

Submitted via Qualtrics

Company/Organisation view

Question 1

Do you agree that the subscription and trading of SPAC securities prior to a De-SPAC Transaction should be limited to Professional Investors only (see paragraph 149 of the Consultation Paper)?

No

Please give reasons for your views.

While we applaud the efforts of the Hong Kong Exchange to protect retail investors, we believe that the redemption rights offered to shareholders by SPACs under the proposed framework offer substantial downside protection to them. Excluding retail participation from SPACs would very likely reduce trading volatility, but we do not believe that excluding them from trading prior to a De-SPAC is necessary so long as redemption rights exist. Due to the asymmetry of SPACs as opposed to IPOs (i.e., if shares trade up, shareholders will benefit, but if shares trade down, shareholders may simply redeem), it seems that prohibiting retail participation would prohibit retail investors from participating in potential gains without adding meaningful protection from losses. If a goal of this contemplated limitation would be to ensure that only sophisticated investors are casting votes to approve or reject a De-SPAC transaction, we believe this can be achieved by having a maximum retail participation level (as opposed to a wholesale ban).

Question 2

Do you agree with the measures proposed in paragraphs 151 to 159 of the Consultation Paper to ensure SPAC's securities are not marketed to and traded by the public in Hong Kong (excluding Professional Investors)?

Please give reasons for your views.

Question 3a

Do you consider it appropriate for SPAC Shares and SPAC Warrants to be permitted to trade separately from the date of initial listing to a De-SPAC Transaction?

No

Please give reasons for your views.

Our perception is that the warrant component of SPAC units has historically been an important tool to incentivize investors to allocate their capital to an uncertain outcome. Said differently, even if the SPAC investor does not ultimately wish to hold the shares in the survivor company,

there is at least a potential reward for having committed their capital in the form of warrants. While we appreciate this market dynamic, in practice, there are many investors who allocate to a SPAC IPO and then sell their common shares and keep the warrants. In effect, these investors take the reward for committing their capital without actually committing it. Because of this, we are supportive of SPAC units not trading separately until after a De-SPAC transaction completes. While this would likely reduce liquidity by limiting the participants who might be interested in a SPAC IPO, we would contend that participants who hold the warrants and sell the common shares are actually providing little to no value.

Question 3b

As your answer to question 3a is “No”, do you have any alternative suggestions?

Yes

Please set out any alternative suggestions below.

We are supportive of SPAC units not trading separately until after a De-SPAC transaction completes. While this would likely reduce liquidity by limiting the participants who might be interested in a SPAC IPO, we would contend that participants who hold the warrants and sell the common shares are actually providing little to no value.

Question 4a

Would either Option 1 (as set out in paragraph 170 of the Consultation Paper) or Option 2 as set out in paragraph 171 to 174 of the Consultation Paper) be adequate to mitigate the risks of extraordinary volatility in SPAC Warrants and a disorderly market?

Please give reasons for your views. Please provide further technical details if you suggest a different option.

Question 4b

Do you have any other suggestions to address the risks regarding trading arrangements we set out in the Consultation Paper?

Please give any suggestions below:

Question 5

Do you agree that, at its initial offering, a SPAC must distribute each of SPAC Shares and SPAC Warrants to a minimum of 75 Professional Investors in total (of either type) of which 30 must be Institutional Professional Investors?

Yes

Please give reasons for your views.

We believe that a robust distribution of shares is pragmatic though do not have a strong perspective on the minimum number of Professional Investors or Institutional Professional Investors.

Question 6

Do you agree that, at its initial offering, a SPAC must distribute at least 75% of each SPAC Shares and SPAC Warrants to Institutional Professional Investors?

Yes

Please give reasons for your views.

We believe that a robust allocation of shares to Institutional Professional Investors is pragmatic though do not have a strong perspective on the minimum percentage.

Question 7

Do you agree that not more than 50% of the securities in public hands at the time of a SPAC's listing should be beneficially owned by the three largest public shareholders?

No

Please give reasons for your views.

Due to the potential impact that high concentration has on volatility of SPAC unit trading, we agree that limiting concentration is a pragmatic approach. A drawback of this approach, however, is that it could deter the largest and most reputable institutional investors, for whom being able to put a meaningful amount of capital is critical. An alternative to an absolute cap on the concentration of shares could be to stipulate that concentration levels higher than this amount would come with a required lock-up from the largest shareholders.

Question 8

Do you agree that at least 25% of the SPAC's total number of issued shares and at least 25% of the SPAC's total number of issued warrants must be held by the public at listing and on an ongoing basis?

Yes

Please give reasons for your views.

We believe that this is a reasonable rule but lack a nuanced perspective.

