SPECIAL ACQUISITION COMPANIES: A TIMELESS FINANCIAL TOOL VIS-À-VIS THE MODERN REGULATORY GAP

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ABSTRACT

Special Purpose Acquisition Companies (SPACs) have emerged as a significant alternative to the traditional Initial Public Offering (IPO) mechanism, offering companies a faster and more flexible route to access public capital markets. In recent years, SPACs experienced unprecedented global growth, particularly during the COVID-19 pandemic when market uncertainty and delays in conventional IPO processes prompted companies to explore alternative listing structures. This paper examines the evolution, structure, and regulatory treatment of SPACs, with a particular focus on the challenges associated with their operation in India. It traces the historical development of SPACs from early blank check companies in the United States to their modern form and analyses their distinctive characteristics, including sponsor involvement, trust accounts, shareholder redemption rights, and private investment in public equity (PIPE) financing.

The study further evaluates the current Indian regulatory landscape, highlighting legal obstacles under the Companies Act, 2013, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, and foreign exchange laws that hinder domestic SPAC listings. Through a comparative analysis of regulatory frameworks in jurisdictions such as the United States, Canada, Singapore, Hong Kong, and the United Arab Emirates, the paper demonstrates how tailored regulations can balance investor protection with market efficiency. It concludes by emphasizing the need for India to establish a dedicated SPAC regulatory framework to facilitate capital formation, prevent capital migration to foreign markets, and strengthen the country's position in global financial markets.

INTRODUCTION

In the past three years, Special Purpose Acquisition Companies (SPACs) rapidly gained traction as a popular alternative to the traditional IPO model. In 2019, only fifty-nine SPACs were created, but by 2020, this number soared to 247, attracting over $80 billion in capital. In 2021, SPACs hit a record high, with 613 new entities raising $162.5 billion. Yet, this meteoric rise was short-lived, as 2022 saw a significant decline with just 67 SPACs generating $11.6 billion. Moreover, by April 2022, a large number of SPAC sponsors had withdrawn their planned offerings.

Referred to as "blank check companies," SPACs are entities created without any ongoing commercial operations, their sole purpose being to raise funds through an IPO. The SPAC sponsor is given two years to identify and merge with a private company, effectively taking it public while bypassing some of the regulatory hurdles associated with a traditional IPO. SPACs are typically backed by experienced investors or industry experts familiar with specific sectors.

While SPACs may seem like a recent phenomenon, they have existed for decades, historically serving as a financing option for smaller companies struggling to raise capital through an IPO. However, the recent surge in SPAC activity was largely fuelled by the uncertainty and market volatility triggered by the COVID-19 pandemic. With traditional IPOs being delayed due to the unstable market, many companies turned to SPACs, which offered greater price stability and a faster, more efficient route to going public. A SPAC merger can be completed in a few months, while the process of registering for an IPO with the SEC can take six months or longer. As the global economy recovered, however, SPACs began to lose their appeal, driven by several key factors.

SPACs have been a timeless Financial tool for the economy, however, India currently lacks a comprehensive framework for listing SPACs, prompting Indian entities to seek business combinations with SPACs in foreign jurisdictions. One option is an outbound merger, where an Indian company merges with a foreign-listed SPAC, creating a foreign entity. This process involves compliance with the Companies Act, 2013, and the Foreign Exchange Management (Cross Border Merger) Regulations, 2018,[1] and requires approval from the National Company Law Tribunal. However, this court-driven procedure can be time-consuming and undermines

[1] Foreign Exchange Management (Cross Border Merger) Regulations, 2018 FEMA.3(R)/2018-RB.

the key advantage of SPACs—swift listing. Post-merger, the Indian company may be treated as a branch office, limiting its operations under Indian exchange control regulations.

Another approach is a share swap, where Indian shareholders transfer their shares to the foreign-listed SPAC in exchange for its shares. Unlike the U.S., India does not have a clear legal framework regulating SPACs due to restrictions in securities, corporate law, and exchange control regulations. Another critical factor in such combinations is compliance with the Foreign Exchange Management (Overseas Investment) Rules, 2022. There are various other facets which obstruct the functioning of the SPACs and hence, require a comprehensive regulatory framework for functioning of SPACs.

SPECIAL ACQUISITION COMPANIES: EVOLUTION AND DISTINGUISHING CHARACTERISTICS

Evolution:

SPACs originated in the United States, where they developed from 1980s blank check companies. These listed companies usually didn't have a clear business plan since they were too busy raising money for mergers and acquisitions in the future. These "empty shell" businesses were frequently regarded with mistrust due to their speculative nature, as they were perceived as a legal innovation intended to mislead gullible investors. The U.S. Securities and Exchange Commission (SEC) consequently put in place further rules to monitor these businesses and safeguard investors.

