

## **Special Purpose Acquisition Companies**

### **Why in news?**

Recently, International Financial Services Authority sought the views of the public on listing the securities of Special Purpose Acquisition Companies on the GIFT IFSC.

### **What is Special Purpose Acquisition Companies (SPACs)?**

- SPACs are shell companies that raise money with the intention to acquire an existing company from the funds raised in the public offer.
- These companies don't have existing business and investors in these issues bet on future acquisitions which give them due returns.
- Like crypto currencies, the company assets don't have any intrinsic value at the time of the issue.
- Investors just rely on the reputation of the sponsor and his expertise in identifying the right company for acquisition.
- In recent times they are gaining popularity due to the increasing global liquidity levels on the prices of risky assets.

### **What are the merits on listing new securities?**

- IFSCA is right in its consideration to introduce new categories of securities in the IFSC.
- These securities can be issued by an unlisted issuer or a follow-on public offer of specified securities by a listed issuer or listing of specified securities by a start-up company or an SME.
- If the pool of investors at the IFSC increases, it will help domestic entities raise funds easily.
- Moreover listing of debt securities including ESG focussed debt securities can enhance the reputation of the IFSC.

### **What is the issue in expanding the base of securities?**

- IFSCA ruled that sponsors will hold at least 20% of the post-issue capital and suggested a minimum application of \$250,000 to protect the investors from risk of loss.
- If tight monetary condition prevails, the desire for these products will reduce which might cause losses to investors.

- Moreover increasing the acquisition timeline to four years from three years is considered too long.
- If any of the issuers fail to make the intended acquisitions, it may impact the credibility of the GIFT-IFSC.
- Though IFSC intends to expand the range of securities traded in the offshore centre but it should be mindful of not eroding the credibility of the centre.
- Given the GIFT-IFSC is in at a very nascent stage of development, it is best not to introduce this in the GIFT-IFSC.

**Source: Business Line**