Question 9a

Do you agree that the shareholder distribution proposals set out in paragraphs 181 and 182 of the Consultation Paper will provide sufficient liquidity to ensure an open market in the securities of a SPAC prior to completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We believe that these rules would reasonably achieve the objectives of an open and liquid market but do not have a strong perspective on the specific figures described.

Question 9b

Are there other measures that the Exchange should use to help ensure an open and liquid market in SPAC securities?

No

Please set out any suggestions for other measures below.

Question 10

Do you agree that, due to the imposition of restricted marketing, a SPAC should not have to meet the requirements set out in paragraph 184 of the Consultation Paper regarding public interest, transferability (save for transferability between Professional Investors) and allocation to the public?

Yes

Please give reasons for your views.

If the exclusion of retail investors from SPAC trading were to move forward as written, we agree that a SPAC should not have to meet the requirements set out in paragraph 184 of the Consultation Paper. However, if retail investors were able to participate but at a capped amount, as we have proposed in our response, then it would seem reasonable to re-incorporate some of these restrictions.

Question 11

Do you agree that SPACs should be required to issue their SPAC Shares at an issue price of HK\$10 or above?

Yes

Please give reasons for your views.

We agree with this requirement. There are not strong arguments for a lower issue price that we can think of, and ensuring each tick represents a small percentage of the share price is a

prudent approach.

Question 12

Do you agree that the funds expected to be raised by a SPAC from its initial offering must be at least HK\$1 billion?

No

Please give reasons for your views.

We agree with the need to establish a minimum initial offering amount but do not have a strong perspective if HK\$1 billion is the right number. We believe that the highest quality companies will actually prefer smaller SPAC amounts and larger PIPEs due to the fact that the capital raised in a SPAC IPO will most often be costlier than PIPE capital (due to the sponsor promote and public warrants). Because of this, we would caution against having too high of an initial offering minimum. At the same time, a minimum size ensures high quality investors would be interested in the SPAC and also could reduce volatility in trading, so we believe in the merit of including such a minimum.

Question 13

Do you agree with the application of existing requirements relating to warrants with the proposed modifications set out in paragraph 202 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree with these requirements.

Question 14

Do you agree that Promoter Warrants and SPAC Warrants should be exercisable only after the completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with this proposal.

Question 15a

Do you agree that a SPAC must not issue Promoter Warrants at less than fair value?

Yes

Please give reasons for your views.

We agree with this proposal. In fact, we would question what value Promoter Warrants have at

all for enabling a healthy SPAC marketplace, given the economics Promoters are already earning from the promote.

Question 15b

Do you agree that a SPAC must not issue Promoter Warrants that contain more favourable terms than that of SPAC Warrants?

Yes

Please give reasons for your views.

Yes, we believe this would better align Promoter incentives.

Question 16

Do you agree that the Exchange must be satisfied as to the character, experience and integrity of a SPAC Promoter and that each SPAC Promoter should be capable of meeting a standard of competence commensurate with their position?

Yes

Please give reasons for your views.

We agree with these requirements. In our view, the best way to align the interests of shareholders, issuers, and the Promoter is in fact through having high standards for which entities can act as Promoters. We believe this is the most effective way to reduce low quality SPAC transactions and to ensure that the dynamic of too many Promoters searching for too few high quality opportunities does not play out in Hong Kong the way that it has played out in the U.S.

Question 17a

Do you agree that the Exchange should publish guidance setting out the information that a SPAC should provide to the Exchange on each of its SPAC Promoter's character, experience and integrity (and disclose this information in the Listing Document it publishes for its initial offering), including the information set out in Box 1 of the Consultation Paper?

Yes

Please give reasons for your views.

We believe that the Exchange should publish such guidance and further believe that the information set out in Box 1 is appropriate.

Question 17b

Is there additional information that should be provided or information that should not be required regarding each SPAC Promoter's character, experience and integrity?

Yes

Please provide the details of any such information below.

We would propose that in addition to this information, a helpful disclosure to investors would be the economic benefit to the Promoter at various share prices. This would include any capital committed (e.g., At-Risk Capital or Fully-Committed Forward Purchase Commitments) and should show the economic benefit to the Promoter if the share price appreciates or depreciates in value.

Question 18

Do you agree that the Exchange, for the purpose of determining the suitability of a SPAC Promoter, should view favourably those that meet the criteria set out in paragraph 216 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree that the suitability criteria set out in paragraph 216 is pragmatic but would also suggest that these attributes be true of some, though not necessarily all, members of the Promoter. The reason for this is that it may be prudent to involve experts in various operational areas that are relevant for a given SPAC that may not include business experience (e.g., academic leaders, former government leaders). While it is important that corporate finance knowledge and expertise is strongly represented by the Promoter, we see value in potentially diverse skills across the full promoter team.