With the passage of the “Penny Stock Reform Act” and other comparable state laws in the 1990s, the current structure of SPACs started to take shape. There was a dramatic drop in the number of blank check initial public offerings (IPOs) as a result of these laws' strict regulations. A group of American bankers and attorneys known as underwriters got together in 1992 to establish a corporation that would be approved by the SEC and provide better protections for investors. While this created the framework for SPACs as we know them today, by the mid-1990s, the market was in a favourable place and small businesses were able to pursue standalone IPOs without the assistance of SPACs.[2]

[2] Teddy Kotler, ‘SPAC to Reality: The Rise, Fall and Possible Future of SPACs’ (2022) Villanova Law Review <https://www.villanovalawreview.com/post/1691-spac-to-reality-the-rise-fall-and-possible-future-of-spacs> accessed 2 October 2025.

During 2003, there was a noticeable decrease in traditional IPOs and a corresponding increase in SPAC IPOs in the United States. Many blame tighter regulations for the decline in initial public offerings (IPOs), citing changes to US securities legislation like the 'Securities Act of 1933' and the 'Securities Exchange Act of 1934' that shielded novice investors. The revival of SPACs was aided by these legislative improvements, and it was amplified in 2008 when it became feasible for them to list on significant stock exchanges such as the Nasdaq and New York Stock Exchange.

SPAC's initial public offerings (IPOs) didn't take off until the late 2010s. The SEC has greatly improved investor protection by fortifying the rules and processes governing SPACs since the early 2000s. This change resulted in a more mature SPAC market in the United States and broader acceptance of SPACs, even from top-tier underwriters. The SEC recently unveiled new regulations designed especially for SPACs, proposing tougher guidelines for representations made in the future during proposed mergers and acquisitions. Holding SPAC targets to the same disclosure requirements as regular initial public offerings (IPOs) is the intended outcome. However, these kinds of strict projections are usually not required for normal IPOs.

Around 2007, SPACs began to appear in the European market when the Pan-European Hotel Acquisition Company (PEHAC) listed on Euronext Amsterdam. The IPO of Liberty International Acquisition Company in February 2008 came right after this. Afterwards, Germany Acquisition Limited made an additional listing on the Amsterdam Stock Exchange in July 2008. At first, American investors provided the majority of the capital raised by these early SPACs, raising concerns about whether this US-centric idea would catch on in Europe. However, Germany in 2008 marked a crucial turning point in the adoption of SPACs within European financial markets, with over 90% of the capital coming from European investors.[3]

Peculiar Characteristics of SPACs:

A Special Purpose Acquisition Company (SPAC) is a "blank check" entity created by sponsors with no assets or operating history, designed to go public with the intent of acquiring a target company, typically a private entity. The funds raised from the IPO are placed into an escrow account and are only released upon the successful completion of the acquisition. This structure

[3] Charandeep Kaur, Shringarika Priyadarshini and Dushyant Sarna, 'Special Purpose Acquisition Companies (SPACs) and the Outlook in India' (*Trilegal,* 5 March 2024) <https://trilegal.com/magazine/spacs-and-the-outlook-in-india-issue-5.html> accessed 3 October 2025.

provides investors with security, as they can vote on the proposed acquisition and redeem their shares if they disapprove, receiving their investment back. SPACs require minimal disclosures when going public, making them a cost-effective alternative to traditional IPOs.

Additionally, SPAC offerings typically combine stock shares with warrants to purchase future shares. Sponsors, who initially buy a small number of shares at low valuation, stand to gain a 20% stake in the post-acquisition company, but only if the merger succeeds. If no deal occurs, they forfeit their shares and do not participate in the liquidation distribution. The structure and objectives of a Special Purpose Acquisition Company (SPAC) are shaped by a number of unique operating characteristics. First off, a sponsor typically an experienced investor or a business operator with a track record of locating acquisition targets—organizes and oversees the SPAC. The offer materials made available to the public during the public offering contain an overview of the main components of the SPAC transaction, including the goals and financial information. These documents give investors vital information about the company's objectives and terms.

Establishing a trust account to safely hold the funds from the public offering is one of a SPAC's most important components. This trust account is intended to safeguard investor cash and is mandated by regulations in numerous jurisdictions. The use of these money is outlined in the offer contract and is usually restricted to running expenditures, acquisition-related expenses, and any debits permitted by applicable law. The purpose of the trust account is to guarantee the protection of investors' funds until a successful company combination (sometimes referred to as a "de-SPAC transaction") is finished.

