



MCA's boost to start-ups | Eases deposit norms

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MCA has relaxed certain deposit norms for start-ups to ease fund raising. This move may help start-ups to pick up pace in raising funds without having to comply with the deposits related regulatory compliances under the Companies Act, 2013. In the uncertain and difficult times of COVID-19, the change would be welcomed by the start-up space.

These changes are summarized below:

▪ Extended time period for conversion/repayment of convertible notes:

Receipt of an amount of INR 25,00,000 or more by a start-up company, by way of a convertible note (convertible into equity shares or repayable within a period not exceeding ten (10) years from the date of issue) in a single tranche, has been exempted from the provisions of deposit norms. Earlier, the exemption was available only if the conversion/repayment was to be carried out within a period of five (5) years;

▪ Limits on deposits from members not applicable for 10 years:

A private company is allowed to accept deposits from its members not exceeding one hundred percent (100%) of aggregate of the paid up share capital, free reserves and securities premium account, however, this limit was exempted for those private companies, being start-ups, for the deposits accepted from its members for five (5) years from its incorporation. This exemption has now been extended for a period of upto ten (10) years). Therefore now, a private company which is a start-up is exempted from the limit on amount of deposits that it accepts from its members for a period of ten (10) years from the date of its incorporation.

Aforementioned changes are effective from September 7, 2020 vide the Companies (Acceptance of Deposits) Amendment Rules, 2020 dated September 7, 2020 ([available here](#)).

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

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