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The Future of Spacs in India: Legal Readiness and Market Potential

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Abstract

Special Purpose Acquisition Companies (SPACs) have emerged as a disruptive financial innovation globally, offering an alternative route to public listing through reverse mergers. While jurisdictions like the United States and Singapore have developed clear regulatory mechanisms to facilitate SPACs, India remains in the early stages of grappling with the feasibility and legality of such instruments. This paper explores the current legal framework in India governing SPACs, analyses the absence of a dedicated regulatory regime under SEBI and the Companies Act, 2013, and evaluates the systemic barriers that hinder their adoption—such as restrictions on shell companies, ambiguity in taxation, and merger approvals. Through a comparative study with global regulatory models and a critical examination of policy developments, including SEBI's recent consultations and GIFT City's role as an experimental sandbox, the paper assesses India's legal readiness to accommodate SPACs. It further delves into the market potential for SPACs in unlocking capital for high-growth sectors such as fintech, edtech, and healthcare. The paper concludes with forward-looking for regulatory reform that balance investor protection with capital market innovation, ultimately arguing that a well-regulated SPAC regime could strengthen India's position as a global financial hub.

Keywords: SPACs, Special Purpose Acquisition Companies, SEBI, Indian capital markets, reverse merger, de-SPAC transaction, IPO, corporate law

INTRODUCTION

In recent years, Special Purpose Acquisition Companies (SPACs) have emerged as a popular alternative to traditional initial public offerings (IPOs), particularly in global financial hubs such as the United States, the United Kingdom, and Singapore. A SPAC is essentially a "blank cheque" company with no commercial operations, formed solely to raise capital through an IPO with the intention of acquiring or merging with an existing private company. This innovative mechanism offers private companies a quicker and potentially less burdensome route to becoming publicly traded, thereby unlocking new capital-raising opportunities in a dynamic financial landscape.

The global rise of SPACs, especially during the period between 2020 and 2022, has captured the attention of regulators, investors, and capital market participants worldwide. However, in India, the regulatory and legal framework governing SPACs remains underdeveloped, creating significant uncertainty about their feasibility within the country's existing corporate and securities law ecosystem. While Indian-origin companies such as ReNew Power and Grofers have gone public through SPAC mergers overseas, India has yet to formally introduce a clear regulatory structure to support domestic SPAC activity.

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This paper aims to examine the legal and regulatory readiness of the Indian capital markets to embrace SPACs. It analyses the barriers posed by current laws under the Companies Act, 2013, the Securities and Exchange Board of India (SEBI) regulations, Foreign Exchange Management Act (FEMA), and other statutes, while also assessing the economic and sectoral potential that SPACs hold for India's start-up and unicorn ecosystem. Drawing from international best practices and recent policy signals such as the development of GIFT City as a financial innovation zone, the paper critically evaluates the prospects of integrating SPACs into India's financial system.

Ultimately, the paper seeks to answer a key question: Can India create a SPAC-friendly legal environment that aligns with global standards while safeguarding investor interests and market integrity?

LITERATURE REVIEW

"SPACs as Alternative Investments: An Examination of Performance and Factors that Drive Prices" - Carol Boyer and Glenn Baigent [1]

This study provides an analysis of the U.S. market for Special Purpose Acquisition Corporations (SPACs) starting with a description of how the investment vehicles are structured, provides a brief history, explains the purpose that they serve in the IPO market, and documents the sizeable growth of the industry. The analysis provides various descriptive statistics such as the pricing structure, 1st year returns, 1st day returns, trading volume, size, and trust amounts. Lastly, we examine the relationship between the warrant price, share price, and other SPAC variables using regression models.

"Analyzing European SPACs" - Elena Ignatyeva, Christian Rauch and Mark Wahrenburg [2]

This article analyzes Special Purpose Acquisition Companies (SPACs) in Europe. We document various aspects associated with European SPACs by using a unique, handcollected data sample encompassing the 19 SPACs that have been listed on European stock exchanges since 2005. The article shows that in spite of being listed on European stock exchanges, many SPACs do not have a European focus, neither in terms of investors, nor in their choice of target companies. Additionally, our results show that there is a great heterogeneity in the choice of target companies among SPACs, especially with regard to financial performance, and that SPAC investors react negatively to the choice of an underperforming target company.

"Report of the Company Law Committee (2022)" – Ministry of Corporate Affairs, Government of India [3]

The *Report of the Company Law Committee (2022)* by the Ministry of Corporate Affairs recommends key reforms to the Companies Act, 2013, including the formal recognition of SPACs in India. It proposes allowing SPACs to list on permitted stock exchanges, potentially piloting this in GIFT City, while addressing regulatory challenges to ensure investor protection. The report also suggests broader reforms like digital registers, simplified mergers, and fractional share issuance, signalling a shift toward modern, innovation-friendly corporate governance in India.