A SPAC must also find and complete the acquisition of an unlisted target firm within a specific time range. The SPAC has two alternatives if it can't consummate a deal within this time frame: it can dissolve the SPAC and give the money back to shareholders, or it can ask shareholders for an extension. This time frame is set out in the offer documents. This timeframe puts pressure on the sponsors to identify a viable target while safeguarding investors in the event that a sale cannot be completed.[4]

Instead of naming a specific company at first, the SPAC lists the general industries or financial

[4] Dhruv Singhal, Ketaki Gor Mehta, Ravi Shah, Sonakshi Arora & Avani Dalal, 'Role of IFSC in the Indian SPAC Dream: An Overview' (*Cyril Amarchand Mangaldas* 3 October 2023) <https://corporate.cyrilamarchandblogs.com/2022/05/role-of-ifsc-in-the-indian-spac-dream-an-overview-part-3/> accessed 3 October 2025.

standards it will concentrate on while looking for a target company for acquisition. After a target has been identified, the SPAC cannot proceed with the acquisition without the majority consent of its shareholders, which comprise institutional and public investors as well as shareholders. In order to prevent being pressured into a deal they do not agree with, shareholders who are against the purchase have the option to redeem their warrants or shares at their original investment value.

To add to their capital before the de-SPAC transaction, SPACs frequently participate in private investment in public equity (PIPE) deals. These PIPE transactions usually take place following the identification of a target company and are intended to cover financial gaps, offset any potential loss of money resulting from shareholder redemptions, and meet the operating requirements of the SPAC going forward. PIPE deals support the SPAC's financial stability as it advances toward acquisition completion. SPACs are essentially specially created to enable quick acquisitions while offering many levels of investor protection, such as transparent offer paperwork, safe trust accounts, and the option to redeem shares if needed. SPACs provide a dynamic, albeit controlled, route to business combinations through these procedures.

SPECIAL PURPOSE ACQUISITION COMPANIES IN INDIA

SPACs have their roots in the practice of issuing blank check initial public offerings (IPOs), which were mostly connected to penny stocks in the 1980s. Without the framework of an appropriate trading mechanism, penny stocks were traded in an informal, unregulated way at this time, frequently by brokers over the phone and with the use of antiquated computers. Blank check offers, in which securities were issued without the disclosure of any specified goal or clear business plan, were a common method used in these sales. This gave issuers the freedom to decide how to use the money they had raised, with no constraints or limitations.

Investors suffered significant financial losses as a result of the many cases of fraud and abuse that were encouraged by this unregulated environment. These blank check offerings' lack of accountability and transparency made the conditions perfect for dishonest behaviour. Regulatory bodies responded to these worries by introducing methods to deal with these problems. The creation of “Rule 419 under the Securities and Exchange Commission (SEC) Rules of 1934”,[5] which attempted to stop fraudulent practices connected to blank check

[5] Securities and Exchange Commission (SEC) Rules, 1934, r 419.

companies, was one of the most important advancements. Furthermore, laws were further strengthened with the implementation of the Securities Enforcement Remedies, which established enforcement tools to protect investors and penalize violators. The foundation for SPACs' development into the more organized and open organizations they are today was created by these regulatory changes.

The overseas listing of Indian companies via SPACs is gaining significant traction, providing an easier route for Indian firms to access public markets. SPACs have become an increasingly favored mechanism in recent years, allowing companies to go public without the complexities of a traditional IPO.

One of the earliest Indian companies to list internationally through a SPAC was Yatra Online, Inc., which went public on NASDAQ in December 2016. The process involved Terrapin 3 Acquisition Corporation (Terrapin), a SPAC formed specifically to facilitate the business combination with Yatra. Terrapin raised substantial funds through its IPO, which were later used to acquire Yatra. As part of the agreement, Yatra and Terrapin merged, with Yatra issuing shares to Terrapin in exchange for the acquisition funds. This allowed Yatra to become a public company through a reverse merger, known as de-SPAC, thereby bypassing the traditional IPO process. After the de-SPAC transaction, Yatra complied with the U.S. Securities and Exchange Commission (SEC) regulations and began trading on NASDAQ under the ticker symbol "YTRA."

