

29 October 2021

BY HAND AND BY EMAIL

Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Consultation Paper on Special Purpose Acquisition Companies

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the captioned consultation paper. Terms used in this letter shall have the same meanings as in the consultation paper.

We appreciate the Exchange's ongoing commitment to enhancing its listing framework and maintaining the competitiveness of Hong Kong as an international financial centre.

We note that the Exchange has proposed to establish a SPAC regime in Hong Kong with a high entry point and mandatory commitment from SFC-licensed promoters, that is restricted to professional investors only before De-SPAC. The Exchange has also proposed to mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC Transaction, as PIPE investments will provide a form of validation on the valuation of the De-SPAC Target agreed between the De-SPAC Target and the SPAC Promoters.

It is stated in the consultation paper that many listing applicants now wish to take a "dual-track" approach to going public, whereby they will simultaneously apply to list via a traditional IPO and also negotiate with several SPAC Promoters to list via a SPAC.

We agree that Hong Kong may be better able to compete for sizeable Greater China listings if it is also able to offer such a dual-track option.

We would like to share with you the following observations and comments:

Application of new listing requirements to De-SPAC Transactions

The importance of putting in place sufficient safeguards to maintain an orderly market with robust investor protection is beyond doubt.

Applying new listing requirements to a De-SPAC Transaction is consistent with the stance taken by the Exchange and the SFC on shell activities and will help ensure that the Successor Company is ready to operate as a public company. This is also similar to the approach taken in other major markets.

Striking the right balance for a suitable yet competitive regime

If the Exchange decides to restrict the SPAC regime to professional investors only, there may not be a need to impose requirements which are much more stringent than those of other major markets where retail participation is not prohibited, lest the requirements might further reduce the competitiveness of the proposed regime.

Some of the proposals can be less restrictive, for example, there may not be a need to mandate at least one SPAC Promoter, at listing and on an ongoing basis for the lifetime of the SPAC, to be a firm that holds: (a) a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC; and (b) at least 10% of the Promoter Shares. No other major market has such a requirement.

Issuer and investor education

If the SPAC regime is established, the Exchange should consider raising proper awareness amongst IPO applicants/De-SPAC Targets and investors about the inherent risks of SPACs as well as the more complex accounting issues involved in a listing via the SPAC route.



Should you have any questions on the above comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, [REDACTED], on [REDACTED].

Yours faithfully,

[REDACTED]

Certified Public Accountants
Hong Kong