BLANK CHEQUE, BIG POTENTIAL: WHY INDIA NEEDS A LEGAL AND REGULATORY ROADMAP FOR FINANCIAL SPECIAL PURPOSE ACQUISITION COMPANIES (SPAC) REFORM NOW

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ABSTRACT

Special Purpose Acquisition Companies are no more niche instruments but are now almost the only mainstream channel through which companies, especially start-ups and high-growth companies, could access public markets without going through the laborious typical IPO procedure. SPACs have also gone global; they have momentum especially in the U.S., Singapore, and the U.K.; and they have benefits such as speed, valuation control, and sponsor expertise. However, on the flipside, the development of SPACs has highlighted systemic risks like sponsor misalignment, lack of due diligence, dilution, and post-merger underperformance.

Currently, against the backdrop of a burgeoning start up ecosystem and aspirations of being a global financial hub, India does not have an internal regulatory framework that accommodates SPACs. Consequently, Indian companies aspiring to go through the SPAC route have no choice but to go offshore and list abroad, leading to regulatory arbitrage, capital flight, and missed economic opportunities.

In this paper, the structure and lifecycle of the SPAC have been critically examined, their global evolution has been evaluated, and the legally and institutionally peculiar challenges in India have been analysed. There is an attempt to learn from international regulatory models and study the detailed facts underlying a few Indian companies that went for SPAC listings in foreign jurisdictions. The paper also evaluates the economic feasibility of a domestic SPAC regime and comments on the policy framework for India to frame a SPAC path in a balanced, transparent, and investor-friendly way.

Addressing the regulatory void, creating inter-agency coordination, and GIS alignment would ensure that SPACs flourish as a harmonizing source of funds for India. This will, in turn, deepen domestic markets, bring in foreign investment, catalyse innovation, and ramp up Indian companies' growth trajectory globally.

Keywords: SPACs; Indian capital markets; PIPE (Private Investment in Public Equity); IPO alternatives; investor protection; GIS

Introduction

The last decade has turned the erstwhile format of the world's financial ecosystem upside down, with accelerating digitalization and new venture vehicles backed by the distinctive recognition of start-ups having high growth and disruptive business models. The period has witnessed a dramatic entrance of SPACs as an en-vogue and viable alternative to traditional IPOs. Speed, compliance, and strategic manoeuvring have been some of the persuasive attributes of SPACs that have made many private companies opt for public listings through this route, particularly in volatile and complicated market times.

A SPAC is a public shell company established for the sole purpose of acquiring or merging with an existing private entity. In a traditional IPO, funds would be raised directly from the public to develop company operations; in this case, it is quite the antithesis. Initially, the SPAC raises funds via an IPO and then searches for an appropriate target company: the total reverse of the IPO process! The reason for such a structural attraction is that it is appealing to institutional investors and venture capitalists and many private equity firms, who see SPACs as an instrument for liquidity potential, shortening exit time, and diversifying their portfolio exposure.

The story of SPAC activity flourished between 2020 and 2021, particularly in the US, at the very zenith of financial standing in SPACs. More than 600 SPACs were formed around the globe in 2021 alone and almost half of U.S. IPOs in that year were SPACs. Several macroeconomic and structural factors drove this momentum: the record of low interest rates, the abundance of liquidity, an appetite for tech-led growth stories, and the lure of rapid market entry for private firms.

In spite of their global recognition, SPACs do have a virtual nonexistence in India. The Indian institutional laws, governed by custom, corporate, and securities law, do not provide any shelter for blank cheque companies. Indian start-ups, many being highly valued and with considerable backing from global investors, have increasingly chosen to incorporate abroad and list via foreign SPACs. This raises questions about capital flight, regulatory jurisdiction, and missed opportunities for the domestic financial market.

