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THE RISE OF SPECIAL PURPOSE ACQUISITION COMPANIES AND ITS REGULATIONS IN INDIA

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ABSTRACT :

In recent years, Special Purpose Acquisition Companies (SPACs) have emerged as a viable alternative to traditional Initial Public Offerings (IPOs). Commonly referred to as "blank check" companies, SPACs raise capital through public markets with the intent of merging with or acquiring an existing private company. They offer a quicker route to market entry, reduced regulatory complexity, and valuation clarity, making them attractive, particularly in the U.S. where they gained momentum between 2020 and 2021 due to favourable investor sentiment and a flexible regulatory landscape.

Despite their initial boom, SPACs have faced growing criticism due to transparency issues and underwhelming post-merger performance, prompting a slowdown in activity. However, international financial centres such as the UK, Singapore, and Hong Kong have responded by developing "SPAC-friendly" policies to attract market participants and enhance their competitiveness. In contrast, India's SPAC ecosystem remains underdeveloped due to stringent regulatory barriers and hesitation from its market regulator, SEBI. While investor interest is growing, the lack of a supportive legal framework hinders progress. For SPACs to become a sustainable investment vehicle in India and other emerging markets, they require comprehensive regulations, public trust, and evidence of consistent value creation.

This study explores the evolving global and Indian landscape of SPACs, analysing their advantages, limitations, and regulatory environments. It aims to shed light on how SPACs may complement or challenge traditional IPO mechanisms, particularly in developing financial markets.

Key words: SPACs, IPOs, Capital markets, Alternative investment, Regulatory environment, India, SEBI, Emerging markets, Financial centres, Transparency, Post-acquisition disclosure, Legal framework.

INTRODUCTION

SPACs continue to gain traction as a phenomenon in the market and are among the most debated subjects in relation to how private firms list in the stock market. Referred to as 'blank check companies', SPACs are public issue companies specifically set up to raise cash through an IPO for the definitive purpose of purchasing a privately held company. The traditional IPO route is typically time-consuming, expensive, and depends heavily upon stock market conditions. SPACs, on the other hand, are considerably quicker and more adaptable.

Startups and high-growth companies can now access public capital as a result of SPACs bypassing the traditional barriers. These gained popularity among investors, regulators and business leaders because they offer new opportunities while posing noticeable risks.

The increase in the use of SPACs during the past decades was caused by multiple factors including the demand for innovative businesses, favourable market conditions, and celebrity involvement. Even though SPACs have existed for decades, their newfound popularity with low capital and interest rates has turned heads. Some people believe they make going public easy for growing businesses while others express concern over the lack of scrutiny, transparency, and performance results. The biggest obstacle in the development of SPACs in India is the absence of a clear regulatory framework. Other nations offer specific regulations for SPACs, while in India, regulations are almost non-existent. The closest attempt at regulation came from the International Financial Services Centres Authority which provided some guidelines with the IFSCA 2021 Regulations. These revolve around the special economic zones, and so, while a few companies are offered guidance, the vast majority of the market is left barren.

SPAC in India posits various regulatory factors that have yet to be addressed. Extracting funds or completing SPAC acquisitions in India can be troublesome owning to ambiguous regulations. One of the most considerable limitations comes from Section 248 of the Companies Act. Since SPACs need 18-24 months to locate and merge with a prospective company, this provision may give rise to undue regulatory hazards. Tweak the law, so it accommodates SPACs by removing the need to comply with this provision. Another is located in the Securities and Exchange Board of India (SEBI) Issue of Capital and Disclosure Requirements Regulations, 2018. Regulation 6, which deals with eligibility criteria for a company seeking to issue an IPO which is extremely restrictive. Given that SPACs are fundamentally shell companies, devoid of any operating history, it is obvious that they will always fail these requirements and hence cannot go public in India.