Before Yatra's listing, MakeMyTrip Ltd., another Indian company in the travel industry, had gone public on NASDAQ in August 2010. To achieve this, MakeMyTrip followed a more traditional route by incorporating a holding company, MakeMyTrip Limited, in Mauritius. The holding company then underwent a traditional IPO, adhering to SEC regulations and listing itself on NASDAQ. While this "flipping" strategy through offshore holding companies was popular at the time, it has since been overshadowed by the growing use of SPACs, as demonstrated by Yatra's listing.[6]

More recently, Renew Power Private Limited, a major player in the renewable energy sector, successfully listed on NASDAQ through a SPAC transaction in August 2021. The deal

[6] Manohar Samal, Bhavana J Sekhar and Sathyajith MS, *An Indian perspective on Special Purpose Acquisition Companies* (India Pacific Legal Research LLP 2022) <https://www.google.co.in/books/edition/An_Indian_Perspective_on_Special_Purpose/1iWpEAAAQBAJ?hl=en&gbpv=0> accessed 3 October 2025.

involved a business combination with RMG Acquisition Corporation II, a SPAC that merged with Renew Power Global Merger Sub, a Cayman Islands-based subsidiary of Renew Power. The transaction was primarily funded through private investment in public equity (PIPE), enabling the acquisition and subsequent listing of shares of Renew Power, India. This deal garnered significant attention due to its scale and the involvement of the renewable energy sector.

CONTEMPORARY REGULATORY FRAMEWORK FOR SPECIAL PURPOSE ACQUISITION COMPANIES

Regulatory Framework and Shortcomings:

Under Regulation 2(s) of the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021,[7] Special Purpose Acquisition Companies (SPACs) are defined as entities without any operational business, established solely to execute a business combination. According to Regulation 2(b),[8] a business combination refers to the merger, amalgamation, or acquisition of shares or assets of one or more companies that do have business operations. Essentially, SPACs are blank checks or shell companies with no active business functions, existing solely to facilitate the acquisition or merger of an existing private company.

As cash shell companies with no independent business activity, SPACs remain dormant until they are used for future transactions. These cash shells are distinct from natural shell companies. While cash shells are created to raise capital from public investors to assist a third-party company in going public, natural shell companies are those that have either gone bankrupt or divested most of their assets. Cash shells typically go public through an Initial Public Offering (IPO), selling shares to raise capital before acquiring a target company.

A company's name may be removed from the register by the Registrar of Companies (ROC) by Section 248(1) of the Companies Act, 2013 (CA)[9] if the company has not started activities within a year of its incorporation. The ROC designated 225,910 businesses for elimination in the 2018–19 fiscal year because they neglected to start up. Furthermore, a company having

[7] International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021 r 2(1).
[8] ibid r 2(b).
[9] Companies Act, 2013 (18 of 2013) s 248(1).

share capital is required under Section 10A of the CA,[10] when read in connection with Rule 23 of the Companies (Incorporation) Rules, 2014,[11] to file a declaration by its director within 180 days after incorporation, attesting to the start of business operations.

The Companies Act, 2013 does not explicitly provide for the operation of Special Purpose Acquisition Companies (SPACs). However, Section 248(1) of CA 2013 presents a significant challenge for SPACs. According to this provision, if a company fails to begin its business operations within one year of incorporation, the Registrar of Companies has the authority to strike its name off the register of companies. Given that SPACs typically have a lifespan of 18-24 months during which their sole objective is to acquire or merge with an existing company, they might be classified as shell companies under this section. As a result, unless Section 248 of CA 2013 is amended to accommodate SPACs, these entities may be compelled to cease operations in India. The absence of specific legal recognition for SPACs under CA 2013 creates ambiguity and restricts their ability to function within the Indian corporate landscape.[12]

In addition to the constraints posed by CA 2013, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI ICDR") presents further regulatory obstacles for SPACs. Regulation 6(1) of SEBI ICDR outlines the eligibility criteria for Initial Public Offerings (IPOs), requiring the issuer to meet specific financial benchmarks over the preceding three years. These include maintaining net assets of at least INR 3 crore, an average operating profit of INR 15 crore, and a net worth of at least INR 1 crore. Given that SPACs are "blank check" companies that do not engage in business operations until they merge with a private company post-listing, they are unable to meet these financial performance requirements at the time of going public. Consequently, SPACs find it impossible to qualify for an IPO under the standard criteria set out in Regulation 6(1).

Moreover, Regulation 6(2) of SEBI ICDR provides an alternative route for companies that do not meet the financial criteria under Regulation 6(1). These companies may still make a public offer if they adopt the book-building process and ensure that at least 75% of their net offer is allocated to Qualified Institutional Buyers (QIBs). However, this provision poses significant

[10] Companies Act, 2013 (18 of 2013) s 11.
[11] Companies (Incorporation) Rules, 2014 r. 23.
[12] Masahiro kawal and Eswar Prasad, *Financial Market Regulation and Reforms in Emerging Markets* (Asian Development Bank Institute 2011) <https://www.google.co.in/books/edition/Financial_Market_Regulation_and_Reforms/J9ugAwAAQBAJ?hl=en&gbpv=0> accessed 5 October 2025.

challenges for SPACs. Due to the inherent uncertainty surrounding future acquisitions and the speculative nature of their business model, attracting sufficient interest from QIBs could prove difficult. The high threshold required under Regulation 6(2) could, therefore, be an insurmountable barrier for SPACs to meet.

