideas Startup Superfuel, a seed fund that invests in start-ups. "Let us wait to see the finer details of the rules," he added.

The rules are likely to be introduced later this month.

FOREIGN SHORES CALLING

- **Lower thresholds of paid-up capital,** turnover to encourage start-ups
- **Companies with negative networth** will not be allowed to list abroad
- **No mandatory requirement** of dual listing
- **Companies can list through fresh issue** of shares or existing shareholding
- **Currently, listing is done through American Depository Receipts** or Global Depository Receipts

The criteria for allowing companies to avail of this provision will include profitability, net worth, paid-up capital, and turnover. Anyone with a negative net worth will not be allowed to list. And the thresholds will be reduced by at least half if a company wants to list in the IFSC GIFT City.

“We want to incentivise listing in the GIFT City by keeping thresholds substantially lower,” added the senior government official.

Any company wanting to list abroad will have to fill in a single form called LEAP-Listing for Equity Shares in Permissible Jurisdictions and submit it to the MCA to obtain its permission. Government sources said the approval would be given in two weeks if all criteria are met. “Our compliance system will not be unduly burdensome,” said the official.

The MCA has also done away with the requirement for mandatory dual listing. Hence, companies need no longer list in India to list abroad.

An umbrella scheme for foreign listing will be introduced by the Department of Economic Affairs and the rules for listed companies will be brought out by the Securities and Exchange Board of India. The MCA will roll out the rules for unlisted companies once the umbrella scheme is launched.

The amendment allowing direct foreign listing was made to the Companies Act in the monsoon session of Parliament this year.