Question 19a

Do you agree that at least one SPAC Promoter must be a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC?

No

Please give reasons for your views.

No. We believe that such a requirement would limit the capability of international firms with sufficient expertise to act as Promoters, and would encourage the Hong Kong Exchange to exempt Promoters with a comparable license globally (e.g., a Registered Investment Advisor with the Securities and Exchange Commission in the U.S.).

Question 19b

Do you agree that the SFC licensed SPAC Promoter must hold at least 10% of the Promoter Shares?

Please give reasons for your views.

Question 20a

Do you agree that, in the event of a material change in the SPAC Promoter or the suitability and/or eligibility of a SPAC Promoter, such a material change must be approved by a special resolution of shareholders at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting)?

Yes

Please give reasons for your views.

We agree. Ensuring a high quality of SPAC Promoter is essential to the healthy functioning of the SPAC marketplace.

Question 20b

Should the trading of a SPAC's securities be suspended and the SPAC return the funds it raised from its initial offering to its shareholders, liquidate and de-list (in accordance with the process set out in paragraphs 435 and 436 of the Consultation Paper) if it fails to obtain the requisite shareholder approval within one month of the material change?

Yes

Please give reasons for your views.

We agree. Ensuring a high quality of SPAC Promoter is essential to the healthy functioning of the SPAC marketplace.

Question 21

Do you agree that the majority of directors on the board of a SPAC must be officers (as defined under the SFO) of the SPAC Promoters (both licensed and non-licensed) representing the respective SPAC Promoters who nominate them?

Yes

Please give reasons for your views.

We agree with this rule. While we support robust and diverse skills on the board of directors of SPACs, we also believe that Promoters must have fiduciary duty to the SPAC shareholders.

Question 22

Do you agree that 100% of the gross proceeds of a SPAC's initial offering must be held in a ring-fenced trust account located in Hong Kong?

Yes

Please give reasons for your views.

We agree with his rule. While we see a healthy justification for allowing reasonable operating expenses to be paid out of the trust, we believe that forcing Promoters to bear that expense ensures that Promoters have more “skin-in-the-game.” A concern to carefully consider is whether or not incurring those expenses incentivizes Promoters to transact at all costs to recoup their expenses. This is why we would generally favor greater alignment of interest from Promoters via larger capital commitments to the SPAC and performance-based promote vesting rather than larger expenses. The former encourages the Promoters to find a high quality partner while the latter encourages the Promoter to find any partner.

Question 23

Do you agree that the trust account must be operated by a trustee/custodian whose qualifications and obligations should be consistent with the requirements set out in Chapter 4 of the Code on Unit Trusts and Mutual Funds?

Yes

Please give reasons for your views.

We agree with these requirements.

Question 24

Do you agree that the gross proceeds of the SPAC’s initial offering must be held in the form of cash or cash equivalents such as bank deposits or short-term securities issued by governments with a minimum credit rating of (a) A-1 by S&P; (b) P-1 by Moody’s Investors Service; (c) F1 by Fitch Ratings; or (d) an equivalent rating by a credit rating agency acceptable to the Exchange?

No

Please give reasons for your views.

We believe that SPACs should be permitted to invest into a broader range of assets than those set out here so long as it is fully and adequately disclosed to shareholders.

Question 25

Do you agree that the gross proceeds of the SPAC’s initial offering held in trust (including interest accrued on those funds) must not be released other than in the circumstances described in paragraph 231 of the Consultation Paper?

Yes

Please give reasons for your views.

As described earlier, we see a compelling rationale to allow operating expenses to be paid out of the trust. In the absence of such a permission, we agree with these requirements.

Question 26

Do you agree that only the SPAC Promoter should be able to beneficially hold Promoter Shares and Promoter Warrants at listing and thereafter?

No

Please give reasons for your views.

We believe that there are many instances where the beneficial transfer of Promoter Shares and Promoter Warrants would be beneficial to the objective of the SPAC and thus to SPAC shareholders. As an example, Promoter Shares and Promoter Warrants could be transferred to managers and investors of high quality companies as a source of consideration in a De-SPAC. Further, such assets could be awarded to advisors and brokers who help to assist in a transaction. We agree that incentivizing the Promoter is essential so would therefore propose a limit to how much may be transferred rather than an outright ban.

Question 27

Do you agree with the restrictions on the listing and transfer of Promoter Shares and Promoter Warrants set out in paragraphs 241 to 242 of the Consultation Paper?

Please give reasons for your views.