The main aim of this paper is to examine the feasibility of SPACs in the Indian scenario. This paper proposes an exhaustive analysis of how SPACs work, assessment of their global evolution and risk environment, identification of regulatory roadblocks in India, and the formulation of a policy roadmap that strikes a balance between innovation and investor protection. While India aspires to become a global powerhouse and a hub for innovation, welcoming SPAC-like financial instruments in a carefully crafted regulatory framework would mean a lot to the capital market, retirement of foreign investment, and the development path of the entrepreneurial ecosystem.

Anatomy of a SPAC: Structure and Lifecycle

The last decade has turned the erstwhile setup of the world's financial ecosystem upside down, with accelerating digitalization and new investment vehicles backed by the swelling recognition of start-ups having high growth and disruptive business models. The period has witnessed a dramatic entrance of SPACs as an en-vogue and viable alternative to the traditional IPOs. Speed, adaptability, and strategic manoeuvring have been some of the compelling attributes of SPACs that made many private companies opt for public listings through this route, particularly in volatile and complicated market times.

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A Functional Comparison of SPACs and Traditional IPOs

For long, the traditional Initial Public Offering (IPO) has remained the generic means for capital-raising and listing for companies. Yet it can serve as a standard against which to measure the efficiency of time and complexity, with due diligence, underwriting, and regulatory approvals, investor roadshows, pricing decisions, and compliance issues following in its wake. On the average, companies definitely take 12-18 months for initial public offering completion. The exercise of last valuation just prior to listing, based on market forces of demand, brings to elicit price volatility and under-pricing.

SPACs provide a quicker and more direct alternative. After merging with a SPAC, a private business can go public in as little as four to six months. The valuation directly negotiated with the SPAC affords the target company greater predictability and control, a major plus with tech start-ups and emerging businesses lacking experience in traditional IPOs' profitability requirements but clearly having great growth potential.

Flexibility is yet another basis in favour of SPACs. Customized deal structuring can encompass earn-outs, staggered share release, and hybrid financing arrangements. Since SPACs raise their

capital before placing specific investment targets, this means the companies looking to go public through this path enjoy capital and sponsorship support from day one.

The SPAC route, however, is not without its downsides. There is a dilution of the shares through the sponsor promote, usually 20 percent of post-IPO equity, which can lessen the returns of common shareholders, and PIPE (Private Investment in Public Equity). Also, because the SPAC IPO is not a full business review, the relative importance of due diligence conducted during the de-SPAC process rises, attracting a lesser degree of regulatory scrutiny.

To summarize, while SPACs and IPOs may have the same ends, they are divergent in their means, timelines, and regulatory expectations. The optimal capital markets would create a conducive space for both structures and let companies choose the one that best suits their profile, timing, and growth strategy.

Global Adoption and Evolution of SPAC Regulation

Globally increasing, SPAC activities have led to a wide range of regulatory responses that differ from country to country, ranging from a permissive 'hands off' approach to highly structured frameworks. Most active SPAC markets are the United States, the country of origin for SPACs and home to a matured market. U.S. regulations allow for forward-looking projections by SPACs generally prohibited in traditional IPO filings, making the vehicle an attractive means of entry for high-growth firms that want valuation upside. The explosion of SPAC activities from 2020 through 2021 invited scrutiny by the regulators.

U.S. Securities and Exchange Commission (SEC) issued numerous investor alerts and proposed tightening disclosure requirements and sponsor accountability as an answer. The SEC has insisted on articulating risk clearly, on sponsors-being-aligned with public shareholders, and on accountability about financial projections. The making SPACs the same in terms of transparency and liability as IPOs evoked a more careful environment in the United States.

The country, which aims to develop a strong regional financial hub, pioneered the SPAC framework on the Singapore Exchange (SGX) in 2021. Basically, the requirement of SGX is that there should be a minimum market capitalization of S$150 million, 90% of IPO proceeds placed in escrow, and completion within 24 months of de-SPAC. Minimum stake and relevant

track records are required from sponsors. These are measures towards innovation with protection for investors.