LITERATURE REVIEW

1) *The Rise of SPACs: Market Performance and Policy Response:* Klausner, Ohlrogge, & Ruan (2022)[1] – highlights the decreased regulatory hurdles and rapidity and the quick development of SPACs as a substitute for traditional IPOs. Draws attention to issue such as shareholder dilution, lack of transparency post-merger underperformance which could raise regulatory scrutiny in countries like the US and Spain. Also recommends additional measure for investor protection, such as improved disclosure standards and independent monitoring. Additionally, the need for structured SPAC regulatory framework in order to stop speculative trades is hypothesised.
2) *Regulatory Challenges Arising Due to the Emergence of Special Purpose Acquisition Companies (SPAC) in the Indian Corporate Environment:* Pandey & Choubey[2] – examines the prevention of SPAC implementation in India arising out of the Companies Act of 2013 and SEBI's stringent IPO structure. Emphasises on how the requirements in India for operating history and profitability prevent domestic listing of SPACs, compelling Indian companies to look for international SPAC acquisitions. Implementation of SPAC framework similar to that of Singapore and US is suggested to ensure sponsor openness, investor safety, and regulatory flexibility. India's capital markets run the danger of losing rapidly expanding companies to global financial centres in the absence of these reforms,
3) *Special Purpose Acquisition Companies (SPACs): A Legal Perspective on Corporate Governance, Securities Compliance, and Regulatory Challenges:* Suhaliya Qureshi (2021)[3]– investigates the legal issues underlying SPACs highlighting corporate governance, securities compliance, and regulatory obstacles. Although SPACs provide a simplified path to public listing drawbacks, including sponsor incentives, a lack of transparency, and performance concern prevail. To reduce associated risks independent board supervision, and increased transparency limitations is promoted. Recommends that SEBI laws shall intertwine with international practices to ensure effective and organised functioning of SPACs and in order to prevent market manipulation and protect investor interests.

SPACs - IFSCA REGULATIONS

The International Financial Services Centres Authority (IFSCA) came into being in 2019 by virtue of an Act in Parliament in India to control service and finance activities and operators in the country's International Financial Services Centres (IFSCs). What is distinctive about the IFSCA is that it pools together the competencies of four key players in financial supervision; the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA). The primary motivation for establishing IFSCA rests in the need to enhance international competitiveness of the Indian economy and respond to the needs of international financial markets. Further, the regulatory framework of the IFSCA seeks to alleviate some of the operational constrains that prevailing in India. These regulations provide a regime for issuance and listing of securities for the purpose of SPACs which includes reliving some operational restrain that exist in India. A distinctive feature of these regulations is that they disallow a SPAC from having a predetermined identified company as its target at the time of the listing. Other than that SPAC must have some form of redemption as well as liquidation provisions.

It is anticipated that the sponsors of the SPAC will possess substantial experience as it relates to previous SPAC transactions, other business combinations, fund management, or even merchant banking activities.

There also exists a minimum financial contribution and a level of investor participation that must be achieved. At least USD 50 million must be the contracted value and the sponsors must at least retain 2.5% of the total value offered or USD 10 million, whatever is lower. In order to ensure broad investor participation, a SPAC must have at least 50 subscribers, and a minimum of 75% of the total issue size must be out for subscription in order for there to be a issuance.

The timing of achieving a business combination is one of the most important features of the regulation. A SPAC is required to complete a merger or acquisition within 36 months of its listing but can partly extend this by 12 months if necessary. There must also be lock in periods for sponsor shareholding, stringent controls prior to a de-SPAC transaction, shareholder approvals for business combinations, and detailed disclosure are also required to protect investors. In implementing these firewalls and investor protections, the IFSCA has aimed to foster an environment which is clearer cut and orderly for SPACs in India.

[1] Michael Klausner, Michael Ohlrogge & Emily Ruan, A Sober Look at SPACs, 39 YALE J. ON REG. 228 (2022).

[2] Medha Pandey and Adarsh Choubey , Regulatory Challenges arising due to the Emergence of Special Purpose Acquisition Companies (SPAC) in the Indian Corporate Environment, 4 (5) IJLMH Page 1094 - 1111 (2021)

[3] *Suhaliya Qureshi,* Special Purpose Acquisition Companies (SPACs): A Legal Perspective on Corporate Governance, Securities Compliance, and Regulatory Challenges, 6 Int'l J. for Multidisciplinary Res. (IJFMR) 1 (2024).

THE STATE OF AFFAIRS OF SPACs IN INDIA

Like many other markets, Special Purpose Acquisition Companies (SPACs) have become increasingly popular in the United States because there are laws in place that permit and govern the creation of these entities. India is yet to develop a similar structure primarily because there are a multitude of regulations that have to be complied with. There is a growing interest in SPACs both from Indian businesses and investors; however, the lack of a clear set of rules makes the possibility for these companies to exist and operate in India very grim. In any case, there are some Indian firms that have used the US SPAC route to list publicly. I am aware of at least one Indian firm which has merged with a US-listed SPAC and has raised more than 1 billion US dollars.