STATEMENT OF PROBLEM

Despite the global rise of Special Purpose Acquisition Companies (SPACs) as an innovative capital-raising mechanism, India continues to lack a specific legal and regulatory framework to govern their formation, listing, and post-merger operations. While countries like the United States, Singapore, and the UK have introduced detailed rules to facilitate SPAC activity with appropriate investor safeguards, India's current regime—under the Companies Act, SEBI regulations, and FEMA—creates significant ambiguity and legal barriers for domestic adoption of SPACs.

The absence of SPAC-enabling provisions has pushed several Indian companies to pursue SPAC listings overseas, resulting in regulatory arbitrage and the loss of potential economic benefits within the Indian capital markets. Although policy-level discussions, including those in the 2022 *Company Law Committee Report*, signal a growing interest in legitimizing SPACs, there remains uncertainty over how and when India will implement a comprehensive framework that balances financial innovation with investor protection.

This research, therefore, seeks to critically analyze India's legal readiness for SPACs, evaluate market potential, identify gaps in the existing regulatory architecture, and propose viable pathways for integrating SPACs into India's financial system.

RESEARCH OBJECTIVES

1. To examine the concept, structure, and global evolution of Special Purpose Acquisition Companies (SPACs).
2. To analyze the current Indian legal and regulatory framework under the Companies Act, SEBI regulations, and FEMA in the context of SPACs.
3. To evaluate the market potential of SPACs in India, especially for start-ups and high- growth sectors.
4. To identify the legal and practical challenges in implementing a SPAC framework in India.
5. To assess the feasibility of using GIFT City as a regulatory sandbox for SPAC experimentation.
6. To recommend legal and policy reforms to enable a SPAC-friendly regime in India while ensuring investor protection and market stability.

RESEARCH QUESTIONS

1. What are SPACs, and how have they evolved in key global jurisdictions like the U.S., UK, and Singapore?
2. What legal and regulatory barriers exist under Indian corporate and securities laws that hinder the adoption of SPACs?
3. How have Indian-origin companies accessed SPAC markets abroad, and what does this indicate about domestic regulatory limitations?
4. What is the economic and sectoral potential of SPACs for India's start-up and unicorn ecosystem?
5. Can GIFT City serve as an effective sandbox for piloting SPACs in India?
6. What policy and legal reforms are necessary to develop a SPAC-compatible framework that aligns with global standards and ensures investor protection?

RESEARCH METHODOLOGY

This research adopts a qualitative, doctrinal methodology, relying primarily on the critical analysis of existing statutes, regulatory frameworks, policy documents, committee reports, and judicial decisions relevant to the concept and operation of Special Purpose Acquisition Companies (SPACs) in India and abroad. It involves an in-depth study of the Companies Act, 2013, SEBI regulations, and the Foreign Exchange Management Act (FEMA), along with the 2022 Report of the Company Law Committee and consultation papers by SEBI and IFSCA. Comparative analysis is employed to examine global SPAC frameworks in jurisdictions such as the United States, United Kingdom, and Singapore, in order to extract best practices and assess their applicability to the Indian context. The study further evaluates secondary sources including peer-reviewed journal articles, policy papers, and market analysis reports to assess the economic potential of SPACs in India's start-up ecosystem. By combining legal interpretation with policy evaluation, the research aims to identify regulatory gaps and propose reforms suited to India's financial and legal environment.

CHAPTER I: THE CONCEPT AND GLOBAL EVOLUTION OF SPACS

Understanding SPACs: Definition and Structure

A Special Purpose Acquisition Company (SPAC) is a type of investment vehicle formed solely to raise capital through an initial public offering (IPO) with the primary goal of acquiring or merging with an existing private company. Unlike traditional companies, SPACs do not have commercial operations or business activities at the time of their IPO; hence, they are often referred to as "blank cheque companies". Investors buy shares in the SPAC IPO based on the reputation and track record of the SPAC sponsors or management team, trusting them to identify a profitable acquisition target.