Setting aside initial hesitancy on SPACs, the revised SPAC rules were introduced in the United Kingdom by updating them in 2021 to encourage listings on the London Stock Exchange (LSE). The changed rules have removed the automatic suspension of trading whenever an acquisition announcement is made, paving way for mandatory approval of shareholders. Enhanced disclosure obligations and safeguards were then put in place to bolster the confidence of investors.

The European Union and part of the Middle East, among other jurisdictions, are slow in exploring SPACs. In Europe, a couple of exchanges in Amsterdam and Frankfurt have entertained some SPAC listings, while countries like Abu Dhabi are drafting the SPAC regulations to attract global investors and diversify their capital markets.

These international trends are clear in that no country is drumming up a complete rejection of

SPACs; rather, frameworks are presently being adapted to address those risks associated with SPACs. Such international examples are great working examples for India. By understanding the strengths and loopholes of existing regulatory frameworks, Indian policymakers can create a SPAC framework that would fit its market maturity, legal adversities, and investor profile considerations.

The Indian Legal Framework: Barriers to SPAC Adoption

The continued success of SPACs worldwide has reached new heights. However, in India, conditions are just the opposite, where their formation and listing are not possible due to its regulatory and legal environment. Laws associated with the corporate world have been strictly interpreted, practically disallowing blank cheque companies from operating within the financial framework of India.

As per the Companies Act of 2013, companies incorporated in India must have to declare a specific business purpose and initiate business operations within a specified time period. It is, by design, a company formed for the purpose of acquiring an existing company, meaning SPACs, or special purpose acquisition companies, have no business whatsoever in terms of any active pre-defined business enterprise other than acquiring an existing company. This inherent

design incompatibility keeps SPACs from fitting under the ambit of the existing regulatory environment.

In addition, the requirement of having a track record of operations and tangible assets as per the SEBI's Issue of Capital and Disclosure Requirements (ICDR) Regulations reduces the possibility of IPOs for companies whose acquisition is the only intention and interest of the SPAC that launches the IPO at that stage. Such companies with these qualifications simply would not exist at the time of the IPO. That is another basis upon which they have come to grief.

Also, there are constraints about the lack of legal provisions for holding public funds in escrow accounts pending acquisition. The lack of an entire regulatory framework to secure custody of IPO proceeds is a legal and practical hindrance.

Further, because of the uncertainties in the regulations resulting from transaction cross-border SPACs with Indian companies, foreign exchange laws under FEMA, tax implications of reverse mergers, and lack of any judicial precedence make any investor rather hesitant and thus conservative from the regulatory angle.

These restrictions have forced Indian entrepreneurs to register SPACs outside in the Cayman Islands, Singapore, the USA, or similar jurisdictions and list them on some foreign exchanges. While this route gives access to international capital, it limits Indian regulatory oversight, denies participation to Indian investors, and this means economic value is being flown out of India.

To overcome these barriers, a systemic, far-reaching legal reform project may have to be embarked upon by India. This may involve introducing SPACs as a new class of companies into the Companies Act, amending SEBI's ICDR regulations to allow conditional listing, and formulating rules for the protection of IPO proceeds. The harmonized framework would also address cross-border tax considerations, norms for exchange control, and investor protection to engender a truly transparent and robust SPAC ecosystem in India.

Risks and Criticisms of SPACs

While SPACs seem to have a promising future as an alternative to the time-honoured method of IPOs, they have generated serious risks and criticisms. As the SPAC boom spilled over beyond borders, several structural, ethical, and market-related concerns began emerging,

especially during 2020-2021. Thus, greater scrutiny from regulators, investors, and legal experts could not help but shine on SPACs, opening up the debate on whether their advantages outweigh creativity and risk on the other side.

- Misalignment of Interests- One of the most repetitive concerns is the potential misalignment of interests between SPAC sponsors and public investors. The sponsors tend to take home most of the post-merger equity, referred to as "promote," at a tossup near-free price, irrespective of the acquisition's quality or long-term prospects. This in cents sponsors to push through a deal within 18-24 months, even if it is the worst possible choice, to save their skins from liquidation with financial losses.