A key difference in the way the US and Indian authorities deal with SPACs is with respect to timelines provided for their operations. A SPAC in the United States can remain operational for 18 to 24 months while searching for a suitable entity to acquire. In India, the situation is starkly different, as the Companies Act of 2013 mandates that an entity which does not commence business within one year of its incorporation is liable to be removed from the Register of Companies.

SHIFT OF PARADIGM TO SPACs – BENEFIT OF SPACs COMPARING TO IPOs

The process of going public has changed dramatically in the past few years due to the emergence of SPACs, a powerful competitor for the traditional IPO.

This shift marks more than just a new trend; it also shows the great benefits SPACs bring to companies, investors, and the economy. Historically, traditional IPOs have been the go-to option for private firms looking for public funding. However, they tend to have issues related to market risks, time-consuming processes, and expensive fees. In contrast, SPACs allow companies to strategically, quickly, and flexibly get listed in a public stock exchange.

a) Public Markets Are Now More Accessible to Everyone – The primary advantage of appeal of SPACs is the speed associated with it. Traditional IPOs take an unusually long time to finalize, frequently taking anywhere from 6-24 months. During this timeframe, companies are exposed to headwinds ranging from economic context to investor appetite. All of these can derail the offer from being timely and successful. Unlike SPACs, which complete business combinations in approximately 3 to 6 months. SPACs are particularly appealing to firms operating in high-growth industries such as technology, healthcare, and renewable energy that experience rapid shifts in market conditions and valuation. Businesses can raise funds during favourable periods without public funding. This is made possible by the avoidance of an IPO's uncertainty and delays.

b) More Control Over Valuation – One major challenge of an IPO is its price. The share price is set weeks after the roadshows and investor meetings begin, which means it is open to last minute market changes. If demand is too high, companies may price their shares lower than intended which means they would have missed out on profit. If demand is low, companies may have to set the price lower than anticipated, resulting in capital that is lower than projected.

c) Mergers with SPACs, however, allow more negotiable valuation. The SPAC's sponsors and target company work together set the price and often is aided by institutional investors through PIPE deals. Because there are relied upon institutions, businesses are able to relieve themselves of anxiety due to last minute price changes.

d) Access to Experienced Sponsors and Strategic Partners – The reason why companies often choose SPACs is their increased popularity and value among well-known investors or industry experts. These sponsors are often seasoned investors, successful entrepreneurs, or industry veterans with deep expertise and valuable connections. Their participation enhances the credibility for the target firm and offers valuable strategic partnerships, operational support, and capable leaders. With the IPO procedure, firms operate in the capital markets independently, but with SPACs, the sponsors liaise with the management teams to effectively bring them to the public market. Companies new to the public sphere often require handholding with investor relations, regulatory compliance, and governance and may benefit from these services.

e) No Burden of Additional Regulations and Market Risk Management – There are rules guiding the listing of companies on the stock market by IPO, and they include massive financial reporting, attainment of legal contracts, and other compliances, all of which have to be done before the company can be listed. Accomplishing these tasks can be extremely resource intensive. In contrast, SPAC mergers simplify almost all legal procedures since the SPAC is already listed on the stock market. It is true that SPACs come under the eye of legal bodies, but in comparison to IPOs, they receive much less scrutiny while the transaction is pending and enjoy rapid approval times.

Furthermore, SPACs are less susceptible to fluctuations in the market compared to IPOs. If conditions deteriorate and market sentiment is negative, firms will have to scale back or forego their IPOs, leading to losses and damaging the firm's image.

Because SPACs come with capital already secured, they have a lesser impact from short-term market changes. This makes SPACs a much more favourable option for companies planning to go public with the alleviated risks associated with it.

Along with lower cost in comparison to a traditional IPO, the deal structure is also more flexible. A traditional IPO comes with demolition costs such as huge underwriting fees, legal expenses, accounting bills, and advertising budget that could total into millions. Compared to this, SPAC procedures do not involve any underwriting fees as the process is a negotiated merger instead of a public offering.