Question 28

Do you agree with our proposal to prohibit a SPAC Promoter (including its directors and employees), SPAC directors and SPAC employees, and their respective close associates, from dealing in the SPAC's securities prior to the completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with this proposal; however, we would suggest that such persons should be able to subscribe to the initial listing of the SPAC or purchase of SPAC shares immediately following its initial listing as this would be prior to the possession of any material nonpublic information (assuming such persons meet other requirements for purchasers). Thereafter, though, their trading should be prohibited as the trading of any insider would be.

Question 29

Do you agree that the Exchange should apply its existing trading halt and suspension

policy to SPACs (see paragraphs 249 to 251 of the Consultation Paper)?

Yes

Please give reasons for your views.

We agree that the existing policy should apply.

Question 30

Do you agree that the Exchange should apply new listing requirements to a De-SPAC Transaction as set out in paragraphs 259 to 281 of the Consultation Paper?

No

Please give reasons for your views.

We agree with the applying new listing requirements to a De-SPAC Transaction with one significant difference. In our opinion, SPACs are often times used as a vehicle for accessing the public markets by companies that otherwise lack the capability to go public on their own, leading to an adverse selection issue for SPAC investors. We see a handful of distinct situations where this is not the case, many of which would satisfy new listing requirements as laid out in the Consultation Paper. The exemption to this is fast-growing technology companies who may want to access the public markets prior to having the financials at the scale of a typical listing. The reason a SPAC offers a solution to such companies in the U.S. is that Promoters are able to truly “sponsor” the company by putting their own credibility behind the company. The Hong Kong Exchange's current limitation via “The market capitalization/revenue/cash flow test” would reduce the number of technology companies who could pursue a De-SPAC Transaction on the HKE. We would propose lifting or significantly lessening this requirement. In an effort to counteract the potential “lower bar” that this puts on companies who may transact with a SPAC, it could be an exemption available only when the Promoter has locked-up their shares until such financial metrics are met.

Question 31

Do you agree that investment companies (as defined by Chapter 21 of the Listing Rules) should not be eligible De-SPAC Targets?

No

Please give reasons for your views.

We do not have a strong point of view as to why investment companies should or should not be eligible to De-SPAC.

Question 32

Do you agree that the fair market value of a De-SPAC Target should represent at least 80% of all the funds raised by the SPAC from its initial offering (prior to any redemptions)?

Yes

Please give reasons for your views.

We agree that it is prudent to put in place requirements to ensure that the company acquired via a De-SPAC Transaction has substantial operations but do not have a strong perspective on the correct percentage of fair market value.

Question 33

Should the Exchange impose a requirement on the amount of funds raised by a SPAC (funds raised from the SPAC's initial offering plus PIPE investments, less redemptions) that the SPAC must use for the purposes of a De-SPAC Transaction?

No

Please give reasons for your views.

We do not believe that such a requirement would provide a meaningful safeguard. In the instance where a significant portion of the pro forma value of the company would be left in cash, it would need to be for compelling reasons in order to win a shareholder vote in support of a transaction (e.g., there may be companies who De-SPAC and plan to use a significant amount of cash to execute on an M&A strategy that investors believe will be accretive).

Question 34

Should a SPAC be required to use at least 80% of the net proceeds it raises (i.e. funds raised from the SPAC's initial offering plus PIPE investments, less redemptions) to fund a De-SPAC Transaction?

Please give reasons for your views.

Question 35

Do you agree that the Exchange should mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC Transaction?

No

Please give reasons for your views.

We do not agree that the Exchange should mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC. In our view, a chief merit of a SPAC Transaction is the higher level of certainty that it provides to companies as compared to a traditional IPO process. By requiring outside independent PIPE investors, the

certainty of a transaction is severely crippled, thus taking away one of the key advantages of a SPAC path. Companies that have the capability to do a traditional IPO or a SPAC, in this instance, would have little incentive to pursue the SPAC path, which we fear would drive more adverse selection of companies with whom a SPAC could sponsor. Furthermore, while the requirement for outside independent PIPE investors could help to eliminate the most unappealing transactions from occurring due to the quality control it could provide, PIPE investors are less equipped or incentivized to play this role as compared to Promoters with long-term performance incentives. PIPE investors have limited reputation risk and invariably will have spent less time with the company partnering with a SPAC than the Promoters. We believe that a better requirement to drive higher quality control would be for Promoters to have meaningfully more capital committed to a De-SPAC Transaction, a longer lock-up on their shares, and economics that are performance-based. If it is believed that this would too severely curtail the number of Promoters who would create a SPAC, we would request that the HKE consider providing an exemption to the mandate for an outside independent PIPE investor for Promoters who demonstrate the attributes of skin-in-the-game, long-term orientation, and performance-linked economics.

Question 36

Do you agree that the Exchange should mandate that this outside independent PIPE investment must constitute at least 25% of the expected market capitalisation of the Successor Company with a lower percentage of between 15% and 25% being acceptable if the Successor Company is expected to have a market capitalisation at listing of over HK\$1.5 billion?