The typical SPAC lifecycle involves several stages:

1. *Formation and IPO:* The SPAC is incorporated and goes public by issuing units that typically consist of common shares and warrants. The IPO proceeds are placed in a trust account and cannot be used for operational expenses except for limited working capital.
2. *Search for Target:* Post-IPO, the SPAC management has a predefined timeframe (usually 18-24 months) to identify and negotiate a merger or acquisition deal with a private company.
3. *De-SPAC Transaction:* Upon agreement, the target company merges with the SPAC, effectively becoming a publicly listed entity. This process is generally faster and less costly compared to traditional IPOs.
4. *Post-Merger:* After the merger, the combined company operates as a regular publicly traded company, subject to the same disclosure and regulatory requirements.

The SPAC structure provides benefits such as greater price certainty for the target company, faster access to public markets, and potential value unlocking for private company shareholders.

Historical Evolution of SPACs

The origins of SPACs can be traced back to the 1990s in the United States, where they were initially niche investment vehicles used primarily by experienced financiers. Over the next two decades, SPACs remained relatively obscure but saw gradual growth in popularity. The real surge occurred during the COVID-19 pandemic when market volatility and the traditional IPO process's uncertainty made SPACs an attractive alternative for raising capital.

By 2020 and 2021, the US witnessed an unprecedented boom in SPAC IPOs, raising over $150 billion, surpassing traditional IPO volumes in certain quarters. This explosion attracted various sectors, including technology, electric vehicles, fintech, and healthcare startups, reflecting SPACs' utility in high-growth and innovation-driven industries [4].

Following the US trend, other jurisdictions like the United Kingdom and Singapore began to develop their regulatory frameworks to accommodate SPACs, aiming to position themselves as attractive hubs for capital markets innovation.

Regulatory Frameworks in Key Jurisdictions

United States

The US remains the global leader in SPAC activity, regulated primarily by the Securities and Exchange Commission (SEC) [5]. Although no SPAC-specific law exists, SEC guidance and rules under the Securities Act of 1933 and the Securities Exchange Act of 1934 govern SPAC IPOs, disclosure, and merger approvals.

In response to the 2020-2021 surge and associated concerns, the SEC issued several comment letters and rule proposals to enhance transparency, improve disclosures on conflicts of interest, and clarify accounting treatment for warrants and business combinations. The US regulatory approach balances investor protection with facilitating capital formation.

United Kingdom

The UK Financial Conduct Authority (FCA) allows SPACs to list on the London Stock Exchange (LSE) under certain conditions [6]. The FCA issued guidance to address issues such as the eligibility of SPACs for premium listing, disclosure standards, and shareholder approval requirements for acquisitions. The UK approach emphasizes transparency and shareholder rights while supporting financial innovation.

Singapore

Singapore's Monetary Authority of Singapore (MAS) has been proactive in creating a SPAC-friendly environment [7]. In 2021, MAS published a consultation paper proposing a regulatory framework specific to SPACs, including capital requirements, sponsor standards, and timelines for acquisition completion. Singapore views SPACs as part of its strategy to enhance its status as a global financial hub and attract listings of innovative companies, particularly in Asia.

Key Features and Investor Safeguards in Global SPAC Models
Despite jurisdictional differences, common features characterize SPACs worldwide:

- *Trust Account for IPO Proceeds:* Funds raised are held in a trust and used only for the acquisition or returned to investors if no acquisition occurs.
- *Redemption Rights:* Investors generally have the right to redeem shares for cash if they disapprove of the proposed merger.
- *Sponsor Incentives:* Sponsors typically receive founder shares at a nominal price, creating potential conflicts of interest, which regulators aim to mitigate through disclosure and governance requirements.
- *Time-bound Acquisition:* A fixed timeframe is imposed for completing an acquisition, failing which the SPAC must liquidate and return funds.

These safeguards aim to protect public investors from undue risks while enabling SPACs to function effectively.

Lessons from the Global SPAC Boom
The rapid growth of SPACs internationally provides valuable lessons for emerging markets like India. On one hand, SPACs can offer innovative capital-raising alternatives and stimulate market dynamism. On the other, risks related to disclosure quality, sponsor conflicts, and speculative investments have prompted regulatory caution and recalibration [8].

For India, adopting a SPAC framework requires careful consideration of these global experiences to develop rules that encourage innovation while ensuring robust investor protection, transparency, and market integrity.

CHAPTER II: THE INDIAN LEGAL AND REGULATORY FRAMEWORK FOR SPACS
India’s current legal and regulatory environment does not explicitly recognize or provide for the formation and operation of Special Purpose Acquisition Companies (SPACs). The absence of a dedicated SPAC regime presents significant challenges for entities wishing to undertake a SPAC transaction domestically. This chapter explores the key statutes and regulatory provisions relevant to SPACs under Indian law, focusing on the Companies Act, 2013, Securities and Exchange Board of India (SEBI) regulations, and the Foreign Exchange Management Act (FEMA). It also highlights the limitations and ambiguities within these frameworks that hinder SPAC adoption.