Given these challenges, it may be necessary for regulatory authorities in India, such as SEBI, to introduce amendments or provide exemptions that facilitate the operation of SPACs in the country. For instance, an amendment to Regulation 6(1) of SEBI ICDR could introduce a more flexible eligibility criterion specifically designed for SPACs, acknowledging their unique business structure. This would enable SPACs to list in India without having to meet the stringent financial thresholds that apply to traditional operating companies. An enabling regulatory framework would not only support the growth of SPACs in India but also position the country as an attractive destination for innovative capital-raising mechanisms.

The International Financial Services Centres Authority (IFSCA) has introduced guidelines governing the listing of Special Purpose Acquisition Companies (SPACs) within International Financial Services Centres (IFSCs) through the issuance of the IFSCA (Issuance and Listing of Securities) Regulations, 2021.[13] These regulations formally recognize SPAC listings in IFSCs and establish comprehensive rules related to SPAC eligibility, the timing of public offerings, mandatory initial disclosures in offer documents, underwriting processes, and other SPAC-specific obligations. This framework aims to facilitate and regulate the presence of SPACs in India's IFSCs, offering clarity on how SPACs can operate within these specialized financial hubs.[14]

While India currently lacks a dedicated regulatory framework for SPACs, the International Financial Services Centres Authority (IFSCA), which oversees financial activities in the Gujarat International Finance Tec-City (GIFT City), has taken steps to address this gap. IFSCA released a consultation paper exploring various methods to facilitate the listing of SPACs within GIFT City. The paper proposed several measures, including stipulations on the size of public offers, mandatory sponsor holdings, minimum application sizes, and the required minimum subscription levels for public offerings. These initiatives aim to create a conducive

[13] IFSCA (Issuance and Listing of Securities) Regulations, 2021 r 2(1).
[14] David Gunther, *Special Purpose Acquisition Companies and the Inefficiency of Capital System* (De Gruyter 2021).

environment for SPAC listings in India's premier financial hub.

The Securities and Exchange Board of India (SEBI) has reportedly been working on a regulatory framework for SPACs that would enable start-ups to list on domestic stock exchanges. While SEBI has yet to issue formal regulations, these reports suggest that India is moving toward the creation of a SPAC-friendly environment, which could open new pathways for Indian start-ups to go public more efficiently through SPACs on Indian bourses.

In addition, the Companies Law Committee (CLC), constituted by the Ministry of Corporate Affairs (MCA) in 2019, released its report in March 2022, which made several important recommendations regarding SPACs. The CLC advocated for the inclusion of an enabling provision in the Companies Act, 2013, that would formally recognize SPACs within Indian corporate law. This would allow Indian entrepreneurs to establish SPACs domestically and facilitate their listing on both Indian and global stock exchanges. Furthermore, the committee recommended amending the Companies Act to relax the requirement that companies must begin business operations within a specific period to avoid being struck off the register, thereby accommodating the unique nature of SPACs, which often remain inactive until they complete a business combination.[15]

The CLC also recommended the inclusion of provisions in the Companies Act to give dissenting shareholders an exit option if they disagree with the SPAC's choice of a target company for acquisition. This would offer shareholders a safeguard, allowing them to redeem their shares before the SPAC finalizes the merger with the target entity. Lastly, the CLC stressed the importance of implementing Section 23(3) and Section 23(4) of the Companies Act, 2013.

AVAILABLE MODELS FOR THE SPECIAL PURPOSE ACQUISITION COMPANIES:

India currently lacks a comprehensive legal framework for the listing of Special Purpose Acquisition Companies (SPACs), leading Indian companies to pursue business combinations with SPACs listed in foreign jurisdictions. These combinations typically follow certain viable

[15] Devarsh Shah, 'SPAC Listings in India: Regulatory Hurdles and the way forward' (*India CorpLaw* 23 March 2021) <https://indiacorplaw.in/2021/03/spac-listings-in-india-regulatory-hurdles-and-the-way-forward.html> accessed 4 October 2025.

legal structures, such as:

- Outbound Merger with a Foreign-Listed SPAC: In this structure, an Indian entity merges with a SPAC listed abroad, resulting in the creation of a foreign company. To execute this, the entity must comply with the provisions of the Companies Act, 2013, and the Foreign Exchange Management (Cross Border Merger) Regulations, 2018. This process, classified as an outbound merger, is court-driven and requires approval from the National Company Law Tribunal (NCLT). Various regulatory authorities, such as the Registrar of Companies (RoC) and the tax authorities, must provide representations, making the process highly time-consuming. The lengthy procedural requirements diminish one of the primary benefits of SPACs—speedy listing—thereby affecting deal certainty. Additionally, under the Cross-Border Regulations, once the outbound merger is completed, the Indian company's office may be treated as a 'branch office.' This office can only engage in activities permitted for branch offices under the relevant Indian exchange control regulations, which significantly limits the scope of operations.