- Inadequate Due Diligence-Opposed to IPOs characterized by immense regulatory scrutiny, with the underwriters doing a lot to check on performance, the SPAC mergers (de-SPAC transactions) come with limited due diligence, if any. Shortened timelines together with less regulatory scrutiny, contradict the possibility of other cases where the SPAC may be overpaying for almost-respectable or even unviable companies. In many cases, post-merger companies have been unable to meet their forecasts; this has led to investment losses and tarnished reputations.

- Forward-Looking Statements-SPAC transactions provide a unique opportunity for forward-looking financial projections, whereas such opportunities are typically prohibited or usually really regulated for traditional IPOs. Target companies can wield this to pursue rosy forecasts that may not take place. Misuse of these projections constitutes the very essence of many investor lawsuits, particularly in the U.S., where retail investors contend they were misled.

- Post-Merger Underperformance-Statistical data from major financial markets indicate that many of the companies acquired through SPAC mergers were underperforming relative to their IPO counterparts and other broader market indices. This unfortunate coincidence can be attributed to inflated valuations, lack of business readiness, or emerging operational inefficiencies that turned their ugly heads in the post-merger environment. Such a noticeable disconnect when it comes to performance does little to enhance investor confidence while throwing additional lows of volatility into the market.

- Dilution and Complex Capital Structures-Another serious risk of dilution. By the time thinly placed equity holders are reviewed along with other capital sources such as PIPE, sponsor promote shares, or warrant conversions, their equity stakes are often obliterated. Dilution comes to mean loss of control, reduced returns considerations, and an enormous headache over different classes of capital ownership structure in practice when the disclosures are less than transparent.

- Regulatory Arbitrage and Jurisdictional Complexity Risk: The practice of listing through foreign SPACs is also fraught with additional risks associated with regulatory arbitrage for Indian firms. Such companies fall outside the purview of direct Indian regulation, complicating recourse for investors and weakening oversight in failure cases. Moreover, legal and tax implications of cross-border SPAC deals tend to be very ambiguous, leading to high compliance costs and litigation risks.

- Reputational and Market Integrity Risk Last and Of All, the rapid proliferation of SPACs, along with spectacular failures already witnessed, raised questions about market integrity. Poor regulation would then enable SPACs to become vehicles for speculative abuse and manipulation to create a premise for weakening investor confidence in public commodities.

Thus, it becomes all the more prudent for India to have a carefully considered approach towards the SPAC introduction. It would be fundamentally important to have a well-built regulatory framework incorporating global best practices and investor safeguards and tightly enforced compliance mechanisms, to minimize and mitigate all above risks from the SPACs.

Lessons and Policy Recommendations for India

India cannot insulate itself from the global SPAC phenomenon anymore. The regulatory framework that is to be adopted must take care of investor interest while ensuring that SPACs provide the desired benefits. The main recommendations include:

1. Statutory Recognition: The Companies Act should be amended to accord recognition to SPACs as a legitimate corporate structure with distinctly defined objectives, timelines, and dissolution mechanisms;

2. SEBI framework: Establish a separate framework for SPAC listings under SEBI which

would include sponsor eligibility criteria, listing obligations, and acquisition timelines;

3. Promote accountability: There should be rules on limiting the sponsors' promote shares linked to their compensation on achieving certain post-merger performance metrics;

4. Investor protection: The three investor protections would include escrow of the IPO proceeds, shares of the acquisition would need ample shareholder approval, and investors should have a redemption right;

5. Disclosure Norms: There would be a requirement for extensive disclosures during both IPO and de-SPAC, including risk factors, projections, and governance structures;

6. Tax and Exchange Control: FEMA and tax laws should be amended to allow SPACs to undertake cross-border transactions concerning Indian assets;

7. Pilot and Sandbox Programs: Limited SPAC-related activities would be allowed in regulatory sandboxes to better assess risks, improve regulations, and build institutional capacity;

8. Capacity Building: Regulators, lawyers, and other market players must be trained to develop an understanding of SPAC mechanics, risks, and compliance frameworks.