Please give reasons for your views.

Question 37

Do you agree that at least one independent PIPE investor in a De-SPAC Transaction must be an asset management firm with assets under management of at least HK\$1 billion or a fund of a fund size of at least HK\$1 billion and that its investment must result in it beneficially owning at least 5% of the issued shares of the Successor Company as at the date of the Successor Company's listing?

Please give reasons for your views.

Question 38

Do you agree with the application of IFA requirements to determine the independence of outside PIPE investors?

Please give reasons for your views.

Question 39

Do you prefer that the Exchange impose a cap on the maximum dilution possible from the conversion of Promoter Shares or exercise of warrants issued by a SPAC?

Yes

Please give reasons for your views.

Yes, we believe that by imposing a cap on the maximum dilution possible, it will discourage opportunistic parties from participating in the marketplace and encourage higher quality companies to consider a De-SPAC Transaction as an alternative to an IPO.

Question 40

Do you agree with the anti-dilution mechanisms proposed in paragraph 311 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree with the anti-dilution mechanisms proposed in paragraph 311 of the Consultation Paper.

Question 41

Do you agree that the Exchange should be willing to accept requests from a SPAC to issue additional Promoter Shares if the conditions set out in paragraph 312 of the Consultation Paper are met?

Yes

Please give reasons for your views.

We agree that the Exchange should be willing to accept requests from a SPAC to issue additional Promoter Shares if the conditions set out are met, with one exception. We believe that share price can be a useful and objective metric upon which earnouts can be achieved, so long as those share prices are sustained for long periods of time (e.g., a majority of the trailing three months' trading days).

Question 42

Do you agree that any anti-dilution rights granted to a SPAC Promoter should not result in them holding more than the number of Promoter Shares that they held at the time of

the SPAC's initial offering?

Yes

Please give reasons for your views.

We agree with this proposal.

Question 43

Do you agree that a De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting as set out in paragraph 320 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree with the proposal that shareholders must vote on the De-SPAC Transaction.

Question 44

Do you agree that a shareholder and its close associates must abstain from voting at the relevant general meeting on the relevant resolution(s) to approve a De-SPAC Transaction if such a shareholder has a material interest in the transaction as set out in paragraph 321 of the Consultation Paper?

No

Please give reasons for your views.

We do not agree with prohibiting Promoters from being able to vote in support of a De-SPAC Transaction. The instance where such shareholders' votes would be a substantial portion of the votes cast would be an instance where the Promoters own a substantial portion of shares, meaning they have put an commensurately substantial amount of capital into the transaction. We believe that Promoters with this level of skin in the game should be allowed to vote in support of a transaction.

Question 45

Do you agree that the terms of any outside investment obtained for the purpose of completing a De-SPAC Transaction must be included in the relevant resolution(s) that are the subject of the shareholders vote at the general meeting?

Yes

Please give reasons for your views.

We agree with making the terms of any outside investment obtained for the purpose of completing a De-SPAC Transaction must be included in the relevant resolution(s).

Question 46

Do you agree that the Exchange should apply its connected transaction Rules (including the additional requirements set out in paragraph 334) to De-SPAC Transactions involving targets connected to the SPAC; the SPAC Promoter; the SPAC's trustee/custodian; any of the SPAC directors; or an associate of any of these parties as set out in paragraphs 327 to 334 of the Consultation Paper?

No

Please give reasons for your views.

While we agree with clear disclosure and transparency around any potential conflict of interest and agree with most of the requirements set regarding De-SPAC Transactions involving targets connected to the SPAC, we would not agree with the need to get an independent valuation in all cases, as set out in paragraph 334(c). We think that this would be an appropriate stipulation in the instance where the Promoter could not demonstrate that it and its connected persons are not controlling shareholders of the De-SPAC Target nor that no cash consideration was being paid to connected persons. However, if those criteria are met, conducting a third party valuation could be costly and add to the complexity of a transaction, particularly in sectors where valuation ranges and paradigms can be more complex.

Question 47

Do you agree that SPAC shareholders should only be able to redeem SPAC Shares they vote against one of the matters set out in paragraph 352 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree with this rule. We cannot present a compelling justification to allow a SPAC shareholder to both redeem and vote in support of a transaction.

Question 48

Do you agree a SPAC should be required to provide holders of its shares with the opportunity to elect to redeem all or part of the shares they hold (for full compensation of the price at which such shares were issued at the SPAC's initial offering plus accrued interest) in the three scenarios set out in paragraph 352 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree with this requirement.

Question 49

Do you agree a SPAC should be prohibited from limiting the amount of shares a SPAC

shareholder (alone or together with their close associates) may redeem?

