



BLANK CHECKS AND REGULATORY SANDBOXES: EVALUATING THE SPAC FRAMEWORK UNDER THE IFSCA REGULATIONS AND THE COMPANIES ACT 2013

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ABSTRACT

Traditional Initial Public Offerings (IPOs) have run into growing friction. Market volatility, long timelines, and heavy regulatory scrutiny make the process slow and expensive. Special Purpose Acquisition Companies (SPACs) offer a different route: they let private companies reach public markets more quickly through a reverse merger. In India, however, the rigid structure of the Companies Act 2013 has made it almost impossible for SPACs to take root. This article looks at the domestic regulatory vacuum that surrounds shell companies and contrasts it with the newly notified International Financial Services Centres Authority (Listing) Regulations 2024. By creating a dedicated regulatory corridor inside India's International Financial Services Centre (IFSC), the IFSCA has put in place a SPAC framework that tries to balance capital-market innovation with solid protection for retail investors. Through a close reading of the rules on issue size, sponsor lock-ups, escrow ring-fencing, market-integrity risks, and the rights of dissenting shareholders, the paper asks whether the IFSC model can serve as a practical blueprint for reforming domestic company law, the very step the Company Law Committee recommended in 2022.¹²

Keywords: Special Purpose Acquisition Companies, IFSC, Reverse Merger, Corporate Governance, De-SPAC.

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¹Ministry of Corporate Affairs, *Report of the Company Law Committee* (Government of India 2022) ch I, para 22.8, 63.

²International Financial Services Centres Authority (Listing) Regulations 2024.

INTRODUCTION

A Special Purpose Acquisition Company (SPAC) changes the usual way public capital is raised. Under the International Financial Services Centres Authority (Listing) Regulations 2024, a SPAC is simply a company that has no operating business and was formed for one main purpose: to complete a business combination. In practice, it works as an institutionalised “blank-check” vehicle. It raises money through an IPO almost entirely on the strength of its sponsors’ reputation, commercial judgement, and sector knowledge.³⁴

In a conventional IPO, the issuer must show audited financial history, an established business, and concrete forecasts so that investors can judge its valuation. A SPAC does the opposite. Its offer document centres on the sponsors’ proposed investment strategy and states clearly that no specific target has been chosen before the offering. The money raised is placed in an independent, interest-bearing escrow account and is legally ring-fenced from any operational use by the promoters.⁵⁶

The real turning point is the “De-SPAC” transaction, the moment the listed shell merges with, acquires, or amalgamates with a private operating company. This reverse-takeover structure gives the target a public listing without the multi-year waits, administrative burden, and market exposure that come with a traditional IPO. Instead of pricing the issue through a volatile public book-building process, the target negotiates its valuation directly with the SPAC sponsor, locking in terms through private contracting.⁷⁸

That said, the De-SPAC route carries serious operational risks. The vehicle works under a strict time limit. If it fails to find a target and complete the business combination within the prescribed statutory period, it must liquidate and return the escrowed funds to investors on a pro-rata basis. Public shareholders also keep redemption rights: they can walk away from the deal and take their capital out if they dislike the target’s valuation or business model. When

³ *ibid*, reg 44(1)(c).

⁴ International Financial Services Centres Authority (Listing) Regulations 2024, reg 3(1)(ee).

⁵ *ibid*, reg 54(1)–(2).

⁶ *ibid*, reg 44(1)(a).

⁷ *Security Matters Ltd; In the Matter of Security Matters Ltd* [2023] FCA 19 [1]–[7] (Anderson J).

⁸ *ibid*, reg 3(1)(c).

redemption rates climb, the post-combination company can be left with a dangerously thin capital base, putting its long-term viability at risk.⁹¹⁰¹¹

THE DOMESTIC REGULATORY VACUUM UNDER THE COMPANIES ACT 2013

The regulatory roadblock that SPACs face in mainland India is not an accidental gap in the law. It is the deliberate expression of a long-standing enforcement policy aimed at wiping out shell entities that were once used for tax avoidance, round-tripping, and money laundering. Indian company law has always treated incorporation as something that should be followed, almost immediately, by real commercial activity.