- Share Swap with a Foreign Listed SPAC: Another route is a share swap, where shareholders of the Indian company transfer their shares to the foreign-listed SPAC in exchange for shares issued by the SPAC. Non-resident investors in the Indian company may proceed under the automatic route, meaning they do not require specific approval from the Reserve Bank of India (RBI) under Indian exchange control regulations. However, Indian resident investors do not have access to the automatic route and must seek specific RBI approval. This adds a layer of complexity and regulatory scrutiny, impacting the feasibility of the deal. Despite the American legal framework that provides for and regulates blank check companies, India's current legal landscape imposes significant restrictions. Indian law, including securities regulations, corporate law, and exchange control regulations, creates barriers to the establishment of SPACs domestically.[16]

- Foreign Exchange and Investment Compliance: A critical aspect of structuring these combinations is ensuring compliance with the Foreign Exchange Management (Overseas Investment) Rules, 2022 (OI Rules).[17] These rules govern Indian entities' investment in

[16] Max H. Bazerman and Paresh Patel, 'SPACS: What You Need to Know' (Harvard Business Review) <https://hbr.org/2021/07/spacs-what-you-need-to-know> accessed 4 October 2024.
[17] Foreign Exchange Management (Overseas Investment) Rules, 2022 (OI Rules) RB-312.

foreign companies. For instance, an Indian company may invest in a foreign entity engaged in financial services, subject to conditions like maintaining a minimum net worth and posting net profits over the previous three financial years. However, Indian resident individuals are restricted from acquiring more than 10% of the share capital in foreign companies engaged in financial services, or gaining management control of such entities.

Under the OI Rules, a foreign SPAC may be considered a financial services entity since the activities of holding companies in India fall under the purview of the Reserve Bank of India (RBI), a financial sector regulator. As a result, Indian shareholders in the combining company must comply with the OI Rules. Resident individuals can only acquire up to 10% of the paid-up equity capital of the foreign SPAC, while ensuring there is no arrangement that would grant them management control over the SPAC. These legal frameworks add significant layers of complexity to SPAC transactions involving Indian companies, requiring meticulous regulatory compliance and time-consuming approval processes.

Consequently, the absence of a dedicated SPAC regime in India continues to drive Indian companies toward foreign-listed SPACs for faster and more flexible access to public markets.

FOREIGN JURISPRUDENCE ON SPECIAL PURPOSE ACQUISITION COMPANIES

United States of America:

The United States provides a highly liberal regulatory framework for Special Purpose Acquisition Companies (SPACs), as demonstrated by the 613 SPAC listings on American stock exchanges in 2021 alone. Under Rule 405 of the Securities Act of 1933 ("Securities Act"),[18] a SPAC is classed as a shell company. This designation categorizes SPACs as ‘ineligible issuers,’ although it does not restrict them from obtaining funds through an initial public offering (IPO). Instead, it imposes certain additional limits. For instance, during the roadshow presentations, an ineligible issuer is subject to stricter rules.

It is significant to remember that the United States makes a distinction between blank check

[18] Securities Act, 1933 (21 of 1933) r 405.

corporations—as described by Rule 419 of the Securities Act—and shell companies, as defined by Rule 405. SPACs can get around Rule 419's trading prohibitions on penny stocks until a business combination is finalized by filing Form 8-K, which requests an exemption from these particular regulations. Thus, in contrast to India, SPAC listings are fully allowed in the U.S., providing a more straightforward route for companies to enter public markets. The American approach to regulating shell companies may serve as a model for Indian lawmakers. SPACs can still raise money through an IPO, even though U.S. law considers them shell companies—albeit with more limitations. A comparable clause that would allow for the formalization and expansion of SPACs under Indian regulatory frameworks might be incorporated into the Companies Act, 2013,[19] as well as SEBI's Issue of Capital and Disclosure Requirements (ICDR) regulations in India.