Comparative Analysis of SPAC Frameworks: US, Singapore, UK, and Potential India Model

Considerable lessons about the positioning of Indian SPACs could be drawn from how various parts of the world synchronize their SPAC regulations. The US, Singapore, and UK are examples of jurisdictions that have created SPAC regulatory models characterized by vast differences in stringency, structure, and intended purposes reflecting progressive maturity of the respective capital markets and regulatory philosophies. These examples from abroad would afford India templates for good balances between innovative and robust protections for investors.

In the World: The U.S.: The U.S. is the world leader in SPAC activity, as it has accounts for most of the SPAC IPOs. SPACs have been established under the Securities Acts of 1933 and 1934, and regulated primarily under the purview of SEC-the Securities and Exchange

Commission. This model allows forward looking statements which encourages the sponsors and target companies in marketing the projections. However, it has to reform such as disclosure enhancements and align the deSPAC transaction liability standards to those of IPOs, and define sponsors' fiduciary duties recently proposed by SEC. U.S model is successful, but it is criticized for being too permissive leading to lawsuits and increasing scrutiny by regulators.

Singapore: In 2020, the Singapore Exchange has launched a SPAC framework which adopts more cautious and protective approaches. SGX requires a minimum market capitalization of S$150 million, a delay of at least 90% of the IPO proceeds to be deposited in escrow, and deSPAC to be completed within a timeframe of 24 months (an additional 12 months may be permitted under specified circumstances). It has additionally made provisions for the sponsors to hold meaningful equity stakes and have relevant industry experience. Shareholder approval is mandatory for the proposed acquisition, and there are provisions for redemption of shares by investors. Market integrity has been emphasized primarily on this approach and will suit risk-averse investors better.

United Kingdom: 2021 saw the revision in listing rules by the Financial Conduct Authority (FCA) to revitalize the SPAC market in the UK. Automatic suspension of trading with respect to the SPAC once an acquisition notification has been issued has been reversed, and yet certain essential protections to investors have to remain. Some of them include voting rights for shareholders, redemption, and disclosure provisions. Minimum market capitalization for SPACs is pegged around £100 million, while the sponsor is subject to stringent disclosure and acquisition approval tests.

The Most Feasible Model of India: Upon consideration of all these global frameworks, it is timely that India builds its SPAC regulatory regime reflecting the country-specific characteristics that it embodies in capital markets for an ideal model, amongst other things:

- Supplication for Regulatory: Official recognition of SPACs as a distinct entity within the provisions of the Companies Act and SEBI regulations.

- Capital Thresholds: Minimum IPO size to promote serious market participation and mitigate the risk of speculative activities.

- Escrow Mechanism: Mandatory depositing at least 90% proceeds from IPOs into an

interest-bearing escrow account.

- Deadline Acquisition: Merger needs to be completed within 24 months with the option to extend based on shareholder approval.
- Redemption Rights: Clear rights for shareholders to redeem shares prior to the acquisition completion.
- Sponsor Accountability: Disclosure of sponsors' backgrounds and financial interests and alignments such as minimum capital at risk.
- Governance and Disclosure: Brighter light on the time of acquisition, including reports of due diligence, fairness opinions in valuation, and financial forecasts.

With best practice learning and adaptation from jurisdictions where SPAC practices have been accomplished, India can create a regulatory architecture that would both be the foundation of financial innovation and additionally safeguard the long-term interests of investors, thereby providing momentum to enhance its capital market domestic ecosystem.

Case Studies of Indian Companies Listing via SPACs

Several big companies in India now seem to be taking a path toward SPAC listing offshore, particularly in the US, as an alternative remedy to the lack of a domestic SPAC regulatory framework in India. These case studies present evidence of Indian firms taking advantage of the SPAC structure exploring international capital markets and what can accrue owing to the country from domestic alternative initiatives.