The Companies Act, 2013: Regulatory Overview and Constraints
The Companies Act, 2013 governs the formation, management, and operations of companies in India. Under the Act, a company must be formed for a lawful business purpose with clear disclosure of objects and business activities. The concept of a "blank cheque" company, which is fundamental to SPACs globally, contradicts the object clause requirements under Indian law, which mandate clarity and specificity.

Moreover, the Act imposes restrictions on shell companies, defined as companies without significant business activity or assets. SPACs, being entities with no operational business at inception, would arguably fall within this category, thereby triggering scrutiny and regulatory hurdles. [8]Provisions concerning mergers and acquisitions under the Act, such as those related to schemes of arrangement, shareholder approvals, and court sanctions, add layers of complexity to the de-SPAC transaction process.

SEBI Regulations and the Capital Market Framework

The Securities and Exchange Board of India (SEBI) is the principal regulator of the securities market in India. SEBI regulations govern public offerings, listing requirements, disclosures, investor protection, and market conduct. Currently, SEBI's regulatory framework does not expressly accommodate SPACs. Initial public offerings must comply with strict disclosure norms, due diligence requirements, and minimum public shareholding norms, which may not be readily applicable or adaptable to SPAC structures.

Furthermore, SEBI's guidelines on mergers and acquisitions and related-party transactions involve stringent conditions that can impact SPAC transactions. The absence of specific regulations on trust accounts, redemption rights, or sponsor interests—as are common features in global SPAC deals—leaves Indian market participants without clarity or regulatory certainty.

Foreign Exchange Management Act (FEMA) and Cross-Border Considerations

Foreign investment in SPACs raises important questions under FEMA and the associated regulations. Given that many SPAC transactions globally involve cross-border elements, including foreign sponsors and offshore capital, Indian laws relating to foreign direct investment (FDI), external commercial borrowings, and remittances come into play.

FEMA's provisions on the permissible routes for foreign investment, valuation norms, and repatriation of funds currently do not envisage the SPAC structure. This ambiguity creates challenges for SPAC sponsors and target companies, especially start-ups seeking to tap into global capital through SPACs while complying with Indian foreign exchange regulations.

Other Relevant Statutes and Regulatory Considerations

Apart from the Companies Act, SEBI regulations, and FEMA, other laws such as the Income Tax Act, 1961, and the Insolvency and Bankruptcy Code, 2016 may have indirect implications on SPAC transactions. Tax treatment of SPAC mergers and the timing of tax liabilities, the applicability of securities transaction taxes, and issues of valuation and transfer pricing require careful consideration.

Additionally, governance norms, insider trading regulations, and disclosure obligations under the SEBI (Prohibition of Insider Trading) Regulations, 2015, and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 will also be relevant post-merger, impacting SPAC lifecycle compliance [9].

Summary of Legal Gaps and Challenges

The absence of a clear SPAC framework in Indian law results in multiple challenges:

- The object clause and shell company restrictions under the Companies Act constrain SPAC formation.
- SEBI's regulatory regime lacks provisions for SPAC-specific disclosures, trust accounts, and redemption mechanisms.
- Foreign investment regulations under FEMA do not accommodate the unique capital structures of SPACs.
- Taxation and securities law ambiguities increase legal risk and uncertainty.
- The procedural complexity for mergers and approvals under current laws can delay or complicate de-SPAC transactions.

This regulatory ambiguity leads Indian companies interested in SPACs to seek listing opportunities overseas, resulting in missed opportunities for domestic capital market development. Hence, there is an urgent need for tailored legal and policy reforms to create an enabling environment for SPACs in India.

CHAPTER III: MARKET POTENTIAL AND ECONOMIC IMPLICATIONS OF SPACS IN INDIA

The growing global prominence of Special Purpose Acquisition Companies (SPACs) presents an opportunity for India to harness this innovative capital-raising mechanism to fuel its rapidly evolving economy. This chapter evaluates the potential benefits that SPACs can bring to the Indian market, especially for start-ups and high-growth sectors, and considers their broader economic implications.

Unlocking Capital for High-Growth Sectors

India's start-up ecosystem has witnessed exponential growth over the last decade, emerging as one of the world's largest hubs for innovation in technology-driven sectors such as fintech, edtech, healthcare, and renewable energy. However, despite the presence of venture capital and private equity funding, access to public markets remains challenging for many start-ups due to the complexities and costs associated with traditional initial public offerings (IPOs) [10].