That philosophy is written into Section 248 of the Companies Act 2013 (CA-13). Section 248(1)(a) gives the Registrar of Companies (RoC) the power to strike off any company that has not started business within one year of incorporation. A SPAC, by design, stays dormant and holds liquid capital while it searches for an operating business, a search that often takes twenty-four to thirty-six months. Under the present rules, any domestic SPAC formed under CA-13 risks being dissolved by the RoC long before a target can even be put to shareholders.¹²¹³

The Company Law Committee (2022) recognised this structural problem. It noted that the rigid timelines in CA-13 stop Indian companies from using a capital-raising tool that is accepted worldwide. The Committee therefore recommended that CA-13 be amended to recognise SPACs and to give them statutory protection from premature strike-off under Section 248, provided they meet defined operational milestones and disclosure requirements.¹⁴¹⁵

The problem is made worse by SEBI listing rules. Regulation 6(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 (ICDR Regulations) requires an issuer seeking a main-board listing to show net tangible assets of at least three crore rupees in each of the preceding three financial years, plus minimum operating profits over three consecutive years. An unmerged SPAC has neither an operating history nor tangible commercial assets

⁹ *Security Matters Ltd and Ors v Minister for Immigration and Ors* (2023) VID 777 of 2022, MANU/AUFC/0089/2023 [8]–[14] (O'Bryan J).

¹⁰ *ibid*, reg 54(6).

¹¹ International Financial Services Centres Authority (Listing) Regulations 2024, reg 54(8)–(9).

¹² Ministry of Corporate Affairs, *Report of the Company Law Committee* (Government of India 2022) ch I, para 22.1, 61.

¹³ Companies Act 2013, s 248(1)(a).

¹⁴ *ibid*, ch I, para 22.8, 63.

¹⁵ *ibid*, ch I, paras 22.2–22.4, 61–62.

beyond its cash escrow, so it is simply ineligible to access the domestic public markets under the general route.¹⁶¹⁷

Post-acquisition structuring under CA-13 creates further obstacles, especially around treasury stock. Sections 232(3)(b) and 233(10) of CA-13 prohibit a transferee company from holding shares in its own name or in the name of any trust after a compromise, arrangement, or amalgamation. The statute requires any such shares to be cancelled and extinguished once the merger is sanctioned. In international De-SPAC deals, treasury shares are routinely used to stabilise control, fund earn-out payments to target promoters, and keep a measure of fractional liquidity. The absolute ban under Indian law strips domestic mergers of that flexibility and underlines the need for the statutory changes flagged by the CLC Report.¹⁸¹⁹²⁰²¹

CAPITAL MARKET DYNAMICS, LIQUIDITY RISKS, AND MARKET INTEGRITY IN DE-SPAC MERGERS

Even if the corporate-law barriers were removed, SPAC transactions still create real capital-market risks during the De-SPAC window. The gap between target announcement, shareholder voting, and the exercise of redemption rights produces distorted trading conditions that can undermine market integrity.

Once a sponsor announces a proposed business combination, market sentiment decides whether investors stay in or redeem. If institutions and retail participants think the target is overvalued, redemptions surge. Heavy redemptions drain the capital sitting in the escrow trust and leave the post-merger company with a very thin public float.²²²³

In today's markets, an illiquid security with a concentrated, shallow float is fertile ground for abusive strategies such as spoofing, quote-stuffing, and layering. Algorithmic and high-

¹⁶ Ministry of Corporate Affairs, *Report of the Company Law Committee* (Government of India 2022) ch I, para 22.7, 62–63.

¹⁷ Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg 6(1).

¹⁸ Ministry of Corporate Affairs, *Report of the Company Law Committee* (Government of India 2022) ch I, paras 20.6–20.11, 57–58.

¹⁹ *Security Matters Ltd and Ors v Minister for Immigration and Ors* (2023) VID 777 of 2022, MANU/AUFC/0089/2023 [5]–[7].

²⁰ *ibid.*

²¹ Companies Act 2013, ss 232(3)(b), 233(10).

²² *ibid.*, [15]–[18].

²³ *Security Matters Ltd and Ors v Minister for Immigration and Ors* (2023) VID 777 of 2022, MANU/AUFC/0089/2023 [11]–[13].

frequency trading platforms can exploit the asymmetric information that surrounds redemption figures. By posting large non-bona fide buy or sell orders and cancelling them before execution, manipulators distort the visible order book and create artificial price momentum.²⁴²⁵

Under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations 2003, proving algorithmic manipulation is already difficult, as the Supreme Court noted in *Triumph International Finance Ltd v SEBI*. The core problem is separating genuine fraudulent intent from the rapid automated market-making that occurs in volatile liquidity pools. In a De-SPAC setting, where price discovery is already clouded by complex valuation models and sponsor dilution formulas, layering can push the stock price higher, drawing unsophisticated retail investors into an inflated asset just before early investors exit.²⁶²⁷²⁸