Yes

Please give reasons for your views.

We believe that providing transaction certainty is one of the key benefits of a De-SPAC Transaction as compared to a traditional IPO, but we do not think that this should come at the expense of shareholders' ability to redeem. We therefore agree with this prohibition.

Question 50

Do you agree with the proposed redemption procedure described in paragraphs 355 to 362 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree with the proposed redemption procedure but do not have a strong point of view on the reasonableness of the timelines provided considering local operational and procedural complexities.

Question 51

Do you agree that SPACs should be required to comply with existing requirements with regards to forward looking statements (see paragraphs 371 and 372 of the Consultation Paper) included in a Listing Document produced for a De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with the requirements with regards to forward looking statements. While we see the merits of allowing companies to discuss their future expected earnings, we believe that this can also be abused to mislead investors without appropriate requirements.

Question 52

Do you agree that a Successor Company must ensure that its shares are held by at least 100 shareholders (rather than the 300 shareholders normally required) to ensure an adequate spread of holders in its shares?

Yes

Please give reasons for your views.

We believe that a robust distribution of shares is pragmatic though do not have a strong

perspective on the minimum number of shareholders.

Question 53

Do you agree that the Successor Company must meet the current requirements that (a) at least 25% of its total number of issued shares are at all times held by the public and (b) not more than 50% of its securities in public hands are beneficially owned by the three largest public shareholders, as at the date of the Successor Company's listing?

Yes

Please give reasons for your views.

We agree that the Successor Company must meet these requirements.

Question 54

Are the shareholder distribution proposals set out in paragraphs 380 and 382 of the Consultation Paper sufficient to ensure an open market in the securities of a Successor Company or are there other measures that the Exchange should use to help ensure an open market?

Yes

Please give reasons for your views.

We believe that a robust distribution of shares is pragmatic though do not have a strong perspective on the specific levels described in paragraphs 380 and 382.

Question 55

Do you agree that SPAC Promoters should be subject to a restriction on the disposal of their holdings in the Successor Company after the completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with such a restriction. We believe that the most effective way to ensure a well-functioning and high quality SPAC market is through aligning the Promoters to the long-term performance of the Successor Company.

Question 56a

Do you agree that the Exchange should impose a lock-up on disposals, by the SPAC Promoter, of its holdings in the Successor Company during the period ending 12 months from the date of the completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with such rules as they encourage Promoters to pursue De-SPAC Transactions with a strong long-term performance outlook.

Question 56b

Do you agree that Promoter Warrants should not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with such rules as they encourage Promoters to pursue De-SPAC Transactions with a strong long-term performance outlook.

Question 57

Do you agree that the controlling shareholders of a Successor Company should be subject to a restriction on the disposal of their shareholdings in the Successor Company after the De-SPAC Transaction?

Yes

Please give reasons for your views.

We agree with such rules regarding controlling shareholders of a Successor Company.

Question 58

Do you agree that these restrictions should follow the current requirements of the Listing Rules on the disposal of shares by controlling shareholders following a new listing (see paragraph 394 of the Consultation Paper)?

Yes

Please give reasons for your views.

Yes, we believe that these would be reasonable restrictions.

Question 59

Do you agree that the Takeovers Code should apply to a SPAC prior to the completion of a De-SPAC Transaction?

Yes

Please give reasons for your views.

We do not see a compelling reasons as to why the Takeovers Code should not apply to a SPAC

prior to the completion of a De-SPAC Transaction.

Question 60

Do you agree that the Takeovers Executive should normally waive the application of Rule 26.1 of the Takeovers Code in relation to a De-SPAC Transaction, the completion of which would result in the owner of the De-SPAC Target obtaining 30% or more of the voting rights in a Successor Company, subject to the exceptions and conditions set out in paragraphs 411 to 415 of the Consultation Paper?

Yes

Please give reasons for your views.

Yes, we agree that the Takeovers Executive should normally waive the application of Rule 26.1 in this instance.

Question 61

Do you agree that the Exchange should set a time limit of 24 months for the publication of a De-SPAC Announcement and 36 months for the completion of a De-SPAC Transaction (see paragraph 423 of the Consultation Paper)?

No

Please give reasons for your views.

We do not believe that there is a strong reason to set such a limitation; rather, we believe that the timeline for completion should be clearly communicated to investors. There is an argument that having a longer timeline reduces the risk of a Promoter rushing to do a transaction that is of low quality to avoid running out of time.

Question 62

Do you agree that the Exchange should suspend a SPAC's listing if it fails to meet either the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline (see paragraphs 424 and 425 of the Consultation Paper)?

Yes

Please give reasons for your views.

To the extent such deadlines are instituted, it would be reasonable to suspend a SPAC's listing if they are not met.