CHALLENGES FOR SPACs ADOPTION UNDER INDIAN LAW

New companies must have a Memorandum of Association (MoA). A MoA outlines the company's objectives and ensures that the company will remain within a predetermined scope.

The challenge SPACs encounter is that at the time of incorporation their business objective is undefined. Their only goal is to raise capital and subsequently purchase a target company that is usually unidentified at the outset. This is very different to the US where SPACs are expected to complete a business combination within a time frame of 24 months which is more than sufficient for locating an appropriate target and merging with it.

In addition, the obstacles that SPACs face in India are aggravated by the stringent criteria regarding IPOs particularly under the SEBI Issue of Capital and Disclosure Requirements Regulations of 2018 (ICDR). These rules set harsh financial criteria that a company must fulfil before being considered for an IPO. To be eligible for an IPO in India, a company must meet the following requirements within the last three years:

- An operating profit of at least Rs 15 crore
- Net tangible assets of a minimum of Rs 3 crore
- A net worth of no less than Rs 1 crore

Moreover, if a company has changed its name within the past year, it has to prove that at least 50% of the revenue is derived from the activities related to the company's new name.

Should a business not fulfil these rigid criteria, it’s left with no choice but to conduct an IPO using the book-building method, which necessitates at least 75% of the net offer being allotted to qualified institutional buyers (QIBs). Should this not be satisfied, the business must return all the subscribing money to the investors.

For SPACs, these regulatory hurdles are extremely problematic. As SPACs are shell companies without any business, earnings or assets at the time of listing, compliance with the financial and operational thresholds mandated by ICDR would practically be impossible. Until Indian law is changes to consider the peculiar features of SPACs, their ability to garner popularity in the country will continue to remain stifled.

COMPARITIVE ILLUSTRATION: THE KEY DIFFERENCES BETWEEN SPACs & TRADITIONAL IPOs

Aspect	SPACs	Traditional IPOs
Definition	A shell company formed to raise capital through an IPO for acquiring a target company.	A company offers shares to the public to raise capital for its operations or expansion.
Process	Faster; a SPAC is listed first, then acquires a private company.	Lengthy; requires regulatory approvals, financial disclosures, and investor roadshows.
Regulations	Less stringent initially; focus on post-acquisition disclosures.	Highly regulated, with detailed financial and business disclosures.
Time to Market	3-6 months (SPAC formation and listing); business combination within 2-3 years.	6 months to over a year due to extensive due diligence and approvals.
Costs Involved	Lower underwriting and marketing costs; sponsors take a stake in the SPAC.	Higher costs due to investment banking fees, legal compliance, and marketing expenses.
Sponsor Role	SPAC sponsors (promoters) guide the acquisition process and hold founder shares.	No sponsors; management and underwriters handle the IPO.
Investor Risks	Higher uncertainty as the target is unknown at IPO; potential for unsuccessful acquisition.	More predictable; investors assess financials before investing.
Investor Protections	Investors can redeem shares before merger completion if unsatisfied.	Investors hold shares post-listing with no immediate redemption rights.
Company Liquidity	Provides faster access to public markets with fewer disclosure requirements initially.	Requires extensive preparation but offers stable capital

1. *KEY SECTORS POISED TO BENEFIT FROM SPACs*

Special Purpose Acquisition Companies(SPACs) have become a strategy of choice to capitalize for businesses looking to publicly list their shares. SPACs are turning out to be of great assistance for fast-growing sectors by providing needed growth capital in a timely manner as an alternative to the traditional IPO route. Due to the increased Capital requirements, innovative disruption, and speedy growth in certain sectors, these industries stand to benefit the most from this trend.

a) Technology and Software Development – The tech industry, especially technology software as a service(TSaaS) and cloud-based solutions is one of the biggest winners from SPACs.

b) Artificial intelligence (AI), cybersecurity, enterprise software, and fintech startups typically require large financing for growth. SPACs allow these companies to obtain funding readily, letting them innovate and expand without the volatility of the public market. With this gradual move into the public sphere, they can continue working towards their long-term goals without paying much attention to the market during the transition.