Authorising SPAC listings therefore cannot rest on corporate-law disclosures alone. A workable framework needs stronger market-oversight tools: mandatory unique algorithmic trading identifiers (Algo IDs) for orders in SPAC instruments during the merger window, together with exchange-level dynamic price bands and pre-trade risk controls that can stop artificial cascades when the float shrinks.²⁹

THE REGULATORY ARCHITECTURE OF THE IFSCA (LISTING) REGULATIONS, 2024

Rather than embark on a wide-ranging rewrite of CA-13, the Ministry of Corporate Affairs and market regulators channelled SPAC reform through the Gujarat International Finance Tec-City (GIFT City). Under the International Financial Services Centres Authority Act 2019, the IFSCA has the statutory power to set capital-market rules inside designated international financial zones.³⁰

²⁴ Securities and Exchange Board of India, 'Broad Framework for Algorithmic Trading' (Circular No CIR/MRD/DP/09/2012, 30 March 2012).

²⁵ Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations 2003, regs 3–4.

²⁶ *Security Matters Ltd and Ors v Minister for Immigration and Ors* (2023) VID 777 of 2022, MANU/AUFC/0089/2023 [22]–[27].

²⁷ *ibid*, [35].

²⁸ *Triumph International Finance Ltd v Securities and Exchange Board of India* [2022] INSC 449, (2022) SCC OnLine SC 614 [28]–[34].

²⁹ Securities and Exchange Board of India, 'Broad Framework for Algorithmic Trading' (Circular No CIR/MRD/DP/09/2012, 30 March 2012) para 4.

³⁰ International Financial Services Centres Authority Act 2019, ss 12–13, 28.

Chapter VI of the IFSCA (Listing) Regulations 2024, notified in August 2024, supplies the first comprehensive statutory framework for SPACs on Indian soil. The rules try to keep the speed-to-market advantage of SPACs while building in structural safeguards against sponsor abuse and the misuse of public funds.³¹

IFSCA (Listing) Regulations, 2024: SPAC Architecture

Regulatory Requirement	Statutory Rule & Threshold
Minimum Issue Size	USD 50 million [reg 48(1)]
Target Neutrality	Cannot identify target before IPO [reg 44(1)(a)]
Sponsor “Skin in the Game”	15%–20% post-issue equity [reg 48(2)–(3)]
Escrow Ring-Fencing	100% of IPO proceeds in custodian bank [reg 54(1)–(2)]
Deferred Underwriting Commission	Minimum 50% deferred until De-SPAC [reg 51(2)]
Target Valuation Floor	Fair value $\geq$ 80% of escrow balance [reg 54(11)]
Maximum De-SPAC Window	36 months before mandatory liquidation [reg 54(8)–(9)]
Sponsor Liquidation Bar	Sponsors forfeit all escrow claims [reg 54(9)]

Regulation 44(1)(a) enshrines the principle of target neutrality: the prospective target must not be identified before the IPO, so that the vehicle cannot be used to dodge ordinary prospectus disclosures. To keep out volatile penny-stock shells, Regulation 48(1) sets a substantial

³¹ International Financial Services Centres Authority (Listing) Regulations 2024, ch VI.

minimum issue size of fifty million US dollars (USD 50,000,000) or its equivalent in permitted foreign currencies.³²³³

Sponsor incentives are aligned with long-term survival through mandatory capital requirements. Sponsors must hold between fifteen percent (15%) and twenty percent (20%) of the post-issue paid-up capital of the SPAC. Before the IPO opens, they must also subscribe for at least ten million US dollars (USD 10,000,000) or two and a half per cent (2.5%) of the total issue size, whichever is lower. The idea is straightforward: the founding group must have real money at risk if the transaction collapses.³⁴³⁵

The heart of the IFSCA regime is its escrow framework. Regulation 54(1) requires the entire IPO proceeds to be deposited in an interest-bearing escrow account supervised by an independent custodian. Under Regulation 54(2), those funds may be invested only in short-term, investment-grade liquid debt instruments; speculative assets and operational diversions are strictly forbidden.³⁶³⁷

In a clear break from some of the more problematic offshore practices, Regulation 51(2) introduces a mandatory deferred-compensation rule for intermediaries: at least fifty per cent (50%) of the underwriting commission must be held back and kept inside the escrow account until the business combination is completed. If the deal fails and the SPAC is liquidated, the underwriter has no claim on those deferred funds, so advisory interests are tied directly to deal execution.³⁸³⁹

DISSENTING SHAREHOLDER RIGHTS, VALUATION FLOORS, AND POLICY HARMONISATION

The real test of any SPAC regime is how it handles governance during the De-SPAC approval process. The IFSCA 2024 Regulations contain several statutory checks designed to protect minority shareholders from value-destructive deals.

