

# Special Purpose Acquisition Companies (SPAC)

## Frequently Asked Questions

(Version Date: 11 March 2022)

### A. Product Information and Categorization

#### 1. What are SPAC, SPAC Shares and SPAC Warrants?

A special purpose acquisition company (SPAC) is a type of company that has no operating business and is established for the sole purpose of conducting a transaction (De-SPAC Transaction) in respect of an acquisition of, or a business combination with, a target, within a pre-defined time period, to achieve the listing of the target (Successor Company).

SPAC Shares are a listed class of shares issued by a SPAC; while SPAC Warrants are a listed class of warrants issued by a SPAC that entitle the holders, upon exercise, to subscribe or purchase shares in a Successor Company.

#### 2. How can investors differentiate SPAC Shares and SPAC Warrants by the stock code and the stock short name?

The stock code allocated for SPAC Shares is from 7800 to 7999, and from 4800 to 4999 for SPAC Warrants. Stock short names ending with “- Z” represent SPAC Shares; while stock short names ending with “Z Y Y M M”<sup>1</sup> or “Z Y Y” represent SPAC Warrants. Investors should note that the stock code and the stock names of SPAC Shares and SPAC Warrants indicate only certain basic information of the products. They should refer to the list of SPAC Shares and SPAC Warrants on HKEX website from time to time.

Please be reminded that once De-SPAC transactions are completed, the resulting shares and warrants will no longer be under the SPAC listing regime. Hence, a new set of stock codes may be assigned to those new shares and warrants.

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<sup>1</sup> Z - SPAC indicator

YY - Expiry year

MM - Expiry month

## **B. Trading Mechanism**

### **1. How are SPAC Shares and SPAC Warrants traded?**

SPAC Shares and SPAC Warrants are traded separately in the secondary market from the date of a SPAC's initial listing to a De-SPAC Transaction.

### **2. Who are allowed to buy SPAC Shares and SPAC Warrants in the secondary market?**

Only Professional Investors (PI), in accordance with the SFC Code of Conduct, are allowed to buy SPAC Shares and SPAC Warrants listed on the Main Board.

### **3. What is the board lot value in dollar notional for SPAC Shares upon listing?**

According to HKEX's Listing Rules, the board lot value in dollar notional for SPAC Shares is at least HK\$1,000,000 upon listing. There is no specific requirement in the board lot value in SPAC Warrants.

After listing, the board lot value in dollar notional of SPAC Shares may move along with share price movement and so it may go above and below HK\$1,000,000. The existing Trading Rules in relation to board/ odd lot trading will apply.

### **4. What are the measures in place to safeguard market integrity from extreme price volatility arising from automated trading of SPAC Shares and SPAC Warrants?**

In addition to the standard price validation rules in HKEX's cash trading platforms, Volatility Control Mechanism (VCM) will also be applicable to all SPAC Shares and SPAC Warrants to mitigate the risk of price volatility in the SPAC Shares and SPAC Warrants. The triggering threshold and price band within cooling-off period will be adjusted after the first month of listing<sup>2</sup>. Please see details as follow:

<b>VCM triggering thresholds by product</b>	<b>Triggering threshold</b>	<b>Price band within cooling-off period</b>
SPAC Shares		
- During the first month of listing	±15%	±15%
- After the first month of listing	±30%	±30%
SPAC Warrants		
- During the first month of listing	±25%	±25%
- After the first month of listing	±50%	±50%

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<sup>2</sup> The effective date of the new triggering threshold is the same day of the listing date in the next calendar month, or the following day until it is a trading day. If the same day of the listing date in the next calendar month does not exist, it will be the first trading day of the calendar month thereafter.

The Exchange will review the above VCM triggering thresholds at an appropriate time after launch of the SPAC regime to determine their effectiveness. Such thresholds may be re-calibrated and updated from time to time.

Other features of VCM (e.g. VCM monitoring period) in the securities market will remain the same and will apply to SPAC Shares and SPAC Warrants accordingly. Please refer to the list of [VCM securities](#) for the respective triggering threshold of each VCM security.

