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

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