c) Electric Vehicles (EVs) And Sustainable Energy – The EV and sustainable energy markets have a surging count of SPAC-sponsored transactions. As there is an increase in government policies supporting green energy and carbon neutrality, companies involved in EV and battery manufacturing, and renewable energy offer leveraging SPACs to garner the investment. These industries need a lot of investment in research, infrastructure and production, all of which SPACs can be an adequate financing solution. Several Electric Vehicle startups have gone public through SPAC mergers and are now using the proceeds to meet the high demand for their services.

d) Healthcare and Biotechnology – SPACs are very influential in healthcare and biotechnologies as well. Developing new treatments, medical devices, and pharmaceuticals is an expensive and long-drawn process as it involves extensive research and multiple regulatory clearances. SPACs help biotech firms raise money much earlier than through traditional IPOs making them far more flexible when it comes to achieving milestones in gene therapy, personalized medicine, and telehealth. Securing investments in early stages enables these businesses to more swiftly bring their life-saving therapies to the market.

e) Space and Aerospace Technology – The industry of space and aerospace has attracted considerable SPAC attention which some of the industry leaders in satellite, space tourism, and cutting-edge aerospace engineering utilize this funding method. The magnitude of money required for these projects makes it too difficult for them to be funded without SPACs. Startups trying to transform international communications, transportation, and scientific exploration need all the aid they can get, and SPACs provide critical support. The focus investors give this sector makes it the hottest destination for SPAC-backed deals.

REGULATORY GOVERNANCE FOR SPACs IN INDIA

In India, SPACs are subjected to abundant of laws and regulatory bodies which shape the legal basis for SPACs to conduct business. SPAC despite of lacking a specific structure, is governed by such legislations for its establishment, activities, and compliance requirements. These guidelines ensure that SPACs follow securities and competition laws, foreign exchange restrictions & corporate governance requirements, granting ever-changing regulatory landscape.

1) Companies Act, 2013 – Regulates the incorporation, governance, and procedures of all Indian firms, including SPACs, administering regulations for corporate governance standards, financial disclosures, , and transparency.
   - Section 26:states that SPACs in order to list in India must adhere to the rules governing public corporations
   - Section 230–232: Any reverse merger, commercial combinations concerning SPACs must follow the rules governing amalgamation under these sections and must acquire NCLT's approval.
   - Sections 270-271: lays down winding up requirements, protecting investors in the event that a SPAC is unable to fulfil its target within the stipulated time frame.
2) Foreign Exchange Management (Cross Border Merger) Regulations, 2018 – Governs mergers between Indian and foreign entities, including SPACs listed in other jurisdictions.
   - Regulation 4: any Indian firm that merges with a foreign-listed SPAC needs the RBI's prior permission unless it is eligible for the automated route. (a merger occurring in a sector that is legal, complies with foreign exchange regulations, and does not affect capital control limits)
   - Regulation 9: Due to uncertainty in foreign investment regulations, restricts share swaps with foreign SPACs for investors who are Indian residents which causes delayed transactions and require RBI permission.
3) Securities and Exchange Board of India (SEBI) Regulations – govern IPOs and SPACs seeking to raise funds through public listings.
   - Regulation 6: established the minimum standard for public ownership.
   - Regulation 14: involves minimum public ownership limits, and prohibitions on preferential offering which SPACs listed in India are required to comply with.
   - Regulation 17: corporate governance standards
   - Regulation 30: lays down continuous disclosure criteria to follow
   - Regulation 33: guidelines financial reporting
   - Regulation 39: SEBI may additionally enforce safeguards for investors, comprising of obligatory business and escrow obligations.
4) International Financial Services Centres Authority Act, 2019 (IFSCA Act, 2019) –

established the International Financial Services Centres Authority (IFSCA) to regulate financial institutions and capital markets in IFSCs, including GIFT City in Gujarat. The IFSCA has implemented particular rules for listing SPACs within IFSCs, providing a more compliant regulatory framework. According to the IFSCA (Capital Market Intermediaries) Regulations, 2021:

- Regulation 29: have pertinent expertise in fund management, mergers, or acquisitions is required to sponsors SPACs.
- Regulation 30: a listing must have a minimum issue size of $50 million.

- Regulation 31: sponsors must guarantee commitment by owning at least 2.5% of the issue size or $10 million, whichever is less.
- Regulation 32: SPACs have 36 months to select and complete the business combination (with an extension of 12-month), after which investor money must be repaid .
- Regulation 33 protects investor rights by requiring shareholder approval prior to acquisition completion.