³² *ibid*, reg 48(1).

³³ *ibid*, reg 44(1)(a).

³⁴ *ibid*, reg 48(3).

³⁵ *ibid*, reg 48(2).

³⁶ *ibid*, reg 54(2).

³⁷ *ibid*, reg 54(1).

³⁸ *ibid*, reg 51(3).

³⁹ *ibid*, reg 51(2).

Regulation 54(11) sets a qualitative valuation floor: the target company must have an aggregate fair market value of at least eighty per cent (80%) of the net amount sitting in the escrow account (excluding deferred commissions and accrued tax). This stop sponsors from pushing through small, low-quality acquisitions simply to unlock their promoter equity.⁴⁰

When the sponsor identifies a target, it must obtain prior approval by a resolution passed by a majority of shareholders other than the sponsors. Crucially, Regulation 54(6) gives every non-sponsor shareholder who votes against the proposed combination an absolute redemption right: they can convert their holdings into a pro-rata share of the escrow balance (net of applicable taxes). Investors who disagree with the target's fundamentals are therefore not forced to stay in the newly combined operating company.⁴¹⁴²

If the business combination is not completed within thirty-six months of listing, the vehicle enters compulsory liquidation under Regulation 54(9). The escrow is wound up, the securities are delisted, and the proceeds are returned to public investors. Sponsors are barred from any distribution of the escrow funds, so the primary capital losses fall on the promoters who drove the transaction.⁴³⁴⁴⁴⁵

Once the De-SPAC is completed, the resulting operating company must satisfy the ordinary listing eligibility criteria within one hundred and eighty (180) days if it is to keep its trading status. To discourage immediate post-merger dumping, Regulations 56(4) and 56(5) impose a mandatory one-year lock-up on the equity held by sponsors, controlling shareholders, directors, and Key Managerial Personnel (KMPs).⁴⁶⁴⁷

THE PATH TOWARD A HARMONISED NATIONAL FRAMEWORK

The architecture built by the IFSCA answers many of the criticisms historically levelled at blank-check companies. It shows that investor protection and non-traditional public offerings can coexist. Yet confining the regime to the offshore financial centre at GIFT City leaves the bulk of India's industrial and technology ecosystem without a practical route to market.

⁴⁰ *ibid*, reg 54(11).

⁴¹ *ibid*, reg 54(6).

⁴² *ibid*, reg 54(5).

⁴³ *ibid*.

⁴⁴ *ibid*, reg 54(9).

⁴⁵ *ibid*, reg 54(8)–(9).

⁴⁶ *ibid*, regs 56(4)–(5).

⁴⁷ *ibid*, reg 56(2).

Domestic incorporation on the mainland is still constrained by CA-13. Closing that gap requires legislative action along the lines recommended by the Company Law Committee (2022). Parliament should insert a dedicated chapter on Special Purpose Acquisition Companies into CA-13, expressly exempting them from the one-year commercial-activity rule in Section 248. At the same time, Sections 232 and 233 should be adjusted so that treasury stock arising from qualifying De-SPAC amalgamations can be retained and later disposed of in a structured way.⁴⁸⁴⁹⁵⁰

Finally, full use of international De-SPAC transactions will need the unreserved operationalisation of Sections 23(3) and 23(4) of CA-13, which already allow prescribed classes of Indian public companies to issue securities for direct listing on permitted foreign exchanges. Bridging the gap between mainland corporate legislation and the IFSCA's sandbox principles would give homegrown enterprises a regulated, modern, and legally sound alternative to traditional public capital raising.⁵¹

⁴⁸ *ibid*, ch I, paras 20.9–20.11, 57–58.

⁴⁹ *ibid*.

⁵⁰ Ministry of Corporate Affairs, *Report of the Company Law Committee* (Government of India 2022) ch I, para 22.8, 63.

⁵¹ Companies Act 2013, ss 23(3)–(4); Ministry of Corporate Affairs, *Report of the Company Law Committee* (Government of India 2022) ch I, para 22.8, 63.

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