Question 63

Do you agree that a SPAC should be able to make a request to the Exchange for an extension of either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline if it has obtained the approval of its shareholders for the extension at a general meeting (on which the SPAC Promoters and their respective close associates must

abstain from voting) (see paragraphs 426 and 427 of the Consultation Paper)?

Yes

Please give reasons for your views.

We agree with the concept of allowing the SPAC to request for an extension. As stated elsewhere, we do not think that Promoters should be prohibited from voting.

Question 64

Do you agree that, if a SPAC fails to (a) announce / complete a De-SPAC Transaction within the applicable deadlines (including any extensions granted to those deadlines) (see paragraphs 423 to 428 of the Consultation Paper); or (b) obtain the requisite shareholder approval for a material change in SPAC Promoters (see paragraphs 218 and 219 of the Consultation Paper) within one month of the material change, the Exchange will suspend the trading of a SPAC's shares and the SPAC must, within one month of such suspension return to its shareholders (excluding holders of the Promoter Shares) 100% of the funds it raised from its initial offering, on a pro rata basis, plus accrued interest?

Yes

Please give reasons for your views.

We agree with the process described here but do not have specific views on whether or not the timelines discussed are reasonable with local operational norms.

Question 65

Do you agree that (a) a SPAC must liquidate after returning its funds to its shareholders and (b) the Exchange should automatically cancel the listing of a SPAC upon completion of its liquidation?

Yes

Please give reasons for your views.

We believe that this is a reasonable process.

Question 66

Do you agree that SPACs, due to their nature, should be exempt from the requirements set out in paragraph 437 of the Consultation Paper?

Yes

Please give reasons for your views.

We agree that SPACs, due to their nature, should be exempt from the requirements set out in

paragraph 437.

Question 67

Do you agree with our proposal to require that a listing application for or on behalf of a SPAC be submitted no earlier than one month (rather than two months ordinarily required) after the date of the IPO Sponsor's formal appointment?

Yes

Please give reasons for your views.

We agree with this approach given the relatively limited or nonexistent operating history of the SPAC that should allow for a IPO Sponsor to more quickly conduct their diligence in a satisfactory way.

Question 68

Should the Exchange exempt SPACs from any Listing Rule disclosure requirement prior to a De-SPAC Transaction, or modify those requirements for SPACs, on the basis that the SPAC does not have any business operations during that period?

Yes

Please give reasons for your views.

We believe that an exemption from Listing Rule disclosure requirements prior to a De-SPAC Transaction would be prudent given the limited operating nature of the entities.

From: [REDACTED]
Sent: Wednesday, November 3, 2021 5:18 AM
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Ribbit follow-up

Warning: This is an external email. Please be cautious of attachments, links and requests to input information.

Hi Bonnie,

We had the pleasure of reviewing the Consultation Paper and submitted feedback via the portal yesterday. We are honored to be able to weigh in on this important topic and appreciate the correspondence we have been able to have with you directly on it. While we responded to each of the questions in the paper, we wanted to provide you with some of our broader thoughts after reading the document, which might help to set the context for specific answers we provided.

QUALITY OVER QUANTITY

We are, first and foremost, pleased to see the thoughtful measures that you and your colleagues set out in the Consultation Paper to ensure that the interest of investors, companies, and promoters are aligned. We have seen the negative impact misaligned incentives has had on the market in the U.S., and we applaud you for aiming for quality over quantity with SPACs in Hong Kong. To that end, several of the key features proposed in the Consultation Paper resonated with us.

First, we were encouraged to see the maximum dilution requirements you suggested placing on SPACs across the Promoter economics and warrants. We believe that for SPACs to be a permanent and positive fixture in capital formation, it will require SPACs to attract the highest quality companies. There is no path to do so without reducing the overall cost of the SPAC structure. We believe that the proposals you put forward in this regard may limit the number of SPACs that are able to raise capital or the amount of capital that could be attracted in SPAC IPOs, but we see this as a sacrifice of quantity for the benefit of quality.

Second, we are supportive of and excited by the prospect of limiting the trading of warrants separate from common shares. We do not think that separate trading shortly after listing provides value to the Successor Company or Promoter and should only be a reward earned by a SPAC investor if they provide something in return: the continued deployment of their capital in common shares. This will also reduce the number of SPAC investors, but in our view this will be limited to those who were acting opportunistically to get something (a warrant) in exchange for nothing (capital that they immediately recoup).

Finally, we were encouraged to see the lock-up requirements that you are contemplating for Promoters. As we will describe further below, better aligning Promoter incentives is in our view the most important challenge facing SPACs today.

In summary, we believe that higher standards will result in fewer, more capable promoters; more committed and long-term oriented investors; and higher quality companies, so we are hopeful that many of these features will persist if the HKE moves forward with its SPAC listing rules.