These rules establish IFSCs as a possible centre for SPAC listings in India, providing a setting that is competitive worldwide.

5) Competition Act, 2002 – The Competition Commission of India (CCI), which regulates mergers and acquisitions reinsure that anti-competitive activities are prevented.
   - Section 5: thresholds must be met by any business combination including a SPAC, which include:
     - If the merged entity's assets or turnover exceed the allowed limitations, CCI clearance is required.
     - Assessing possible negative consequences on competition, such as market domination or limited customer options.
   - Section 6: enables CCI guarantees fair market practices by applying restrictions to a merger if a SPAC transaction is judged anti-competitive. This examination is especially pertinent to industries like technology, pharmaceuticals, and financial services that have significant consolidation concerns.

2. REGULATORY HURDLES

SPACs are faced with several legal and regulatory framework despite its rising popularity in international financial markets. Restricted and lack of statutory provision, impede the recognition and operation of SPACs.

1. Absence of legal recognition – in India, SPACs are not recognised as a separate business entities. Shell companies lacking clear definitions under the Companies Act, 2013 raises questions about the validity of SPAC.
2. Companies Act limitations: SPACs are at a risk of being classified as non-operational and shall be subsequently removed since it acquire a target within 18-24 months, which could contravene Section 248(1).
3. SEBI (ICDR) Regulations, 2018: impose eligibility criteria for IPOs, consisting of:
   - Net assets of at least INR 3 crore in each of the preceding three years,
   - An average operating profit of INR 15 crore over the last three years,
   - A net worth of at least INR 1 crore per year for three years.

   SPACs fail to meet the above criteria due to the lack of operational records and tangible assets. An IPO is allowed under Regulation 6(2) if 75% of advances come from Qualified Institutional Buyers (QIBs), however drawing QIBs short of an identified acquisition target remains challenging.
4. Restrictions Under Securities Regulations: obstruction of SPACs access to public markets favouring traditional IPOs can be ascribed to SEBI regulations as it does not explicitly permit shell company listing.
5. Compliance Challenges under competition law: Competition Act, 2002 mandates extensive disclosures to the CCI for SPAC transactions. Due to the non-operational status of SPACs persisting until a merger, fulfilling disclosure requirements at the listing stage poses complications, mounting regulatory burdens.
6. Challenges for Outbound Mergers and Share Swap Agreements: authorization from the RBI and in certain cases NCLT is necessary for Indian entities pursuing SPAC listings with frequent reliance on outbound mergers or share swap agreements. RBI permits share swaps through Liberalized Remittance Scheme however it imposes a remittance cap per financial year, constraining large-scale SPAC transactions.
7. Narrow Scope of IFSC Listing Regulations: The IFSCA (Issuance and Listing of Securities) Regulations, 2021, provide a framework for SPACs however it excludes the broader Indian market, limiting it to IFSCs GIFT City,. These restrictions curb domestic SPAC listings within India's primary commercial ecosystem.

THE FUTURE OF SPACs IN INDIA

The future of SPACs in India appears to be hopeful with SEBI finalising a regulatory framework. SPACs have the potential to transform Indian capital markets by providing new investment alternatives and faster public listing choices, owning to the popularisation of alternative fundraising and booming of startup environment.

Legal expertise in areas like as corporate governance, securities compliance, mergers and acquisitions and dispute settlement will be essential for SPAC related transactions. Ascertained to worldwide best practices, notably those from the US and Europe, India shall emphasis on disclosure regulations, investor protection, and governance standards. Status of SPACs in India may be improved attributing to actions like enhanced sponsor incentive transparency and safe harbour safeguards for forward-looking statements.

Regulatory Developments And The Road Ahead:

SEBI formed a committee in order to review SPACs rules. As per the 2022 March company law report[4] by MCA, SPAC provision such as ease operational

[4] Ministry of Corporate Affairs, Government of India, Report of the Company Law Committee, (Mar. 21, 2022)

requirements, and give opposing shareholders exit alternatives, should be included in the 2013 Companies Act. Such modifications simplifies the listing of SPACs in both local and foreign exchanges.