SPACs offer an alternative by providing a faster and potentially more cost-effective route for private companies to go public. Through a reverse merger with a SPAC, companies can access substantial capital inflows and benefit from greater market visibility without the lengthy IPO process. This mechanism can enable Indian start-ups to accelerate their growth trajectory and scale operations domestically and internationally.

Enhancing Liquidity and Market Depth

SPACs have the potential to deepen India's capital markets by broadening the range of investment opportunities available to institutional and retail investors. By bringing private companies into the public domain through SPAC mergers, the overall liquidity of the market can increase, contributing to better price discovery and more efficient allocation of capital.

Moreover, SPACs can attract a diverse investor base, including global institutional investors, who may be interested in participating in early-stage growth companies with promising business models. This influx of new investors can stimulate innovation and entrepreneurship, thereby reinforcing India's economic growth engine.

Addressing Funding Gaps and Reducing Listing Barriers

Traditional IPOs often require companies to meet stringent eligibility criteria and disclosure norms, which can be prohibitive for emerging businesses with limited track records or complex financial structures. SPACs, with their streamlined process and reduced regulatory hurdles, can bridge this gap by offering a more flexible framework for public listings.

For Indian companies, especially those in nascent sectors, SPACs can provide earlier access to public funds and reduce the time-to-market compared to conventional IPOs. This accelerated access to capital can be vital for innovation-driven companies that rely on continuous funding to develop products and expand market reach.

Encouraging Domestic Financial Innovation and Global Competitiveness

By embracing SPACs, India can position itself as a forward-looking financial market that supports innovative instruments, aligning with global trends. The introduction of a well- regulated SPAC framework can enhance India's attractiveness as a destination for capital raising and listing, encouraging domestic companies to remain in India rather than seeking listings abroad.

Furthermore, SPACs can complement existing capital market instruments, providing investors and companies with a broader toolkit to manage growth and investment strategies. This diversification can contribute to the resilience and dynamism of the Indian financial ecosystem.

Potential Risks and Considerations

While the market potential of SPACs is significant, it is essential to acknowledge and manage the risks associated with these vehicles. Globally, concerns have been raised regarding investor protection, due diligence standards, potential conflicts of interest, and market volatility linked to SPAC transactions.

India's regulatory framework must therefore carefully balance market innovation with robust safeguards to ensure transparency, accountability, and fair valuation practices. Proper risk management mechanisms, enhanced disclosure requirements, and effective enforcement will be crucial to maintain investor confidence.

Role of GIFT City as a Financial Innovation Hub

Gujarat International Finance Tec-City (GIFT City) has been envisioned as a global financial services hub with regulatory flexibility to pilot innovative financial products. The unique regulatory environment in GIFT City, including special SEZ status and differential regulatory oversight, offers an ideal sandbox for testing SPAC structures tailored to the Indian context.

Utilizing GIFT City as a launchpad for SPAC activity can provide valuable insights into market acceptance, regulatory challenges, and operational feasibility, before broader implementation across India's capital markets.

CHAPTER IV: LEGAL AND PRACTICAL CHALLENGES IN IMPLEMENTING A SPAC FRAMEWORK IN INDIA

While the market potential for Special Purpose Acquisition Companies (SPACs) in India is promising, several significant legal and practical challenges currently impede the development of a robust SPAC ecosystem. This chapter critically examines the key regulatory and operational hurdles that must be addressed to facilitate the adoption of SPACs within the Indian legal and capital market framework.

Absence of a Dedicated Legal Framework for SPACs

One of the primary obstacles is the lack of a specific legal or regulatory framework addressing SPAC formation, listing, and post-merger governance under Indian law. Neither the Companies Act, 2013 nor the Securities and Exchange Board of India (SEBI) regulations currently recognize or provide explicit provisions for SPACs as a distinct corporate or capital market entity [11].

This regulatory vacuum leads to uncertainty about the permissibility of establishing shell companies solely for acquisition purposes and creates ambiguity regarding compliance obligations, disclosure norms, and investor protection measures specific to SPACs.

Restrictions on Shell Companies and Blank-Cheque Entities

Indian corporate law imposes limitations on the use of shell companies, primarily to prevent misuse for money laundering or fraud [12]. SPACs, by design, are blank-cheque companies without commercial operations at the time of IPO, which conflicts with existing restrictions that require companies to have substantive business activities.

This regulatory stance makes it difficult to incorporate or list SPACs domestically without amendments or clarifications from SEBI and the Ministry of Corporate Affairs (MCA) to accommodate such entities.