European Union:

In the **European Union**, specific guidelines on SPAC listings have been adopted by major exchanges such as Euronext Amsterdam and the London Stock Exchange (LSE). The EU's Transparency Directive (2004/109/EC)[20] ensures that SPACs comply with transparency obligations, including the disclosure of financial information. Additionally, stock exchanges across Europe have developed tailored guidelines for SPAC listings, covering aspects like minimum capital requirements and investor protections. These guidelines enable smooth listing procedures for SPACs while safeguarding investor interests through clear rules on disclosure and shareholder rights. India, by contrast, lacks such SPAC-specific guidelines, forcing companies to meet traditional IPO benchmarks that are difficult for non-operational SPACs to achieve.

United Kingdom:

In the **United Kingdom**, the Financial Conduct Authority (FCA) implemented SPAC rules in 2021 to bolster investor confidence. The FCA requires SPACs to place IPO proceeds in escrow accounts and provides shareholders with redemption rights if they do not approve of the business combination. SPACs are also given a 24-month timeframe to complete a business combination, with provisions to extend this period via shareholder approval. These rules offer investors security while allowing SPACs a structured path to listing and mergers. In contrast,

[19] Companies Act, 2013 (18 of 2013).
[20] European Union Transparency Directive (2004/109/EC).

India lacks such formal investor protection mechanisms, including mandatory escrow accounts and voting rights in the business combination process, leaving a gap in regulatory support for SPACs.

Canada

Canada has established a regulatory framework for SPACs, primarily through its stock exchanges like the Toronto Stock Exchange (TSX). The TSX rules, adopted in 2008, set out clear guidelines for SPAC listings. The TSX requires SPACs to raise at least CAD 30 million in an initial public offering (IPO), and at least 90% of the gross proceeds from the IPO must be placed in an escrow account. SPACs have 36 months to complete a qualifying acquisition, or they must return the funds to shareholders. Shareholders are also given the right to vote on the proposed business combination, and dissenting shareholders can redeem their shares for their pro-rata share of the escrow account.

Singapore:

Singapore introduced regulations for SPACs in 2021 through the Singapore Exchange (SGX). The SGX framework allows SPACs to raise funds through IPOs with a minimum market capitalization of SGD 150 million. Similar to other jurisdictions, the IPO proceeds are placed in a trust account, and SPACs are required to complete a business combination within 24 months, with a potential extension to 36 months upon shareholder approval. Shareholders have the right to vote on the acquisition and redeem their shares if they do not agree with the proposed transaction. The Singapore framework also focuses on investor protections by ensuring that SPAC sponsors have significant "skin in the game" through a minimum equity investment.

Hong Kong:

Hong Kong launched its SPAC framework in early 2022, via the Hong Kong Stock Exchange (HKEX). Under this framework, SPACs must have a minimum market capitalization of HKD 1 billion, with IPO proceeds placed in a trust account. SPACs must complete a business combination within 24 months of the listing, with the option to extend this period by 12 months, subject to shareholder approval. Additionally, at least 25% of the SPAC’s shares must be held

by public investors after the combination.[21] The HKEX also mandates that SPAC promoters demonstrate experience and a track record of running successful businesses, ensuring a higher level of oversight. Like other jurisdictions, Hong Kong allows shareholders to redeem their shares if they do not support the proposed acquisition.

Malaysia:

Malaysia has recently followed suit in developing a regulatory framework for SPACs, with rules published by the Securities Commission Malaysia (SC) and Bursa Malaysia. The Malaysian framework has several investor protection features, such as a requirement that 90% of IPO proceeds be placed in a trust account and that SPACs must acquire a business within three years. The SPAC must also meet a minimum market capitalization threshold and provide shareholders with voting rights on acquisitions, along with an option to redeem their shares if they do not support the business combination. If the SPAC fails to acquire a business within the specified time frame, the funds in the trust are returned to investors.

Australia:

Australia has been exploring the possibility of allowing SPACs to list on its exchanges, though as of 2023, there is no fully developed framework like those in North America, Europe, or Asia. However, discussions have been underway among regulators, including the Australian Securities and Investments Commission (ASIC), to explore how SPACs might fit into the Australian market. The Australian Stock Exchange (ASX) does allow companies with limited operational history to go public, but a dedicated SPAC framework has yet to be implemented.

Brazil:

In Latin America, **Brazil** has also been developing a framework for SPAC listings. The Brazilian Securities and Exchange Commission (CVM) has allowed for the listing of SPACs on the Brazilian stock exchange, B3, since 2021. Brazil's SPAC regulations are closely modelled after the US framework, allowing for flexibility in raising capital through IPOs while ensuring that SPACs follow specific transparency and disclosure rules. Brazilian SPACs must

[21] Lerong Lu, 'Innovating corporate share listing frameworks: a comparative study of SPAC regulatory regimes in the United Kingdom, Singapore, and Hong Kong' <https://tandfonline.com/doi/full/10.1080/10192557.2024.2349388> 32(2) Asia Pacific Law Review (Taylor and Francis) accessed 4 October 2024.

complete a business combination within 24 months, extendable to 36 months with shareholder approval. Proceeds from the IPO must be held in a trust account, and shareholders are given the right to vote on the acquisition and redeem their shares.