Until the present, the largest transaction for an Indian SPAC has been conducted by ReNew Power. In August 2021, ReNew Power merged with RMG Acquisition Corporation II, a USbased SPAC, in a deal valued at an estimated $8 billion. It opened the doors to ReNew for a listing on NASDAQ, collected rich funds for future expansion, and positioned the company as one of the leading global renewable energy players. It also brought significance and credibility to ReNew Power, showcasing investment appetite for Indian clean energy ventures from global players.

Yatra Online Inc., an Indian travel services aggregator, completed its merger with Terrapin 3

Acquisition Corporation, a Maryland SPAC, during the year 2016. Thus, it became one of the early Indian corporations to list in the US via a SPAC. The merger allowed Yatra to tap deeper capital markets without undergoing a lengthy and complex traditional IPO process. Nonetheless, the company has faced challenges in attaining sustained profitability, further emphasizing the importance of post-merger performance and strategic clarity.

Grofers (now Blinkit) was in talks to navigate a gap into the SPAC route through a merger with a US-listed SPAC funded by Cantor Fitzgerald. The news, though not followed up, has unearthed the increasing interest of Indian start-ups into SPAC pathways. The talks reiterated that Indian tech firms look to gain in terms of global visibility, valuation discovery, and investor diversification through SPACs.

It seems that other companies like Videocon d2h have also taken a similar path. In 2015, it merged Videocon d2h with a US SPAC called Silver Eagle Acquisition Corp so that Videocon d2h could list on the NASDAQ. This was the first example of a SPAC-related exit for an Indian enterprise, and it became a model for further transactions.

These case studies collectively show that Indian companies are not only willing, but actually looking forward to attempting new forms of fund-raising open to them, such as SPACs. The fact that they must now seek offshore alternatives only indicates an area of policy void in need of attention. If there is a strong domestic SPAC regime in India, these companies and future unicorns will choose to remain in line with India's jurisdiction, thus strengthening local capital markets, increasing investment participation, and bettering regulatory oversight.

Economic Impact Assessment: What Could India Gain from a Domestic SPAC Market?

The establishment of a well-regulated SPAC regime in India can unlock vast economic opportunities. First, any capital raised through a domestic SPAC would remain inside the domestic financial habitat and help develop India’s capital markets. Second, the SPAC regime provides exit opportunities for start-ups and mid-market firms, thus stimulating innovation and entrepreneurship.

Apart from that, SPACs will theoretically create jobs in legal, financial, and compliance environments. FDI in the economy occurs when foreign investors find an interest in backing Indian SPACs; with inbound capital flow, this is beneficial to the economy. Listing on Indian

securities markets further provides the SPAC process with more transparency and Indian investor participation, bringing depth to the market.

In addition, domestic SPACs could provide a strong solution for preventing capital flight by granting Indian companies viable options for domestic listings. This would also permit regulators to better monitor Indian-origin firms that list. Increased listing through SPACs could further increase demand for associated services like audit, legal, merchant banking, and financial advisory services, thereby pushing the strengthening of the financial services ecosystem.

There is also a multiplier effect; exit opportunities and cash will spur angel investors and venture capitalists to reinvest in early-stage companies. This gradually nourishes a virtuous cycle of capital formation, innovation, and economic expansion. Using the right incentives, SPACs can be used to attract funding into the lesser funded but nationally consequential sectors that may include infrastructure, aggrotech, health-tech, and clean energy.

Institutional Readiness and Capacity Challenges in India

Before adopting SPACs, however, India must address several institutional challenges. The regulatory infrastructure, including SEBI and stock exchanges, will have to be equipped to analyse IPOs and mergers of SPACs. Special SPAC units or cells may have to be set up in SEBI for handling disclosures, due diligence, and compliance.