Complexities in Merger and Acquisition Approvals

SPACs rely on reverse mergers or acquisition transactions (de-SPAC transactions) to complete the transition from a shell company to an operational public company. However, Indian merger control laws, including those under the Companies Act and Competition Act, involve rigorous procedural and substantive requirements that can prolong approvals and increase transactional complexity [13].

The regulatory framework lacks streamlined processes specifically tailored for SPAC transactions, which can deter companies and investors from pursuing this route due to time and cost inefficiencies.

Taxation Ambiguities and Compliance Challenges

The tax treatment of SPAC-related transactions in India remains unclear, especially concerning the timing of capital gains recognition, pass-through of funds to target companies, and tax liabilities arising from de-SPAC mergers. Ambiguities related to transfer pricing, withholding taxes, and indirect tax implications pose compliance challenges for SPAC sponsors, investors, and target firms alike.

Without definitive guidance from tax authorities or amendments to the Income Tax Act, the tax environment for SPACs remains a deterrent to their wider acceptance.

Foreign Exchange and Cross-Border Investment Regulations

Many SPACs involve cross-border investments and foreign institutional participation. India’s Foreign Exchange Management Act (FEMA) and Reserve Bank of India (RBI) regulations impose controls on inbound and outbound capital flows, repatriation of funds, and foreign ownership limits in certain sectors [14].

The absence of clear policy on SPACs and reverse mergers involving foreign investors complicates foreign investment compliance, potentially restricting the ability of Indian SPACs to attract international capital.

Disclosure and Investor Protection Concerns

Globally, SPACs have faced scrutiny regarding transparency, conflicts of interest, and the quality of due diligence during the merger process [15]. Indian securities laws mandate rigorous disclosure and continuous compliance standards to protect investors.

Adapting these standards to the unique features of SPACs, including timely disclosure of merger targets and conflict management, requires regulatory innovation. Failure to establish adequate investor safeguards risks eroding confidence and market integrity.

Market Education and Awareness

The SPAC concept is relatively novel in the Indian context. Market participants, including investors, companies, legal advisors, and regulators, need to be educated on the operational nuances, risks, and benefits of SPACs. Lack of awareness may result in mispricing, poor investment decisions, or regulatory non-compliance.

Building a knowledgeable ecosystem is critical for the sustainable growth of SPACs in India.

Infrastructure and Operational Readiness

The successful implementation of SPACs also depends on the availability of financial infrastructure, such as efficient listing platforms, valuation frameworks, and enforcement mechanisms. India’s capital markets and regulatory bodies need to ensure operational readiness to handle the unique demands of SPAC transactions, including real-time disclosures and post- merger monitoring.

CHAPTER V: ASSESSING GIFT CITY AS A REGULATORY SANDBOX FOR SPACS IN INDIA

The Gujarat International Finance Tec-City (GIFT City) represents India’s flagship initiative to create a world-class financial hub with a regulatory and infrastructural ecosystem designed to facilitate innovation, efficiency, and international capital flows. As India explores mechanisms to integrate Special Purpose Acquisition Companies (SPACs) into its capital markets, GIFT City emerges as a promising candidate to serve as an experimental sandbox for piloting SPAC frameworks. This chapter evaluates the feasibility, advantages, and limitations of leveraging GIFT City for SPAC experimentation.

Overview of GIFT City and Its Regulatory Architecture

GIFT City, situated in Gujarat, is India's first operational International Financial Services Centre (IFSC) and operates under a distinct legal and regulatory framework tailored to attract foreign investment and financial innovation. The International Financial Services Centres Authority (IFSCA) acts as the unified regulator for entities operating within GIFT City, with powers encompassing banking, capital markets, insurance, and fund management.

The IFSC regime offers several advantages, including tax incentives, relaxed foreign exchange controls, and a flexible regulatory environment modeled on international best practices. This unique framework creates an enabling environment for introducing novel financial instruments such as SPACs.

Benefits of Using GIFT City as a SPAC Sandbox

- *Regulatory Flexibility:* GIFT City's separate jurisdiction allows for customized regulatory guidelines that can address the unique features of SPACs without disrupting the broader Indian securities market. This flexibility can accommodate the formation, listing, and post-merger activities of SPACs with tailored compliance norms [16].
- *Attraction of Global Investors:* GIFT City's international orientation and favorable tax regime make it attractive for foreign investors and Indian companies seeking access to global capital. This is aligned with the cross-border nature of many SPAC transactions and can facilitate foreign participation in domestic SPACs.
- *Streamlined Approvals and Operations:* The IFSC model promotes faster regulatory approvals and operational efficiencies. This can be critical for SPACs, which depend on timely mergers and capital deployment to maintain investor confidence.
- *Policy Experimentation:* GIFT City provides a controlled environment for regulators to pilot SPAC-related policies, monitor outcomes, and refine the regulatory approach before wider implementation across India. Such phased experimentation mitigates systemic risks.