ALIGNING PROMOTERS INSTEAD OF LIMITING THEM

Further to the above, we think that the single biggest issue in the SPAC market is the misaligned incentives of Promoters. In a conventional SPAC, Promoters are highly incentivized to execute a transaction, even if the merits of such a transaction are lacking. This is because most Promoters do not have meaningful principal at risk relative to the economics they may earn in Promoter Shares, are able to liquidate their shares in the company quickly, and earn their economics just for consummating a transaction, regardless of the performance of the Successor Company.

We believe that one could generally address the misalignment of Promoter incentives in two ways, either by limiting the influence that a Promoter has on the De-SPAC Transaction or by better aligning the incentives of the Promoter. Upon reading the Consultation Paper, it seems that the Hong Kong Exchange is contemplating taking the approach of the former through limiting the Promoter's ability to vote on a De-SPAC Transaction and requiring a third-party PIPE. We believe this approach has several flaws.

First, curtailing the SPAC Promoters ability to close a De-SPAC Transaction results in a less attractive proposition for De-SPAC Targets, particularly high quality ones. Many of the highest quality companies that pursue a De-SPAC Transaction do so because they can have confidence on the terms of the potential transaction. Second, relying on PIPE investors to validate a transaction would put the burden of credibility on PIPE investors, who do not carry near the reputation risk nor have near the access to management and data than Promoters do. Finally, by reducing the influence of Promoters rather than increasing their alignment, there is a greater risk that there are many more Promoters than there are high quality opportunities (similar to the dynamic seen in the U.S.).

We believe that a better approach to deal with the misaligned incentives of Promoters is to better align those incentives. We would encourage you to consider replacing some of the restrictions described here with greater burdens on the amount of capital a Promoter invests, requiring more robust lock-ups, and / or linking Promoter economics to performance of the Successor Company. An alternative would also be to create an exemption from these rules for a Promoter who meets such requirements. We would be very happy to brainstorm the specific details of such requirements if that would be interesting or helpful to you.

PROTECTING "THE LITTLE GUYS" WITHOUT EXCLUDING THEM

One of the attributes that we love about the SPAC is that, when done well, it has the potential to democratize financial markets for both retail investors and smaller, promising companies. At the same time, we are cognizant of the fact that retail investors stand to lose the most when SPACs go wrong, and that this oftentimes comes as a result of companies who are too small, too young, or generally poorly prepared to be public.

Upon reading the Consultation Paper, we see that these risks are top of mind for the Exchange. Specifically, we see the proposal to limit access to Professional Investors and the proposal to have the Successor Company meet standard listing requirements as two requirements that would aim to protect consumers and provide more stability to the market. However, we would encourage you to reconsider elements of each.

When it comes to limiting retail investor access to SPACs, we would suggest that SPAC units actually have a fairly strong investor protection mechanism in the ability to redeem shares. So, by limiting access to only Professional Investors, there is a risk that upside is taken away from retail investors without providing them with much incremental downside protection. To the extent the objectives for limiting retail investor access have more to do with limiting voting control to sophisticated investors, we believe this can be achieved by limiting (as opposed to altogether excluding) retail participation.

As it pertains to enforcing existing listing standards for Successor Companies, a concern we would raise is that this may prohibit one of the more attractive groups of De-SPAC Targets from being considered: high-growth technology companies. From our perspective, one of the more desirable reasons for a company to go public via a SPAC vs. a traditional IPO is because the company is slightly smaller as compared to what traditional IPO investors expect but have the trajectory to be at a public company scale in the near term. In such an instance, a Promoter, particularly one who has a strong track record as an investor, can lend credibility to the company and enable it to access the public markets for branding and visibility, acquisition currency, and a more liquid way to compensate employees. If companies will have to adhere to the same listing criteria as a traditional IPO, it greatly reduces the attractiveness of the SPAC path for an issuer and completely closes the door to many of the companies who may be the best long-term performers as Successor Companies. We would encourage you to consider a track for high growth technology companies that is more relaxed about the financial scale requirements, even if you increase the burden on Promoters to be able to pursue a transaction with such businesses.

WE ARE HERE TO HELP

We hope that you take our feedback on the Consultation Paper in the spirit in which it is provided, which is that we would love to see Hong Kong become the premier listing venue for SPACs and companies that seek to partner with them. We have been impressed by the depth of analysis and the thought that clearly went into suggesting each proposal in the paper. We are excited by the opportunity to work together on a Ribbit-sponsored SPAC in Hong Kong at the appropriate time, and we are here to help if there is anything that we can do to help make this vision come to life. We appreciate your time and the opportunity to become your partner.

Best,
Micky and Nick on Behalf of Ribbit Capital