Training curricula are also required for regulators, merchant bankers, legal advisors, and auditors to develop appreciation for SPAC-specific concerns. It is also necessary to sensitize the bench to address issues of SPAC-related disputes and shareholder rights.

With the absence of precedent in dealing with SPAC transactions, regulatory agencies have to form detailed operational protocols, a check list, and review mechanisms which are specific to SPAC structures. These should include specific criteria for evaluating target companies and assessing methodologies for valuation along with ensuring that the use of funds conforms to what has been publicly disclosed.

Another big area of challenge is inter-agency coordination. SPAC transactions, especially cross-border ones, require cooperation among SEBI, the Ministry of Corporate Affairs, and Reserve Bank of India, Income Tax Department, and Enforcement Directorate. A multiagency task force

could help streamline approvals, resolve regulatory overlaps, and provide a single-window clearance model to reduce delays.

Investor protection departments in regulatory institutions must also evolve into having specialized capabilities in SPAC literacy, grievance redressal, and market monitoring. Integration of digital path tracking through SPAC lifecycle from IPO to de-SPAC would bring in transparency and facilitate data-driven oversight from the regulators.

Besides that, developing a SPAC ecosystem would also require preparedness across the ecosystem. Listing procedures and monitoring systems whereby Stock Exchanges are required to list SPACs need to be tailored. Credit rating agencies also need to rate SPACs and their targets differently. Depositories and custodians need to have checks for purposes of handling redemption mechanisms and structures of sponsor equity.

Last but not least, important public institutions must work closely with industry bodies, including ASSOCHAM, CII, and NASSCOM. Regular stakeholder consultations, white papers, and simulation exercises will ensure that institutional readiness is not theoretical-only but actionable and iterative. Only in such coordinated preparations can India successfully support a vibrant, transparent, and resilient SPAC regime.

SPACs and ESG: Aligning Acquisitions with India's Sustainability Goals

The Indian Government can craft SPAC regulation in a manner that can bolster a larger national agenda on sustainability and ESG. Regulatory incentives could be introduced for SPACs that acquire, say, companies involved in clean energy, green tech, waste management, or social impact businesses. Thus, this combines the SPAC-driven growth model to India's commitments under the Paris Agreement and the SDGs.

For example, green SPACs could fast-track regulatory approvals, facilitate compliance processes, or provide tax incentives; they could favour ESG-friendly SPACs to include tiered requirements, where such SPACs would need simplified disclosures or prioritization in listing reviews. As for SPACs focusing on ESG-specific issues, they would also qualify for possible state-backed credit guarantees or concessional financing, especially for promoting electric mobility or for relevant areas like water conservation.

Furthermore, ESG incorporation into SPACs makes them attractive for global institutional investors as they increasingly demand good sustainability credentials before investing capital. SPACs can make India an attractive jurisdiction for climate and social impact investing as it scales up good enterprises. Sovereign-supported ESG SPACs may also be considered by the government, or the government could partner with multilateral development banks to develop such vehicles focusing on sustainable development.

In terms of governance, the SPAC architecture can include mandatory ESG disclosure and metrics on impact measurement to make them accountable. Public-private partnerships in this space can further catalyse investments and contribute toward long-term environmental and social resilience.

Legal Risks and Litigation Trends in SPACs

Specifically, litigation issues pertaining to SPACs have gained international attention as a source of potential liability. Specifically, a significant upsurge of familiar class-action lawsuits by shareholders after poor post-merger performance, or a perceived misrepresentation made during the de-SPAC process, has occurred in the United States. Most of these lawsuits claim that inadequate due diligence was performed by SPAC sponsors, misleading investors regarding the financial state of target companies or that they were to benefit disproportionately relative to retail shareholders.

In response, the U.S. Securities and Exchange Commission tightened oversight on regulations. "Proposed rules seek to impose the same standards of liability for all SPAC sponsors and advisors as for traditional IPOs." With regard to these, there would be specific disclosure requirements for disclosing any conflict and use of forward-looking projections or all modalities of any remuneration received by the sponsors or financial advisers themselves.