Potential Challenges and Limitations

- *Limited Market Scale:* While GIFT City offers a conducive environment, its overall market size and liquidity remain smaller compared to major global financial hubs. This may limit the depth of capital markets activity and investor participation for SPACs operating solely within the IFSC.
- *Regulatory Coordination:* Effective deployment of SPACs in GIFT City requires coordination between the IFSCA, SEBI, Ministry of Corporate Affairs, and RBI to align cross-jurisdictional regulations, especially relating to corporate governance, merger approvals, and foreign exchange management.
- *Sectoral Restrictions:* Certain sectors with foreign investment caps or regulatory restrictions may face limitations in participating in SPAC transactions within GIFT City, potentially reducing the universe of viable targets and investment opportunities.
- *Investor Protection Concerns:* Adapting investor protection norms to fit a more flexible IFSC environment must be carefully balanced to prevent regulatory arbitrage or risks to market integrity.

International Examples of Financial Sandboxes for SPACs

Globally, financial centers such as Singapore and the UK have used special regulatory regimes or sandboxes to facilitate SPAC listings and experimentation [17]. Singapore's Monetary Authority of Singapore (MAS) has crafted a SPAC-specific framework within its capital markets, allowing pilot projects under controlled conditions [18]. These precedents demonstrate how innovation-friendly jurisdictions can leverage sandbox models to foster SPAC growth while managing risks.

India's GIFT City can draw valuable lessons from these international models in designing a SPAC sandbox that encourages innovation without compromising market stability.

Strategic Recommendations for GIFT City's Role in SPAC Development

- *Develop a Dedicated SPAC Regulatory Framework:* The IFSCA should consider issuing a comprehensive SPAC guideline addressing formation, IPO requirements, merger timelines, disclosures, and investor protections.
- *Facilitate Cross-Regulatory Integration:* Establish mechanisms for smooth coordination between IFSC regulators and domestic authorities to handle legal, tax, and foreign exchange matters efficiently.
- *Promote Market Awareness and Capacity Building:* Engage stakeholders through workshops, consultations, and educational programs to build familiarity with SPAC processes within the GIFT City ecosystem.
- *Monitor and Evaluate SPAC Pilots:* Implement robust monitoring and reporting frameworks to assess the performance and risks of SPACs operating in GIFT City, using insights to inform broader regulatory reforms.

CHAPTER VI: RECOMMENDATIONS FOR LEGAL AND POLICY REFORMS TO ENABLE A SPAC-FRIENDLY REGIME IN INDIA

The preceding chapters have highlighted the promise of Special Purpose Acquisition Companies (SPACs) as a tool for capital formation and the challenges posed by India's current legal and regulatory framework. To harness the market potential of SPACs while ensuring investor protection and market integrity, comprehensive reforms are essential. This chapter sets out targeted recommendations across legislative, regulatory, and policy dimensions to enable a robust and effective SPAC ecosystem in India.

Enacting a Dedicated SPAC Regulatory Framework

- *Introduction of Specific SPAC Provisions:* Amend the Companies Act, 2013, and SEBI regulations to incorporate explicit provisions governing SPAC formation, capital raising, and merger processes [19]. This includes defining a SPAC's nature as a 'blank cheque company,' setting minimum capital requirements, and stipulating timelines for de-SPAC transactions.
- *Clear Listing and Disclosure Norms:* SEBI should formulate listing guidelines tailored for SPAC IPOs, covering disclosures about acquisition targets, investor risks, escrow mechanisms, and sponsor obligations. Periodic updates on merger progress and financial performance must be mandated to maintain transparency [20].
- *Standardized De-SPAC Transaction Process:* Establish clear timelines and procedural steps for SPAC mergers, including regulatory approvals, shareholder voting, and reporting requirements. This would reduce uncertainty and speed up deal execution.

Strengthening Investor Protection Mechanisms

- *Escrow and Redemption Rights:* Require that SPAC IPO proceeds be held in escrow with strict conditions on release only upon successful acquisition, coupled with investor redemption rights in case of deal failure or withdrawal.
- *Sponsor Liability and Lock-in Periods:* Impose meaningful sponsor lock-in requirements and penalties to align interests with public investors, preventing potential abuses of the SPAC vehicle.
- *Risk Disclosure and Suitability Assessments:* Mandate comprehensive risk disclosures in SPAC prospectuses and consider investor suitability criteria, especially for retail investors, to prevent mis-selling and protect market confidence.