United Arab Emirates (UAE):

The **UAE**, specifically the Abu Dhabi Securities Exchange (ADX), launched its SPAC framework in 2022.[22] The ADX guidelines focus on promoting SPAC listings to attract foreign investment and enhance capital markets in the region. The framework allows SPACs to list with a minimum market capitalization requirement and mandates that at least 90% of IPO proceeds are held in a trust account. SPACs are given up to 24 months to complete a business combination, with shareholder voting rights and redemption options similar to other global markets. The UAE's approach to SPACs aligns with its broader goal of becoming a regional financial hub.

Therefore, while these countries have a comprehensive regulatory framework, India does not have not a substantial framework. It is essentially required because the Special Purpose Acquisition Companies are one of the most financially sound business structures.

CONCLUSION AND ANALYSIS

The Research Paper emphasizes the critical role that Special Acquisition Companies (SPACs) play in the contemporary financial landscape, particularly in India, where they have emerged as a viable alternative for companies seeking to go public. The analysis highlights that while SPACs offer unique advantages, such as expedited access to capital and reduced regulatory burdens compared to traditional IPOs, they also present significant challenges and risks that necessitate a robust regulatory framework.

In recent years, many countries have recognized the potential of Special Purpose Acquisition Companies (SPACs) as a novel financial vehicle for taking companies public. Countries like Canada, Singapore, Hong Kong, Malaysia, Brazil and the United Arab Emirates have proactively established comprehensive SPAC frameworks to facilitate faster, more flexible

[22] ADQ, 'ADC Acquisition Corporation shares to start trading on ADX from Friday 27 May' (ADQ 2022) <https://www.adq.ae/newsroom/adc-acquisition-corporation-shares-to-start-trading-on-adx-from-friday-27-may/#:~:text=ADX%20was%20the%20first%20market,(SCA)%20in%20February%202022> accessed 4 October 2024.

access to capital markets while ensuring investor protection. Each jurisdiction tailors its regulations to its financial ecosystem, focusing on factors like minimum market capitalization, IPO escrow requirements, timeframes for completing acquisitions, and shareholder rights during business combinations.[23]

Canada and Singapore stand out for their well-established systems, emphasizing a balance between opportunity and oversight. For example, Canada's rules mandate placing 90% of IPO proceeds in escrow, providing a safety net for investors while encouraging business combinations within 36 months. Similarly, Singapore's SPAC framework promotes accountability by requiring a sizable minimum market cap and ensuring that shareholders retain significant control over the post-combination entity.

Hong Kong and Malaysia have taken similar steps, offering SPAC sponsors pathways to launch listings in emerging markets with substantial liquidity while protecting shareholders through voting and redemption rights. These countries are capitalizing on global investor interest, positioning themselves as major financial hubs for SPAC transactions, and attracting foreign companies to list in their markets.

In contrast, Brazil and the UAE, as newer players in the SPAC market, have shown a willingness to adapt global best practices to their own regulatory environments. Brazil's adaptation of the US SPAC framework and the UAE's innovative push to make Abu Dhabi a regional financial hub reflect broader trends in the democratization of public capital access.

From an Indian perspective, the absence of a structured SPAC regime puts the country at a disadvantage. Indian entities looking to go public are increasingly relying on foreign SPACs for business combinations, which complicates the process with cross-border mergers, share swap structures, and compliance with Indian foreign exchange regulations. Moreover, Indian companies face significant challenges when pursuing SPAC listings abroad, as these transactions often involve navigating complex regulations, such as the Foreign Exchange Management (Overseas Investment) Rules and the restrictions imposed on outbound mergers.

The global trends in SPAC regulations indicate a need for India to develop its own SPAC framework that mirrors the flexibility seen in Singapore or Canada, while integrating necessary

[23] Umankanth Varottil, 'Special Purpose Acquisition Companies: A discordant Tale of Two Asian Financial Centres' 18(2) Capital Markets Law Journal 202.

investor protections. Introducing a legal structure for SPACs would prevent capital flight, enhance domestic capital markets, and offer Indian companies faster, more efficient routes to public markets. This can also boost India's standing as a financial hub, aligning with its broader economic goals of promoting innovation and start-up ecosystems. Furthermore, by incorporating best practices from the US and European Union, India can ensure that investor interests are safeguarded while also creating an attractive platform for SPAC sponsors.