India stands to learn from these phenomena across the globe, capturing aspects of a potentially applicable legal architecture ex-ante in order to lessen the chances of facing similar risks. This must entail requiring that SPACs maintain high standards of transparency and fairness across their lifecycle-from IPO, merger, and post-listing compliance. SEBI can mandate sponsor declarations of interest, third-party valuation certifications, and comprehensive due diligence reports that must be shared with shareholders prior to any acquisition vote.

In addition, mechanisms to resolve disputes related to SPACs must be time-responsive. There could be a specialized tribunal or fast-track arbitration that could be formed for the quick resolution of such conflicts. These could deal with issues that include those linked to shareholders' grievances, misrepresentation in disclosure documents, or breaches of fiduciary duty.

Other than that, the establishment of protection for whistle-blowers with respect to SPAC transactions could also go a long way in detecting fraud at the earliest possible opportunity. Alternatively, SEBI and other regulatory agencies can cooperate towards developing a shared surveillance and enforcement framework to monitor SPACs for insider trading, manipulation, or misutilization of funds.

Another area of legal risk is cross-border enforceability. Since SPAC transactions would generally be with some foreign sponsor or the target company would be an overseas-listed company, clarity is needed in the statutory framework on applicability of Indian laws, repatriation of funds, jurisdiction of disputes, and recognition of foreign awards or judgments for enforcement in India.

Investor education constitutes a prominent pillar in the infrastructure of reducing legal risks and will go a long way. Therefore, SEBI should undertake specific campaigns targeted at both retail and institutional investors, to inform them about the unique nature of SPACs, along with the rights and risks associated with them. Creating informed investors constitutes one of the vital ingredients of a durable capital market and would significantly reduce incidences of legal conflicts.

By establishing a stringent legal framework and a proactive regulatory stance, India could ensure the introduction of SPACs not only as a financial innovation, but also as a credible, transparent and fair mechanism for capital formation.

Conclusion

Nevertheless, there is no denying that SPACs have transformed the face of global capital markets while providing both flexibility and capital access to companies not suitable for the traditional IPO route. It offers India an opportunity to adopt the same model to build a promising startup ecosystem, attract foreign investors and enhance domestic capital markets.

This should be done responsibly, though. A hastily or poorly regulated introduction might spoil investor confidence, as well as eradicate financial stability. India could establish itself as a progressive jurisdiction that balances innovative regulation with a SPAC framework well thought through and transparent.

The time for these SPAC conversations in India is ripe. Legal reforms, regulatory architecture, and institutional safeguards can collectively nurture SPACs into a meaningful and integral component of India's financial ecosystem in entrepreneurship, job, and economic growth.

India's capital markets have come a long way from where they were two decades ago. This evolution was fast-tracked through reforms in listing regulations, transparency norms, and protection of investors. SPACs could now be added to that list of reforms if only major surgery in foresight, clarity, and a commitment to financial integrity were put in place.

Today, India stands at that juncture in its financial ecosystem where regulatory innovation is timely, even necessary. The world move currently towards SPACs, together with the aspirations of both the Indian startup and investor communities, makes an irresistible case for reform.

SPACs are not meant to replace initial public offerings, but rather to provide additional mechanisms designed more for the new breed of entrepreneurs and investors. The wellarchitected SPAC regime could open up new avenues of economic opportunity if built on the foundations of transparent accountability and investor protection.

India should therefore take a step by creating a high-level task force of representatives from the SEBI, Ministry of Finance, legal experts, and founders of startups. Its work would be to create a detailed and consolidated white paper for assumptions of global best practices and a phased roadmap for SPAC implementation.

It can be inferred that with the right protective measures and the involvement of all stakeholders, SPACs can be put to work for India's aspirations of becoming a global financial powerhouse and innovation hub over the next decade.

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