India made significant progress with the passage of the IFSCA Act 2019. The IFSCA (Issuance and Listing of Securities) Regulations, 2021, instituted a listing framework for SPACs at IFSCs such as GIFT City. Significant clauses contain:

- Supplementary to following redemption and liquidation regulations, prior to IPOs, SPACs are not permitted to pre-identify target firms.
- Sponsors competency is necessary for fund management, company combinations, or SPAC transactions.
- Sponsors are required to possess specific securities, prior to an IPO.
- Business combinations must be finished within 36 months after listing.

Additionally, the IFSCA framework addresses ongoing compliance standards, disclosure duties, and IPO procedures. In order for SPACs in India to reach its full potential a strong regulatory structure that is comparable to international norms is vital. As demonstrated by Renew Power's NASDAQ listing, Indian companies may perhaps gain access to international capital markets.

Although the IFSCA Regulations are India's 1st step in regulating SPACs, it is expected to have more regulations for their listing on Indian stock exchanges as issued by SEBI. SPACs may become a compelling financial instrument with a well-designed regulatory framework, which will also boost liquidity, encourage innovation, and put India in a competitive position in the global financial market.

POLICY RECOMMENDATIONS

To allow SPAC growth without adversely affecting market stability or putting investors at risk, the following should be considered:

3. Adoption of International Best Practices
   - Safe Harbour Clauses: Establish safe harbour protections for forward-looking statements to incentivize transparency and safeguard SPAC sponsors from unnecessary litigation like in US laws.
   - Sponsor Incentives and Disclosure: Require full disclosure and in accordance with SEC disclosure regulations about sponsor compensation, conflicts of interest, ownership structure post-merger, etc.
   - Minimum Fund Threshold: Set a minimum fund threshold to ensure financial soundness (e.g. SGPUSD 150 million – Singapore
   - Investor Protection Mechanisms: Consider having legislation similar to Hong Kong and the UK that allows investors to sell their shares before a merger, if they are unhappy with the company targeted for the merger. company must be in place.
4. *Strengthening the Domestic Regulatory Framework*
   - Modifications to Companies Act, 2013: Constitute an enabling provision to clearly characterize SPACs as a separate corporate entity, and exclude such SPACs from the provisions of Section 248 as a start time limit for an active business to be formed and operate in order to be constituted as a corporate body.
   - Restoration to SEBI (ICDR) Regulations, 2018: Amend IPO eligibility conditions in order in the context of providing exemptions to the requirement for operational history and profitability, clearly define a separate SPAC prospectus listing regime, with due regard for governance and disclosure rules.
   - Tax and Foreign Exchange Reform: Remove unnecessary rigidity in Foreign Exchange Management (Cross Border Merger) Regulations, 2018 in the case of outbound mergers made by Indian firms who are being listed through foreign SPAC. Provide clarification on taxation for SPAC transactions and clear guidance on taxation for capital gains treatment (if any) and taxation procedures on any share swaps.
5. Expanding the IFSCA Framework
   - Revising scope of Market Engagement: Facilitate domestic listings on NSE and BSE for a large population of SPACs beyond IFSCs such as GIFT City.
   - Harmonize IFSCA with SEBI: Specify that IFSCA regulates with provisions of SEBI regulations for ease of servicing cross border SPACs.
6. *Enhancing Transparency & Governance*
   - Mandatory Independent Directors: Legislatively require independent directors on SPAC boards to improve investor decision-making.
   - Enhanced Due diligence: Subject target companies to greater levels of due diligence to prevent speculations and investor loss through mergers.
   - Auditing and Compliance: Require strict consideration of financial reporting that must include independent audits post-acquisition.

CONCLUSION

With SPACs, we are entering a significant change for India's capital markets. In particular, SPACs provide a more efficient process to access the capital markets when compared to the traditional IPO. Now, there are significant regulatory hurdles to be overcome, especially the lack of a clear regulatory framework. If India can adapt the best practices from other markets while making limited legal changes, it might be possible to widen the current regulatory framework to create a more sophisticated ecosystem to facilitate SPAC- driven investment. There are many different regulatory institutions that need to be involved in building a regulatory framework related to SPACs, including SEBI, the Ministry of Corporate Affairs (MCA), and the IFSCA. If sufficient cooperation and coordination is achieved, SPACs may be a very productive contributor to the economy, and an ongoing source of capital for high-growth sectors of the economy and help establish India as a credible player in the international capital markets.

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