Addressing Taxation and Foreign Exchange Issues

- *Clarification of Tax Treatment:* Provide definitive guidance on the tax implications of SPAC transactions for companies, investors, and sponsors, including capital gains, dividend distribution, and withholding taxes.
- *Harmonization with FEMA Regulations:* Modify FEMA provisions to facilitate cross-border investments in SPACs and smooth repatriation of funds, particularly for Foreign Portfolio Investors (FPIs) and Non-Resident Indians (NRIs) [21].

- *Incentives for SPAC Listings:* Explore targeted tax incentives or exemptions within GIFT City or other IFSCs to encourage SPAC listings and attract global capital.

Leveraging GIFT City and International Best Practices

- *Pilot SPAC Framework in GIFT City:* As discussed in Chapter 6, operationalize a SPAC-specific regulatory sandbox within GIFT City under the IFSCA to test frameworks, build market expertise, and attract international SPAC sponsors and investors.
- *Regulatory Coordination and Capacity Building:* Foster inter-agency coordination among SEBI, MCA, RBI, and IFSCA to streamline approvals and regulatory supervision. Invest in training regulators and market participants on SPAC mechanics and risks.
- *Adaptation of Global Standards:* Benchmark India's SPAC regulations against global jurisdictions like the US, Singapore, and the UK, adopting best practices while tailoring them to India's market realities.

Encouraging Market Development and Awareness

- *Investor Education Campaigns:* Conduct widespread educational initiatives to inform investors, especially retail segments, about SPACs, their risks, and benefits [22].
- *Facilitating Start-up and Sectoral Participation:* Promote awareness among start- ups and high-growth sectors such as fintech, edtech, and healthcare about SPACs as viable capital-raising options.
- *Supporting Legal and Financial Advisory Services:* Encourage the development of specialized advisory services to guide SPAC sponsors, target companies, and investors through the complexities of SPAC transactions.

Monitoring and Continuous Improvement

- *Establish a SPAC Monitoring Committee:* Create a dedicated committee comprising regulators, industry experts, and market participants to periodically review SPAC market developments, challenges, and emerging risks [23].
- *Data Collection and Transparency:* Mandate detailed data reporting on SPAC IPOs, mergers, and investor outcomes to enable evidence-based policymaking and investor protection.
- *Responsive Regulatory Updates:* Maintain regulatory flexibility to promptly update rules based on market feedback and evolving international trends [24].

CONCLUSION AND ANALYSIS

The exploration of Special Purpose Acquisition Companies (SPACs) reveals a compelling opportunity for India's capital markets to innovate and expand access to public financing, particularly for high-growth sectors such as fintech, edtech, and healthcare. SPACs offer a flexible, faster, and potentially less cumbersome alternative to traditional IPOs, which could significantly benefit startups and unicorns seeking growth capital while providing investors with new avenues for participation in emerging businesses.

However, the current Indian legal and regulatory landscape is not yet equipped to accommodate SPACs effectively. The absence of a dedicated SPAC regulatory framework under the Companies Act, SEBI regulations, and FEMA has resulted in ambiguity, legal hurdles, and regulatory uncertainty. This vacuum has pushed Indian companies to pursue SPAC listings abroad, leading to regulatory arbitrage and the concomitant loss of economic and reputational benefits that a domestically supportive environment could offer.

A comparative assessment with jurisdictions like the United States, Singapore, and the United Kingdom underscores the importance of clear, comprehensive regulations that balance capital market innovation with investor protection. Key components such as escrow mechanisms, sponsor accountability, risk disclosures, and de-SPAC transaction timelines are integral to a functioning SPAC ecosystem.

The emergence of GIFT City as a financial innovation zone provides a promising sandbox environment to pilot SPAC regulations tailored to India's unique market dynamics. Leveraging this platform can catalyze regulatory learning and market development while mitigating systemic risks.

The analysis culminates in the recognition that India's readiness to embrace SPACs depends on timely and thoughtful reforms. Legal clarity, coordinated regulatory action, tax and foreign exchange alignment, and investor education are critical pillars for building confidence and fostering a sustainable SPAC market.

In conclusion, with proactive policy reforms and stakeholder collaboration, India can create a SPAC-friendly regime that not only integrates global best practices but also responds to domestic market needs. Such a regime has the potential to unlock substantial capital for innovation-driven sectors, strengthen India's position as a global financial hub, and contribute to the deepening and diversification of its capital markets.

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