**5. Is off-exchange trade (i.e. manual trade) or trade with less than one trading unit (i.e. odd lot trade) of SPAC Shares and SPAC Warrants allowed in secondary market trading?**

A manual trade of SPAC Shares or SPAC Warrant is allowed to be reported by SPAC Exchange Participants (SPAC EPs), and both the buying and selling EPs of such a manual trade are required to be registered as SPAC EPs. Odd lots are not accepted by the Exchange's trading system for auto-matching, but there is a special lot market in the system for odd lots trading. SPAC EPs may post their odd lot orders onto a designated screen on the trading system for matching by other SPAC EPs. In general, share prices of odd lots are slightly lower than that of the same security in the board lot market due to their lower liquidity.

## **C. Participation in Secondary Market Trading of SPAC Shares and SPAC Warrants**

### **1. Are all EPs eligible to conduct trading on SPAC Shares and SPAC Warrants?**

Only SPAC EPs may conduct trading of SPAC Shares and SPAC Warrants. An EP may apply to the Exchange to be registered as a SPAC EP.

The Exchange may from time to time prescribe the eligibility criteria (including relevant controls and procedures) for EPs to be accepted for registration and to remain registered as SPAC EPs. The application form and the explanatory note are available on the [HKEX website](#).

### **2. Are SPAC EPs required to provide an updated list of PIs to the Exchange from time to time?**

Currently, the Exchange does not require a SPAC EP to provide us with an updated PI client list from time to time. However, to ensure compliance with all applicable rules and regulatory requirements at all times, SPAC EPs are strongly encouraged to maintain an updated PI client list and should have all relevant records and documents readily available to facilitate the Exchange's inspection, where necessary.

### **3. Buying SPAC Shares and SPAC Warrants is permitted for professional investors only. How can this investor eligibility requirement be satisfied?**

Before accepting any instruction to buy SPAC Shares and SPAC Warrants from a client, a SPAC EP should conduct appropriate Know-Your-Client ("KYC") procedures to ensure that such client is a Professional Investor ("PI") in accordance with the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, and if yes, the SPAC Shares and SPAC Warrants are suitable for such client. If such client is an intermediary placing orders to the SPAC EP as agent on behalf of its underlying customers, the SPAC EP should ensure that those underlying customers who buy SPAC Shares or SPAC Warrants through an intermediate broker are also PIs and the SPAC Shares and SPAC Warrants are suitable for such underlying customers.

In the event the intermediary is not an intermediate broker but a corporation licensed for Type 9 regulated activity, or any other person solely carrying on the business of the provision of asset management services and regulated under the law of any comparable jurisdictions outside Hong Kong, only the intermediary (but not its underlying funds, accounts or customers) must be a PI. For example, where the SPAC EP's direct client is a Type 9 licensed asset manager of an endowment fund, the SPAC EP may accept the asset manager's instructions to buy SPAC Shares or SPAC Warrants for the endowment fund as a PI. However, if the intermediary is licensed for both Type 1 and Type 9 regulated

activities (or similarly regulated under the law of any comparable jurisdictions outside Hong Kong), the approach as mentioned above in this paragraph to assess the investor eligibility requirement at the intermediary level shall only apply if the instructions to trade SPAC Shares or SPAC Warrants are given by the intermediary in carrying out Type 9 regulated activity or providing equivalent services regulated under the law of any comparable jurisdictions outside Hong Kong, but not otherwise acting in the capacity as dealing in securities for its underlying clients.

## **D. Corporate Action Treatment**

### **1. Can SPAC Warrants be exercised on a cashless basis?**

It is possible for SPAC Warrants to be exercised on cashless basis, depending on the terms defined in the prospectus.

For example, in a scenario where a SPAC investor holding 75 SPAC Warrants (of exercise price HK\$11.50) purchases 75 ordinary shares in the Successor Company, and Successor Company's shares are trading at \$17.25. If the SPAC Warrants are to be exercised on a "cashless basis", the number of shares to be issued will be calculated based on the difference between the trading price and the exercise price, i.e.  $75 \times (\$17.25 - \$11.5) / \$17.25 = 25$ . This means the SPAC investor would receive 25 shares without the payment of any additional cash consideration, as opposed to the 75 shares they receive in the case of a "cash-based exercise".

Please be reminded that SPAC Warrants are exercisable only after the completion of a De-SPAC transaction and not all SPAC Warrants are exercised on a cashless basis, investors should refer to relevant prospectus for the terms of a SPAC Warrants.